

Anna Pallonen

# Missing in Action, a Clear Value Proposition: The Dilution of the Department Store Concept and its Impact on Customer Loyalty

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Helsinki Metropolia University of Applied Sciences

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<p>This research is examining the customer loyalty towards department stores today when the major European upscale department stores are adapting a new store-within-a-store concept arrangement. Different features of a retail store have been studied in details, such as the store atmosphere, customer service, merchandise quality and store locations. Nonetheless, the existence of a smaller shop inside the premises of a larger retailer has seldom been considered. The issue in question is that to whom are the customers now actually loyal to, the department store or the brands represented in a real estate, and what are the factors that create value to the customers then? The store-within-a-store business model has become recently popular among the upscale department store concepts during the last decade and is gradually displacing the traditional concept of manufacturer-retailer arrangement.</p> <p>This study is conducted by using relevant literature to the research question and analysing statistical data of customer satisfaction to loyalty programs and store experiences. This study is a qualitative inductive research as the key element of this type of research is to perceive the phenomenon as a whole, and to be able to make the final concluding observations, a larger amount of literature and data has been processed and analysed. The results of this research, gathered based on the literature review, indicates the current situation of customer loyalty towards department stores today and the explanatory reasons behind that phenomenon, followed by the discussion of factors that add value to maintain and to enhance the customer commitment in the changing department store concept.</p>	
Keywords	Department store concept, brand commitment, customer loyalty, loyalty programs, store image

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## 1 Introduction

The retail sector and markets are undergoing major changes and transitions in almost all of its categories and departments. The retailers are not only targeting higher revenues and profits for their businesses, but also at the same time they are experimenting different ways of attracting customers to their stores. One of these ways is the store-within-a-store concept model. In this arrangement, the retailer rents out the retail space to manufacturers and gives them complete autonomy over the retail related decisions, such as the pricing.

A customer might visit and come across large department stores like Selfridges in London, NK (Nordiska Kompaniet) in Stockholm or Stockmann in Finland and find that they have a number of smaller stores inside of them, introducing luxurious brands like Dior, Gucci or Missoni. This is because of the store-within-a-store model. The company of the brand retailer provides the management of such smaller shops as well as the sales personnel, representatives and staff managing the store. The traditional department store arrangement is moving out of the way or more likely is gradually and slowly disappearing from the scene.

This study will investigate the question: to whom are the customers actually loyal in a store-within-a-store department store concept? Related to this, it will also examine the additional, dependent question of how the customer loyalty is created if the department store business model trend is or has been changing, and how value can be added to the customers. There is only a little differentiation between the major department stores and their concepts nowadays, which used to be the competitive advantage for businesses to success. Differentiation and being unique used to be the way to attract customers, both new and existing, to the store. The brands represented in the stores may vary, but the concept itself is becoming more and more unified. That being said, this study is focused mostly on the upscale department stores as they are the ones adopting the new store-within-a-store arrangement.

This research is a qualitative inductive study, and it aims to find the results and to uncover the facts, rather than trying to verify or prove a research hypothesis. The research begins with the literature review presenting, explaining and examining the core

factors and issues related to the research question. Then follows the methodology and data collection section, also explaining the way how the necessary data and information was gathered and then analysed. Thereafter the thesis goes through the results found during the study, interpreting and discussing these key findings from the perspective of the research question: to whom are customers loyal?

## 2 Methodology

The data for this study was collected through literature relevant to the research question. The research is based on secondary data analysis, which means that the data is already published. No primary fieldwork methods were needed. The literature examined included literature work in forms of bibliography and e-books, as well as previously created case studies and documents related to this particular research.

This study is based on qualitative research as it is trying to find out the answer to the questions *why* and *how* the decision is made. This method was chosen because the topic requires an understanding of a phenomenon or/ and situation that comes from exploring the totality of the situation, with a larger amount of existing data being analysed. Qualitative research is investigating the phenomenon as a whole and the aim is to describe the items in a larger scale. Another typical feature to qualitative research is that it has no clear hypothesis, which it would be trying prove correct or incorrect. This research method is aiming to find and uncover the facts, and not to verify the existing claims of a topic hypothesis. The research begins with grounded theory, in this case with the literature review, of the phenomenon and important factors related to it to be able to make the final findings and results. A clear sign of the qualitative inductive analysis of the study is a complex and detailed examination of the material rather than a test of the theory or the hypothesis.

First I studied the basics and basic definitions of brands, brand, store and customer loyalty, the consumer behaviour and about the department store concept today, which build the core to this research. After that I also examined magazine and scientific articles and papers related to the department store experiences and statistics about the consumer preferences on loyalty programs and how the shopping behaviour changes between loyal customers and non-loyal customers.

The data collected was analysed with the focus on finding the answer to the research question and picking the most relevant facts and issues into the literature review to be able to find the key results. No primary research was being conducted or created as it was not seen necessary to the question. This being said, this research is based on secondary data and analysing the findings from the previously created and existing research cases related to this research.

### 3 The concept of a brand

A brand is a distinctive and characteristic symbol, logo, name, word, sentence or a combination of all of these items, which companies use to separate and segregate their product from others in the markets. This means that a brand is seen as one of its company's most valuable assets. This basic definition by Investopedia (2016) also explains that brands often represent the face of the company, and in fact, a company is often referred to by its brand, and they usually become the one and the same. In the book "Beyond Branding" (Ind 2003: 24) the author Nicholas Ind states that brand identity reflects its owner's influence, but they are not in control of brand content.

It can be noted that strong brands can impact organisations across a variety of fronts. Brands support the price premiums over competitors, captivate new potential customers and also on the other hand help to forestall new competitors of entering to the markets. Brands help to protect businesses during the economic downfalls and finally, brands create a larger footprint that enable expansion into new markets. Realising these benefits and facts mentioned above takes a brand-building strategy that is built around trust, recognition and a positive company image.

#### 3.1 Brand equity and value creation

Brand equity and value are most of the time used and referred to as synonyms, but these two factors are not identical. Whereas brand value describes the monetary value of a brand, the equity is a set of factors that increases or decreases the beneficial advantages associated with a product and also changes the purchasing decision of a potential future customer. Brand equity refers to a value premium that a company generates from a product with a recognisable name, when being compared to the well-known general equivalent. It is a strong indicator of a company's strengths, performance and success, especially in the public markets. It can also be said like Burger states in his literature work "Brand Equity and Value: Explanation and Measurement" (Burger 2012: 2) that brand equity is a set of assets and liabilities interrelated to a brand name that adds to the value of a product or service, or likewise subtracts from it.

Brand value can be considered as the price that other companies would be willing to pay for the brand. Financially, brand value is the marginal net profit value that is



caused by the branding of the product. According to Burger (2012: 4) brand value can alternatively be interpreted as the estimated impact of the branding on the future profits.

#### **4 Brand commitment and store loyalty**

Brand loyalty can be defined as a configuration of consumer behaviour where consumers become committed to brands and make repeat purchases from the same brand, or store, time after time. It must be noted that brand loyalty does not only mean loyalty to a certain product, but it can also be loyalty to a certain store with a brand name. Loyal customers repeatedly purchase products and services from the brands they prefer, without regard to price or convenience. It does not count if there would be even better, cheaper or better quality products available in the selection. This particular concept is viewed as “brand insistence”, meaning that some people are brand insistent about certain product (Pride & Ferrell 2008: 330). When consumers find a good product that works for them, they keep buying the same product from the same brand. Businesses often use special and differentiating marketing strategies to engage loyal customers, including loyalty and rewards programs, or free trials and incentives.

Research conducted by the Marketing Conference Services (2015) explains that consumers are loyal to brands that they experience the best alternative over all the other brands and they are satisfied with the specific brand, this brand commitment is shown through repeated purchase. Aaker (1999: 25) defines brand loyalty as “The degree of a consumer’s emotional attachment to a brand” and suggests that “it has six dimensions: consumer willingness to repurchase, price premium, satisfaction rate, switching cost, preference over brand, and commitment to brand”.

Brand loyalty appear when consumers experience that the brand offers the right product features, representation and appearance or level of quality at the right price and at the right time. Brand recognition explains the level of brand loyalty in which a customer is aware and knows that another brand exists but only views that brand as an absolute alternative option if their preferred brand is for some reason unavailable. Madiha Cool describes in her research “Brand Loyalty’s Influence on Consumer Behavior” (Cool 2015) that brand loyalty is also the function of behaviour as well as attitudes; it is a consumer’s first choice to buy a particular brand in a product category. In general, brand loyalty can be defined simply as the power of liking for a brand compared to other similar alternatives and options.

#### 4.1 The generation with the highest brand loyalty

A study conducted by Geoff Smith states that Millennials are actually the most brand loyal generation (Smith 2015). This interesting fact is due to the ever-growing use of social media, and brand loyalty is higher than ever. The term Millennials refers to the generation of people born between the early 1980s and 2000s (Main 2013). Millennials, also known as the generation Y, are a demographic age group following the generation X. The Millennial characteristics vary from region to region, and depending on the economic and social conditions, but this exact generation is generally marked by an increased usage, knowledge and awareness of communications, social media and other digital technologies.

Smith contends that Millennials are the most loyal generation to their favourite brands and that there are two main reasons that explains this phenomenon: authenticity and social proof. Social media is used to spread the word about products and services, and this means that people within any given network have more access to what their friends, family or acquaintances are buying. Consumers now have more information available and in hand than ever before, and this is one way of expounding the reason why consumers are becoming more loyal. It proves the importance of using social media as a part of customer loyalty strategies and consumer engagement. 68 percent of Millennials also state that they would not be loyal to a brand if it does not have a good loyalty program (Social Annex 2016).

The study also showcases that Millennials are more loyal to brands and stores that engage directly with customers on social media (Inc 2015). Authenticity is also examined by Ind (2003: 110), who states that inauthentic brands reduce our ability to create value. The consequence of branding gone over the top is to reduce the lives of the human beings involved to ones of empty symbolism, disconnected from reality. In Ind's view people are in need for services and products that they can rely on, things that do exactly what it says in the description.

## 5 Consumer behaviour examined

Customers decide more quickly from among options that includes one brand they know than from a number of unfamiliar ones (Chron 2016). Madiha Cool (2015) argues that brand attributes are viewed as one of the most important determinants in a consumer's decision making. These brand attributes include four main principles: brand name, product quality, price and promotion. Some consumer may prefer the major and/ or outstanding brand names. Brand personality provides links to a brand's emotional and self-expressive benefits for differentiation. Product quality comprises the type and characteristics of a product or service that endures on its ability to satisfy stated or indirect needs.

Price is presumably the most important factor in consideration for an average consumer. By contrast, consumers with high brand loyalty are willing to pay the finest price for their preferred brand. This means that their purchase intention or decision is not affected by price, and the high price might even be part of the appeal. Example of this phenomena, or "snob value", are the luxury items made by brands such as Hermès. In Cool's view the last principle, promotion, affects consumer's images, attitudes and beliefs towards products and brands in large measure, and affects their purchase behaviour.

### 5.1 Consumer types

It is useful for marketers to categorise consumers according to their age, sex, income or occupation. Individuals can be compared in numerous ways, and these specific terms are descriptive characteristics of a population, called demographics. Other measurement targets are consumers' interest for example in music, style or the way that people like to spend their leisure time. These factors belong to psychographics, which refers to aspects of a person's lifestyle and personality.

Consumers' purchase decisions are heavily influenced by the opinions and behaviours of their friends. A considerable amount of product information, as well as recommendations to use or avoid certain brands, is picked up in real life conversations, rather than by way of television commercials, magazines or Internet advertisement. There is also pressure on each group member to purchase items or shop in the specific stores that

will meet with the group's approval, and there is often a price to pay in the form of group rejection or embarrassment when one does not conform to others' understandings of what is "in" or "out".

Consumers can be called actors in the marketplace stage (Solomon, Bamossy & Askegaard 2002: 5). One classical role is the consumer as a "chooser" meaning that the customer is someone who can choose between different alternatives and explores various criteria for making a choice. It is important for businesses to recognise that consumer behaviour is not only what happens at the exact moment a consumer hands over money or a credit card and in turn receives goods or services. It is quite the opposite as the consumer behaviour is a never ending ongoing process. The fact that must be considered is also that the purchaser and the end user of a product may not be the same person, and in some cases, another person may act as an influencer, providing recommendations. This is the distinction between buyer behaviour and consumer behaviour.

## 5.2 What creates customer loyalty?

The other reason simply is that the customer may be loyal because she/ he is satisfied with the brand or service and that's why they want to continue the relation with the same company (Chron 2016). Brands are most successful when they evoke emotional values that are important to their target customers. At the time when the value identification is accurate and correct, it leads to more customer commitment with higher numbers of repeat customers. High repeat customer rates lead to higher profit brands and to larger store popularity, and not only do the repeat customers purchase more often, they have higher average order value than first time buyers (McEachern 2015). When a company can express their expertise in media or through their own social channels and useful information, then it will only help building trust, and so drive sales and interest.

Companies aim to provide what consumers want to buy by discovering the gap between their brands and the customer ideals. Retailers and brands need to realize an opportunity on their own and fill in the gaps ahead of their competitors as the marketplace moves at the speed of the consumer (Klie 2015). Product innovation is important to brand loyalty, but it is not enough to create a product or series of products that offer solutions that consumers need.

## 6 The significance of loyalty strategies

Today there is growing competition for customers, and from this fact it can be noticed that many companies and businesses struggle to maintain revenue strength and customer acquisition is low. One way to overcome these challenges is by fostering a strong loyalty with the existing customers. According to a survey conducted by RevenueWire (2015), engaged and loyal consumers buy 90% more frequently, spend 60% more per transaction and are five times more likely to stick with a brand. They deliver three times the value, compared to non-loyal customers, over the course of a year, which makes creating and maintaining loyal customers essential for businesses (RevenueWire 2015).

### 6.1 Loyalty programs

Majority of the loyalty programs deliver a double function: to encourage new customers to stay with the company after a purchase and to maintain and ensure that existing loyal customers still feel valued by the company. The more the customer feels appreciated by a business, the more he or she is likely to support and recommend that company to others. The leading two benefits that motivates consumers to join a loyalty program mentioned by Colloquy (2015) in their study are the ability to earn points from their purchases and the offer of different discounts on purchases.

Loyalty programs are effective marketing tools: they increase growth, help retain customers and improve a company's reputation. These factors mentioned are something that most of the existing companies are after. Especially in today's fast changing world creating a strong loyalty program and engaging customers and their loyalty is something to respect with high value. The positive fact is that 87 percent of consumers say that want loyalty programs and 23 percent of shoppers who said that their loyalty to a company has increased over the past year report that the reason was exactly a loyalty program (Social Annex 2016).

Loyalty programs have long been part of the department store experience. While these programs are still marketed as an inducement for the shopper, they are also very valuable to the stores themselves. It can be said that they are even more valuable today than they were before the digital age (Daily Thursday 2013). For the majority of stores

and brands, across the fields of industries, loyalty programs provide the most abundant data available on who their consumers are, how they shop and what they do not like.

## 6.2 The importance of loyal customers

Advertising can be and is effective way of obtaining more customers, but at the same time it can be expensive and risky. Like mentioned in the previous section 6.1 on page 10, repeat customers are already aware of your company and products, and if they had a great experience the first time, they are most likely to purchase from you again.

Repeat customers are not only more likely to purchase from your company again, but they are also likely to have more profound attachment to your brand and be willing to pay more for the products. Some companies have built such strong brand loyalty that even when they make a misstep or create products that do not reach the desired popularity, their customers will remain by their side still.

On top of all mentioned before, loyal customers can also increase the sales of your company by recommending your products to others. Trusted word-of-mouth referrals from family members or friends are experienced more important over any other source of product information, like advertisements. Friends referring friends is such a powerful form of marketing and at the same time the only form of marketing that can actually prevent potential customers from doing research and persuade them to make a purchase directly (RevenueWire 2015).

Loyal customers also provide the ability of premium-pricing strategy for companies. As previously mentioned (see section 4 page 6), consumers are willing to pay more for their favoured brand because they perceive unique value in the brand that the existing alternatives do not provide. From this it can be discovered that brand loyalists buy less frequently on cents-off deals. Brand loyalists are prepared to search for their favourite brand from a specific store and are less sensitive to competitive promotions.

## 7 Loyalty program strategies

In “Firebranding”, Millison and Moon (2000) discuss the building of brand loyalty in the Internet age. The Internet plays an enormous role in shaping consumer trends and at the same time it presents an ongoing challenge for brands. That means that now in the Internet age consumers do not have loyalty to any given brand. Consumers are turning to the web primarily due to the convenience and shopping can easily be done in a fraction of the time in a cost-efficient way, and they increasingly expect higher quality and service and some customisation. Consumers can effortlessly access an excessive amount of information online to help them make buying decisions based on variety of elements and they are showing greater price sensitivity in their search of value (Kotler 2001: 15). On the other hand, the case seems to differ with the generation of Millennials, like earlier mentioned in this study (see section 4.1 page 7).

Another fact highlighted in Investopedia (2016) is that with this amount and wealth of information available, some people switch brands simply to experience different features of products. This occurs especially in the technology markets. The actual pace of retail has changed as consumers rely on new media and smart technology devices to enhance their shopping experiences. Retailers continue to seek out better ways to engage their customers and maintain their customers’ loyalty towards them in the new omnichannel world. According to the explanation of BBVA Innovation Center (2013), omnichannel can be defined as doing multi-channel properly. Omnichannel begins with understanding the needs and behaviours of the customers, then designing experiences that will suit the company brand into their natural habits and day to day lives. Finally, the right technologies are chosen and optimised to deliver the experiences in an efficient, enjoyable and consistent manner to the consumer.

As stated in the study conducted by SPS Commerce (2014) there is one thing that remains constant with customers and it is the fact that customers are always on the lookout for deals and value. Being able to access promotions and rewards online or via mobile device, increases the customer access to those deals, and will ultimately increase the probability of making a purchase. In the increasingly fierce competition today, it is necessary for companies to create customer databases and hold customer data. Tabaku and Zerellari discuss in their research “Brand loyalty and Loyalty Programs” (2015) that by creating the customer database, businesses have greater knowledge for the base of their customers and could also offer more personalized ser-



vices and products to them. This is an opportunity for the retailers to fulfill the customers' preferences and to enhance brand loyalty strategies. When all the data in the information system have been sufficiently processed, the retailer gains a competitive advantage in designing various types of loyalty programs that focus on the present and the future customers.

### 7.1 Online strategies

The Internet enables people to be as leisurely or proactive about researching a purchase, as they want before making the decision. Innumerable websites and online retailers offer tempting discounts to drive sales and price comparisons are available to everyone, all the time. This type of online shopping trend is encouraging erratic consumer buying behaviour in today's market. Customers today are demanding faster, better and less expensive shopping experiences, but with a higher degree of customer service. They will demand contextual shopping experiences that support their own purchasing behaviour and will abandon retailers who cannot provide it (SPS Commerce 2014). Various department stores, like Stockmann, have created the online shopping possibility, offering collections from several of its departments also in the online shop.

To be able to understand what actually happens in the value-creating network society that is prevailing in today's world requires a great deal of creativity, reflection and experimentation. According to Gummesson (2008: 127) great expectations have been tied to home shopping and this means that retailing has become "e-tailing". There are noteworthy advantages with e-markets: they are fast, global, customers have access to current information and they are able to make online purchases with credit card. Nevertheless, still the key question and concern for some people concerns the possible obstacles occurring during online shopping such as technical problems, the fact that online shopping is impersonal, payment might be unsafe and goods may go missing in the delivery.

Regardless of the possible obstacles, online purchases and e-tailing is the word of today along with the increasing amount of technology development. Gummesson (2008: 131) argues that the importance of brands, brand identity and loyalty has become even more emphasised during the past decade. These factors reflect how well known a company is, how satisfied the customers are, customer loyalty and the association that

is sparks off. The actual value of a company's stock has become its brand equity, meaning that it is the capital the company represents.

A variety of online retailers have user reviews on their page, and especially on their product-listing page, so that other consumers can acquire information about product features and receive brand recommendations from other users. In the literature work "Managing Brand Equity: Capitalizing on the Value of Brand Name" (1999) by David Aaker, the writer notes that consumers now research products online before visiting stores, and that mobile devices bring online research and in-person interaction together in a single experience. Because the lines between in-store and online experiences are merging in today's connected world, brand marketers and managers must ensure consistent communications through all platforms.

## 7.2 Cross-channel strategies

A very common issue many businesses are facing today is that we are living at a time when we are obsessed with picking up a good deal. Today, more people are using vouchers than ever before, and according to a study published by LinkedIn (2016), the use of coupons has grown by 43 percent in the last year alone. The question being discussed is that how can businesses retain loyalty when at a time when favouritism is fading and bargain deals are a hot topic.

Effective customer loyalty strategies are offering incentives to shoppers to reduce their store switching by offering them better value (Forbes 2014). Loyalty programs have the great added advantage of not taking much time to establish, making the threat of extreme price competition from competing retailers less believable. There is still the concerning issue or discrepancy over the popularity of the bargains today versus strong customer loyalty programs. The importance of bargains being the largest factor signifies that price leadership would be dominating differentiation as brand strategy, but price leadership does not create strong and lasting customer loyalty. There is a distinct line between the types of businesses in which the loyalty programs function the best way possible. The size of the loyalty reward has to be large enough to be beneficial for the company to use loyalty program as part of their business model, and loyalty programs do not function that well with low-margin retail businesses as they cannot afford to offer rewards that would be significant enough to build long-lasting customer loyalty program (Forbes 2014). The loyalty reward offered by the low-margin retailers can be

seen more often as a “thank you” to the customer from the store. According to the research “Developing Cost-effective Brand Loyalty Program” conducted by Brian Wansink (2003) the brand managers tend to believe that high reward programs are more effective at generating incremental sales than moderate loyalty programs, and with the same theory, the moderate loyalty programs are more effective than the low reward programs.

In today’s smartphone world, using mobile loyalty benefit rewards and programs is highly cost effective. This means that there is no need or expense of printing out physical loyalty cards and hoping the customer would have the card with them. Instead, customers are more likely to have their smartphones with them. One fifth of consumers have used their phone for shopping related tasks while in a physical store, and of that group nearly 50 percent of consumers use their mobile phone every time or most of the time while they shop in a physical store (SPS Commerce 2014). Over half of mobile users say that loyalty programs and points are the top feature in a mobile wallet; many giving this title to discounts and deals (Social Annex 2016). Mobile loyalty programs allow instant connectivity.

Experian Information Solutions (2016) lists the ten main principles of successful cross-channel loyalty strategies, and the most outstanding and suitable strategies for this review and topic are: carrying customer seamlessly across channels, and differentiation from competitors. These two specific principles expound that businesses can build stronger customer loyalty by ensuring a coherent experience through channels and leveraging the most appropriate channel, and customer data aligning with appropriate stage in the customer’s life cycle. According to the research it is also about optimising the customer’s interaction with the brand.

## 8 The traditional department store concept

A department store is a retail establishment which is specialised in selling a wide range of consumer goods in different product categories without a predominant merchandise line (New World Encyclopaedia 2013). The purpose of the department stores is that a customer can purchase everything he or she needs from under one roof. These product lines typically include apparel, furniture, appliances, electronics, groceries and other additional product lines on top of these. In the traditional arrangement of the department store concept, the store has its own management covering the entire store, and the management employs the sales personnel and to work in the different departments.

### 8.1 Organizational structures of department stores

A number of department stores today use a product organisational structure. This means that they group their departments by various product types, such as women's clothing, housewares, sports etc. Department stores use this sort of structures because their departments carry many different lines of products. The executives generally prefer that their employees are well informed and knowledgeable about the one group of products they are responsible for and to also enhance customer service (Chron 2017). In addition to the product organisational structure, department stores can also use a functional organisational structure, especially if the size of the store smaller and they carry fewer numbers of products in their lines. The product management organisation function allows the product manager to concentrate on creating a cost-effective marketing mix, to react more quickly to market changes and to watch over smaller brands (Kotler 2001: 53). Functional organisational structure would be run and controlled by vice presidents of marketing, finance, engineering and accounting. As an example, in this specific structure the marketing people would be responsible for all product lines.

In the case of Stockmann, it is the product organisational organization structure that is used. The sales personnel and employees are aware and very knowledgeable about the specific product category they are selling. The employees within a department, fashion for example, are responsible for their own area within the department. This area can be a brand or then a group of similar brands and products (Stockmann Group 2017).

Department stores can also use a combination of the structures mentioned in the chapter above. That kind of hybrid structure is called matrix organisational structure (Chron 2017). In the matrix structure the department store may introduce several new lines of products from various departments. Companies that produce numerous products that flow into various of markets tend to embrace the matrix organisation structure. This type of organisational structure seems desirable in a multi-product and multi-market company (Kotler 2001: 54). A great example of this kind of multi-product and market company is Apple with its numerous product portfolio including Macs, iPhones and iPads.

#### 8.1.1 The advantages and disadvantages of the structures

The main advantage a department store can gain from product organisational structures is specialisation. Product groups are so diverse that managers need great product knowledge to be able to buy and price these items. A department store may use a functional organisational structure to exploit, for example, a strong marketing or financing team. The preeminent advantage of this structure is its administrative simplicity, but on the other hand this business model loses its effectiveness as products and markets changes (Kotler 2001: 53). Functional organisation tends to lead to insufficient planning for specific products and markets because products that are not specially favoured by any consumer are easily neglected. Secondly, each functional group competes with the other functions for budget and status (Kotler 2001: 53). Therefore, the marketing vice president constantly must weigh the claims of competing functional specialists and faces a difficult coordination problem. Multiple marketing personnel may be required to contend competitive strategies, whereas matrix organisational structures make use of both, product and functional specialists. A matrix structure is easily dissolved when a certain project ends (Chron 2017), however this system is often costly and it might awaken the risk of conflicts as well as questions about the authority and responsibilities (Kotler 2001: 54).

The department stores that use the product organisational structures often duplicate resources. An example of this is that a separate marketing manager may be used for each department. Therefore, the marketing managers may sometimes duplicate their resources with respect to advertising or printing materials. There might also be too many HR allocated to each department, when fewer personnel could perform the given tasks. On the other hand, department stores that use the functional structure are in a

risk of becoming more narrowly focused, losing track of what other departments are doing.

The fact that the employees are responsible for a certain product group or group of brands is creating the risk of lack of overall knowledge within the department as the employees are only aware of their own area's products. This might lead to rivalry between the experts as knowledge of the products is the measurement of their sales skills and customer service level. It is also said that it can on the other hand improve customer service as each brand represented in the department has its own experts. One of the original attractions of the department store is no longer as effective in the era of shopping centres – namely, "everything under one roof". This puts even more emphasis on service quality, including uniqueness of product range and knowledge of sales staff.

## 9 The changing trend of the store business model

The sign above the department store might say the store's name, but the sales assistants behind the brand counters inside do not work for the store at all. Instead, the personnel and advisors in actual fact work for the brand name in space rented out from the marquee retailers.

In the arrangement that is common for many product categories in stores across the world right now, department store retailers often hand over for example the cosmetics category to the branded manufacturers in return for fees paid to occupy prime retail real estate (Wharton 2009). This type of trend in the department store concept today is called "store-within-a store" concept.

Among the alleged advantages of this store-within-a-store model has been stated to be the effect of establishing the price competition across all retailers. This fact is important in the retailing market if it is extremely competitive. On the other hand, there has not been that much theoretical and practical study done about this business model (Wharton 2009). It is to be carefully considered when it is useful to take advantage of the store-within-a-store model and when it would be better for the retailers to maintain the traditional relationship in which they buy goods wholesale from manufacturers and then market them in their stores. It is said that there are three types of retailer-manufacturer relationships to define when this store-within-a-store concept makes sense and when the traditional arrangement should be obtained.

### 9.1 Retailer – manufacturer relationships

In the traditional arrangement, the retailer buys from manufacturers who compete at the wholesale level. According to the concept, this system results in higher prices for consumers because the profit margin must be split between the manufacturer and the retailer.

In the store-within-a store concept model the manufacturers compete against each other on price and in-store service, but because the retailer does not take an additional profit margin, the manufacturers are willing and able to keep the prices lower. The arrangement that is originally typical in U.S cosmetics retailing business, works for de-

partment stores because if the manufacturers are performing well, the retailers can charge higher rental fees. A main advantage of the store-within-a-store arrangement is that it removes the double marginalization from the channel because the manufacturers directly set the retail prices, which removes the issues of the double marginalization of the traditional department store retailer – manufacturer arrangement (Kinshuk & Zhang 2010). This leads to the price competition between the manufacturers inside the retailer's store, the manufacturers compete against each other on price and on in-store service (Wharton 2009). The issue due to the store-within-a-store concept is that the main retailer, or department store, cannot really be called as retailer anymore as they act effectively as real estate managers in this specific model.

An essential variable is the degree to which consumers can easily substitute one product for another. Especially cosmetics and high-end premium apparel are profoundly identified with specific brands in consumers' minds and are not easily interchangeable (Wharton 2009). For more easily substituted items, retailers usually choose to maintain the control over pricing and service. Retailers who offer unique products have a distinct or even in some cases absolute advantage over their competitors (Huggins & Izushi 2012: 6). In this case, the retailer also nominates its own in-store service representatives for the department categories and decides the in-store service level to be provided for each brand.

The third arrangement is the retailer-store-within-a-store model. This model is a combination of the two models and is sometimes used in low to mid-priced items. In this case, one brand operates a store-within-a store competing against products sold in the traditional retailer-reseller structure.

## 9.2 The difference between Stockmann and Citycon as real estate managers

At this point it is relevant to look over the main differences of two different real estate managers: Stockmann and Citycon, the leading owner and developer of urban shopping centres in the Nordic and Baltic regions. Citycon is the number one shopping centre owner in Finland and among the market leaders in Sweden, Norway and Estonia (Citycon 2017).

Citycon's shopping centres are located in the urban cross points, close to where customers live and work, and with direct connection to public transportation, health care



and municipal services. Also, Stockmann department stores are located in the heart of the downtown areas with the same location requirements as what Citycon has adopted. The main difference between Stockmann and Citycon is that Stockmann does not advertise itself as a shopping centre, even though it is acting as real estate manager like Citycon. Stockmann has a history of being the main upscale department store in Finland, and the heritage brand name still carries through. The brand name in some cases covers or distracts the fact of acting also as real estate manager, whereas Citycon has embraced the fact of being the number one shopping centre owner.

Citycon's mission is to offer the best retail space and everyday shopping experience in urban shopping centres (Citycon 2017). By Citycon's vision, they want to be the household name for Nordic shopping centres, and using their real expertise at stage of shopping centre value chain in order to create pleasant shopping experiences. Whereas Citycon advertises itself as a real estate manager and leading owner for shopping centres, Stockmann is entitled as a department store. That difference can be named as the main divergence between the two real estate managers.

### 9.3 The reasons behind the concept trend popularity

According to research conducted by KDM (2014) the shop-in-shop arrangement functions well, because the retailer now offers top-of-the-line locations for which it can charge high rents as at the same time the host retailers can designate space for smaller shops, but they do not have to worry about the merchandising and filling the space. The manufacturer in this case makes a higher profit than it would make with the traditional wholesale model. The consumer also receives lower prices and better service. The operator is able to provide these top benefits and advantages because it receives all profits without having to share them with the retailer, which would be the case in the traditional operations between the retailer and manufacturer.

The store-within-a-store gives the retailer an opportunity to cross market their brand and reach new demographics (JLL Real Views 2015). It is also a cost-effective opportunity for both the brand stand in the store and the host retailers. The retailer earns a steady income from renting out the extra space while the brand shop operator saves money negotiating a smaller footprint (JLL Real Views 2015). The opposite fact is that store-based retailers are suffering from an oversaturation of retailing. Small retailers are giving in to the growing power of giant retailers and "category killers", in response,

the large entrepreneurial retailers are creating and building entertainment into the store with coffee houses, demonstrations, VIP events, and performances, marketing an “experience” rather than a product assortment (Kotler 2001: 15). Department stores are capable of differentiating themselves with the store-within-a-store concepts, and brands can curate experiences that delight shoppers unexpectedly.

Creating branded experiences with the store allows retailers to provide a product or service that their brand typically cannot support. Doing so provides their customers with considerable value if the branded experience is relevant to customer needs and it is more accessible or convenient than the case usually is. With the store-within-a-store concept the shops in the department store become more and more as shopping destinations as specialty shops often create excitement around a product or a brand, and at the same time create foot traffic into the larger store (KDM 2014).

#### 9.4 Customer service and loyalty in the store-within-a-store model

When it comes to service, researchers (Wharton 2009) find that the ability to substitute products again plays into the decision to open a store-within-a-store department store. If the need to charge two margins is removed and if products are well differentiated, then the service levels, along with price and profits, are high. As the products become more substitutable, both prices and service levels decline and profits follow. This of course depends on the product category, and the specific phenomenon of product substitution can be clearly seen and compared when considering items such as premium or luxury clothing accessories and housewares. The luxury items are more often unique and irreplaceable whereas kitchenware is often substitutable. The more expensive service is in a category, the store-within-a store will be seen more often (Wharton 2009). As the products become more substitutable, both prices and service levels decline (Kinshuk & Zhang 2010). When substitutability is small, service provision and the corresponding increase in profits is the highest in the store-with-a-store arrangement because the manufacturers in this model choose the service levels according to the retail price they charge (Kinshuk & Zhang 2010). If the retailer is making the decision, he or she might be choosing service levels on the basis of their margins. However, as the amount of product substitution increases, the customer service provided increases in the departments that still offer brands provided by the department store itself.

It is also carefully considered to place the shop-in-shops near the department store entrances because it drives more people into the store, and also because it seems attractive. In this particular concept, the store traffic effect is preferred. If this model produce more traffic into the store, retailers will go for it more often. The strategic move to locate the store-within-a-store brands in the prime areas in the department store is also to some extent used in shopping centres as well, meaning that the luxury or premium brands are placed in the focal locations. The store locations within a shopping centre are also considered by taking note to the main entrance and exit points of the centre as some of them are often more advantageous than the others. In this particular business model, the question in issue is still that to whom is the customer actually loyal, the department store or the brands inside the real estate.

As in the store-within-a-store model the manufacturers control the final product, they are more powerful in dictating the terms. The manufacturer wants the access to the customer base, whereas the retailers have more bargaining power with the suppliers.

In order for customer loyalty to exist in the attitude of a consumer, their loyalty towards a product or a brand must penetrate the affective state of their attitude. Affective-based responses towards a product or brand will be associated with a liking or other positive emotional responses towards that brand. An affective-based response is the emotional response to a situation, such as the feeling of pride and satisfaction a person obtains when winning, or the feeling of disappointment when losing (Oxford University Press 2017). In this case, the previously mentioned definition of an affective-based response can be explicated as the stimuli to three dimensions: pleasure – displeasure, arousal – non-arousal, and dominance – submissiveness (Areni, Sparks & Dunne 1996). Pleasure – displeasure describes the happiness or satisfaction towards a certain brand, arousal – non-arousal refers to the alertness or excitement evoked by the brand or product, dominance – submissiveness describes the extent to which the customer control or is controlled by the overall store and shopping experience.

## 10 The meaning of store image on customer loyalty

The store image has been stated to be one of the most important assets for a retailer (Steenkamp & Wedel 1991). Even though the variations of store image may vary; it has been described as the primary perception of a store in a customer's mind regarding its physical characteristics together with the psychological or emotional features of the store (Martineau 1958). The term "store image" is also linked to and used with the customer's attitudes towards a store.

Store image is considered as an important factor used by consumers to determine their suitability as customers for a certain store. If a customer prefers the store image, she or he is likely to develop loyalty to it. Consumer self-concept and store loyalty consonances have an essential role in shopping behaviour. Customers tend to visit those stores whose image is similar to their own. The store image reflects on store personality image stereotypes in customers' minds, such as the store status being high or low, the store being traditional or modern, friendly or formal. There are also functional store images, which refers to tangible store characteristics, such as clean or unclean store, quiet or noisy.

One way that the store image can be studied is through store attributes, or characteristics that are part of the overall image of the store. Lindquist (1974) combined models from nineteen different studies and identified nine elements of store image: promotion, merchandise, service, physical facilities, store atmosphere, comfort, clientele, institutional and post-transaction satisfaction. A store's image equals the brand's image in its ability to represent value and quality.

Also, the impact of the store name, image and price discounts has been extensively evaluated against the customer's brand quality and value perceptions. The retail environment of a store and its other attributes, including the behaviour of the store staff, influences the shopping behaviour of customers based on the manner on which they perceive such attributes (Morschett, Swoboda & Foscht 2005). In the field of research literature on retailing, consumers' perception has been noticed as being very closely related to store image (Morschett, Swoboda & Foscht 2005). Purchase intention is the final desired outcome that is employed through various strategies to enhance the image, service quality and the overall shopping experience at the store.

## 11 The sources of unique added value

Since the beginning of the global recession in 2008, retailers have increasingly relied on discounting to drive sales, and to encourage money-conscious customers to browse and make purchases both in-store and online. An infallible way for retailers to add value to their customers is to provide service that shoppers cannot get anywhere else (Multichannel Merchant 2017).

According to Sue Yasav (2015), the most valued elements in the shopping experience are still the fact that the customer is able to pick his or her own sale items. It is about giving the customer the control to personalise their experience based on their own needs and wants. This is the highest ranked feature of these elements.

On the second place is the ability to exploit hassle-free returns, knowing that the item can be returned. This is valuable information to the customer and it affects the initial purchasing decision in the first place, depending on the product type. Retail brands with generous return policies are highly regarded. Also, the fact that coupons are not always needed to receive the discount price is valued by the customers. Receiving the lowest price without working for it reduces stress for customers. Finally, Yasav mentioned that customers who redeem loyalty points for saving must feel valued. This is because customers prefer and love points-based loyalty programs and they drive loyal behaviour for retailers.

Zemke and Wood state in their work "Best Practises in Customer Service" (1999: 63) that a customer focused organization is not in business to deliver a product or service alone, but instead to enable people to enjoy the benefits of its products or service. This is important for the retailers as when the customers feel valued, the sincerity of the store personnel makes them feel good about the company, makes the store and organisation seem and feel trustworthy. The lack of the feeling of being valued can decrease the good emotional shopping experience that the customer could have had and instead create a conflict between the promised value of the store loyalty program and the real shopping experience itself. Dissatisfying store experience is generating the risk of decreasing number of loyalty customers as consumers purchase products and services to experience and achieve certain emotional states and goals.

According to Multichannel Merchant (2017) there are five, quite traditional ways, of adding value to customers: service, expertise, exclusivity, convenience and experience. Consumer motivations are often driven by underlying values and some choices consumers make are conscious and some unconscious, and the latter may just be influential (Solomon, Bamossy & Askegaard 2002: 120). Some marketing instruments attempt to take advantage of unconscious choice by introducing subtly manipulative elements into the shopping experience. Presenting products in attractive lighting and idealizing surroundings causes shoppers to be drawn into them.

## 12 Results and discussion

Even in today's digital age, the fact is that consumers are still fond of shopping in a physical store. They like browsing online with several devices, and they might even prefer to buy things online, but they additionally want to access the physical store itself. Advertising loyalty programs as an omnichannel experience, using both brick and mortar and the various online facilities to sell program membership and integrate on- and offline membership benefits are the most effective way for the department stores to reinforce their strengths and to serve their customers in the best way possible.

The customers are not perhaps realising that in all cases the brands represented in a department store do not actually belong to the department store's own selection. The store-within-a-store concept is not advertising itself. If a consumer is used to shopping in Stockmann for example, and the store is socially admitted by the consumer's family, friend group or "social status", or by any other reference group, he or she will consciously or subconsciously continue to shop in that particular store. One possible reason for keep shopping in a same store over time might also be just an inherited habit from family, and this is part of the subconscious reasons. A consumer's position in society, or in a social class, is driven and bound by a set of variables. These variables include factors such as income, family background and occupation. There is the pressure of losing one's own status if he or she admits that the store is no longer fulfilling the needs and has turned into something else completely different compared to what it was before. From this it can be stated that customers are actually loyal to the store for its image created over the years, not to the actual department store itself. Because of this customers are also more willingly and open-mindedly accepting the changes occurring in the department store, and the changes are seen as positive.

It is the store's brand name, or as in Stockmann's case a long and dignified history of the store and the legacy name that generates the trust, and still drives people into the store. This combined with the new, refreshed omnichannel loyalty programs creates a strongly tempting offer that can rarely be neglected by a consumer. The following issue from the loyalty towards a store brand name is the sustainability of the phenomenon, more specifically how long does the name alone carry on with and maintain customer commitment. This time is yet unknown, but as the store-within-a-store concept is conquering the department store business model at some point it can be expected that the

customer's expectations and experiences are so far apart that the customer loyalty could be facing serious challenges, and the at the worst case be broken.

The level of customer service in store-within-a-store concept is higher when the brand or brands presented in the store are on the expensive side and non-substitutional, but when the product becomes more substitutional the risk of decreasing service level is present. Customer service was presented as one of the most important elements that creates store loyalty and positive experience. It is the key to the customer loyalty these days. If the customer service and support is not at a sufficient level, the consumer is most likely not coming back to the store and not recommending the particular store to friends and family. These word-of-mouth recommendations to family members or friends were regarded more trustworthy than regular advertising or advertising on social media, so that makes it crucial for a store to create excellent store experiences in all departments and for every customer, even if the customer would not be purchasing a non-substitutional brand items.

The key to the success these days is in the cross-channel strategies, or in other words, in the omnichannel strategy. The technology is developing and it is a fact that cannot be ignored and that means that the use of the internet and smartphones must be adapted and included into the shopping experience. The loyalty programs are turning into easily accessible mobile applications in which the points-collecting is regarded as the most valuable feature. So, it is possible even nowadays to develop strong and worthy customer loyalty programs which are a part of the customer loyalty itself, but the circumstances and the changing environment must be considered. These attractive loyalty programs are luring new consumers to join and to get a loyalty membership in the hope of receiving rewards and additional decreased sale prices. It can also be said that the most successful and effective loyalty programs are designed as long-term propositions and as not short-term campaigns. The management party should be engaged to a program that will last for years, not only for months. Long-term commitment will help to develop and perceive a forceful lifetime relationship with the customers.

The store-within-a-store concept has of course succeeded when thinking of the economic benefits that the department stores have gained from this model. And adopting exclusive brands under their roof also brings those customers into their store that would normally shop in the brand's own flagship stores. For the department stores acting as the real estate managers for the, usually, luxury brands can raise their status



and arouse the interest of customers who would not usually prefer to shop in department stores. But it is still not the actual department store alone that would seem attractive or interesting, it is the brands represented inside it, and the quality name of the department store makes a fine addition. The department store name of high standing makes it socially acceptable for some consumers to purchase a brand product also from the department store, as an alternative to the brand flagship store.

The use of the store-within-a-store model is decreasing the differentiation between the department stores globally. The competition is high and the upscale stores are more and more wanting to compete on the same level in the markets, meaning that the store concept is becoming similar. It is the happening concept trend today, and one of the facts is that if the company or brand cannot keep up with the happening trends of the time, they will very soon lose their competitive advantage and customer's interest, unless they are able to maintain a separate and appealing brand position that transcends the occurring trends. From the department store's point of view it can be the same, if they do not adopt the new concept trend, the risk of losing their attractiveness and market status. As Gummesson stated in his literature work (2008) the actual value of a company's stock has become its brand equity, meaning that it is the capital the company represents. There is still no evidence or further research conducted that would prove that the company's stock price would actually be related to the brand equity. The argument is valid when considering the importance of brand positioning and brand equity today, and these variables do go hand in hand with the store's prosperity and success, but like previously mentioned, brand equity still cannot be directly mentioned as stock price or value of the company.

A key practice for loyalty initiatives is customising and creating a differentiated experience by taking customer data and making programs meaningful with long-term goals. Also, optimising and using the omnichannel and cross-channel strategies in the best way possible to stay up-to-date with the technological development is considered crucial for the department stores to succeed. Creating valued mobile applications with membership benefits that makes customers to come back to the store and purchasing more in order to receive special deals and points from purchases.

### 13 Conclusion

It is the well branded, quality status name of an upscale department store that evokes trust, and to which the consumers are still loyal to. The feeling of trustworthiness is not often created overnight, and the department stores such as Stockmann or NK have long and highly valued histories of operating as quality department stores. The consumer commitment towards these department stores and the status is, in other words, created over the decades. Today, along with the global store-within-a-store arrangement, the sustainability of this kind of loyalty towards a legacy name of a department store is unpredictable. That is why it is crucial to understand consumer behaviour to be able to build successful brand strategies and loyalty, and likewise it is as important to understand customer loyalty and brand commitment, how they are built and how they affect consumer decision-making. Understanding consumer behaviour is good business. The two concepts really walk hand in hand as it can be seen from all the relevant literature and analysis.

There will almost always be trends in business models, or trends in general that manipulate the consumer behaviour in each era; the question of the customer loyalty towards department stores or customer loyalty created all in all is strongly affected by the occurring trends of the time. Also, the popularity and easiness of traveling around the world have made us more aware of the different brands and store concepts. We simply know more; the technology has developed rapidly and under the present conditions it keeps developing even more. This increased knowledge and awareness of the possibilities available have had its effects on the department store concept development also. Because the competition is not anymore only in the domestic markets, the global trends in the concept models must be taken into account. But this means loss in differentiation.

In the omnichannel world occurring today, it is crucial for companies, in this case the department stores, to create innovative and rewarding loyalty programs to maintain and engage customers. Those department stores that have it on the omnichannel way: mobile app, personalised e-mails and after sales service in addition to other rewards, are not losing their loyal customers. These businesses have understood the possibilities of the cross-channel strategy, and can be pointed as innovators, but in addition to these factors, the truly smart companies are the ones who can identify the course of the customer values.

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