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HÖGSKOLAN I JÖNKÖPING

Customer Loyalty Research

- Can customer loyalty programs really build loyalty?

Bachelor thesis within Business Administration

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Jönköping January 2007



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Kundlojalitets forskning

- Kan lojalitetsprogram verkligen skapa lojalitet?

Kandidat uppsats inom Företagsekonomi

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Acknowledgements

The authors would like to thank their supervisors Anette Johansson and Elena Raviola for their guidance and support during the writing process of this thesis.

The authors, are also very grateful towards Pernilla Nimmermark, INTERSPORT Customer club coordinator and Patrik Linddahl, the owner of INTERSPORT Jönköping, for their contribution of valuable information and making it possible for us to write this thesis. The authors, further want to thank the interviewed club card members that provided us with crucial information needed in order to conduct this research.

Jönköping, January 2007

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Bachelor Thesis within Business Administration

Title: Customer Loyalty research
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Date: 2007-01-15
Subject terms: Customer Relationship Management, Customer Loyalty Program, Customer loyalty, Loyalty, Retail business

Abstract

Background: During the last decades the efforts to foster customer relationships have become important due to increased competition in the consumer markets. One of the most popular strategies has been to introduce customer loyalty programs which are believed to enhance customer loyalty. The popularity of the customer loyalty programs is based on the beliefs that loyal customers are lucrative and these programs would bond the customers to the company. More recently however, the discussion whether these statements are accurate has started to blossom. Loyal customers are not necessarily as profitable as believed. Moreover, it is not easy for companies to gain competitive advantage through loyalty programs because almost all companies have similar ones.

Purpose: This thesis evaluates, through a case study of a Swedish retail company, whether customer loyalty programs manage to create loyalty among their members. Different types of customer loyalty will be examined and evaluated with the aim to find out if any of them can be created by the use of such programs.

Method: A qualitative study was conducted to answer the purpose of the thesis. Within the case study several semi-structured interviews were carried out with INTERSPORT and 20 telephone interviews with INTERSPORT customers. Empirical material was analyzed with a reflection to the theoretical framework and the research questions.

Conclusions: Customer loyalty programs can support the creation of loyalty, but should be seen as a complement to other aspects of the business, namely, the product line, the customer service and the store concept. However, sustainable customer loyalty is difficult to obtain because many customers today are loyal to several companies instead of one.

Kandidat uppsats inom Företagsekonomi

Titel:	Kundlojalitets forskning
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Handledare:	Johansson Anette Raviola Elena
Datum:	2007-01-15
Ämnesord	Relationsmarknadsföring, Kundlojalitets program, Kundlojalitet, Lojalitet, Detaljhandel.

Sammanfattning

- Bakgrund:** Många företag har under de senaste åren insett vikten av att vårda sina kundrelationer på grund av den ökade konkurrensen på marknaden. En av de populäraste strategierna för att tillgodose detta behov har varit med hjälp av lojalitetsprogram. Dessa program ökar i popularitet och en av anledningarna till detta grundar sig i åsikter om att lojala kunder är mer fördelaktiga, samt att man med hjälp av dessa program har möjlighet att knyta kunderna till företaget. På senaste tiden har dessa påståenden om att lojala kunder är lönsammare emellertid börjat ifrågasättas. Dessutom är det inte längre lätt för företagen att vara konkurrenskraftiga genom att introducera lojalitetsprogram då det har blivit ett alltför vanligt fenomen.
- Syfte:** Med hjälp av en fallstudie av ett Svenskt detaljhandelföretag utvärderar den här uppsatsen huruvida kundlojalitetsprogram lyckas skapa lojala kunder bland dess medlemmar. Olika typer av kundlojalitet kommer att undersökas och utvärderas med syfte att ta reda på ifall någon av lojalitets typerna kan skapas genom användning av lojalitets program.
- Metod:** För att svara på uppsatsens syfte genomfördes en kvalitativ studie. Flera intervjuer med ansvariga på INTERSPORT utfördes samt tjugo telefon intervjuer med ett urval av deras kunder. Den empiriska data som samlades in med hjälp av intervjuer ligger till grund för analysen tillsammans med teoretiska relevanta teorier samt forsknings frågorna.
- Slutsats:** Kundlojalitetsprogram kan understödja skapandet av lojalitet och borde betraktas som ett komplement till andra mer vitala delar av verksamheten, närmare bestämt produkterna, servicen och affärskonceptet. Det är emellertid svårt att skapa långvarig kundlojalitet i dagens läge då många kunder är lojala mot flera företag istället för bara ett.

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1 Introduction

This thesis is an empirical study within the field of customer loyalty. The aim is to evaluate if customer loyalty programs manage to create loyalty among their members. The first chapter will introduce the background of the field of Customer Loyalty Programs and previous research done in the area. With the background as a basis, the chapter will continue with a problem discussion, which will lead to purpose of this thesis.

1.1 Background

The consumer market is getting more competitive, and the fundamental question is; what should the companies do in order to gain new customers and sustain the existing ones? Primary attempt has been to offer price discounts and special deals to the customers. However, according to Peppers and Rogers (1997) this attempt is not working properly and the efforts should be reinforced into techniques to satisfy the customers' needs. Many companies have tried to solve this by creating mass-customized products, enhancing customer service, communication and by continuing product differentiation (Pitta, 1998). The most frequent technology that is being used is the customer loyalty programs, which is build on a traditional customer database (Pitta, 1998).

During the last decades we have seen the customer clubs blooming, the companies have practiced one of marketing's most popular strategies –if you see a good idea, copy it (Dowling and Uncles, 1997). In Sweden, the grocery chains ICA, Coop and Konsum have their own customer clubs. Lindex, H&M, MQ, Åhléns among others are competing for the fashion-interested consumers' loyalty. In the sports industry, Stadium, INTERSPORT and TeamSportia have created their own customer clubs to retain their customers.

The popularity of customer clubs is based on the beliefs that these programs would bond the customer to the company and increase the customer loyalty. A proportion of the customers are believed to be hard-core loyal –both profitable and buying frequently. The assumption is that it is possible to encourage the customers up a 'loyalty ladder' and make them buy more (Dowling and Uncles, 1997). Further, it is widely accepted that loyal customers are supposed to be less price sensitive, spend more, spread positive word-of-mouth, and reduce servicing costs (Reinartz and Kumar, 2002). Moreover, it is often mentioned that it is cheaper to retain existing customers than to procure new ones (Downing and Uncles, 1997).

More recently however, the discussion whether these statements are accurate has started to blossom. Research has proven that these assumptions about loyalty being something positive and lucrative may not always be true. Rather there are several reports pointing in the other direction (Downing and Uncles, 1997; Reinartz and Kumar, 2000). Then the interesting question arises if loyal customers are worth the effort of acquiring? Is then a customer loyalty program really something useful and profitable for the business, or rather a costly service which the company has little use for (Reinartz and Kumar, 2000)? In fact, many studies have adopted a market focus to conduct research in this area. However, very few studies have actually been examining the individual attitudes of the members towards such programs (Dowling, Uncles and Hammond, 2003).

1.2 Problem discussion

Customer clubs, especially in the retail business have increased enormously during the last decades (Dowling and Uncles, 1997). Almost all consumers belong to some kind of club and are familiar with the problem of wallets bursting of different kinds of club-cards. At times, customers join the clubs just in order to receive a special offer or a price discount. Their intention of joining the memberships might even be to play-out the companies against each other, for their own benefit. The perception is that consumers seem to run after the best offer and price rather than concentrating the purchases in a specific company simply because they have a positive attitude towards it.

These customer clubs are known as customer loyalty programs, but do they really have anything to do with loyalty? There is a risk that rather than companies concentrating on building strong and long-lasting customer relationships, they seem to use the customer clubs to attract new customers and to collect a wide customer base to use it for direct marketing (Kotler et al. 2001).

The problem with loyalty programs is that every company has one and it has become difficult to gain sustainable competitive advantage from it. If every firm has similar customer clubs, it means that the customer who is a member of one club is probably a member of the competing firm's club as well (Dowling and Uncles, 1997). The companies need to evaluate if the high investment has changed the behavior of the customers, or if it is only triggering them to join a majority of customer clubs in order to collect discounts (Raphel, 1996). This implies that the companies should consider how they could use the customer club more effectively than competitors, in order to gain competitive advantage.

1.3 Purpose

This thesis evaluates, through a case study of a Swedish retail company, whether customer loyalty programs manage to create loyalty among their members. Different types of customer loyalty will be examined and evaluated with the aim to find out if any of them can be created by the use of such programs.

1.4 Delimitation

The delimitation of this thesis concerns the geographical area that is studied. INTERSPORT has more than 130 stores in Sweden and the customer club activity comprises the whole country. The authors of the thesis have solemnly chosen to concentrate to the Jönköping area and more specifically to the A6 store and its customers.

1.5 Disposition

The disposition of the thesis is shown in the figure below (fig 1). The authors have divided the thesis from the background towards the point where they narrow down the subject gradually to answer the purpose of the thesis.

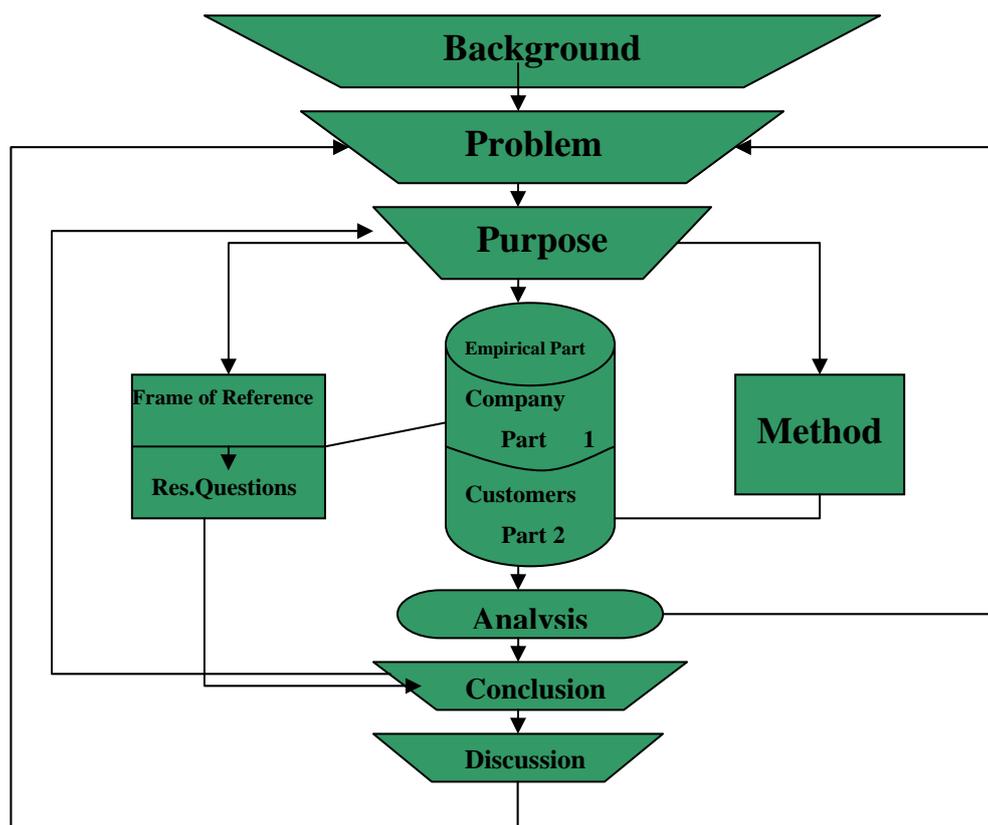


Figure 1 The disposition of the thesis

The second chapter will present the thesis' frame of reference. The authors begin by giving a general view of customer relationship management, which has been the ground for the creation of customer loyalty programs. Next, the authors present the theories of customer loyalty and end the chapters with the consequences of customer loyalty. The frame of reference chosen leads to the research questions that will be used as a tool for the authors to collect and analyze the data of the empirical findings.

The method chapter presents the approach taken in order to collect and analyze the data for the thesis. The authors start of with a general view of quantitative and qualitative method studies and explain the outline of the chosen methods for the thesis, as well as the quality of the study.

The empirical chapter of the thesis is divided into two parts, the companies and the customer's perceptions. The authors intend to bring forward two different perspectives in order to answer the purpose, as well as the research questions of the thesis.

The fifth chapter is the analytical part of the thesis where the authors draw links between the theoretical part and the empirical findings. This is done with the aim to discuss the problem of the thesis and grasp if the theoretical parts are inline with reality. The authors try to build a discussion around the research done in the area.

Introduction

The sixth chapter is the conclusion of the thesis, where the authors are trying to answer the research questions created out of the frame of reference. Here, the authors intend to draw conclusions on the analysis part of the study by answering the research questions and the purpose.

The thesis finishes of with a final discussion about the future studies and the limitations of the thesis.

2 Frame of reference

The authors will in this chapter present the theoretical framework and end the chapter with the research questions derived from theories. This will build the base for how the empirical data will be collected and analyzed.

This thesis is taking into account both the companies and the customers' perspective. That is why the authors begin the theories by explaining that customer loyalty clubs have been generated as a part of the companies' customer relationship management strategy. The main reason why companies apply customer relationship management is to nurture the relationships with their customers. Lately, customer loyalty programs have become a central way for many companies to manage the customers. In order to know whether customer loyalty programs fulfill their purposes, as one of them creating customer loyalty, one needs to get deeper comprehension of the concept of customer loyalty. Customer loyalty should naturally result in improved profitability for the company and in increased value for the customer. Finally, to review whether customer loyalty is an appropriate objective, the theoretical framework ends by discussing the consequences of customer loyalty.

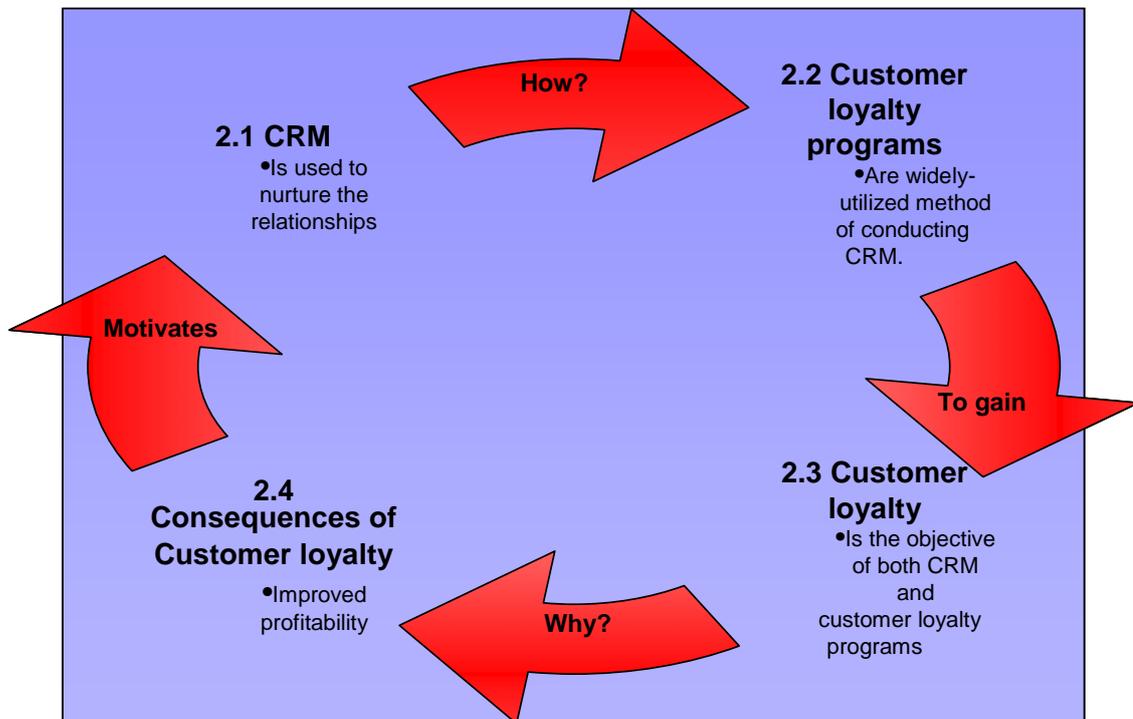


Figure 2 Outline of the thesis

2.1 Customer relationship management (CRM)

In the past, the limited competition and increasing consumer demand allowed companies to neglect the relationship thinking since consumers were buying anyway. The traditional view on marketing had an emphasis on acquiring new customers and by doing so, gaining market share. Today, however, the competition is intensive, customers have more buying options and their tastes are highly fractionized. In other words, customers have become more demanding and harder to satisfy. The view on traditional marketing

has shifted to a marketing philosophy where sustainable competitive advantage is gained through the development of company's customer relations, not necessarily through the acquisition of new customers as the traditional view suggests (Blomqvist, Dahl and Haeger, 2000).

CRM - managing the customers, has become one of the central ways to make the companies' operations more effective and profitable (Raulas, 2005). Customers should be seen as investments, because without customers a company will not have any profits, no revenues and consequently no market value. Customers are without a question the lifeblood of any organization (Gupta and Lehmann, 2005). The underlying assumption of CRM is that by nurturing the existing customer relationships and keeping the lucrative customers satisfied and loyal it is possible to make the business more profitable. The relationship should however benefit both the company and the customers, so that a mutually beneficial relationship is generated (Raulas, 2005).

Nowadays, the concept of CRM is often associated with software solutions, which enable the company to gather and integrate important customer data. The purpose is that companies can gain better understanding and profit from each and every customer relationship (Lancaster and Reynolds (2004). In order to exploit customer management there are certain criterions that companies need to consider. First of all, without knowledge of customers there cannot be functioning customer management. With database technology it is now possible to assess large numbers of customers and distinguish who the active customers are (Raulas, 2005). Blomqvist et al. (2000) argues that it is essential to select the right kind of customers to build the relationship with. It is not desirable or even possible to create a relationship with all customers. Further, it may not always be the best strategy to find the biggest spenders, but rather identify those who are the loyal ones. The selection is done by segmenting the customers into distinctive groups with different preferences, characteristics or behavior. The reasoning behind segmentation is the dissimilarity of customers' values and behaviors that needs to be taken into consideration when managing customer relationships. Segments may perhaps require differing incentives, pricing, products and level of service. Essentially, CRM -strategy should engage the whole customer base, however, it should be adjusted depending on the customers activity and profitability (Blomqvist et al. 2000).

Raulas (2005) underlines, that regular contact is the critical factor in the development of the relationship. There is a positive effect on customer relationships if the company manages to keep the optimal contact with its customers. One of the cornerstones of CRM is to perform intentional, measurable and an adequate amount of communication that is conducted in right time, and with the right customization and through the right channel. Previous research has proved that the most important reason why customers switch to competitors is the lack of contact or insufficient communication from the company (Raulas, 2005).

As a conclusion, CRM is a strategic issue that needs to be aligned with the company's business idea and competitive strategy and therefore, requires comprehension through the whole organization. Companies in our day have created different means of carrying out CRM and customer loyalty programs are constantly in present when companies are planning how to enhance the loyalty among their customers (Blomqvist et al. 2000).

2.2 Customer loyalty programs

Blomqvist et al. (2000) explains the concept of a loyalty program to be a formalized association of customers who fill a certain criteria that the company has set. Customers make some kind of effort to acquire the membership and in return they receive benefits that are only available for the members of the loyalty program. Johnson (1998) describes a loyalty program as any marketing program that through a long-term interactive relationship improves the lifetime value of current customers. There are five elements that can typically be detected in loyalty programs, namely a database, an enrolment process, rewards, value-added or soft benefits and customer recognition. Generally, the definitions of customer loyalty have three things in common. Firstly, they recognize a group of customers that form the target and the membership of the program. Secondly, members should be rewarded or gain benefits through the program. Thirdly, they emphasize the interaction between the marketer and the member. Butscher (1998) adds that some clubs are assigned to establish emotional relationships, while others are content with to build long and profitable relationships without dimensional requirements.

2.2.1 The objective of customer loyalty programs

The introduction of the loyalty program back in the 1970s had the intention to build a stronger relation between the supplier/retailer and its customers. The concept was driven by the vision of creating “better” customers and differentiating the organization from the competitors on the market (Håkansson, 1982). The underlying assumption is that the cost of getting a current customer to buy again is lower than the cost of recruiting new customers (Dowling and Uncles, 1997).

Firms usually have common expectations of the outcomes for the loyalty program, which has to do with maximizing the profit. Dowling and Uncles (1997, p.4) divides the expected outcomes into three parts:

- I. *Maintain sales levels, margins and profits (a defensive outcome to protect the existing customer base)*
- II. *Increase the loyalty and potential value of existing customers (an offensive outcome to provide incremental increases in sales, margins and profits)*
- III. *Induce cross-product buying by existing customers (either defensive or offensive)*

The above listed outcomes usually refer to specific target markets, namely heavy buyers, or profitable customers. This is explained by the belief that a small percentage of customers generate large part of the sales. The “80/20 Law” suggests that about 80% of the revenue is obtained from just 20% of the customers (Dowling and Uncles, 2002).

Butscher (1998) also divides the goal of a loyalty program into three sections –core goals, main goals and secondary goals. Core goals are to increase revenue, profit or market share. Main goals could be such as building a strong database, to win new customers and to enhance the communication between the company and the customers. Secondary goals as Butscher (1998) describes could be to increase visit, purchase and usage frequency or to improve product, brand and company image.

2.2.2 Types of loyalty programs

There is a big variety of different kinds of customer loyalty programs that are usually adapted to and dependent on the nature of the business the company finds itself in. However, a majority of the loyalty programs can be divided into two main categories. In the first one, the programs have the intention to offer increased value, for example extra service or faster service. The second category of customer loyalty programs is based on price discounts, bonuses, rebates and special offers. In both cases, the objective is to keep the customer in the company, but with different methods. There are few loyalty programs that completely belong to one category; rather they are usually a mix of both types. One of the disadvantages of entirely relying on monetary benefits is that the company may be successful in attracting new customers, but does not gain sustainable advantage (Blomqvist et al., 2000).

2.3 Customer loyalty

In simple terms, customer loyalty from Czepiel's (1990) perspective is a notion to describe the end result of a relationship between the company and the customer. In order to gain loyalty, the company can provide incentives that will increase the value for the customers and in that manner create buying fidelity among them (Blomqvist et al., 2000). From that point of view, a loyal customer engages the company over a long-term to satisfy his/her needs or a part of the need (Blomqvist et al., 2000). Customer loyalty is although a more complex concept than that. By screening the theories, the authors have chosen to focus on three different theories: Three drivers of retention (Gustavfsson, Johansson and Roos, 2005), Relative attitude and behavior relationship (Dick and Basu, 1994) and the Conceptualization of customer loyalty (Dowling et al., 2003).

2.3.1 Three drivers of retention

According to Gustavfsson et al. (2005), the complexity of customer loyalty can be explained through focusing on three prominent drivers of retention: *overall customer satisfaction*, *affective commitment*, and *calculative commitment*. Customer satisfaction is an overall evaluation of the company's performance over time. It typically derives from product and service quality and the price. As expected, positive overall satisfaction has a strong effect on customer loyalty. Historically, marketing scholars have identified commitment as a desire to maintain a relationship. Commitment can however, occur from either affective or calculative grounds. Affective commitment is an emotional factor that the customer creates with the retailer through repeated product or service usage and results in a higher level of trust. Calculative commitment, on the other hand, contains a rational view and is based on the economic dependence of a product due to a lack of choice or switching cost, which in turn creates loyalty (Gustavfsson et al. 2005).

2.3.2 Relative attitude and behavior relationship

Loyalty from behavioral perspective has traditionally used measures such as proportion of purchase, purchase sequence and probability of purchase. These measures have been criticized of being static and not taking into consideration the factors underlying the repeat purchase. The behavioral definitions alone are therefore insufficient to identify why loyalty is developed (Dick and Basu, 1994).

Frame of reference

Dick and Basu (1994) argues that there are two issues that are required for loyalty, which are favorable attitude that is high compared to potential alternatives and repeated patronage (repeat purchase behavior/re-investment). Thus, the most important matter is to consider loyalty as the relationship between the relative attitude toward an entity and patronage behavior. Attitudes have commonly been related to behaviors, but it is essential to notice that a consumer may hold a favorable attitude toward a brand, but not repetitively purchase it because of greater relative attitude toward other brands. To further point out, both relative attitude and repeat patronage can be at two levels – high and low. By cross-classifying relative attitude with repeat patronage, four separate conditions of loyalty can be detected:

		Repeat Patronage	
		High	Low
Relative Attitude	High	Loyalty	Latent loyalty
	Low	Spurious loyalty	No loyalty

Figure 3 Relative Attitude-Behavior Relationship. Dick and Basu (1994) p.101

No Loyalty

Here, the customer has both low relative attitude and low repeat patronage which results in no loyalty at all.

Spurious loyalty

This is where the customer has high repeat patronage accompanied by low relative attitude. Spurious loyalty may stem from situational cues, such as the repeat purchase occurs due to familiarity. In addition, social influence might lead to spurious loyalty. Essentially, spurious loyalty is characterized by situational influences on loyalty rather than attitudinal.

Latent loyalty

Customer possesses high relative attitude, but for some reason it does not result in high repeat patronage. Subjective norms and situational effects, which are non-attitudinal sources of variance in purchase behavior, are determining patronage behavior more strongly than attitudes. Analyzing the relative attitude along with the norms and situational factors, gives a good overview for the strength of a relative attitude-repeat patronage relationship, namely loyalty.

Loyalty

This condition is the most preferred one because of the positive correlation between favorable relative attitude and repeat patronage. The customer has high relative attitude, which also results in repeat patronage. Further, a high relative attitude influences considerably the long-term maintenance of loyalty.

2.3.3 Conceptualization of customer loyalty

Dowling et al. (2003) claims that customer loyalty is such a complex concept, that there is no universally agreed definition about it. Yet, customer loyalty can be divided into three conceptualizations:

- I. Loyalty as primarily an *attitude* that sometimes lead to a relationship with a brand. Also seen as a single-brand loyalty – *monogamy*
- II. Loyalty mainly expressed in terms of *behavior*. This is explained as divided loyalty to few brands – *polygamy*.
- III. Buying moderated by the individual's *characteristics*, *circumstances* and/or the purchase *situation*. Primarily seen as weak loyalty or no loyalty at all – *promiscuity*.

Monogamy

This stage is explained by Dowling et al. (2003) as single-brand loyalty –*monogamy*. Customers have strong attitudes and beliefs toward the brand and are deeply committed to re-buy or re-patronize the specific brand now and in the future. Many researchers argue that attitudinal commitment is crucial in order to create 'true loyalty'. However, there are very few customers that are monogamous, i.e. 100% loyal. In practice, for example by using customer loyalty programs, the company should aim to escalate sales by strengthening the commitment and bond the customer to the brand. This can be done by enhancing the beliefs about the brand and focusing on emotional factors that drive the commitment (Dowling et al. 2003).

Polygamy

Dowling et al. (2003) argues that loyalty in this case is defined by the pattern of past purchases with only secondary regard to underlying attitudes toward the brand. These customers, who have behavioral-loyalty to the brands, are considered to be *polygamous* –their loyalty is divided between a few brands. Polygamous consumers keep on buying the brand, not because of strong positive attitude towards it, but rather because it is not

worth the effort of searching for other alternatives, and since they are actually satisfied with the brand. Still, the satisfaction does not mean that the customers are committed to the brand since they would switch if the usual brand were out of stock or unavailable for some reason. The majority of consumers are considered to be polygamous –they have split loyalty portfolios of habitually-bought brands. These costumers are less influenced of customer loyalty programs than ‘monogamous’ costumers are, but they still may participate in such programs. For managers to influence these customers, they should attempt to sustain their share of category sales by responding to competitors initiatives and avoiding stock run-outs and gaining growth by boosting market penetration (for instance, by guaranteeing wider distribution). Under these circumstances, the customer loyalty programs may be designed to take the defensive approach by a bid to match competitors, but not as an intention to generate dramatic changes in customers’ attitudes and behavior (Dowling et al., 2003). Polygamous loyalty is mistakenly confused with switching; therefore, the difference will be enlightened in the following section.

Polygamous loyalty vs. switching

A disloyal customer is one that switches brands or retailers after not feeling satisfied with the offer (Stone, Woodcock and Machitynger, 2000). The dissatisfaction can be due to such things as price, brand, quality, service or the salesperson. Switching means that a customer would “once-and-for-all” switch from one brand or retailer to another. However, customers do not necessarily have to switch brand for good, this could also be a temporary change of brand or retailer, or they are simply consuming several brands simultaneously and the behavior would thereby be explained by polygamy (Dowling and Uncles, 1997).

As previously discussed, it is common for customers to be a member of several loyalty programs. An example of multiple memberships is the airline loyalty schemes, where surveys among European business airline travelers show that more than 80 percent are loyal to more than one scheme. Many times this might be seen as a problem, however according to Dowling and Uncles (1997) this is called polygamous loyalty and suggests that a customer can actually be loyal to more than one brand. Thus, the fact that a customer switches to a different brand does not have to imply that this customer will be disloyal and lost forever. It could instead be a temporary switch caused by special circumstances such as special price deals, or that the customer’s usual brand was not in stock or perhaps that another brand was better suited for this special occasion. Customers are therefore not necessarily switching from one brand to another permanently, but rather their customer loyalty is divided between different brands (Dowling and Uncles, 1997).

Promiscuity

According to Dowling et al. (1997) weak loyalty or no loyalty at all could be justified by *promiscuity* of customers. Strong attitude towards the brand is insufficient to determine the behavior because there are a number of factors that influence the buying behavior. These factors are divided into three main topics;

- *Individual circumstances* –budget effects and time pressure
- *Individual characteristics* –desire for variety, habits and the need to conform
- *Purchase situation* –product availability, promotions, particular use occasion.

‘Promiscuous’ customers might be a hard target for customer loyalty programs because their impact to affect demand is limited. Indeed, the customer loyalty of these customers could be increased by responding to factors that determine the buying behavior, for example promotions, particular use occasions or extending the product line.

2.3.4 Conclusion of customer loyalty theories

As can be recognized customer loyalty is a complex concept and it is hard to find a general definition about it. By comparing different theories, the authors have observed that customer loyalty often is determined by three different attributes; attitudinal-, behavioral- and situational loyalty. Attitudinal loyalty contains emotional factors, positive and strong attitudes and beliefs toward a brand. Behavioral loyalty encloses overall satisfaction on the company’s performance overtime and situational or habitual factors that determines the repeat purchase behavior. Situational loyalty occurs due to lack of choices or switching costs, subjective norms and situational and individual factors. The authors have therefore chosen to link the different theories with the three attributes to clarify the connection between them:

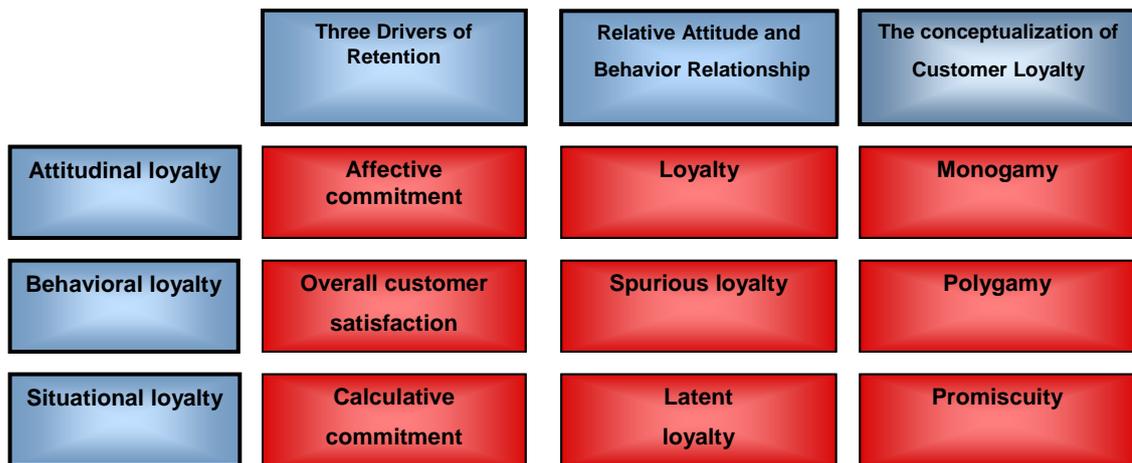


Figure 4 The links between the theories

2.4 Consequences of customer loyalty

An interesting and fundamental question for companies is why should customer loyalty be an objective? Once again we fall back to the basic assumption of CRM; it is less costly to serve existing customers than to acquire new ones (Raulas, 2005; Dowling and Uncles, 1997). Reichheld and Teal (1996) verifies the effects of loyal customers on company's profit from six different aspects:

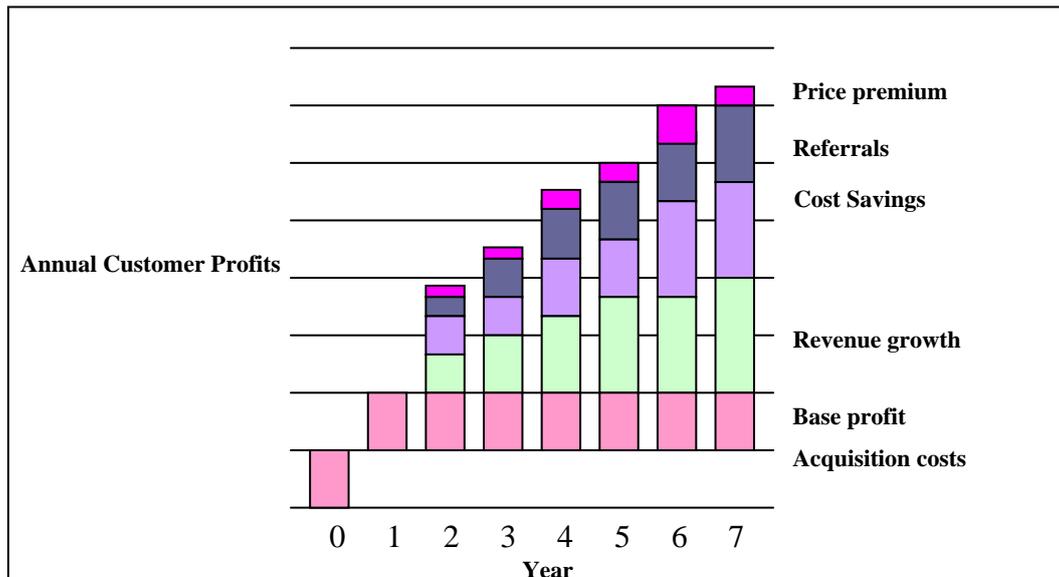


Figure 5 Why loyal customers are more profitable (Reichheld and Teal, 1996)

Acquisition costs: Almost every firm needs to invest in acquiring new customers at some point of time. The costs that arise from acquiring new customers can be based on tangible costs such as advertising costs and intangible costs, for example the time that managers and sales people use for persuading new customers. Whatever the business, you have to count all the expenses to find out what the true costs are of customer acquisition.

Base profit: We can assume that in normal businesses, the price that a customer pays for the product is higher than its costs, which in turn create profits. This basic profit on purchases is called base profit. The conclusion is that the longer you keep a customer, the longer you will earn the base profit, and consequently, the up-front costs of acquiring them are amortized over a large number of transactions.

Per-customer revenue growth: As in most businesses, customer spending has a propensity to accelerate over time. This phenomenon is explained by the fact that an old customer becomes familiar with the store's whole product line, and extends the purchases to include other product categories as well. This implies that loyal customers spend more in the company and the relationships with them should therefore be reinforced.

Operating costs: As customers get more familiar with the company they will learn to be efficient. For example, when customers know the company's products, they demand less information and advice from the employees which results in a direct cost reduction for the company. Over time, when you consider the number of customers, this collaborative learning between the customer and the company leads to productivity advantages that convert directly into lower costs.

Referrals: An additional advantage of long-term customers is that satisfied customers tend to recommend the business to others, so called positive word-of-mouth. For example, Lexus and many insurance agents claim that they get more new customers from referrals than from other channels. Furthermore, customers who recommend to others are perceived to be of higher quality –more profitable and stay in business for a longer period compared to those customers that usually respond to advertising or price promotions.

Price premium: It is argued that old customers would pay higher prices than new customers. This is partly because new customers have to be attracted by offering price-discounts or other kinds of introductory offers. The other explanation has to do with switching costs. Customers stick to a company because the costs of switching to another company would be too high. They will therefore, pay higher prices to avoid making a switch. Further, as old customers have been around for a longer time they get higher value from the relationship and are consequently less price-sensitive on individual items.

To conclude, Reichheld et al. (1996) suggests that a lifecycle profit pattern for old, loyal customers is higher than for new customers due to accelerating spending over time, reduced operating costs, positive referrals and less price-sensitiveness. As company's relationship with a customer lengthens, the profits rise.

Relationship marketing puts emphasis on maintaining long-term relationships with customers. However, Reinartz and Kumar (2000) questions whether this only is beneficial to contractual relationships, or if it can be applied to non-contractual settings as well i.e. retail business, catalogue marketing. Lifetime profit patterns can be detected fairly accurately in contractual settings, while in non-contractual settings the problem arises from consumers spreading their category expenses over several firms.

Reinartz and Kumar (2000) conducted a study in non-contractual settings to test the hypothesis of the following claims that also Reichheld et al. (1996) pointed out: It costs less to serve loyal customers, loyal customers pay premium prices and loyal customers market the company. The findings were hardly supporting the basic assumptions of loyalty. Reinartz and Kumar (2000) found out that there is no correlation between customer longevity and reduced costs. In fact, in some businesses they were more expensive to satisfy. There was neither any evidence that loyal customers would pay higher prices than other customers in consumer markets would. Moreover, some long-term customers were discovered to demand lower prices and were more price-sensitive than other spectrum of customers. Finally, the authors found intriguing results when scrutinizing whether loyal customers actually are prone to spread positive word-of-mouth. Those customers who were considered as possessing attitudinal loyalty were more likely to be active word-of-mouth practitioners, while those who scored high on behavioral loyalty were more likely to be passive word-of-mouth marketers. The task for a company would be to identify the true apostles by looking at attitudes rather than behavior.

To wrap up Reichheld's et al. (1996) and Reinartz & Kumar's (2000) views on customer loyalty, they seem to have reached opposing conclusions whether loyal customers are profitable from a company's perspective. Reinartz and Kumar (2000) although mentions that profitability of loyal customers are very business specific and should be considered individually by each company.

2.5 Research questions

- I. How can a customer loyalty program create customer loyalty?
- II. How loyal with regard to the theories are the frequent and heavy buyers, which INTERSPORT estimates as their loyal customers?
- III. Are there reasons for companies to question if loyalty is an appropriate objective of the customer loyalty programs, and if yes – why?

3 Method

In this chapter the authors will present the approach that has been taken in order to collect and analyze data for this thesis. Some general approaches will be discussed, followed by the presentation of the chosen method. Finally, the chapter presents a depiction of how the information is interpreted and analyzed to assure the quality of the research.

3.1 Quantitative and qualitative methods

Research is a process of solving a problem by finding information and investigating the unknown (Lancaster and Reynolds, 2004). In this chapter the authors will discuss different methods of research and present how the authors are planning to carry out this study.

There are many different methods of conducting research, and two well-known methods of doing this is qualitative and quantitative research. Quantitative research involves data collection and can most often be described in a numerical form and then be summarized and arranged in tables (Have, 2004). Some of the most common ways of collecting quantitative data is through questionnaires, interviews, observations and by using existing materials (Thomas, 1997). These structured, standardized techniques of quantitative research are typically compelled into highly useful set of statistics (hard data) (Chisnall, 1991).

Qualitative research on the other hand could be explained as more exploratory and focused on getting a deeper understanding of customer's motivations, behaviors and attitudes and is trying to answer the questions 'how' and 'why'. The findings of qualitative research are portrayed as 'soft' data in comparison to hard data from quantitative research and they are usually complementary to each other rather than supplementary (Chisnall, 1991). The real meaning of qualitative research is that it is diagnostic. It seeks explanations of why certain kind of behavior take place and it typically probes rather than counts. Further, qualitative data is more often presented verbally as opposed to numerically as in the case of quantitative research (Have, 2004). The most typical techniques of qualitative research are in-depth interviews, group discussions and focus groups, which are derived from small non-random samples.

3.1.1 Choice of method

This thesis is based on qualitative research, because we believe that qualitative methods will answer the research questions in the most suitable way. The primary data is collected through interviews with both the company and its customers. We wish to find answers that are explaining certain kind of behavior and attitudes of the customers as well as the company's motivations for certain decisions. The only way to uncover this is to use qualitative methods. The concept of loyalty that is covering the whole thesis is very complex and perceived differently depending on the individuals. To discover how the company and its customers perceive loyalty, it is necessary to conduct in-depth interviews in order to fully understand diversity of the concept. Further, we consider that quantitative methods would be insufficient to reveal the innermost attitudes and behaviors of the targets of the research.

Depending upon the situation, it might strengthen the quality of the research if other research methods are used in combination with qualitative methods. Case study is one method that can be used as a complement to qualitative study (Yin, 2003) and will be explained in the following section.

3.2 Case study

Creswell (1994, p.61) defines a case study as “*a single, bounded entity, studied in detail, with a variety of methods, over an extended period.*” Case study can be considered as ‘non-pure’ method compared to other research methods, because the data is normally collected from multiple sources and several methods are being used. It is quite typical to combine such methods as surveying, interviewing, participant observation and archival research in one case study (Maylor and Blackmon, 2005).

Previously, it has been popular among business and management researches to use a case study method for both practical and theoretical reasons. Maylor and Blackmon (2005) suggest that if you want to carry out a limited or exploratory study, it is particularly useful to apply a case study. Exploratory study means that data collection and analysis occurs prior to theory development and is tested against the theory. However, Yin (2003) argues that a view of case study just being an exploratory tool is incorrect. Case studies can be both descriptive and exploratory. Descriptive studies attempt to reveal patterns and connections of the described phenomena that may otherwise go unobserved. In addition to exploratory and descriptive studies, case study method can be used to answer analytic research questions i.e. ‘how’ and ‘why’ (Yin, 2003). It is a suitable method for both to test and to build theory.

3.2.1 Choice of case study

A single case study concentrates on a single unit of analysis, for example a company. It might be interesting to focus on a single internal problem of a company or a case that is unique for a certain firm (Maylor and Blackmon, 2005). We chose to apply a case study method, because we wanted to find answers to analytic research questions ‘how’ and ‘why’ and to test theory as Yin (2003) suggests. The first step in conducting a case study is to select an appropriate target as is implied by Cassell and Symon (2004). The selection can be based on purposeful sampling method, which means that the researcher intentionally chooses the targets that can provide the most relevant information to the issues that are studied (Maxwell, 1996). Firstly, we wanted to apply the theories on a single case study to be able to get more in depth information rather than selecting several companies. Secondly, since we wanted to study customer clubs, it was apparent that a retail company would be suitable for that purpose. We had earlier professional contacts with INTERSPORT, which we also knew had an established customer club since 1996. This customer club had been functioning successfully and had been further developed and improved during these years. We also believe that the chosen company could have been almost any retail company with an established customer club, because retail companies have faced the same challenges during the last decades of customers getting more demanding and competition getting more intense on the consumer markets. The case study company, INTERSPORT is presented in more detail under the section of Empirical findings.

Within the case study, we have interviewed INTERSPORT's Customer club coordinator Pernilla Nimmermark and the owner of INTERSPORT Jönköping, Patrik Linddahl. In addition, to get the customers' perspective we chose to conduct interviews with the selection of INTERSPORT Jönköping's customers, which will be further explained in the following section.

3.3 Interviews

According Cassel and Symon (2005) interviews are the most frequently used method of data collection in qualitative research. The objective of any qualitative research interview is to comprehend the topic that is researched from the interviewee's perspective and to understand how and why they reached this particular perspective. Interview types that fit the qualitative research label are referred to as 'depth', 'exploratory', 'semi-structured', or 'un-structured'. Further, qualitative research interviews should preferably be either semi-structured or unstructured because this allows the researcher to be flexible and get hold of as rich data as possible. Cassel and Symon (2005) suggest that the researcher should prepare an interview guide that leads the conversation throughout the interview and probes, which can be used to obtain more details to the issue that is studied from participants.

3.3.1 Choice of interview

The interviews for this thesis were conducted in a semi-structured form and by using interview guide (appendix) in accordance with Cassel and Symon (2005). Within the case study, we have interviewed INTERSPORT's Customer club coordinator Pernilla Nimmermark on two separate occasions and the owner of the INTERSPORT Jönköping, Patrik Linddahl. In addition, to get the customers' perspective we chose to conduct 20 interviews with selected members of Club INTERSPORT who are customers in INTERSPORT Jönköping. The interviews were carried out through telephone and each taking between 10 to 15 minutes. In the next section, the authors will explain how the selection of the customers was made.

3.4 Selection

For the selection of the interviewed customers we yet again used purposeful sampling method, which means that the researcher intentionally chooses the targets that can provide the most relevant information to the issues that are studied (Maxwell, 1996). The selection of the members for the interviews was based on the customer data that INTERSPORT provided. We received an excel file consisting of some specific information on customer club members in the Jönköping area. The file included names, addresses, sexes, personal identification numbers, club card numbers, the amount of purchases and the number of visits during the years 2003-2005. It also contained information whether the members were active or passive and when the members began the membership, and whether they had an extra card.

For the selection we were basically interested in two different things, *the monetary value of the purchase* and *the frequency of the visits*. Most importantly, the selected customers would *represent loyal customers from the company's perspective*, because we wanted to find out if the loyal customers actually were loyal from both attitudinal and behavioral aspect and if they in fact were also loyal to several companies. The first group would represent highly loyal customers from the behavioral aspect i.e. they were

heavy buyers as well as frequent buyers. The second group would characterize frequent buyers, but not heavy buyers as compared to the first group. We knew that the first group spent a lot of money each time they purchased and were probably loyal to the company from that aspect. The second group was frequent buyers, who can also be seen as loyal but they were not necessarily as heavy spenders as the first group. We are not going to distinguish between these two separate groups, but treat them as one unit - loyal customers.

The excel file contained information of more than 15 000 customers, we needed to arrange the customers by certain criterions and sort out the ones we found would not fit our standards. The first group would contain both heavy and frequent buyers, so the first criterion was that the monetary value of the purchases needed to be over 10 000 SEK per year. Now we needed to make sure that the customers had been purchasing frequently, because we believed that a customer who has bought just on one occasion could not be regarded as loyal. It might have been that the large purchase was due to some other occurrence. The next criterion was that the customer who had spent more than 10 000 SEK per year, needed to have visited the store more than 10 times a year. From this group we selected 5 male and 5 female customers for telephone interviews.

The second group was selected similarly, although, this time we wanted to reach the frequent buyers. First condition was that the customer would have needed to visit the store more than 15 times a year. Moreover, the customers purchases would not exceed 10 000 SEK because we did not want the selection to overlap with the first group. From these customers we selected 5 males and 5 females for the telephone interviews. In total, we cross-examined 20 Club INTERSPORT customers, who could be considered as loyal from the company's perspective. The interviewees remain anonymous due to secrecy issues and furthermore, we believe that it is not of relevance for the study to disclose the names of the interviewed customers.

3.5 Data interpretation and analysis

According to Stake (1995), there are two strategic ways that can be used to reach new meanings about cases; direct interpretation and categorical aggregation. Direct interpretation in qualitative research context means that the researcher concentrates on the instance, trying to pull it apart and put it back together again more meaningfully. Categorical aggregation, on the other hand, means that issue relevant meanings will emerge from the collection of instances.

Many times studies are searching for patterns i.e. search for meaning. Depending on the search for pattern, both category aggregation and direct interpretation can be suitable. Sometimes the patterns are known in advance while other times patterns will emerge unexpectedly from the analysis. Usually, the researcher is trying to understand a case by scrutinizing episodes or text materials in order to find correspondence. The researchers are trying to comprehend behavior, issues and context pertaining to the particular case. If there is a time-shortage, the pattern or the significance can be tried to be found through direct interpretation, by simply asking, "What did that mean?" For more complex issues, the researchers need to be skeptical about the first impressions and simple meanings and take more time to reflect and triangulate (Stake, 1995).

The authors try to find patterns and meanings for the phenomena of interest. This is done by analyzing the empirical material from INTERSPORT and from its customers as an attempt to find correspondence to the theories. The authors have strived to make as correct interpretation and analysis as possible by carefully weighing up the answers and their relevancy to the theories. We should further acknowledge that some of the answers from the customer interviews had to be interpreted by the authors since the customers did not always give direct yes/no answers, but rather the answers were describing in their nature. In these circumstances, the authors used direct interpretation to solve what the particular answer meant. The analysis part is following the structure of the theoretical framework with an emphasis on the research questions.

3.6 Quality of the qualitative research

A study is *valid* when it analyses what it is intended to analyze (Patel and Davidson, 1994). In this thesis the authors are analyzing whether customer loyalty clubs truly creates loyalty, meaning that the authors need to make sure that the questions and observations are investigating the right thing. Sometimes it might be difficult to assure validity if the research tries to measure something that is not tangible, such as attitudes. In qualitative studies the validity does not solemnly concern the data gathering but rather touches upon the entire research process (Patel and Davidson, 1994). Further, it is not viable to validate findings through probabilistic methods since qualitative studies cannot use the methods of random sampling (Mariampolski, 2001). Each and every qualitative study has its unique characteristics, which implies that it is difficult to set up some general rules or procedures to secure the validity. However, there are certain means of guaranteeing that conclusions of qualitative studies can reach valid results.

Triangulation is a commonly used concept in the context of ensuring validity in qualitative research. The validity of data collection can be strengthened by using different techniques such as interviews, observations and diaries among others. Also, the data can be collected from different sources (Patel and Davidsson, 2003). For this study the technique that is used is semi-structured interviews. We believed it was also important to use different sources for the interviews in order to make correct interpretations and to increase trustworthiness. Thus, the same questions with some modifications were posed to both the Customer club coordinator, Pernilla Nimmermark and the owner of the INTERSPORT Jönköping, Patrik Linddahl. We suspected that they might have different views on the topics since they are working on different levels of the organization. Mariampolski (2001) explains further that in order to validate the conclusion through triangulation, the questions can be asked in different ways at various points. When it comes to interviews with the customers, our intention has been to formulate several questions from different angles to investigate the phenomenon of interests.

Patel and Davidson (2003) emphasize the importance of giving the reader a chance to evaluate the validity of the study in case the study is based on interviews. The authors can write quotations from the interviews which enables the reader to make own judgments. In this thesis, we have chosen to provide summary of the interviews and some quotations, so that the reader would be able to verify the interpretation of the authors.

Reliability is the degree to which a study yields consistent results. A good reliability indicates that even if the study were conducted several times, the results would be consistent. If it is unfeasible to obtain a measure of reliability, it needs to be assured in some

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other way. This suggests that when using interviews or observations, the reliability is highly related to the interviewer's ability to ask and register answers. A higher reliability can also be obtained by using structured observations and standardized interviews. Further, it is possible to control the reliability by using several observers or extra persons who can take notes during the interview. To generate higher reliability, it can be valuable to store the interviews by taping or filming which will allow repeat scrutinizing of the material to avoid the pitfalls of selective perception (Patel and Davidsson, 1994).

The interviews with both INTERSPORT and its customers were supported by a question formula that guided the conversation. All three authors were involved in the interviews, one making questions and the others were concentrating on making notes and observing. In addition, the interview sessions and telephone interviews were recorded in order to make sure that the answers were understood correctly and could be analyzed afterwards.

4 Empirical findings – a Case study

The following chapter will present the empirical part of the thesis where the authors have conducted a case study. The study is carried out with a focus on one retail company and 20 selected customers. The chapter is divided into two parts; the first one taking the company's perspective and the second one focusing on the customers.

4.1 Part 1 – the Company

“These empirical findings of part 1 is based on interviews with Pernilla Nimmermark, Customer club coordinator and Patrik Linddahl, the owner of INTERSPORT Jönköping”, (Appendix 1-3).

4.1.1 Company overview

INTERSPORT is the world's largest retail store within the field of sports and it is working with more than 4800 associated retailers in 32 countries with a turnover of 7.7 billion Euros. Even though INTERSPORT is a multinational organization, their concept is to maintain the decision-making at the local level. INTERSPORT's intention with this strategy is to deliver sports goods for each customer's needs and wants, in every distinct country. Linddahl agrees with this statement and further explains that they are evaluating their home market in order to provide the best service and products to each customer in the area (P. Linddahl, personal communication, 2006-11-23). At the moment, INTERSPORT Sweden consists of approximately 130 INTERSPORT stores throughout Sweden. These stores together have a total turnover of 3.1 billion SEK, in 2005. Each store of INTERSPORT is an independent company. This allows the organization to hold a strong vertical leadership, national market knowledge and adapt to the local (www.Intersport.se).

The main office of INTERSPORT Sweden is located in the region of Småland in Sweden, called Taberg. INTERSPORT consist of a chain of stores, a so called voluntary business chain where the stores are owned and operated by private merchants who can own one or several stores. This allows each individual INTERSPORT retail member to bring entrepreneurial spirit to the business (P. Linddahl, personal communication, 2006-11-23). Compared to other business solutions, such as franchising, voluntary business chain has a higher degree of freedom, flexibility and independence. Being a part of INTERSPORT Sverige AB the members have access to a strong international trademark, which is constantly promoted in large sport events around the world. The main task of INTERSPORT Sverige AB is to act as a support and service system for the individual stores (P. Nimmermark, personal communication, 2006-11-08). The structure of INTERSPORT is shown in the fig 4 below (P. Nimmermark, personal communication, 2006-11-08):

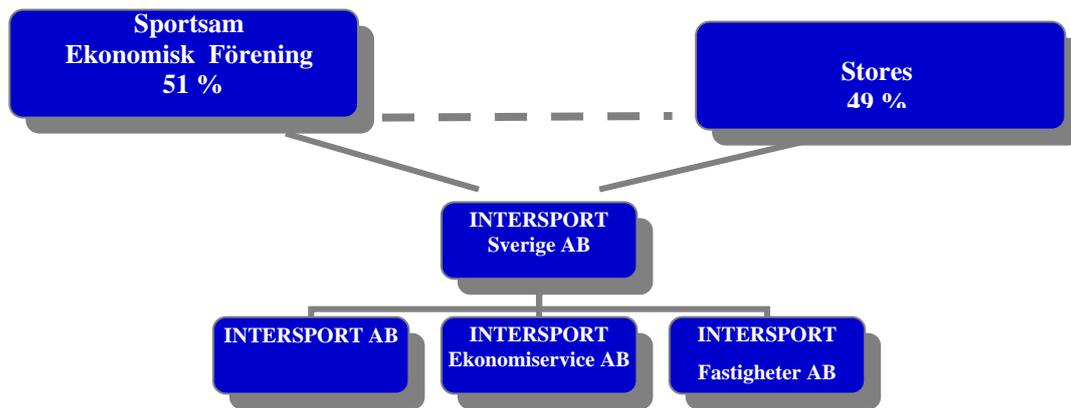


Figure 6 Company overview, English version in Appendix 5

4.1.2 The aim of the loyalty program

In 1996, INTERSPORT introduced their customer club in order to help them to sustain their position as a leading retail store on the Swedish market. Club INTERSPORT was the first customer club that was created in the field of sports. However, customer clubs was by then already a well-known phenomenon in the retail business industry and this influenced INTERSPORT to start their own loyalty program. Before setting it up and deciding on how to construct the club, INTERSPORT was examining features of other customer clubs to gather ideas. This happened during the era when relationship marketing was gaining popularity and having a customer club would give INTERSPORT the opportunity to reward their best customers (P. Nimmermark, personal communication, 2006-11-08). In fact, year 2003 INTERSPORT had reached a number of club members that made them the third largest customer club in Sweden after Ikea and ICA. At the moment INTERSPORT has about 650 000 members (P. Linddahl, personal communication, 20006-11-23).

According to P. Nimmermark, the objective of the customer club is to increase the turnover, get a larger market share and to strengthen INTERSPORT's position on the market. She further explains that the aim with the club membership card is to build long lasting relationships with their faithful customers and consequently, create loyalty. INTERSPORT considers the program as a great opportunity to give their customers extra value at each purchase and to sustain their competitive advantage on the market. It is not only important to keep the old customers by treating them well and making them feel special, but it is also vital to recruit new club members. The recruiting normally takes place in the stores and the new customers are commonly attracted by a special offer (P. Nimmermark, personal communication, 2006-11-08). As the loyalty programs are expanding on the market, Nimmermark explains that it becomes difficult to differentiate the customer program from the competitors. One way to stand out is to offer something special that is highly valued by the customers. This can be accomplished in several ways, for example by offering an impressive magazine as Ikea is known for. INTERSPORT is trying to stand out by communicating their motto "*a world of experience*" in all the materials and activities Club INTERSPORT stands for. This involves arranging contests, sponsoring several types of sporting events and giving their custom-

ers a chance to be apart of that experience (P. Nimmermark, personal communication, 2006-11-08).

Goals with the loyalty program:

- Strengthen their position on the market
- Gain market share
- Increase revenues (profit and turnover)

(P. Nimmermark, personal communication, 2006-11-08)

The program would also help INTERSPORT to create a strong network and to generate value for the customers at each purchase. The customer database should be used to decrease their marketing costs by targeting club members instead of mass-marketing (P. Nimmermark, personal communication, 2006-09-27).

The objective of the program is to lower cost and increase turnover, as Nimmermark did point out, however the owner of INTERSPORT, Linddahl has another view. His perception is that the intention of the club membership is to get people come in to the store, however what makes the customers loyal is the relationship created. Letting the competent staff create a bond between them and the customer with the aim to close the deal, which is the goal (P. Linddahl, personal communication, 2006-11-23).

4.1.3 The development of the program

The loyalty program came to a change in 2005, when INTERSPORT developed a partnership with Swedbank and adapted a more advanced technology. The new and improved Club INTERSPORT 2.0's strategy was to enhance the already existing strategy of focusing on their regular customers. It was also intended to offer more experiences and more value added for the customers. INTERSPORT could once more sustain their position by offering an efficient technology to create a stronger relationship with their customers. The purpose of the cooperation with Swedbank is that every time a customer is making a purchase with a Visa, Master or Maestro card connected to Swedbank the system will automatically ask the customer to join the Club INTERSPORT 2.0. This club/bank card allows the customer to collect bonus without having to carry an extra card. This will decrease the customer's possession of loads of different membership cards. INTERSPORT can now with this new technology collect more information about each member (P. Nimmermark, personal communication, 2006-09-27).

The idea behind Club INTERSPORT 2.0 membership card was to know their customers on a more personal level. For example, what are the customer's interests and hobbies, where do they live, how many family members? With this type of collection of interest, INTERSPORT would be able to customize each offer to the specific customer, reduce the uncertainty, and increase the accuracy of delivering the right product to the matched target. This would help the company to create clusters of customer target segments by i.e. of interest in hockey or in ski products (P. Nimmermark, personal communication, 2006-09-27). Although, this aim of collecting personal interest has not been used to its fully extent, explains Nimmermark. If this would be implemented, it would help INTERSPORT to get one-step closer to offer the right product, to the right customer, at the right time. This kind of strategy could be used to prevent the customers to switch to the competitors, claims Nimmermark.

Thus, Nimmermark's vision in the nearest future is to implement the customization of the product offers and make the database use more efficient. She further explains that this would help them strengthen their position and create a stronger accuracy of product offers.

4.1.4 The Content of the program

4.1.4.1 Monetary benefits

Club INTERSPORT offers its members a yearly bonus, which is based on the idea that the more you buy, the higher the bonus. This yearly bonus can be used at one specific purchase or it can be spread over several purchase occasions. The only condition to gather bonus is that the accumulated purchases extends over the minimum amount of 2000 SEK/year. A club member can gather bonus in the range of 2% for the minimum amount, up to 6% which is reached when the annual purchase level is over 10 000 SEK.

Another monetary benefit that the customer can gain from being a member of Club INTERSPORT is the discounts on campaign products, such as a pair of running shoes for 750 SEK instead of 1.100 SEK. Occasionally the members can receive a coupon containing a price reduction for example 100 SEK discount when the member buys for more than 500 SEK. Furthermore, the individual storeowner has the opportunity to reward the most lucrative customers by giving them an extra discount or a special offer (P. Nimmermark, personal communication, 2006-11-08).

4.1.4.2 Soft benefits

Members of Club INTERSPORT receive a membership magazine, InterAktiv, several times a year, which contains special offers, product information and tip-offs for the ones interested in sports. Nimmermark emphasizes that INTERSPORT attempts to exhibit their expertise and knowledge in sports through all the materials that the members receive (P. Nimmermark, personal communication, 2006-11-08).

Club INTERSPORT arranges special events for its customers, usually for those who have been purchasing actively. It might concern a club evening, where a club member receives special offers or a chance to get hold of sales items prior to other customers. Club INTERSPORT cooperates with several travel agencies, sport unions, competition organizers and is thereby able to offer priorities and discounts for events and trips. For example, Club INTERSPORT gave its members a chance to participate in a contest to win tickets to the European Championship in athletics in Gothenburg last August. Nimmermark explains that the purpose with this kind of special events is to make the members feel 'VIP' and rewarded for their contribution to INTERSPORT (P. Nimmermark, personal communication, 2006-11-08). Customers have an opportunity to follow their purchases by logging on to the Club INTERSPORT's homepage (www.intersport.se).

4.1.5 Loyalty in the context of Club INTERSPORT

“A loyal customer is a person who has INTERSPORT as their first choice of store when they are planning to purchase sports products.” (P. Nimmermark, personal communication, 2006-11-08)

To define a loyal customer by the use of specific numbers is difficult, however, Nimmermark believes that the customers who are loyal to INTERSPORT could be grouped into two distinct groups; one consists of the big-spenders and the other group is made out of the frequent buyers. These two groups should preferably be influenced in different ways, however at the moment they are not. It is essential not to forget the importance of the frequent buyers even though they are not necessarily big spenders. If INTERSPORT could manage to get these frequent buyers to spend i.e. 100 SEK more at each visit, this would in the end make a substantial difference. Moreover, even if one person is a customer both at INTERSPORT and their competitors this customer could still be seen as loyal to INTERSPORT (P. Nimmermark, personal communication, 2006-11-08). Linddahl thinks that the word loyalty is very hard to define especially today, since the customers have so many different stores to choose from. However, if he had to define what a loyal customer is, he would explain it as a person that returns to the store frequently (P. Linddahl, personal communication, 2006-11-23).

Regular customers are an important base for INTERSPORT, and Nimmermark explains that previous research shows that recruiting a new customer is between five to ten times as expensive as keeping one. Even so, it is vital not to forget to recruit new customers, and sometimes companies face problems since they settle with their loyal customers and forget to actively seek new ones (P. Nimmermark, personal communication, 2006-11-08).

Club INTERSPORT strives towards gaining loyalty among its members. However, why is loyalty important for INTERSPORT? This is answered by Nimmermark who believes loyal customers to possess many positive features such as they spend more money in the company and they also visit the stores more frequently. Further, they spread positive word-of-mouth, which on the other hand can easily be turned to negative word-of-mouth. Thus, it is very important for the employees at INTERSPORT to treat their customers superiorly. *“Loyal customers are the best marketing there is”*, says Linddahl. The positive word-of-mouth is something he values highly. His INTERSPORT store has agreements with several sports clubs, which promises lower prices if they purchase their equipment at his store. It is almost entirely through word-of-mouth that other sport clubs are becoming interested in cooperating with INTERSPORT (P. Linddahl, personal communication, 2006-1-23). One aim of Club INTERSPORT is to provide a feeling of V.I.P. to the loyal customers. Therefore, loyal customers need at least as much service as the non-loyal ones, and they should always feel special and important. Moreover, the loyal customers are not assumed to willingly pay higher prices in the long run, rather they are probably quite price conscious (P. Nimmermark, personal communication, 2006-11-08).

“The key of creating loyalty among the customers is through being trustworthy, both by excellent service and good products” (P. Nimmermark, personal communication, 2006-11-08). Linddahl believes that offering really low prices is not a very important matter when creating loyalty. Instead, this will only attract the price conscious customers who will probably shop some place else whenever they find cheaper products at another sto-

re. Instead, it is important to provide excellent service to the customers (P. Linddahl, personal communication, 2006-11-23). The employees at INTERSPORT must possess much knowledge and be able to help the customer with all their questions and wonders. Therefore, Linddahl usually sends his staff on training programs and educates them so that they will be able to help all the customers in the best possible way. Thus, because of the professional staff, Nimmermark believes that a loyal customer many times is loyal to a specific store rather than to the company as a whole. Besides, it is up to each store to reward their best customers if they wish to. Several stores have for example started a tradition of giving Christmas presents to their best customers to make them feel appreciated (P. Nimmermark, personal communication, 2006-11-08). Linddahl usually rewards his best customers by doing this and has received positive response for doing this (P. Linddahl, personal communication, 2006-11-23).

To sum up, Club INTERSPORT are working hard to create loyalty among its customers and are as Nimmermark expresses it, striving to “make INTERSPORT the natural choice” for as many customers as possible (P. Nimmermark, personal communication, 2006-11-08).

4.2 Part 2 – the Customers

“These empirical findings are based on the interviews with twenty INTERSPORT customers. (Appendix 4)

Frequent buyer	Considers him/herself as loyal to Intersport	Member of Stadium club
Female	X	X
Female		X
Female	X	X
Female	X	X
Female	X	X
Male	X	
Male	X	X
Male	X	X
Male		X
Male	X	
Heavy buyers		
Female	X	X
Female	X	
Female	X	X
Female		X
Female	X	X
Male	X	
Male	X	
Male	X	X
Male	X	
Male	X	X

Table 1 Customer overview

4.2.1 Customers’ perception on customer loyalty programs

Customer clubs trigger divergent opinions among customers. The positive reflections are primarily concerning the special offers, discounts and the bonus that certain customer loyalty programs provide. Customers feel that it is encouraging when the company makes them feel premium for being a regular customer. Special offers make the customers believe that it is cheaper to buy in that particular store. Further, the bonus system makes it beneficial for the customer to concentrate all their purchases to a certain store. Customers in general want to feel that they receive some value in return of focusing the purchases. Overall, customer clubs are seen as a positive phenomenon if the customer visits the store regularly.

The negative reflections have its main concern in the fact that most of the retail companies have a customer club nowadays and customers feel overwhelmed with the amount of offers. Club cards are making an invasion into the wallets of the customers, as some of them have experienced. “*I have a whole library of them in my wallet*”, complains a customer owning numerous club cards. Another customer feels that it is a lot of offers in the beginning, but after a while you feel like you do not get anything in return. Four of the customers even expressed more extreme opinions such as companies should abolish all the customer clubs and decrease the prices instead. Then each and every customer would benefit, not only the club members. Sometimes customer cards were seen as a stress factor; they force the customer to bind their purchases to certain stores because customers still want to make use of the discounts and offers. Five customers called for one general club card that can be used in different stores or conversely, that bonuses or discounts could be achieved through registration of personal number or code. One customer mentioned that INTERSPORT’s cooperation with Swedbank is convenient, because Visa card can always be found in the wallet.

All of the persons interviewed were members of several customer clubs. The most common ones were INTERSPORT, Stadium, TeamSportia, H&M, Lindex, KappAhl, Åhléns, JC, MQ, Kicks, Ikea, ICA, Coop and Konsum. In fact, almost as a rule the interviewed persons both belong to Club INTERSPORT and Stadium’s customer club. The motivations why they belong to both customer clubs were following:

- They want to get most out of the money they spend
- The companies have different assortment of products
- If the company is out of stock in some product categories, it is good to have other alternatives.
- Companies are good at different things. When customers are looking for certain products the choice of the store comes naturally, for example ice hockey products from INTERSPORT.
- Consumers must have the possibility to decide where to buy and evaluate which company better satisfies their needs. ‘*It has to be free competition on the market*’.

One of the questions asked was if they feel loyal to both INTERSPORT and Stadium since they have club memberships to both companies. Fourteen of the interviewees were members in both INTERSPORT’s and Stadium’s customer club and 50 percent of them felt more loyal towards INTERSPORT than Stadium. The other 50 percent claimed that they were purchasing about equally at both INTERSPORT and Stadium and several of these customers felt loyal to both companies. Certain customers were sure about their choice of company, they considered to be loyal to INTERSPORT but had club memberships to Stadium because they also purchased there. Considering the refunds, some customers try to concentrate their purchases in one company and by doing so they considered themselves as loyal to the particular company.

4.2.2 Customers' expectations of the customer loyalty program

With no doubt the most common reason for joining a customer club is that it will bring value back to the customer for shopping at a specific store. To get bonus, special offers and discounts are the most popular features of customer clubs. These bonuses and discounts will help the customer save some money on the products they would have bought anyway. Six of the customers however were not very pleased with how the reward system was presently working. Sure, they were happy to get some money back, but they would be more interested in some added value from INTERSPORT club, such as traveling packages and other benefits not concerning the products in the store. Other benefits that customers expect from the customer club membership were most commonly magazines, precedence at the sale, club evenings. One customer had expected INTERSPORT to use the customer information better and he had hoped to get even better value from the membership. He said, *“added value is more interesting than money, maybe INTERSPORT could have special days when they educate the children in different sport areas”*. The special sales evenings for the invited customers were by some seen as a waste, since they never had time to go there anyway. Other customers thought it was a great idea and that it gave them the opportunity to get hold of sales products before the large crowd.

Customers were also interviewed about what types of benefits they would desire from Club INTERSPORT, which they are not presently getting. Ten customers were simply expressing the wish to get even more in return in means of bonuses. However, there were also more creative answers such as a wish to be able to see directly in the store how much money a club card member can save on each product. Seven of the customers emphasized that the V.I.P. feeling was important and that INTERSPORT could elaborate even more in this area. *“I love the V.I.P. evenings since they give me the opportunity to go shopping in a peaceful and quiet environment”* one customer expresses. Further, customers were again talking about increasing the added value and one customer suggested that INTERSPORT could provide free services such as repairing bikes each spring or maybe wax skies before the skiing season starts.

Even though the interviewed customers were happy about being club members, most of them would not have joined the club if it were not for free. If INTERSPORT were to introduce a fee for the membership, many would simply not be interested any more. However, thirteen of the customers would still remain as members if they felt that it was “worth it” despite the fee. To be “worth it” the gained bonus would need to exceed the membership fee. If the return from INTERSPORT was exceeding the cost of being a member, most customers still felt that around 100 SEK was as much as they were prepared to pay for a membership. However, four of the customers would immediately leave the club if they had to pay and one customer expressed that *“I would feel less loyal if I had to pay to remain as a member of Club INTERSPORT”*. The overall conclusion is yet clear, if fees were introduced, customers would evaluate their different club memberships. They would then remain as members in those customer clubs where they use their membership frequently and where they feel that being a member gives them enough pay-back. The fees would consequently make customers go through their wallet and throw out the membership cards that they are not using enough.

Having many club cards that are usually shared among family members makes it difficult to always have the card at hand when making a purchase, as some of the customers have experienced. At INTERSPORT it is possible to register the bonus afterwards if the

customer brings the receipt and the club card to the store some other day. This is regarded very positively by the customers, because if they have planned the purchase and tried out what they are going to buy it is not worth waiting with the purchase. In addition, if it is an expensive product it feels annoying not to collect that bonus. However, most customers would not bother to register their purchases if it concerned just a small purchase. Even though most customers make the purchase with the intention to register their bonus later, many times this is forgotten. The idea of being able to use one card for many customer clubs was again mentioned and one male customer told us that he has written down the numbers of all his different club cards on a list so that he would at all times carry them with him. This way he would never fail to secure his bonus points.

The customers were asked about on what preferences they choose to shop at a specific store. High-class products were important together with reliable and attentive staff. The products did not have to be cheap, but it was important that the price corresponded to the quality of the product. Eighteen of the interviewed customers agreed that a combination of products, staff and a pleasant environment made them come back to a specific store. Then a pattern was created which made it kind of into a habit of returning to the same store over and over again. When choosing between two stores with similar products the habit played a large roll. If a customer has started to go to a specific store and likes it, it is most likely that he/she will return. Three of the interviewees though that the location of the store played an important role, however, only if they were satisfied with the products, staff and the over all store impression.

4.2.3 Customers' perception on loyalty

The interviewees opinions about what a loyal customer is can be culminated into one sentence: *'A loyal customer is the one that returns to the same store time after time'*. Other conditions for being a loyal customer were that the company is the number one choice and that the customer is familiar with the store. Loyal customers make all their purchases in the same place, not only the products that are discounted, explains a customer. He goes on by clarifying that he is not the kind of customer who chases the best price when looking for a specific product. Moreover, a loyal customer is 'purchase loyal' and spreads positive word-of-mouth. One opinion was although that *'there is no such a thing as loyal customers nowadays'*.

Seventeen of the interviewees considered themselves as loyal towards INTERSPORT. Several female customers notified that they considered themselves as loyal because they chose INTERSPORT in the first place when they need to buy sports items. Another female customer thought that she is not loyal, but instead pretty mobile in her purchases. Further, one customer regarded that she is a good customer although not 100 per cent loyal towards INTERSPORT. The loyalty is definitely more apparent when looking at grocery stores; people are pretty confident on the choice of the food chain i.e. ICA or Coop. That kind of division of attitudes is not obvious in the sports business. Loyalty to INTERSPORT is also explained to emerge because other members in the family likes to make purchases there and by concentrating the purchases into one store will eventually be rewarded even though the products may be more expensive than in other stores.

Male customers declare that they are either loyal or relatively more loyal to INTERSPORT than to other companies. *"INTERSPORT is a good store because it has what I need and the staff is competent. They do not want to persuade me to buy expen-*

sive products, instead they give me advises and good products”. Another male customer sees himself as loyal because he does not look at other companies’ assortment and always chooses INTERSPORT first.

4.2.4 Creating loyalty through customer loyalty programs

The interviewees’ opinions whether customer loyalty programs is a good method of creating loyalty were diverse. Those who had positive attitudes motivated themselves as following:

- Customer clubs are a good way of creating loyalty since they make the customers repurchase in the same store to take advantage of the benefits the club membership offers.
- Customer clubs enhance the commitment to the store due to refunds from bonuses and attract customers to the store by offering discounts and special deals.
- By having a club card to a particular store, you unconsciously concentrate the purchases there.
- Customer clubs are especially good at creating loyalty in case there are different intervals to obtain a certain percentage discount when you buy a certain volume. In that case, it is worthwhile to try to concentrate the purchases to one place.
- If the membership does not cost anything, it is believed to be beneficial for the customer to return to the store for the purchases.
- Loyalty can be created through customer loyalty program if it can easily be detected how much you get in return of being a member. Customers should constantly be aware of the amount of refunds.
- If customer clubs would be exploited more efficiently, referring to the use of databases, customer clubs could create loyalty among several customers. That is to say if there are several stores with similar product assortment, customer tend to buy where it is cheapest.

Five of the interviewees did not believe that customer loyalty programs would be able to create loyalty. Instead, loyalty is built up by the staff, the way they treat the customers. *“You do not feel more for the company if you get some per cents of refunds. Instead, it is a matter of the staff and how they treat you”*, explains a male customer. Another male customer stated that he is loyal, because he feels comfortable with the store and their product line and is satisfied with the way the staff deals with him. A female customer does not either believe in customer clubs’ effect on customer loyalty because people have club cards to numerous companies nowadays, then it is impossible to be loyal to one of them. *“It is better to get rid of all the customer clubs”*, she continues. If the customer club can provide exceptional offers to the members, then it might succeed in generating loyalty. However, there are so many companies with customer clubs that it must be really good benefits in order for customers to choose the company only on the basis of customer club activities.

4.2.5 Customers' reflections on the benefits of loyal customers

The interviewed customers' opinions about whether loyal customers are willing to pay higher prices were intriguing. Some of them claimed that customers nowadays are not loyal to the extent that they would not be price conscious. In fact, loyal customers should perhaps pay lower prices than non-loyal. In addition, if it were easy to compare prices, then the natural choice would be the cheapest one. The willingness to pay higher prices is justified only if the prices are marginally higher and the products are of good quality.

On the other hand, the question whether loyal customers are willing to pay higher prices depends on the fact if the customer is loyal because of the service they get in the store. In that case, the customer might really appreciate the service and pay more. However, if it concerns simple consumption goods the price is important. For complex goods that require more knowledge, the sensitivity to price upsurge is lower. *"If you are satisfied with the store and receive personal service, then it is not worth counting the kronas"*, answers a customer. Yet, the price difference should not be too large. To sum up, customers are willing to pay higher prices if they get excellent and competent service and perceive the products as high quality.

Another issue is whether loyal customers need less service because they are familiar with the store and its product line. Eight of the customers agreed to this statement by justifying that loyal customers are aware of where the products are located and knows exactly what kind of assortment the store has. That would be the reason why loyal customers ask less. On the other hand, being a loyal customer you know the staff pretty well and the conversation starts easily even though you do not need any help. The demand for service depends also on the nature of the product; simple products do not require service while more complex products do. Even supposing that loyal customers are familiar with the store and therefore requires less service, many of the interviewees pointed out that they are loyal partly because they get a lot of service. Loyal customers really want to have service and the staff needs to make sure to answer the questions and to find the right products. *"Other customers are perhaps shopping around and trying different stores. That is not me. I want to make the purchase fast, so I trust that I get the right service. I do not shop around and compare prices,"* explains a male customer. Interviewees ask for personal involvement from the staff and that they can rely on getting service whenever they need it. Some of them points out that the companies should not forget how important the loyal customers are.

A loyal customer spends more money in the store, claims fifteen of the interviewed persons. Old habits of going to the same store and the satisfaction to it determine if you choose to go there more often which usually results in larger purchases. Loyal customers are true to the company and when you really trust the store, you choose it even though it is not the cheapest one. A female customer reveals that since she has a club card to a certain store she usually buys more than she should. Overall, the answers were indicating that repeated visits to the same store resulted in higher total sum of purchases. However, not all agreed on this and two people explained that you only buy what you actually need. Just because you are a loyal customer does not mean that you buy more. *"You do not go to McDonalds and buy two Big Mac meals just because you are a loyal customer."*

Empirical findings – a Case study

All of the interviewed persons agreed that loyal customers spread positive word-of-mouth and thereby market the companies. You are not a loyal customer unless you talk positively about the company to your friends, claims a male customer. It is common to change opinions among parents what you think about the stores since they need to buy a lot of sports equipment to their kids, so other parents' opinions are sometimes valuable. Another customer has herself heard buzz about how good certain club cards are. As long as the customers are satisfied and have positive attitude toward the company, it is easy to spread positive word-of-mouth. This is closely related to what kind of service you get. Also, when customers hear positive word-of-mouth from other people it triggers them to try a particular store or product. Five of the interviewed persons pointed out that it works the other way around as well. Unfortunately, it might be more common to share the negative experiences, which might have even stronger influence than the positive stories.

5 Analysis

This chapter intends to create an analysis by combining the theoretical part, the empirical findings from the case study and from the customers. The analysis reflects on the theoretical framework and the research questions.

5.1 Customer loyalty programs

The purpose of CRM-strategy has from its introduction been to nurture existing customers as well as keeping them satisfied, thus to create loyalty (Raulas, 2005). The purpose of the CRM is also to gain and sustain customers by satisfying them. Nimmermark fully agrees on the importance of nurturing and satisfying the existing customers, as it is stated in the theories, since it is cheaper to maintain old customers than recruiting new ones. On the other hand, she points out the vitality of acquiring new club members from the aspect that old customers at one point of time will fade away or switch to other retailers. The recruitment of new customers to Club INTERSPORT is a constantly proceeding task. Since there are always customers disappearing they must acquire new ones to fill the empty spaces. The sport retail industry is also a bit special in this aspect since most people actually quits exercising at a certain age and will not have a need to purchase sports products any longer. Companies should understand the importance of creating relationships instead of putting all effort on making profits. Profit is something that arises as a result of the satisfaction from the relationship between the company and the customer, a so called win-win situation.

5.1.1 Enhancing the relationship

Håkansson (1982) is discussing the origin of the customer loyalty programs. He believes that they were founded with the aim to create “better” customers and to differentiate the organization from its competitors. With “better” customers we assume that he is talking about what we in this thesis identify as loyal customers, thus, profitable customers with high frequency of visits to the store. The creation of the customer loyalty program as a mean of creating competitive advantage had the possibility of being a very efficient method. However, when all the competitors started their own customer loyalty program the competition was back where it started. To use the loyalty program in order to differentiate from competitors today, the companies need to provide special features that other customer clubs are not providing.

When INTERSPORT founded their customer club as the first company on the Swedish sports retail market they were able to provide something unique compared to their competitors. However, today when all the larger sport retail stores in Sweden operate a customer club, INTERSPORT needs to provide extra features to stand out from their competitors. Nimmermark explains that they are trying to differentiate their customer club from the competitors by providing a “world of experiences” to their customers, by offering i.e. competitions, traveling packages, a club magazine and their expertise. Another method used by INTERSPORT to differentiate itself from the competitors is by the use of Swedbank bankcards. Since customers who have a bankcard from Swedbank can use it to collect bonus points, this solves two problems that the interviewees were talking about. One problem was that it is difficult to have the club card always at hand when making a purchase and the second problem was to carry around numerous club cards.

Since the bankcard is something that people are always carrying with them, it is very convenient to be able to also use it as a club card. The imperative would be if INTERSPORT could continue on this line and maybe arrange with other banks as well so that the customers who have bank cards from other banks would be given the same opportunity.

One customer club that has really succeeded in differentiating itself from their competitors is ICA. They collect much more information in their database than INTERSPORT does (P. Nimmermark, personal communication 2006-11-23). One example is that they are collecting product specific data so that they know what products each customer has bought. Later on, this data is used by ICA to provide offers based on previous purchases to their customers. One important part of the customer loyalty program is the software solutions, which enable the company to gather and integrate important customer data (Lancaster and Reynolds, 2004). We consider that one way of gaining competitive advantage for INTERSPORT will be to use their customer database in an efficient way. This will help them to gain knowledge of the customers' behavior as well as to create strong relationships with their customers. The basic information such as addresses, names and city of home store are already frequently used, however, there is much more information that could be stored and used to enhance the relationships with the customers.

Our research shows that INTERSPORT has neglected the importance of the wide usage of the database. Thus, they have not been using their program to its maximum capacity, in order to understand what the customers really want and need. The club membership card is at the moment only used to collect new members to their database and to send out their magazine "InterAktiv", or to invite the customers to special club and sales evenings. Nimmermark did point out that she is fully aware of the fact that INTERSPORT has not been exploiting the customer data in an efficient way, due to the lack of resources.

What we regard as the most urgent step to improve the database is to include product specific data. If the information flow provided by the customers would be fully utilized, INTERSPORT would be able to offer the right types of product to the right target segments at the right time. For example if a customer have bought skates, then knowing the average lifetime of a pair of skates would enable INTERSPORT to send a new offer at the time when the skates are assumed to be worn out. Moreover, since the competition between INTERSPORT and Stadium in particular seem to be very intense, it is many times crucial for INTERSPORT to reach the customers with a special offer before Stadium does. This is especially important since many of the interviewees claim that they are equally loyal to both INTERSPORT and Stadium. We believe that the expansion of the database would enable INTERSPORT to build stronger relationships with their customers due to the ability to match the customer needs and at the same time give them a competitive advantage over their competitor Stadium.

5.2 Customer loyalty

According to Blomqvist et al. (2000), a loyal customer engages the company over long-term to satisfy needs or a part of the need and the company can provide incentives to the customers in order to gain loyalty among them. INTERSPORT offers its club members both soft- and monetary benefits to induce buying fidelity among them. Special offers and discounts are intended to influence customers' visit frequency and demand in cer-

tain product categories. Often, they are also used to attract customers to visit the store and after that, it is the staff's task to increase the monetary value of the purchase by cross-selling. Soft-benefits, such as events and contests are meant to create an emotional bond to the customer and to create positive attitudes towards the company. The most common reason to join the customer club was the monetary benefits that INTERSPORT offers, with the bonus-system on the top of the list. Monetary benefits makes the customers feel that they receive some value in return of concentrating the purchases in the specific store. It can be detected that customer loyalty programs indeed enhance the commitment to the particular store from the customers' answers to the question if they believe that customer clubs can create loyalty. However, to this question, we received opposing answers, but it should not neglect the fact that some customers still believe that they are more loyal to the store because they possess a club card to that store. One customer expressed that you unconsciously concentrate the purchases to that store where you have a club card. In this manner, customer clubs indeed may create loyalty.

Not only are the monetary benefits of importance to the customers. The customers hoped for added-value in terms of soft benefits such as extra service or events that would for example concern educating kids in different sports areas. The feeling of being a premium customer was important for many interviewees. By offering the customers this, kind of soft benefits could be a key determinant of creating loyalty, since it is easy for competing companies to offer price-related benefits while offers that reach beyond the monetary terms can help the company to find their competitive advantage. Soft benefits can also create an emotional bondage between the customer and the company that might be valued higher than the monetary benefits. INTERSPORT tries to communicate their motto "a world of experiences" and their expertise in sports through all their materials and activities. These intangible features have affected the customers' perception of INTERSPORT; because we can detect that, the interviewed customers highly valued the skilled staff and their knowledge in sports as well as the good quality products that the company offers.

In order to understand whether these customers, who are considered as loyal in terms of visit frequency and the monetary amount of purchases, are truly loyal, we want to analyze the behavioral and attitudinal aspects of loyalty. This will be done by using Dick and Basu's (1994) Relative Attitude-Behavior relationship model, Dowling et al. (2003) Conceptualization of customer loyalty and Gustavfsson et al. (2005) Three drivers of retention. As explained in the theoretical framework, the theories are arranged under three attributes: attitudinal-, behavioral- and situational loyalty.

5.2.1 Attitudinal loyalty

Loyalty is characterized by positive correlation between favorable relative attitude and repeat patronage (Dick and Basu, 1994). Positive attitude and deep commitment influence the customers' motivation to re-patronize and maintain the loyalty over long-term (Dick and Basu, 1994 and Dowling et al. 2003). The customers that were involved in this study replied that a loyal customer is one that returns to the same store time after time and this store is always the number one choice. The response from Nimmermark and Linddahl also echoes the previous statements. We believe that customers who consider INTERSPORT as a number one choice implies a strong attitudinal loyalty. Dowling et al. (2003) argue that customers who possess this kind of attitudinal loyalty are seen as single-brand loyal –*monogamous*. However, the majority of the customers

we interviewed revealed that they are not 100 % loyal to INTERSPORT and actually do purchase also at competing retailers. Some of them spread their purchases almost equally between INTERSPORT and Stadium. One considerable difference between female and male customers was that male customers seemed to be more confident of their choice of the store while female customers tend to compare prices and shop around. Moreover, male customers did not own several customer club cards but rather they had memberships to the stores they truly considered themselves as loyal to. Looking at loyalty from this perspective, we could claim that male customers tend to be monogamous in a wider extent than female customers are. If monogamous loyalty is rare in most of the retail businesses, in contrast this kind of monogamy could be detected towards the grocery stores. Pretty many interviewees seemed to be sure of their choice of grocery store, namely whether it was ICA or Coop and that it concerned sustainable loyalty.

Loyalty that is both attitudinal and behavioral is very important because if customers would be so called monogamous, they would invest all their expenses to sports to one particular retailer. Majority of the interviewed customers, both heavy and frequent buyers, were spreading their sports expenses between INTERSPORT and Stadium. If these customers could be turned into monogamous, only making purchases at INTERSPORT, the effects to revenues would be substantial. Nimmermark also mentions that a large part of the sales revenues is in fact generated from club members. Dowling et al. (1997) suggest that the company should aim to escalate the sales by strengthening the commitment and to bond the customer to the brand. This can be done by enhancing the beliefs about the brand and focusing on emotional factors that drive the commitment. INTERSPORT could provide soft benefits to the customers that are valued by the customers and cannot be provided by competing firms. We believe that soft benefits can create true loyalty since their intention is to generate positive feelings towards the company, which should consequently reflect in sales. If customers have strong positive attitudes to a store, they are less influenced by competing firms' promotions. This would be critical especially today when majority of the retail chains have their own customer loyalty programs and customers are exposed to heaps of advertising. We also believe that soft benefits can bring sustainable advantage and create durable loyalty while focusing on monetary benefits the chance is that customer loyalty program turns into 'discount channel' rather than a method of developing relationships.

Affective commitment according to Gustafsson et al. (2005) is the emotional factor that is created by the interaction with the retailer. For the customers it was important that they can rely on the expertise of the personnel and that they would be able to help the customers to find the suitable products with good quality. The main reason why customers would choose between two similar stores was the reliability of staff along with the high-class products. Customers believed that once they have started going to a certain store, they will keep on returning if they like the store. These features reflect the affective commitment the customers create to a retailer. The repeated product and service usage results in higher level of trust and consequently gives rise to sustainable loyalty.

5.2.2 Behavioral loyalty

Spurious loyalty is a result of high repeated purchase behavior accompanied by low relative attitude. Also, *polygamy* explains that loyalty is determined by pattern of past purchases with only secondary regard to underlying attitudes toward a brand. A majority of the customers that we interviewed considered themselves as loyal to INTERSPORT.

However, we noticed that almost as a rule the customers belong both to Club INTERSPORT and Stadium's customer club. Customers might say that they are loyal, but in fact, they do not hesitate to switch to another store in case they receive better offers or they find the product line more appealing. Many customers explained that they choose the store depending on the products they are looking for. This reinforces the assumption that an increasing number of customers today are actually polygamous –their loyalty is divided between a few brands. Nimmermark mentions that even though a customer buys both from INTERSPORT and Stadium, he/she can be considered as loyal. Linddahl further underlines that nowadays very few customers can be considered as truly loyal. Instead, people are pretty mobile when doing their purchases. We believe that many of these customers are polygamous and yield spurious loyalty. Customers keep on returning to INTERSPORT because they are satisfied with the store, but do not necessarily feel committed to it since they would be willing to also purchase at the competitor. For many customers it was important to gather bonus -that was the most appreciated benefit from the Customer Club. However, the bonus does not create attitudinal loyalty towards the store, but rather induces the behavioral loyalty. It becomes habitual to return to the store where the customer has a club card. Underlying attitudes in this case becomes a secondary issue and the loyalty is defined by the pattern of past purchases.

What is typical for polygamous customers is that they might temporarily change retailer or simply consume several brands simultaneously (Dowling and Uncles, 1997). They can actually be loyal to several brands, which do not need to imply disloyalty or that these customers would be lost forever. As we have noticed, the interviewed customers are indeed loyal to INTERSPORT, however they are at the same time consuming Stadium's products as well. This means that it becomes very important for INTERSPORT to use its customer club to provide the right incentives at the right time to reach the customers before Stadium to prevent them from searching for alternatives at Stadium. It is also important to make sure that there are no stock run-outs and to provide exceptional service. After all, we could identify throughout the interviews that it was the service the customers receives that was highly valued. As Dowling and Uncles (1997) suggest; polygamous customers are best influenced by customer loyalty clubs when it is designed to take a defensive approach by a bid to match competitors and not as an intention to generate dramatic changes in customers' attitudes. Some of the interviewed customers were only interested in getting value for their money and if INTERSPORT succeeds in this, the customers will most likely choose INTERSPORT over Stadium.

Gustavsson et al. (2005) imply that customer loyalty can be partly explained through focusing *overall customer satisfaction*, which is a driver of customer retention. In our attempt to grasp what drives loyalty among the interviewed INTERSPORT customers, we could detect that many customers considers the loyalty is built up by the staff and the way they treat you. *“You do not feel more for the company if you get some per cents of refunds. Instead, it is a matter of the staff and how they treat you”*, explains a male customer. Other reasons why loyalty is generated is the satisfaction to the store and the product line. From this point of view, overall customer satisfaction is determining the level of loyalty. Linddahl expresses that it is crucial to have competent staff that put the customers' needs as a first priority.

5.2.3 Situational loyalty

Customers who have *latent loyalty* to a retailer hold high relative attitude towards a company, but for some reason it does not result in high repeat patronage. *Promiscuity* of customers is due to strong attitudes being insufficient in determining the behavior. We know that customers that we interviewed do not necessarily belong to this description since they all have relatively high repeat patronage at least to INTERSPORT. However, as buying behavior is rather determined by individual circumstances, individual characteristics and the purchase situation, we can still draw some conclusions based on the interviews. For some customers price was an important determinant in the choice of the store. They would not like to pay more for the same product they can get elsewhere at a lower price even though they have high relative attitude to the store. Also, some male customers expressed that it was important that the purchase can be conducted fast. In these cases, the buying behavior is determined by individual circumstances, namely, budget effects and time pressure. Even though the customers may hold strong positive attitude, they would choose a store where purchases are giving value for the money and can be done fast. Purchase situation – product availability, promotions and particular use occasion had an effect on where the customers would make their purchases. Even though the customers felt more loyal to INTERSPORT, they would turn to another retailer if the sought product could not be found at INTERSPORT, they received a better deal elsewhere or if it concerned a use occasion that is not provided by INTERSPORT, for example bicycles. INTERSPORT's task is to influence promiscuous customers who possess latent loyalty by providing promotions that contain a good price deal, emphasizing the use occasions that can be found at INTERSPORT and maybe not in other retailers, and by extending the product line, so that variety of different customer needs can be satisfied.

One important aspect is that customer clubs may induce the promiscuity of customers due to widespread utilization of customer clubs nowadays. It is common that consumers are members of several customer loyalty programs, which mean that a customer receives promotions from several retailers. This in turn can trigger the customer to choose the retailer by simply comparing the offers and not by evaluating towards which store she/he holds the favorable attitude. This kind of behavior counteracts the purpose of customer loyalty programs, namely building commitment and loyalty. By introducing fees to customer loyalty programs, the companies could sort out promiscuous customers, since they do not necessarily bring additional value to the company. As many of the interviewees conveyed, they would probably skip the membership to those customer clubs that they do not use actively in case a fee was introduced.

Calculative commitment according to Gustafvsson et al. (2005) contains a rational view on loyalty, which can be derived from the lack of alternatives or switching costs. The interviewed customers revealed that they choose between INTERSPORT and Stadium depending on what kinds of products they are looking for. Concerning for example ice hockey products, the natural choice of retailer would be INTERSPORT. Companies can therefore generate calculative commitment by supplying products that cannot be found in competing stores. This in a way forces the customer to return to the particular store. Calculative commitment can also be encouraged by offering extra value for the purchase i.e. bonus as INTERSPORT is doing. This increases the customer's switching costs because by making purchases in other stores the customer would receive smaller

bonuses. Perhaps, a good way for companies to influence calculative commitment is to bond the customer to the store by offering monetary benefits.

5.3 Consequences of customer loyalty

All companies have to, at some point in time, invest in acquiring new customers (Reichheld et al. 1996). As Nimmermark explained, the cost of acquiring new customers is between five to ten times as expensive as keeping an old customer. Several different types of marketing are used by INTERSPORT. There is the public marketing, which is exercised to make people come to the stores, and then there is the marketing within the customer club. When the marketing has succeeded in bringing customer to an INTERSPORT store the next step is to make them a member of Club INTERSPORT. To attract customers to the club special offers are generally used. These offers give the customer the opportunity to buy a product at a lower cost if they become a member of the club, which creates incentives for the customer to sign up. Then it is up to Club INTERSPORT to send them advertisements and offers to make the customers come back to the store. One of the aims of the club is actually to lower the marketing costs, and thus INTERSPORT can send advertisement to those people they know are interested in sports products and can save money by less advertising to the public.

When a person has become a customer of INTERSPORT, we believe that the job is not finished here. The process of acquiring new customers and members of the customer club does not end the first time they walk into the store or when they have signed up to become a member. Instead, the mission is then to make the customer return to the store, which is not always an easy task. Many customers might be satisfied after they got that special introductory offer on one product and feel no urge to come back again. It will also take some time for the customer to get used to going to INTERSPORT and to create a habit of immediately thinking of INTERSPORT when they are about to go shopping for sports products. Therefore, it is important that the Club INTERSPORT continues to send out information and offers so that the customer will return again and again.

Some customers are presumably more expensive than other to procure and some people are impossible since they might not be interested in sports products at all. As many of the interviewees have said, they consider them self as loyal to INTERSPORT, even though they are members of several sports store customer clubs. Thus, even if they get offers from other sports stores they would rather shop at INTERSPORT. These are obviously really good customers for INTERSPORT, however, we can assume that their competitors have these kinds of loyal customers as well. Since these loyal customers that spend much money and visit the stores frequently are desired, INTERSPORT could try to win them over from their competitors. The acquiring process of these profitable customers we can assume to be more expensive than acquiring customers that has no loyalty to any sports store. This since it will acquire either really good offers or that these customers get dissatisfied by their other store for them to switch to INTERSPORT. However, it could be precisely these customers that will be the profitable ones in the end. Thus, we can conclude that some customers are proportionately cheaper to acquire, however they may not pay off since they are not big spender or frequent buyers. Then there are those customers that we know are very profitable since they spend much money, visit the store frequently and are loyal to the store, thus they buy all their sports product in one store. If these customers are more expensive to acquire since they are already loyal to another sports store, they will certainly be harder to

persuade, still it will probably pay back in the end. These customers that have INTERSPORT as their first choice and who spend much money and visit the store frequently, is as Nimmermark says the loyal customers that they are striving to create.

We do not know the cost of acquiring new customers to INTERSPORT. The costs could be both tangible and intangible (Reichheld et al. 1996). It can however be assumed that not all customers are worth acquiring. Some customers are just after special offers and will not shop if there is no immediate gain for them compared to making their purchase in another store. Although, to cover the base profit the company should strive towards acquiring long-term customers, since then the cost of acquiring the customer are spread over many transaction (Reichheld et al. 1996). Thus, loyal customers are preferred since they will come back to the company and spend enough money to cover the base profit and also create new profit for the company. However, to find these customers are not always easy as we could detect from the interviews. As many interviewees have said, they see nothing wrong with being a member in several customer clubs; rather they think it is the consumer's advantage to choose where they want to make their purchases. In addition, many of whom we asked see nothing wrong in chasing the best offers at different stores. This is one of the reasons why the whole package is important in acquiring customers. Since if the customers are happy with how the staff treats them and the environment in the store, this increases the chances of the customer coming back to the store without the bait of an offer.

“Loyal customers spend more money in the company”

This is according to Reichheld et al. (1996) who explains it with that customer spending usually accelerates over time. As customers get familiar with the whole product line, they will be likely to try other products as well. Some customers that were interviewed did however have a different opinion. They thought that customers loyal to a store will not spend more money, since there is no reason for people to buy more stuff than they need just because they are loyal. This sounds reasonable, however, many people were still of a different opinion in this matter.

Nimmermark believes that loyal customers spend more money in the company and visit the stores more frequently, also most customers we have asked agrees with this statement. This is explained by that if you are a loyal customer it means that you will return to the same store over and over again for your purchases. Hence, more money will be spent in one specific store if compared to non-loyal customers who spread their purchases over several stores. We believe that if one customer gets familiar with a store and to the products, it offers they might notice that the store provides products they did not know of. If a customer always buys socks at H&M and swimming wear at Åhléns, after shopping at INTERSPORT a couple of times they might discover that INTERSPORT sells the same kind of products. Then in the future, they may change their behavior and go to INTERSPORT as the first store at occasions when they need to purchase either socks or swimming wear. This way, loyal customers will start to spend more money at INTERSPORT. To make the customers spend more it is therefore essential that INTERSPORT tries to market as many different products as possible. Moreover, it is important that the staff in the store take their responsibility and introduces the customers to as many different products categories as possible provided by INTERSPORT and tries to use cross-selling.

“Loyal customers need less service since they are familiar with the store and its products”

Since INTERSPORT want to nurture their loyal customers Nimmermark explains that they are not operating according to this statement. Instead, it is vital that the loyal customers feel that they are valued and important and they should receive almost V.I.P. treatment. It is crucial to take excellent care of the loyal customers so that they remain pleased and keep coming back. The customers however, have very differing views on this matter. Some of them really believe that loyal customers do need less help and several and even states that they themselves need less help since they know the products in the store. Other customers believe that the statement is not true and that loyal customers need as much help as other customers. Particularly the men were very determined on this matter, since they said that they do not like looking around for products. Instead, when they visit a store they want to immediately be helped by the staff so that they can finish off their errand quickly and efficiently and at the same time being sure that they got a good and reliable product.

After all our interviews with both customers and INTERSPORT employees, we believe that this statement is true in some environments. In an example of a food store, it is most likely that loyal customers who visit the store frequently know the store and its products, and especially they know where to find the products. A new customer will many times have difficulties finding what they are looking for and may then be likely to need some help from the staff. The same, we assume, applies to a store like INTERSPORT. Thus, when a loyal customer is only after simple products such as clothing or other products that are more about style than function there is usually no need for help from the staff. However, when shopping very complex products even the loyal customers will need help from the staff to find the right product for their need and wants. In any case, the most important issue we believe is that if the customer want help and advice this should be given to them, what ever product they are looking for and whether they are loyal or not. To make the customer return to the store, they must feel satisfied.

“Loyal customers spread positive word-of-mouth”

Both Nimmermark and Linddahl agree with this statement, even though Linddahl takes it a bit further and explains that customers are the best marketers. The interviewees agree with that loyal customers spread positive information to others about their company, and they told us that many times they also do it themselves. If the service and the products are satisfying, many customers speak positively about this to their friends and family. We believe that positive word-of-mouth is very good marketing for a company. People tend to believe more in what people around them says than what is stated in commercials on the TV or in the paper. Several interviewed customers say that they listen to other peoples referrals and that they are likely to try it themselves. In particular, we believe that the service is crucial for creating a good reputation since prices and products are very easily detected in the store or even outside it, in advertisements and on the internet. Thus, service is the last touch that finishes the whole impression of a store. Moreover, since one store has many products, if a customer would buy one with poor quality, it does not have to mean that this customer will not return to the same store again. Hence, we also believe that it is very important how the staff treats unsatisfied customer. If a customer is not happy with the purchased product, the staff should help out with different means so that in the end the customer will leave the store feeling sat-

isfied. However, if the staff treats the customer poorly, this might cause them to choose a different store next time. Moreover, as many interviewees told us: customers tend to be even more urgent to tell people about bad experiences they have had at different stores than the good ones. This they do to warn other people from making the same mistake. Consequently, it is very important for the companies to be aware of this, and to make one customer satisfied can bring the company many other customers.

“Loyal customers pay higher prices”

This is argued by Reichheld et al. (1996) and he explains it by that customers want to avoid switching costs, they get value from the relationships, and compared to new customers they do not need to be attracted to the store by price discounts. However, Nimmermark do not agree with Reichheld et al., rather she feels that long-term customers are quite price-conscious. The interviewees had very opposing opinions in this matter. Around 50% thought loyal customers should not pay more than non-loyal customers. Moreover, they were quite price-conscious and were many times looking around for the best prices. Although, if it was only a small price difference between two stores some of the customers did not bother too much. We assume that if all the products were more expensive in one store than in another and both stores were offering the same products and brands; customers would probably think it was worth it to switch retailer. However, many customers would still be interested in the products if the higher prices were due to better quality. If a customer has become loyal to a store where they like the products, the staff and the store-atmosphere, we assume they would still purchase a product even if that product were slightly more expensive than in another store. Some of the interviewees expressed that loyal customers should instead be rewarded for being loyal and thus instead paying lower prices. This is what the customer club is already offering them through the special offers and the bonus, which is dependent on how much money they spend in the company. Hence, a loyal customer who spends a lot of money in INTERSPORT will gain from the return of a larger bonus.

The other 50% agreed with the statement that loyal customers pay higher prices. They based their views on that the service is very important. Here we could see a difference between men and women. Some of the women mentioned that they would go to different stores to find the best price, however, all men we spoke to emphasized the importance of service and that they would pay higher prices as long as the service was superior and to avoid having to search different stores. Consequently, we can assume that men value their time more than money, and as long as the price difference is not too large, they choose their store on other preferences than price. Thus, they value the relationship with the company and are therefore coming back repeatedly where they know they will get excellent service.

Moreover, customers mentioned that it could sometimes depend on the product if they were prepared to pay higher prices. Here again we are getting into the dissimilarities between different types of products. If customers are going to purchase products that do not require help from the staff, they might not be ready to pay higher prices. On the other hand, if they are going to buy something more complex they would like to receive help from the staff. Some interviewees point out that it feels safer to buy an expensive and complex product from a reliable store with educated staff since they then know that if they would run into some problems later on with the purchased product, they will get all the help they need to restore their product.

Analysis

Reinartz and Kumar (2000) have the opposing opinion of Reichheld et al. (1996). They thought that there was no evidence that loyal customers would pay higher prices, which we have already proven to be true to some extent. However, there were also customers that agreed with Reinartz and Kumar (2000) and suggested that loyal customers should instead pay lower prices. When it comes to the spreading of positive word-of-mouth we can assume that Reinartz and Kumar (2000) are wrong since almost all interviewees declared that they do spread positive word-of-mouth to people around them. However, if there is any difference in this aspect between attitudinal and behavioral loyalty is up to the previous part to answerer.

6 Conclusion

In this thesis, we have identified INTERSPORT's way of operating the Club INTERSPORT, one of largest customer loyalty programs in Sweden. We have also attempted to grasp the INTERSPORT customers' visions on customer clubs and customer loyalty in general. In this chapter, we are going to draw conclusions on the analysis part of the study by answering the research questions and the purpose.

I. How can a customer loyalty program create customer loyalty?

The study has shown that customer loyalty programs can enhance the creation of loyalty to some extent. Monetary benefits, such as bonuses and discounts make the customers concentrate their purchases to the store where membership is held. These monetary benefits do not however generate attitudinal loyalty, rather the loyalty in this case can be described as behavioral that takes a form of spurious loyalty, polygamy and calculative commitment.

Soft benefits that a customer loyalty program provides are more suitable in creating true loyalty or attitudinal loyalty as it could be called. Offering the customers soft benefits could be a key determinant of creating loyalty. It is easy for competing companies to offer price-related benefits while offers that reach beyond the monetary terms can help the company to find their competitive advantage. Also, soft benefits can create an emotional bondage to the customers that many times are valued higher than the monetary benefits the customers receive. In this perspective, soft benefits could enhance the creation of monogamous loyalty and affective commitment.

Besides the methods that loyalty programs use in order to create loyalty, the considerable issue that creates loyalty is the specific store and the staff, which does not have anything to do with customer loyalty programs. Many customers expressed the importance of competent staff, high-quality products as well as an appealing store. Customer loyalty is therefore generated from customers' overall satisfaction and from affective commitment, which derives from the interaction with the retailer and the repeated product and service usage.

Conclusively, customer loyalty programs can be used as a complement to create loyalty among customers. Customer loyalty programs alone cannot create loyalty. We strongly consider that the company needs to have good products, functional store and service that are the basis of why customers choose to re-patronize a certain retailer. Once all the basic aspects of the business are satisfying, the customer loyalty programs add value to the generation of customer loyalty.

II. How loyal with regard to the theories are the frequent and heavy buyers, which INTERSPORT estimates as their loyal customers?

A majority of the customers declared to be loyal to INTERSPORT. Although, these customers appeared to be polygamous rather than monogamous – they are loyal to several retailers at the same time. Polygamous loyalty can for example be detected from the aspect that the customers switch between retailers depending on the products they are looking for.

The study shows that male customers perceive the relationship with INTERSPORT as stronger since they seem to be more confident about the choice of the company. The

Conclusion

male customers could to a certain extent be described as truly loyal –monogamous. Perhaps this is due to females being more commonly used to shop around and compare prices, while men like to shop conveniently and not waste time on purchases as the interviews revealed.

All customers that we interviewed can be said to have behavioral loyalty towards INTERSPORT since they are actively visiting the store and making purchases. However, the attitudinal or emotional dimensions of the relationship between these customers and the company were inadequate.

To be further acknowledged, it is important for the companies to strive for attitudinal loyalty among their customers. Customers who are monogamous concentrate all their purchases into one retailer. For INTERSPORT, it would mean that the customer segment that was scrutinized in this study would no longer purchase at competitors and the profitability of these customers would increase substantially. However, the intensity of competition and the amount of commercials that consumers are the target for these days makes it extremely difficult for companies to attain monogamous loyalty.

III. Are there reasons for companies to question if loyalty is an appropriate objective of the customer loyalty programs, and if yes – why?

Linddahl argues that there is no such a thing as loyal customers these days. Customers' tastes are highly fractionized and they have several options to choose between when deciding upon the store. The customer clubs may even encourage the promiscuous behavior of customers by overwhelming them with plentiful offers. It is a hard task for companies to turn the customers into truly loyal ones regardless of talking about it in the context of customer clubs or stores in general.

It can also be questioned if loyalty has a positive effect on the profitability of the company or if those customers that INTERSPORT perceives as loyal are rather an expensive burden. There are four commonly known features that loyal customers are assumed to possess. Firstly, they are assumed to spread positive word-of-mouth, which has been proven to be true.

Secondly, it is said that loyal customers spend more money in the company. This is both true and false depending on the situation and how loyal the customer is. What indicates that this is true, is that as a customer gets to know the store better they will find more products that they can make use of. In addition, when the relationship improves between the staff and the customers, it is easier for the staff to increase gross-selling and in that manner, the customers spend more money in the company.

Thirdly, it is stated that loyal customers need less help from the staff. Here the evidence showed that this is true in some situations dependent on what type of product the customer is going to purchase. Thus, in the case of INTERSPORT which has a wide range of products this can be assumed to be true. When customers are shopping for simple products, they need less help to find the right products than non-loyal customers would. However, when shopping for products that are more complex they will need the same amount of help. The conclusion could then be drawn that overall, the loyal customers need less help from the staff.

Conclusion

Fourthly, we tested the assumption that loyal customers pay higher prices. Our research showed divergent results. Some loyal customer might do this if the prices were only slightly higher and only as a short run solution. Although, most customers were willing to pay higher prices in the long run only if they perceived the products to possess higher quality. However, an evident difference was found between men and women. Men were in general more willing to pay higher prices if the service and the products were very satisfying. Women on the other hand, were more likely to shop around, and thus we can assume that they perceive the differences between INTERSPORT and their competitors as minor.

To sum up, the customers that are perceived as loyal – the frequent and heavy buyers, do not possess all the characteristics that loyal customers are often assumed to do. Hence, the companies might have to think twice about if it is really beneficial to aim for creating loyal customers. Also the goal of customers are most often to gain discounts and to find the best offers, thus they are not as loyal as companies perceive.

6.1 Conclusion of the research questions and the purpose

A customer loyalty program is a valuable tool in the creation of customer loyalty once other aspects that are building loyalty are satisfying, namely, the product line, the store concept and the service. Therefore, loyalty programs should be seen as a complement rather than the main loyalty driver. A customer club itself enhances the creation of loyalty by offering monetary and soft benefits. Monetary benefits induce the behavioral loyalty while soft benefits can also stimulate attitudinal loyalty. It would be important to generate attitudinal loyalty among customers because it is more sustainable than behavioral. However, customers these days have many buying options and the competition is intense. Customers are therefore most often polygamous –loyal to several brands or retailers at the same time. Further, loyal customers do not always possess all the positive characteristics that they are often assumed to do. This is why companies need to re-evaluate if loyalty should be the ultimate objective.

7 Final Discussion

In this final chapter of the thesis, the authors will clarify limitations of the thesis, as well as give subject of future studies in the area of loyalty.

7.1 Limitation

Writing this thesis has been a time consuming task, however the time plan that we had sketched was helpful for planning and coordinating the process. Even though there will always be smaller issues to change in the thesis, we consider that we have come to the point where we feel satisfied with what we have accomplished.

The interviews made for this thesis were conducted in Swedish, and the answers had to be interpreted by the authors before translated into English. Therefore, there is a possibility that some meanings could be biased due to the translation process.

One thing that could have enriched the study would have been to use more retail stores and other retailers' customer databases for the research. Due to the time pressure, the choice of only focusing on one single retailer made it possible to dig deeper into that specific company and the attitudes of its customers. Another angle, which also could have given more data to analyze, would have been to use a quantitative method as a complement for qualitative method. However, we consider that the qualitative method gave us the best result taking into account the extent of the study. Overall, we agree on the fact that we have found the most suitable theories, which have helped us answer the purpose of the thesis.

7.2 Future studies

Several new ideas arose while pursuing the purpose of this thesis. The authors want to communicate some areas of interest for future studies in the field of customer loyalty. Below follows some recommendations:

- Expand the investigation to several retailers in different areas in order to obtain a broader view and analysis.
- Conduct an in-depth study about the profitability of loyal customers in comparison to the costs of retaining them.
- Explore if responsiveness to the marketing efforts really have an effect on the customers buying behavior.
- Study, which customers are most likely to response to special offers: monogamous, polygamous or promiscuous customers?

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Appendix 1

Interview guide - Pernilla Nimmermark 2006-09-27

1. Company overview including
 - The structure
 - Turnover
 - International market
 - Swedish market
2. What is the purpose of the Club INTERSPORT?
3. What are the most important functions of the Club INTERSPORT?
4. What are the strengths and weaknesses of the Club INTERSPORT?
5. What kind of data is gathered with a customer club card?
6. How is the gathered data utilized?
7. How is the data analyzed?
8. Is the information used for strategic decision making?
9. How often is the information used?
10. Are the customers segmented within the customer club?
 - How?
 - For what purposes?

Appendix 2

Interview guide – Pernilla Nimmermark 2006-11-08

1. What kind of Customer Relationship Strategy does INTERSPORT have?
2. Was INTERSPORT's customer loyalty program developed as a result from customer relationship strategy?
3. Why was the loyalty program introduced?
4. What are the goals and objectives for Club INTERSPORT?
 - Have INTERSPORT made any follow-up if these objectives have been achieved?
5. What kind of benefits does Club INTERSPORT offer to its members?
 - Monetary benefits
 - Soft benefits
6. What is a loyal customer from INTERSPORT' perspective?
 - What are the criterions?
7. Is loyalty an objective?
 - Why?
 - Wy not?
8. What are regarded as the benefits of having loyal customers?
9. How is loyalty created outside the customer club?
10. How is loyalty created within the customer club?
11. How are the loyal customers rewarded?
12. Are loyal customers treated dissimilarly compared to other customers?
13. Does INTERSPORT attempt to create a relationship with its customers?
 - With all the customers?
 - With which customers?
14. Are customers segmented in some particular way?
15. Are the activities or campaigns designed for different segments?
16. What are the reasons why customers switch to the competitors?
17. How can this be prevented with customer club?
18. How would you like to improve Club INTERSPORT?

Appendix 3

Interview guide - Patrik Linddahl

1. What types of customer relationship strategy do you have for the six stores you are part-owner of?
2. What are your thoughts about the INTERSPORT club membership card and how would you like to improve it?
 - How do you feel the programs have been working?
 - Do you see a value in having a club card?
 - How do you take use of the database?
3. What types of monetary and soft benefits do you offer your customers?
 - Do you make any difference between customers?
4. What types of customers do you consider as loyal customers?
 - How do you choose them? Frequency or monetary?
 - What are your thoughts of a disloyal customer?
 - Do you strive to gain loyal customers?
5. Do you feel it is important to put an extra effort in loyal customers?
 - Why do you feel loyal customers are coming back?
 - How do you think you are keeping customers?
 - How would you like to distinguish your loyal customers?
6. Are you aware of the perception of your customers/ loyal customers on the store?
 - How have you been conducting that research?
 - Do you feel it is important?
7. How do you estimate the reward you give to your loyal customers?
 - Do you think your customers value them?

Appendix 4

Interview Guide for the Customers

1. Tell me about your general views on customer clubs?
2. Do you own several club cards yourself?
 - How many?
 - To which companies?
 - If the customer have both Stadium and INTERSPORT card, then which one do they use more?
3. Do you think it's acceptable to be a member in competing firms' customer clubs?
 - Are you then loyal toward both companies?
 - For example, INTERSPORT-Stadium, ICA – Coop.
4. What is the motivation why you choose to get a membership in a customer club?
5. What kind of benefits do you expect from a customer club membership?
 - Examples if the participant doesn't come up with any: special service, discounts, special offers, bonus, events, gifts, newspapers.
 - Which of the benefits do you appreciate the most or find most valuable?
6. What kinds of benefits would you like to get from a club membership that may not exist at the moment?
7. What is the main reason why you keep on returning to a certain store for your purchases? For example, INTERSPORT.
8. If you have a chance to choose between two stores with similar product line, what are the critical factors that determine which store you choose?
9. If a company chose to introduce a yearly fee for the customer club, would you still be interested in acquiring a membership?
 - Where does the limit go for the size of the fee?
10. Do you think that heavy buyers should be rewarded?
 - How would you like to be rewarded yourself?
11. You are planning to shop and you notice that you have forgotten your membership card home, would you still implement the purchase or would you return when you have the card with you?
12. How would you describe a loyal customer in your own words?
 - Do you consider that you are the kind of loyal customer as you described towards INTERSPORT or other company?

Appendix

13. Do you think that customer clubs are a good method to create loyalty among customers?

- Why?
- Why not?

14. I would like to hear your thoughts and opinions to the following statements:

- -“ *Faithful customers are willing to pay higher prices*” Motivate.
- -“ *Faithful customers tend to talk positive about the company to their friends*” Motivate.
- -“ *Faithful customers requires less service, because they are familiar with the companies premises and product line*”. Motivate
- “Faithful customers spend more in the company”. Motivate.

Appendix 5

Company overview

