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# Customer Experience Management

An Essential Factor in Building Customer Loyalty

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Helsinki Metropolia University of Applied Sciences

Bachelor of Business Administration

European Business Administration

Bachelor thesis

19.02.2018

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Title	Customer Experience Management: An Essential Factor in Building Customer Loyalty
Number of pages	49 pages
Date	19 February 2018
Degree	Bachelor of Business Administration
Degree Programme	International Double-Degree Programme
Specialisation	European Business Administration
Instructor(s)	William Simcoe, Senior Lecturer
<p>This paper focuses on the connection between customer experience management (CEM) and loyalty. The work aims to blend theoretical and practical study of the subjects to facilitate application of existing knowledge on them to real business strategies. To achieve this goal, the two concepts are first examined in detail, and then case studies are used to test if creating superior customer experience (CX) increases customer loyalty. An original framework meant to help businesses plan and execute a successful CEM strategy concludes the paper.</p> <p>This thesis is built on the hypothesis that customer experience management is the cornerstone of consumer loyalty. Case studies of Apple and DHL Freight prove the positive correlation between systematic CX improvement and attitudinal as well as behavioural loyalty. Additionally, they show two distinct approaches to CEM – based on external feedback and internal innovation.</p> <p>However, critical evaluation of literature on the subject shows that a build-up of a loyal consumer base can also be achieved through other methods, without necessarily focusing on CX. For instance, research has revealed the paramount importance of customer satisfaction and marketing efforts aimed at boosting the emotional connection with the brand in earning loyalty. The truth probably lies in the middle, and best results can be achieved through adding these elements to a well-planned CEM campaign.</p> <p>Speaking of creating a CX improvement strategy, the thesis proposes a unique recipe for it. In a 4-step framework, the full lifecycle of a loyalty-boosting CEM campaign is broken down into actionable steps – from planning, to implementation, to results measurement.</p> <p>In summary, the results of this paper are a comprehensive analysis of literature on CX management and consumer loyalty, two case studies that demonstrate how CEM helps increase loyalty, and an original model which can serve as foundation for future strategies of real companies.</p>	
Keywords	CEM, CX, customer experience management, customer loyalty, strategy, framework, DHL Freight, Apple

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## 1 Introduction

During my exchange at the University of Hertfordshire, at the Contemporary Issues in Management seminar, there was a discussion on what businesses prioritise in their strategy. The teacher brought to our attention that modern organisations are switching their priorities from generating shareholder value, where a large portion of profits is invested into dividends and the focus is on the owners, towards increasing stakeholder value, in order to maximise the company's contribution to society through serving customers better. What is more, not only are corporations changing for whom they create value, but also how they do it. While developing the product may be the more common approach, companies are also starting to recognise the importance of developing customer experience (CX) – i.e. the quality of interaction between the company and its consumers at every touchpoint.

The discussion ignited my curiosity and led to further research on the topic. What interested me most was whether or not superior customer experience was the way to growing stakeholder value, or, in other words, conquering the customers' hearts. A few months later, that study became the foundation for my undergraduate thesis project.

### *1.1 Literature review and problem formulation*

In the course of literature review, it was found that the importance of customer experience management (CEM) for companies had already been proven by other researchers. In a survey involving 362 businesses, the international consultancy from the United States Bain & Company has found that 80% of the firms believe they deliver "superior experience" to consumers. However, only 8% of these companies' customers agreed with the statement. (1990) This finding indicates a distorted perception of delivered quality within businesses, and highlights the need for CEM – strategic management of the consumers' entire interaction with the firm and their product. (Schmitt, 2010: 24)

The link between positive customer experiences and loyalty has also been researched in the past. For example, Mala Srivastava and Dimple Kaul have proven in their work

“Exploring the link between customer experience – loyalty – consumer spend” that there is direct correlation between three independent variables: how much people enjoyed dealing with the firm, behavioural and attitudinal loyalty to the brand, and their spend on the company’s products. (2016)

While material on the subject matter of this thesis is available in abundance, the existing works fall under one of two categories. Either they examine the business concepts at hand with a generalised view, analysing data collected from multiple companies, as in the examples above, or they look at a case of a specific brand, as in “Scoring Points: How Tesco Continues to Win Customer Loyalty” (Humby, Hunt and Phillips, 2008), for instance. The former approach brings valuable findings applicable to different business scenarios, but is often limited to the abstract plane, where important details such as what actions fall under customer experience management may not be clear. The latter way of researching the subject is usually more precise in describing such specifics, yet because of concentrating on a single firm its findings may not be relevant to companies in other industries.

This paper bridges the gap between two different methods described above by adopting an integrated approach. In this thesis, CEM and customer loyalty are analysed on the generalised theoretical basis first, and then applied in a practical setting, using case studies of two well-known companies from different industries.

The goal of this work is to address the problem of building a loyal customer base through CEM, which is relevant for marketers and business managers alike. The thesis aims to answer the following question: is customer experience management the major force driving customer loyalty?

## *1.2 Research limitations*

Considering the limitations of the research content, narrow scope can be a serious one. From the start, this thesis hypothesises that customer experience management is the only primary source of loyalty. As a result, other potentially effective methods to forge a loyal consumer base around a brand may be overlooked. For example, creation of new products tailored to a niche market and offering targeted promotions can also

evoke loyalty, not just improving the experience customers have with the existing offering. These other approaches could form a foundation for future research.

Another limitation is that loyalty can be a rather vague concept with various possible interpretations. Therefore, it may be questioned whether the brands analysed as case studies have succeeded in building a loyal consumer base, depending on the reader's interpretation of the research subject. To achieve scientific objectiveness, it will be necessary to clearly define what loyalty is in the context of this work, and how it is to be measured.

When it comes to research methodology, since the thesis uses secondary sources as the foundation for the content, its main limitation could be overreliance on other authors' works, which may vary in overall quality, objectivity and depth of findings. To prevent this issue from negatively affecting the academic standard of this paper, all scholarly publications supporting the analysis are to be reviewed critically in the research process, taking into consideration the authors' credentials, methodology and clarity of communicating the results. As for business studies, multiple sources will be used when relating each story to achieve maximum objectivity.

## **2 Introduction to customer experience management**

The starting point of this research paper is defining customer experience management through presenting how it is viewed by scholars as well as how the concept is applied. This chapter also looks into the background of CEM and compares it to another approach firms use to connect with consumers – CRM.

### *2.1 Exploring the roots of customer experience management*

It is hardly possible to find out when exactly an academic concept was born, even with advanced technological tools available to modern researchers. However, a simple experiment using Google Scholar, a search engine that pools various scholarly literature – from articles and theses to books and court opinions – worldwide (Google), can help identify the time period when CEM came into focus of researchers.

A query “customer experience” with a date filter 1900-1950 produces 23 results, all of which only mention the concept without elaboration. By contrast, in 1950-2000 the same keyword phrase has been used in 2070 works, indicating that interest for the concept in the academic circles has grown considerably in the second half of the XX century. At that stage, scholars already started examining customer experience deeper, for instance:

- Thomas P. Novak with his colleagues from Vanderbilt University in their joint project “Measuring the Customer Experience in Online Environments: A Structural Modeling Approach” (2000) have explored the link between the quality of customer experience in e-stores and consumers’ interest in offered products.
- In “Enhancing the customer experience: contributions from information technology,” Jillian Dawes and Jennifer Rowley examine how increasing digitalisation of shopping activities will change the traditional approach to customer experience management in companies. (1998)
- Shivaram Rajgopal of Columbia Business School and his fellow researchers have looked into whether high-quality customer experience has a positive effect on the shareholder value in their publication “Does the Quality of Online Customer Experience Create a Sustainable Competitive Advantage for E-commerce Firms?” (2000)

Furthermore, customer experience has gained even more momentum in the academia between 2000 and 2017, with 28900 works dedicated to it in this time period only. This is also the stage when CEM is starting to come into focus, with 6410 publications on the subject – up from 2 in 1900-1950 and 45 in 1950-2000. A notable feature of the latest research on customer experience is that scholars are now trying to understand not only how to create and manage it, but also how to maintain it. (Gentile, Spiller and Noci, 2007)

These findings clearly show that in less than a century, the concept has evolved into a household word for scholars and businesses alike. This once again proves the importance of researching customer experience management further, as the demand for fresh knowledge in this area seems to be on the upswing.



Granted, this experiment has a few flaws that may affect the quality of findings. First of all, a possible reason for lack of "customer experience" coverage in 1900-1950 may be Google Scholar's focus on more recent works, so the earliest books about this subject from the first half of the XX century may have been overlooked. However, this theory does not hold true if the same experiment is repeated for the keyword "customer." According to Google Scholar, already in 1900-1950 there were 21400 works published on the subject, which proves that the engine contains a sufficient library of academic publications in the business field from that time period.

Secondly, it is worth noting that Google Scholar mainly aggregates sources whose full text or at least citations are available online, so there is possibility that older works on customer experience have not been indexed in this e-directory. It may be that the earliest publications on the topic are kept in traditional libraries, but trying to find these sources in physical locations would have been considerably more time consuming.

Despite the limitations of this experiment, it was an efficient way to understand and track the development of customer experience as a concept, based on a sufficient sample of academic literature from all over the world.

## *2.2 Customer relationship management (CRM) – the predecessor of CEM*

In part 2.1 of this chapter it has been found that customer experience management as a concept is quite young. This, however, does not mean businesses were not interested in nurturing their connection with consumers until recently. In fact, for decades firms have been actively cultivating long-term partnerships with buyers in order to increase their lifetime value, and this process is known under a broad term customer relationship management. To be more precise, "CRM is a concept, or management discipline concerned with how organisations can increase retention of their most profitable customers, simultaneously reduce costs and increase value of interactions, thereby maximising profits." (Ovum cited in Chablo, 2000: 58)

In the following part of the research paper, this approach to business-consumer relations will be examined further, to understand what preceded CEM. Besides,

comparing and contrasting the two concepts can help find out what new angle, different from the existing techniques, customer experience management brings into the relationship between companies and consumers.

Raab et al. (2008) has suggested a conceptual framework to explain CRM, presented in Figure 1.

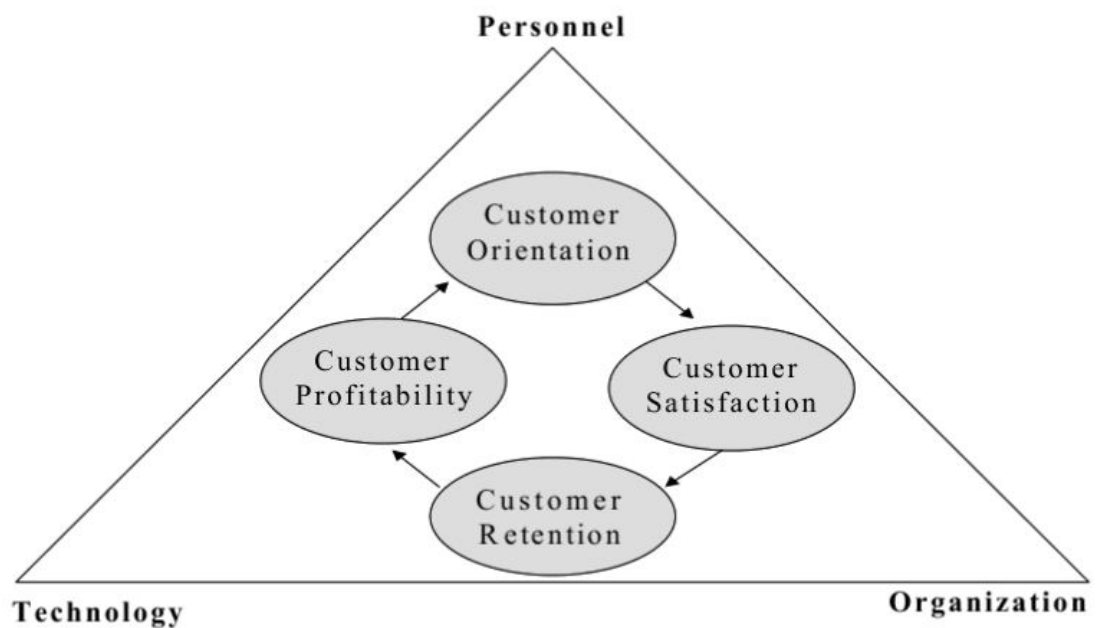


Figure 1 The pillars and process of customer relationship management (Raab et al., 2008)

This model successfully outlines the key players in the process – the organisation, company personnel, and technology – but the drawback is that specific activities of these parties are not indicated. Only the goals that CRM is guided by are highlighted, which is not enough for the purposes of this study. However, the author does provide justification for why these four aims matter for business and what results they may bring, which is relevant for evaluating efficiency of the approach.

With reference to works by Ederer et al. (2000: 84) and Töpfer (1996: 92), Raab and his colleagues claim that customer orientation lets companies boost prices without losing clientele, because regular buyers acquired through CRM are less sensitive to higher tags than new ones. Other benefits include up to 85% profitability boost from lowering customer loss only by 5%. So, based on this academic source, CRM aims to satisfy and retain buyers through customer orientation, to ultimately achieve higher profits, which the authors demonstrate with statistics and case studies of Tesco,

Leban, Inc. and other companies. While the writers made a solid case for why companies benefit from customer relationship management, after reading this book it remains unclear what exactly the consumer receives from “customer orientation” and how it is implemented by businesses.

Another explanation of the concept (see Figure 2) has been suggested by Joseph Hand (2012).

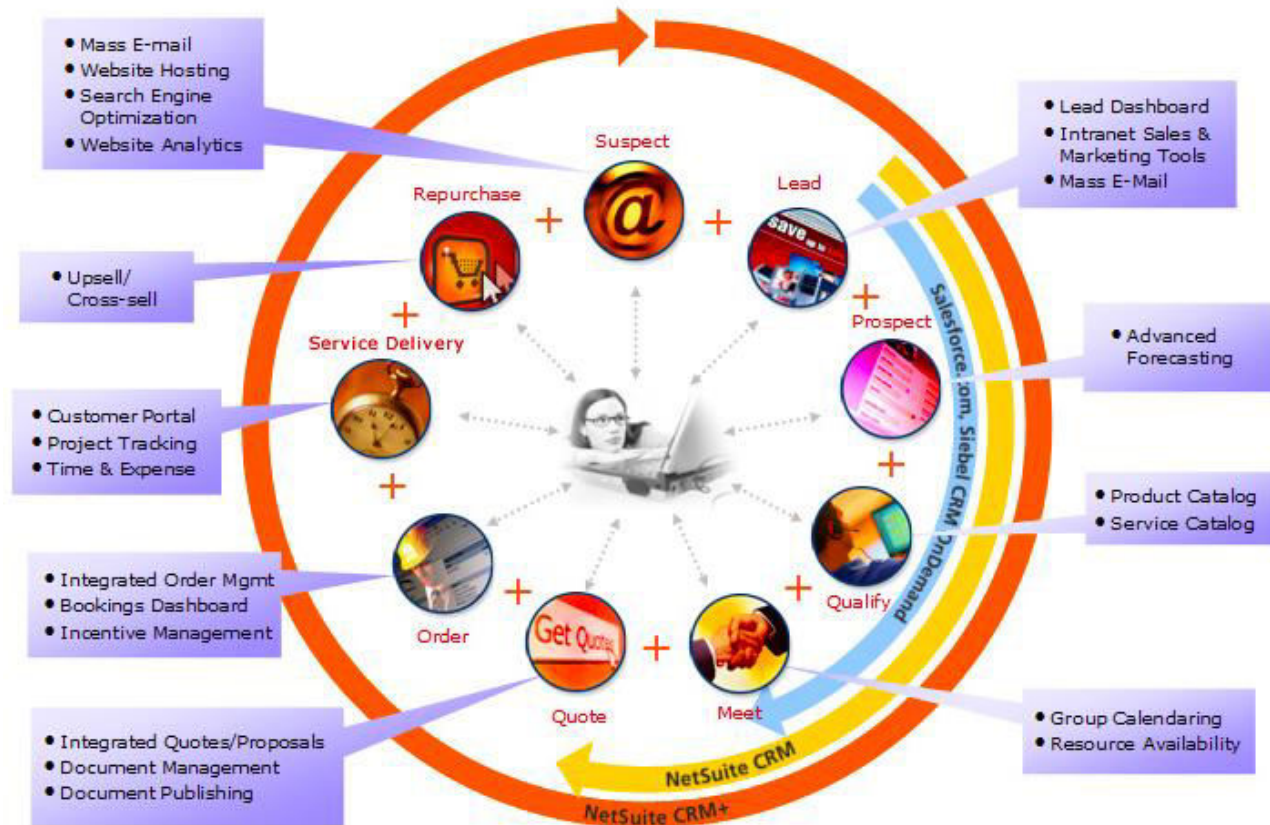


Figure 2 Introduction to customer relationship management (Hand, 2012)

Similarly to the previous source discussed, this model focuses primarily on the company’s perspective, omitting the consumer’s view and their benefits of CRM. However, the framework in Figure 2, unlike Figure 1, demonstrates how a business carries out its customer relationship management strategy, which makes the source useful for the study. The model covers primarily the digital aspects though, which only make for 40% of CRM project success, according to a case study by Accenture. (Göbel, 2001) Without being accepted by the company and implemented by the personnel, IT solutions may not be effective. (Raab et al., 2008) So, while this model is useful, it

might be missing as much as 60% of CRM project elements, yet it still gives a detailed explanation of the technological part of the process.

Now, when it comes to CEM, it approaches consumers in a different way than CRM. Schmitt (2010) explains the contrast between two approaches, stating that customer experience management focuses on satisfaction of consumers' needs rather than the desired business outcomes (e.g. higher profitability). He also claims that CEM goes beyond financial transactions towards a richer business-buyer relationship. To justify his strong preference for customer experience management over CRM, Schmitt provides results of a case study conducted to measure effect of customer experience-focused TV ads, websites and stores on consumers' impressions, brand attitude and purchase intention. All scores were above 50%, with advertisements most affecting buyer attitude (77%). Experience oriented shops raised the purchase intention to 84%, and sites boosted the customer impression to 81% - so, the findings do show the potential of CEM to positively reflect on the brand.

Nasution et al. (2014: 257) agree with Schmitt's point of view. In their customer experience framework (see Figure 3), the consumer's values, wants and needs are also placed at the core of a successful business-buyer interaction. Both these sources show CEM as more truly customer-centric than CRM.

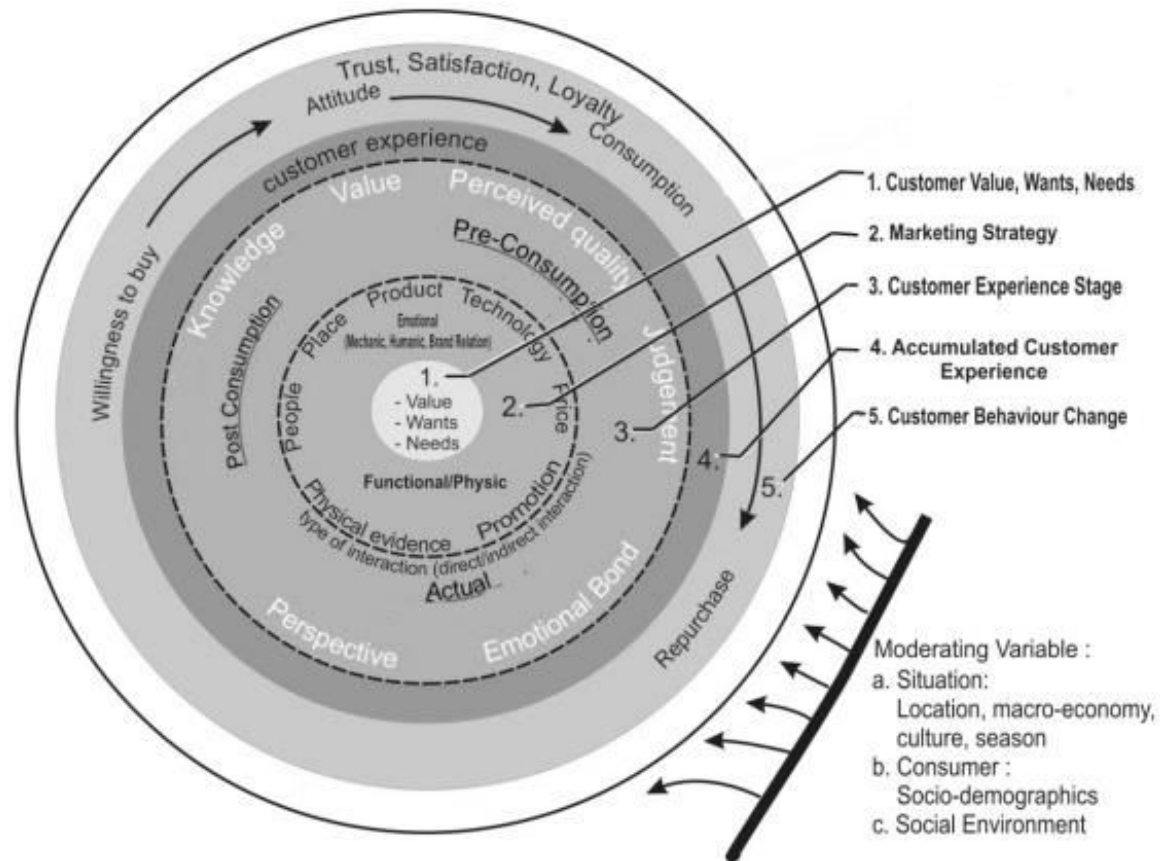


Figure 3 The customer experience framework (Nasution et al., 2014)

A distinctive feature of CRM initiatives worth noting is that they are often implemented using specialised software (Peppard, 2000), e.g. Salesforce, SAP or Oracle CRM solutions, to name a few. The positive aspect is that this can possibly decrease the necessary investment of human labour into customer relationship management, if companies succeed to establish a smooth automatic process. On the other hand, the CRM tools themselves may become a sizeable budget item. Research has shown that 65-80% of companies do not feel they are receiving sufficient payoff for their financial investment into customer relationship management. (Hall, 2004: 36) Moreover, results of CRM initiatives are often difficult to measure. (Richards and Jones, 2008)

By contrast, CEM does not necessarily require costly technological tools. If at the core of customer experience is meeting consumers' needs, satisfying their wants, and providing desired value with the company's product, as suggested by Nasution et al. (2014), working on development of a solid marketing mix using the workforce at hand is what it takes to execute a CEM strategy. (Kotler et al., 2007) As for measurability,

the success of customer experience management initiatives can be tracked with existing feedback tools, such as SERVQUAL (Klaus and Maklan, 2013) – a popular multi-dimensional scale used for evaluating the quality of provided service as it is perceived by the consumer. (Parasuraman, Zeithaml and Berry, 1988) To make sure the results are estimated accurately, additional statistics such as Net Promoter Score proposed by Frederick F. Reichheld (2003) can be used. Granted, as both measurement tools involve asking buyers' opinions about the product, the answers will most likely not be objective. Then again, customer experience itself is subjective, due to the fact that people may have different responses to the same stimuli (Palmer, 2010 cited in Nasution et al., 2014: 258), hence objectivity in CEM success estimations is not required. Gauging the individual consumer's perception of the product is what matters, and the existing tools make it possible.

On a larger scale, focusing on the concepts rather than practical implementations, two major differences can be pinpointed between CRM and CEM. First of all, the former notion is primarily company-focused – the firm collects data and uses it to bring in more profits. The latter approach assumes that consumers are the ones learning about the business, so the company's job is to make each interaction pleasurable, thus increasing customer loyalty and sales figures. (Kamaladevi, 2009: 32)

Secondly, some researchers consider CRM more limited than CEM. Due to the focus of customer relationship management tactics on delivering valuable information for internal company use, this approach often comes down to collecting transactional data for devising more profitable business tactics, which is not enough to satisfy the modern empowered consumer. Today, customers have more choice than ever, and the ability to select any brand they want increases their buyer power, allowing them to demand a superior product experience. CEM's more holistic nature proves that this concept is farther along in the marketing evolution than CRM. While customer relationship management may, in some cases, incorporate elements of streamlining interactions with consumers, it is still not focused around it, thus customer experience management is a more powerful, all-encompassing strategy for delivering what the buyer wants. (Cox and Holt, 2013)

That was a brief overview of the main distinctions between CRM and CEM. In the next part of the chapter, customer experience management will be reviewed in more detail – both from the theoretical standpoint, and with a look at the practical implementation of the concept.

### 2.3 Definition of CEM and what it means in practice

Multiple authors in the field of business research have proposed a definition for customer experience management. The most succinct one that communicates the essence of the term clearly is the following. CEM (also called “customer experience creation”) is the process of strategically managing a consumer’s entire experience with a product or a company. (Schmitt, 2010: 24) “The aim of customer experience management is to enhance relationships with customers and build customer loyalty.” – add Frow and Payne. (2007) Gartner, a leading technology advisory from the United States, also suggests meeting and exceeding expectations of consumers as well as increasing buyers’ satisfaction and advocacy as CEM goals. (Gartner) The combination of these definitions can give comprehensive understanding of this complex term.

Along with the explanation, Gartner also proposes a framework to showcase the components of CEM. (See Figure 4)

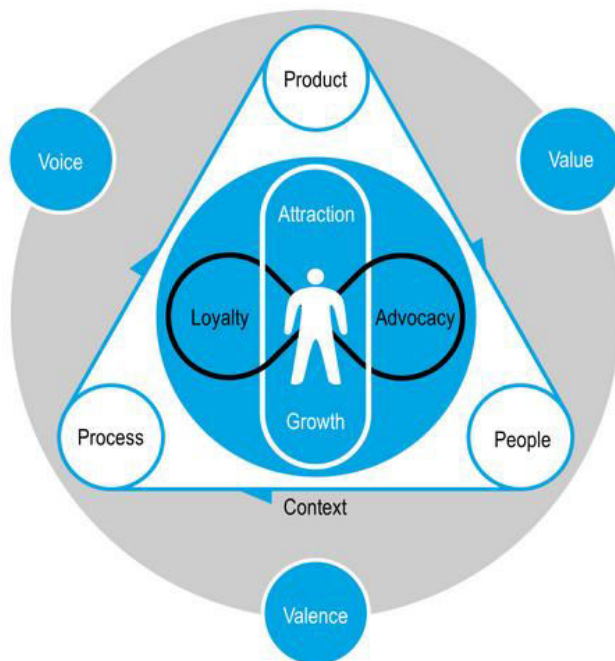


Figure 4 Customer experience management (Gartner)

The image effectively emphasises three main components that need to be activated in the company to set a customer experience management campaign in motion – Process, Product and People. It once again proves that unlike CRM, CEM does not depend on expensive technologies – or at least not in most cases. Customer experience management truly hands over the control to the company itself rather than external consumer data collection tools.

While Gartner’s scheme offers a clean high-level overview of CEM, the details remain unclear. For a more precise breakdown of company activities that comprise a typical customer experience management strategy, it is worth consulting one of the fundamental works on the subject under discussion – “Customer Experience Creation: Determinants, Dynamics, and Management Strategies” by Verhoef et al. (2009) This academic work presents an exhaustive list of CEM activities, demonstrating what the concept means in practice. (See Figure 5)

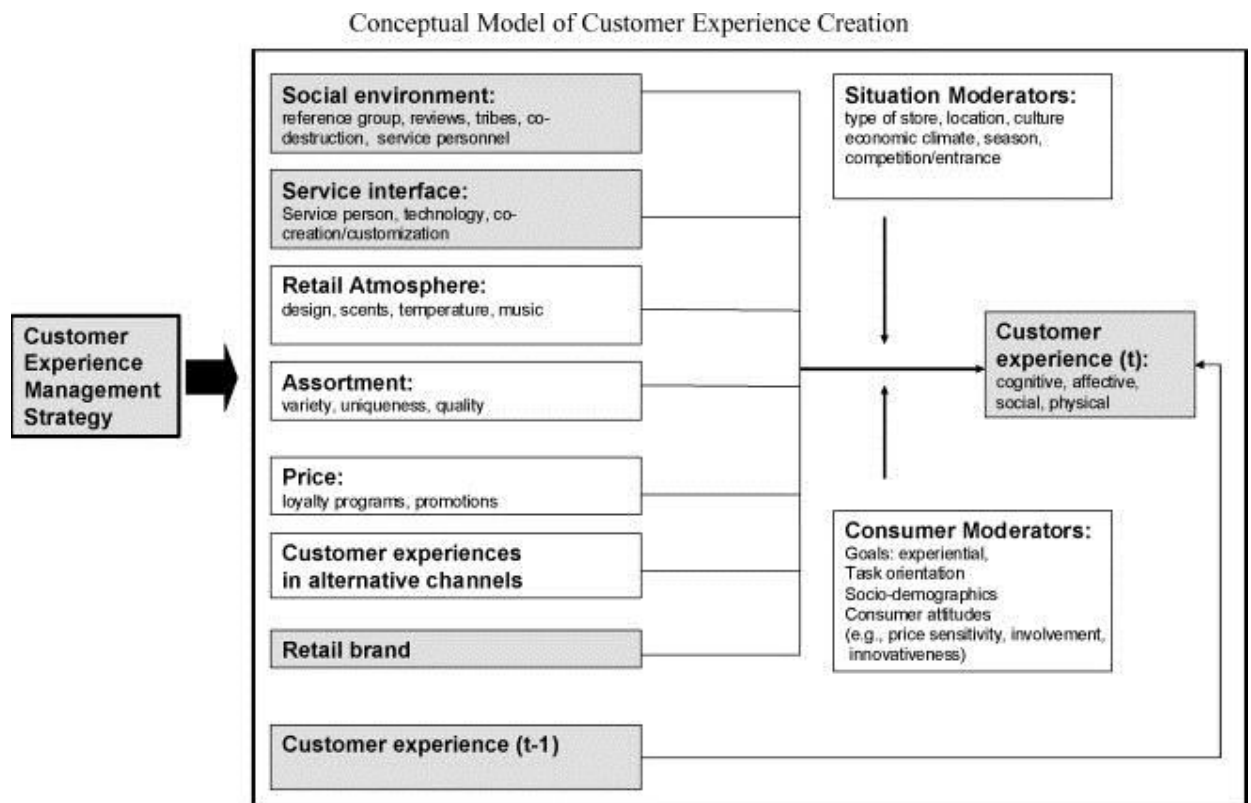


Figure 5 Conceptual model of customer experience creation (Verhoef et al., 2009)



Even though the authors do not indicate the hierarchy of these based on their effectiveness, the model is highly useful for defining the specific elements that shape the customer's experience with a brand.

Now, unlike Verhoef et al. in the framework above, Gentile et al. (2007) constructed a more general overview of the CEM elements, detailing not just what the firm has to do for implementing its strategy, but also what the customer perceives as a result. The author has gathered different types of stimuli businesses may consider using to boost buyers' experience, and how consumers interact with them, as seen in Figure 6.

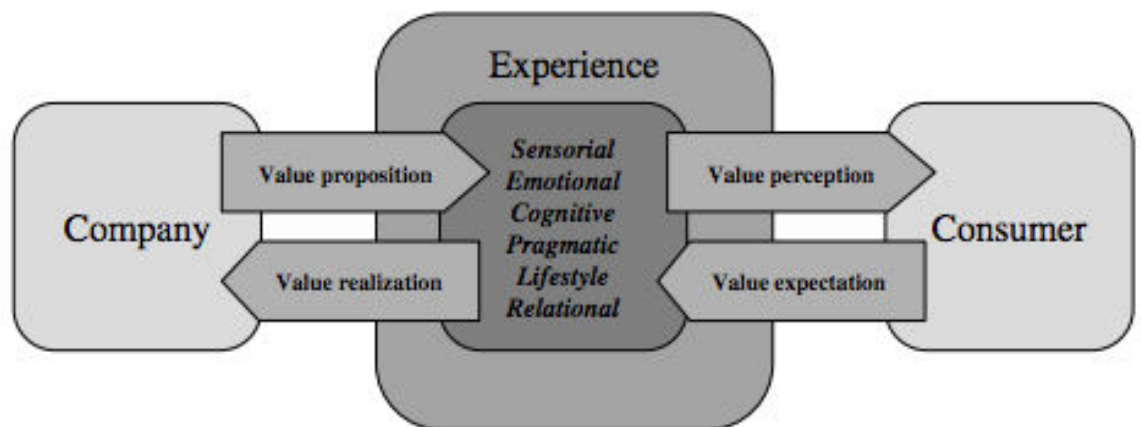


Figure 6 General framework of company and consumer value (Gentile et al., 2007)

Not only did the scholars present the basic components CEM is based on, but they also discovered in their research that these can be experienced separately as well as in complex combinations. In simpler terms, they have found that the customer evaluates the effect of a company's product as a whole without registering that, for example, their emotional and cognitive sensors in particular are being stimulated by the brand. This finding is valuable for this thesis, as it emphasises the complex and subjective nature of consumer experience.

This concludes a review of what CEM means, both in theory and in practice. The final part of this chapter will summarise the findings, concisely presenting the key highlights discovered at this stage of the thesis project.

## 2.4 *Summary of chapter 2*

In chapter 2, it has been found that “customer experience” as an academic concept most likely appeared in the second half of XX century. “Customer experience management” followed several decades later, and is still in a relatively early stage of development.

While identifying when exactly CEM was born as a term among scholars poses challenges, it is possible to track the roots of this marketing approach. There is evidence that customer experience management is the next evolutionary stage of customer relationship management – the practice of collecting insights regarding consumers’ interactions with the company in order to act on them in a way that increases a buyer’s lifetime value (e.g. upselling). The reason CEM may be considered more advanced than CRM is its more holistic and customer-centric nature, which better meets the needs of the modern commercial environment, where the consumer often has the power to choose what is best for him.

To meet and exceed consumers’ high expectations, companies can try multiple ways of improving the customer experience, such as ensuring their retail location is a pleasure to visit or providing buyers with an abundant product assortment at affordable prices. CEM tactics come down to using a range of stimuli when touching base with the customer that will positively shape their perception of the brand. For instance, making the retail location look and smell good would trigger the consumers’ sensorial impression, while providing attractively priced products in all shapes and sizes would rather affect buyers on the pragmatic level.

Now that customer experience management has been properly defined, it makes sense to look into customer loyalty – the ultimate goal of CEM strategies.

## **3 Customer loyalty as an academic concept**

This chapter dives deep into customer loyalty – what it means, how it is measured, and what other marketing concepts it is connected with, namely customer orientation, satisfaction and retention.

### 3.1 Exploring customer loyalty

Existing research on customer loyalty views the marketing term from different angles. For example, the early definitions of the concept dating back to mid-XX century mainly revolved around buyers' purchase behaviour. In the works of Kuehn (1962) and Lipstein (1959), loyalty to a brand was measured by the consumer's inclination to buy company's products again. Similarly, Brown (1952) suggested that how loyal a customer was to a business could be defined by whether they purchase its goods exclusively and frequently or not. He proposed four categories of brand loyalty:

- No loyalty
- Unstable loyalty
- Divided loyalty
- Undivided loyalty

All these authors seem to assume that customer loyalty comes down to the buyer's preference of a specific brand at the point of the purchase decision.

Conversely, Lyn Etherington and Sionade Robinson in their work "Customer Loyalty: a Guide for Time Travellers" (2005) present building customer loyalty as a continuous process, which is not so much about short-term special offers to lure consumers in, but rather about understanding and responding to changes in buyer attitudes for building long-term relationships with them. These authors argue that as people are emotional creatures, they are wired to be loyal, so their affection for a brand is built in a similar way as friendship. This book emphasises a human, psychological, rather than a strictly business-focused perspective on consumer loyalty.

However, the work raises a few concerns. First, even though the book features seven real-world examples of service companies successfully winning the loyalty of their customers, these case studies are based on qualitative research (mostly interviews), which creates potential for biased results. Secondly, the initial assumptions on which the research is based, for instance "...your customers, being human, make largely *emotional* decisions," are not backed by any independent research or quantifiable data, possibly making the work less objective. Finally, one of the authors (Lyn Etherington, BSc in Civil Engineering) may not have enough scholarship experience in the area of Marketing to be considered an expert on the subject, although over 20 years in

business consulting may amend for this. (LinkedIn, 2017) Nevertheless, both writers have a solid track record in published academic marketing studies and are widely cited by other consumer behaviour researchers, so their work is valuable scholarly contribution to this thesis.

Besides the two above-mentioned approaches to the subject, there is a niche in theoretical literature that looks at the topic holistically and attempts to integrate different customer loyalty elements into a single framework. Out of these works, the one that stands out is "Customer Loyalty: Toward an Integrated Conceptual Framework" by Alan Dick and Kunal Basu (1994), because it proposes a model that encompasses cognitive, conative and affective aspects of building a loyal client base, plus looks at the results of successful customer relationship building. (See Figure 7)

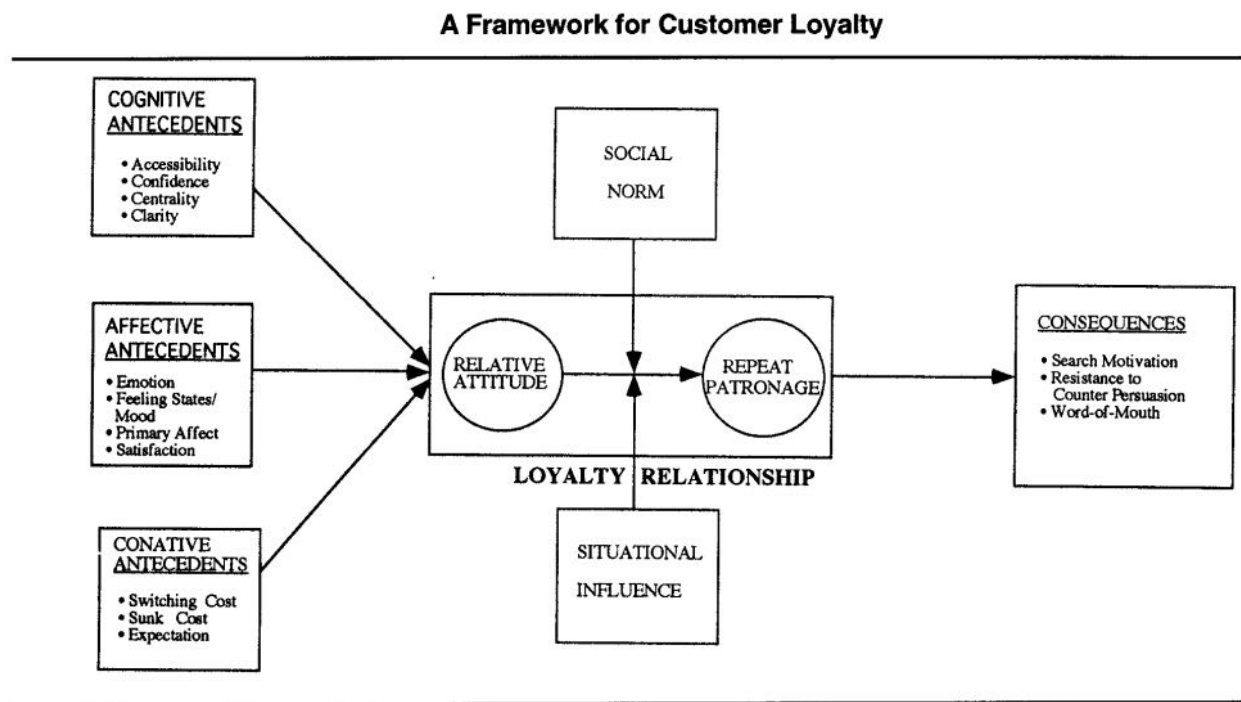


Figure 7 A framework for customer loyalty (Dick and Basu, 1994)

Though this work is not quite recent, and it has the possible downside of any theoretical framework, – "... that it may delay accommodation to new facts" (Dell, 1991: 56), this model is useful as a way of understanding customer loyalty as a whole, and not just as friendly affection for the brand or as on-the-spot preference for a certain product when shopping.

Both the authors of the framework have impressive academic credentials – each armed with a PhD, coupled with extensive experience working as professors of Marketing, with a strong track record of publications on consumer research – which renders the source as trustworthy. The approach to study of the main subject demonstrated in their work is purely academic, with an objective view and reasonable arguments backed by research of other scholars. Hence, the framework in Figure 7 provides a reliable explanation of customer loyalty as a theoretical concept, meaning the goal of this sub-section – to understand and define the term – has been achieved.

### *3.2 Customer loyalty measurement methods*

After defining customer loyalty and its elements, this part of the thesis examines how it is measured by companies. Researchers from Drexel University and McKinsey & Company (Srinivasan, Anderson and Ponnnavolu, 2002) have identified its antecedents and consequences in the B2C (business-to-consumer) e-commerce context. They have suggested that customer loyalty is caused by eight distinct factors (“the 8Cs”) in the product which are worth measuring:

- **Character**

“Character can be defined as an overall image or personality that the e-retailer projects to consumers through the use of inputs such as text, style, graphics, colors [sic], logos, and slogans or themes on the website.” (Srinivasan, Anderson and Ponnnavolu, 2002)

- **Choice**

The range of products provided to consumers by a retailer.

- **Cultivation**

The amount of incentives and product information provided by a company to cultivate a long-term, profitable relationship with its buyers.

- **Convenience**

User-friendliness, simplicity and intuitiveness of an e-retailer’s website.

- **Community**

“A virtual community can be described as an online social entity comprised of existing and potential customers that is organized and maintained by an e-retailer to facilitate the exchange of opinions and information regarding offered products and services.” (Srinivasan, Anderson and Ponnnavolu, 2002)

- **Care**

A retailer's efforts aimed at ensuring customer satisfaction before and after the purchase.

- **Contact interactivity**

How well a retailer connects with its buyers through the e-commerce website.

- **Customisation**

The ability of an e-retailer to adjust its transactional environment, products and services to each individual customer.

Srinivasan, Anderson and Ponnayolu (2002) have made a connection between high scores on these factors (based on consumer feedback) and **increased word of mouth**, plus **willingness to pay more for products**, which they consider to be customer loyalty indicators.

A possible downside of their research is that the findings are limited to e-retailers, so they may not be applicable to companies trading in physical goods. Then again, many of the proposed product factors, such as choice, care and customisation, are worth measuring in any company – online or brick-and-mortar – to assess the value of the current offer. As for the consequences of customer loyalty discussed by the authors (willingness to pay higher prices than for competitors' products and positive word of mouth), they can indeed serve as reliable indicators of a satisfied buyer devoted to a brand, but these are certainly not the only attributes of a loyal consumer.

Dick and Basu (1994) highlights two more aspects worth assessing to measure customer loyalty – how often a person purchases the company's products and the consumer's general attitude to the brand. Taylor, Celuch and Goodwin (2004) agree that how devoted a buyer is to a business depends on subjective impressions, and they suggest firms try to grow their brand equity and increase trust in order to trigger emotional bonding with the target audience. They also considered other possible contributors to building a loyal customer base (see Figure 8), but concluded that trust and brand equity are the leading elements to measure.

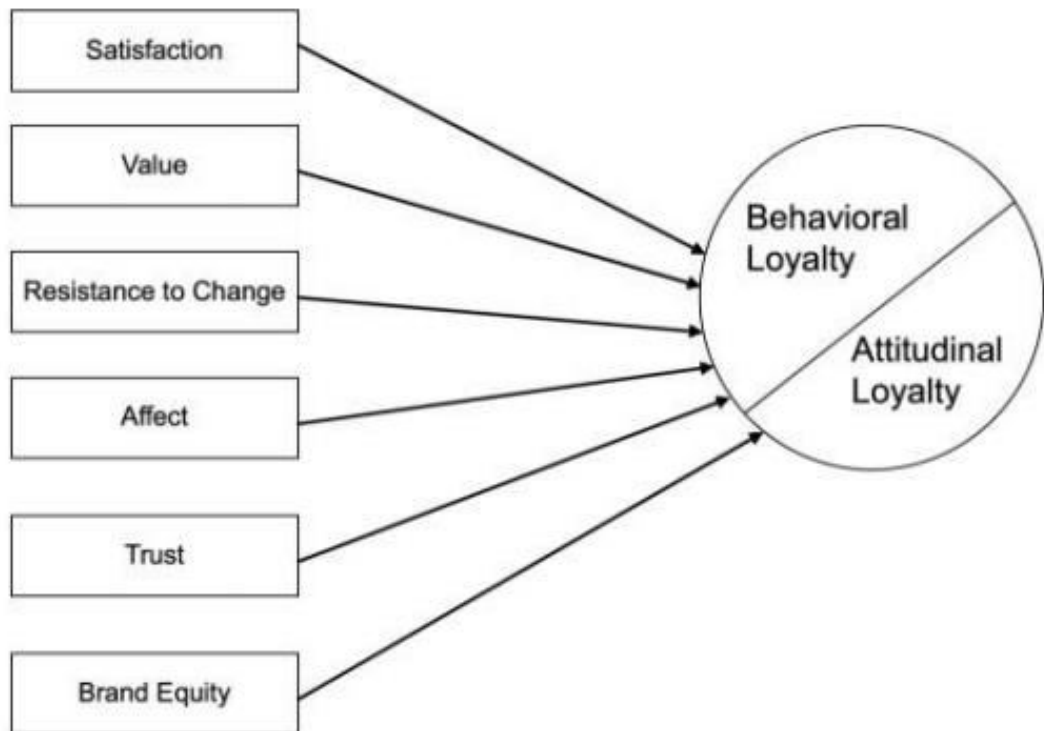


Figure 8 The customer loyalty research model (Taylor, Celuch and Goodwin, 2004)

Based on the existing sources that propose customer loyalty measurement methods, there are two general ways to approach the task. Businesses can either assess how successful their efforts for building a devoted consumer base have been, or they can evaluate to what extent their existing buyers are displaying loyal behaviours and attitudes.

Whichever path a company chooses for measuring it, loyalty seems to be intricately connected with customer satisfaction. In the next sub-chapter, these two concepts will be reviewed side by side to understand how strongly they are correlated.

### *3.3 What role does customer satisfaction play in the formation of loyalty?*

When it comes to customer satisfaction, Gronholdt, Martensen and Kristensen (2000) claim that it "... is a key issue for every company wishing to increase customer loyalty and thereby create a better business performance." Their empirical research involving 30 companies from six different industries proved there is indeed a positive correlation between the concepts in question. Interestingly, they have found that businesses with

a low-price strategy have the highest chances of converting satisfied customers into loyal repeat buyers.

On the other hand, companies that invest a lot into branding and are consequently more known, such as PepsiCo, Coca-Cola and McDonald's, have been found to earn high consumer satisfaction scores, but without strong loyalty. Then again, for these specific examples it could be industry dependent. Fast food and soft drinks are both competitive playing fields, hence it may be harder for these firms to forge absolute loyalty, especially considering some of Coca-Cola's and PepsiCo's products are quite similar in nature and thus interchangeable.

Overall, the authors remain certain that satisfied customers are more likely to be loyal to a business, and they propose a few ways firms can obtain high scores on both scales. They suggest branding as a reliable method of growing satisfaction, and low pricing as a tool to boost loyalty while satisfying consumers' needs, provided the product quality does not go down due to cost cutting.

Gerpott, Rams and Schindler (2001) go a step further from connecting satisfaction with loyalty, and bring another element into the equation – customer retention. According to these authors, "... customer satisfaction is a direct determining factor in customer loyalty, which, in turn, is a central determinant of customer retention." Despite this strong statement, the researchers' findings from a survey of 684 mobile communications service users indicated that in 31% of cases a respondent's loyalty score was opposite the same client's reported satisfaction – meaning that the arguments made in this academic work should be used with caution. Still, the source can be considered valuable, as it provides detailed, transparent reports of study results which are relevant to the topic at hand.

Another piece of research, "The relationship between customer loyalty and customer satisfaction" by Bowen and Chen (2001) also juxtaposes loyalty with retention. This case study analyses survey responses of 564 hotel guests to identify how the level of service satisfaction and likelihood to return correlate. Both Bowen et al. and Gerpott et al. used a large sample to understand the connection between variables, and both found that the relationship was non-linear. Their studies are recent enough, cover



different industries, and are generally useful for understanding buyer behaviour. These authors present evidence to prove existence of correlation between loyalty and satisfaction, albeit non-absolute. However, since the case study results are based on reported attitudes, the probability of inaccuracy due to dishonest responses still exists – more evidence is needed to prove or counter their conclusions.

One more research paper on the same topic, "Satisfaction Strength and Customer Loyalty" by Chandrashekar et al. (2007), presents the most persuasive arguments out of the works reviewed. Not only is it more recent, but it also draws conclusions from more sophisticated data. The authors conducted two studies, one in business-to-business and another in business-to-consumer sector, in total covering 4,221 responses. Besides surveys whose results are dependent on the honesty of the client, the researchers factored in historical behavioural data of customers. The authors acknowledged research limitations and critically compared their own work with that of other academics. Therefore, their findings seem the most reliable.

The conclusion of their paper was that "... though satisfaction indeed translates into loyalty when the satisfaction judgment is strongly held, on average, the translation is significantly lowered by almost 60% when the same satisfaction is more weakly held." This valuable result leads to understanding that only strong consumer satisfaction is a factor in building customer loyalty. Less satisfied buyers are not likely to become devoted to a brand, which suggests that companies should try to shoot for the stars when it comes to satisfying their consumer base. Modern customers who have more choice than ever do not reward mediocre products with their loyalty and a larger wallet share.

All in all, since it has been proven that a highly satisfied buyer is more likely to be loyal to a brand, companies that aim to foster customer loyalty should certainly invest in collecting feedback about what generates satisfaction among consumers in their field of trade to further develop these aspects of their offering.

### 3.4 Customer orientation – the reason why loyalty matters

In the previous section, it has been identified that customer loyalty is closely connected with the ability of businesses to retain and satisfy their clients. This signifies a need for substantial effort from companies – as noted by Kandampully and Suhartanto (2000), “it is important to recognise that **customer loyalty** is time specific and non-permanent and, thus, **requires continuous and consistent investment.**” Why are businesses willing to commit to building a loyal consumer base?

The answer lies in the Power Balance concept (O’Shaughnessy, 2014), which explains how buyers and companies interact, depending on the market environment. (See Figure 9)

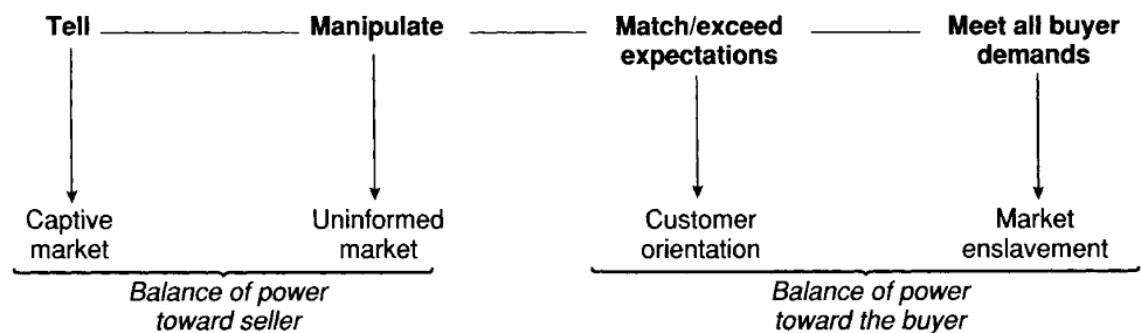


Figure 9 The Power Balance concept (O’Shaughnessy, 2014)

According to the author of the model and his fellow researchers, “a business, if it is to be successful, should be oriented towards satisfying the needs of its customers.” (Dickinson, Herbst and O’Shaughnessy, 1986) The academics single out customer orientation as the key to commercial growth and a cornerstone of the whole concept of marketing. If this assumption is right, putting loyalty of consumers first and investing resources into achieving it makes sense for a business.

However, the claim made by O’Shaughnessy and his colleagues that all companies must be focused on meeting and exceeding customer demands to succeed may be an exaggeration. For instance, in captive markets, the seller is powerful enough not to have to invest too much into its consumer relationships – telling buyers on what terms the business offers its product or service can suffice. Apple is a good example of such an approach. The company sells chargers for its products at increased prices, because

cheaper third-party options are not compatible with their devices, which forces the customer into a captive position, with no choice but to overspend on this necessary appliance. (Pettinger, 2013) Though using such monopolistic profit extraction techniques does not seem customer-friendly, Apple is still an indisputable commercial success, as proven by sales numbers cited in part 4.2.1 of this paper. Hence, the assumption that customer orientation is indispensable for businesses to thrive may not be applicable to markets where the seller has the upper hand.

Nevertheless, once the power moves over to buyers, it becomes crucial for companies to prioritise consumer satisfaction. For example, in industries with intense competition and low switching costs, investing into loyalty is very important – as the customers in this case are not tied to a specific seller by a contract or due to monopoly, the businesses' ability to meet their needs is essential to stay competitive. (Shapiro and Vivian, 2000 cited in Kumar and Shah, 2004)

To summarise, customer orientation is the reason why businesses are so interested in creating loyalty through providing superior experience to consumers, specifically in markets with healthy competition.

### *3.5 Summary of chapter 3*

The theoretical research presented in chapter 3 has shown different views on customer loyalty. Some academics consider consumers loyal if they demonstrate their devotion to a brand by repeat purchasing of its products. Others look beyond dollars and cents, emphasising the emotional and long-term nature of the business-buyer relationship. Yet another group of scholars views customer loyalty as a whole, trying to identify what it involves, what precedes it and what positive consequences it brings to a company.

Much like the term itself, measurement of how loyal a customer is to a brand can be multi-faceted. On the one hand, it is worth for companies to pinpoint their own initiatives that evoke customer loyalty, such as cultivation of a community around their products and trust building, and assess how successfully they are performing. This can be viewed as the inside-out approach. On the other hand, from the outside-in

perspective, firms need to collect data on consumer behaviour that may indicate loyalty to measure how devoted their existing buyers are to the brand. Useful metrics include positive word of mouth and tolerance to higher pricing of products compared to competition.

Another important point discussed in chapter 3 is that loyalty does not grow in a vacuum. Business managers need to keep tabs on other important marketing success factors, such as customer satisfaction and retention. Not only do these influence brand equity, but there is also evidence that they contribute to forging a loyal consumer base.

Finally, it has been established that the reason loyalty matters so much in the modern business world is that for companies to stay competitive, they need to be customer-oriented.

This concludes the theoretical part of the thesis. The next chapter is dedicated to case studies of companies operating in different industries that have transformed their marketing strategy with customer experience management. By analysing their stories, it will become clear whether or not CEM is a crucial factor in customer loyalty.

#### **4 Case studies of customer-centric brands**

At this stage of the research, marketing efforts of two well-known companies will be analysed, with a focus on CEM strategies they have used, and how these have forwarded their customer loyalty. The brands presented as case studies have been handpicked based on three criteria:

- **Explicit customer centricity and sufficient information availability**

First and foremost, only companies that stated their commitment to excellent customer experience management were considered. From those, a few brands were selected based on the amount of information available on their CEM endeavours – the more, the better for this thesis study.

- **Different industries**

Secondly, preference was given to companies that represent different industries, to make possible coverage of diverse customer experience management strategies and their effect on consumer loyalty in various business contexts.

- **Popularity**

Finally, two well-known brands were chosen with the purpose of maximising the chance that the reader had personally dealt with at least one of the companies under discussion. Assessing your own experience gives an opportunity to understand whether the firm is truly committed to providing top-notch service to consumers, or it only communicates customer-centricity as an attractive corporate message without backing up the promise with tangible actions.

Structure-wise, this chapter is split into two main parts, each of which will present a different case study. The sections begin with background information about the company. Then, in the subsections, the brand's customer experience improvement efforts are covered, as well as CEM results.

#### *4.1 DHL Freight*

DHL Freight belongs to the Deutsche Post DHL Group, which was formed in 2000 as a result of Deutsche Post's expansion through acquisitions. The corporation is headquartered in Bonn, Germany, and it operates in over 220 countries, employing more than half a million people. It currently runs two brands – Deutsche Post and DHL. The former is leading in providing letter mail services both to individuals and businesses across the EU. The latter, DHL, consists of three divisions – Express, Supply Chain and Freight, which is the focus of this case study.

The main responsibility of DHL Freight is worldwide delivery of goods by land. Its services include, but are not limited to, transportation by truck as well as via intermodal methods (e.g. by road and rail combined), plus dealing with customs on behalf of the client, and helping businesses with logistics at special events, such as trade fairs. (Uhl and Gollenia, 2014)

With rapid development of globalisation, the demand for freight delivery is stronger than ever. However, highly competitive industry environment gives consumers the

power of choice, and the ability to demand highly efficient, yet affordable services that keep up with the latest technological advances. To meet these sky-high expectations, a shipping company has to be well-organised, agile and motivated to deliver the best service. DHL Freight has had to deal with a few important issues to tackle the challenge. Some of them are discussed in the following subsection, along with how customer experience management is helping the brand to solve them.

#### 4.1.1 *Problems and solutions*

DHL Freight prides itself on being customer-centric – now, but it was not the case before 2007. Back then, the unit was under continuous restructuring, which led to the management’s attention being focused on internal turmoil, not on engaging the right audience. 2007 was the breaking point, when DHL Freight’s decision-makers realised the company needed to focus on consumers to achieve growth. (Uhl and Gollenia, 2014) They accepted that excellent customer experience (CX) was more important than product and pricing as the main differentiating point. (MacGillavry, 2016) But there were major internal issues to be tackled in order to implement a strong CEM strategy, namely:

- 1) **Lack of customer knowledge** was the primary concern, as DHL Freight could not deliver better CX without knowing what truly mattered to consumers in their field. (MacGillavry and Wilson, 2014)
- 2) **Decentralised management** was another issue of DHL Freight, which was a typical problem for the international freight industry. (Uhl and Gollenia, 2014) If not dealt with, unaligned decision-making could prevent the company from building high-quality CX across all of its internal units.
- 3) **Uneven employee satisfaction levels** needed to be addressed, too, because only engaged workers would put effort into bringing the new customer-centric vision to life. (MacGillavry and Sinyan, 2016)

DHL Freight’s management team committed to solving these before embarking on the new customer experience management programme. First off, existing buyers were asked for input on what they considered most important in shipping services. The answers received are summarised in Figure 10.



Source: DHL Freight Customer Survey January 2013 (n = 684)

Figure 10 DHL Freight customer priorities (MacGillavry and Wilson, 2014)

Once it was established what customer experience features were essential to beating the competition in the international freight industry, a common purpose along with core values were formulated to align the management of different units within DHL Freight around a customer-centric vision. (See Figure 11)



Figure 11 The purpose and values of DHL Freight (MacGillavry and Wilson, 2014)

Then, to ensure the newly developed promise to consumers would be upheld by the staff at all levels, the managers measured employee engagement across the company. Not only did collecting the workers' feedback via anonymous questionnaires help with identifying internal problems that must be dealt with, but it also showed there was a link between customer attitudes to DHL Freight's service and the opinions of employees about their jobs. The less satisfied units tended to care less about client satisfaction, too. (See Figure 12)

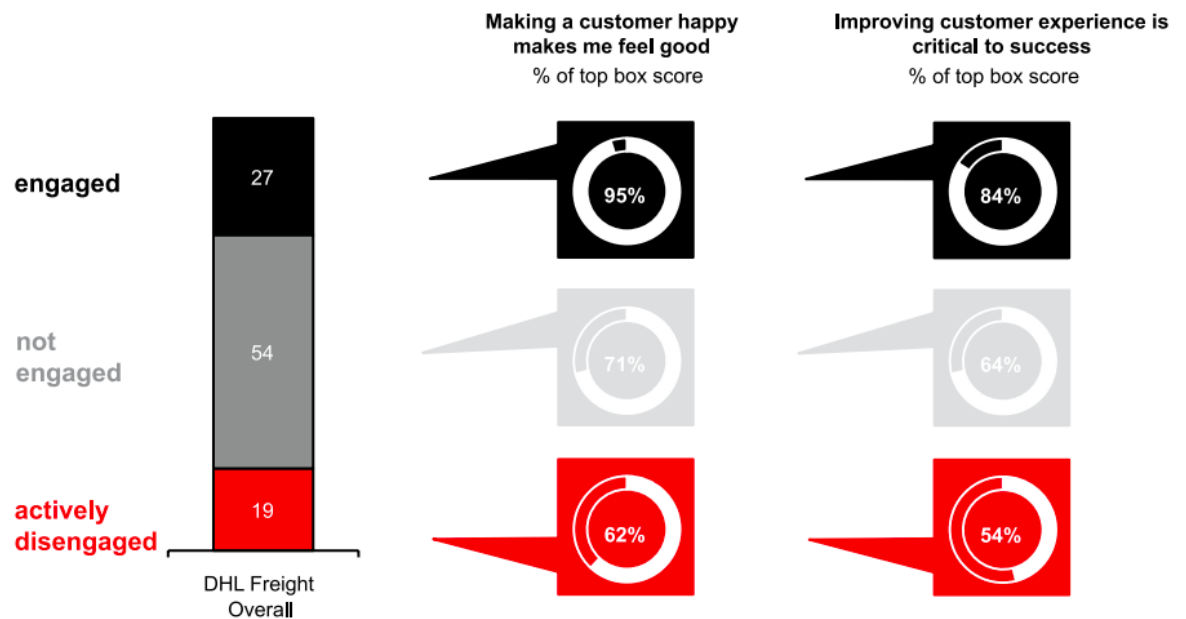


Figure 12 The correlation between employee satisfaction and customer centricity at DHL Freight (MacGillavry and Sinyan, 2016)

As a result of this extensive groundwork in 2013-14, DHL Freight succeeded in implementing a customer experience management strategy. First, they identified three possible journeys consumers take when dealing with the company and the key milestones in each (See Figure 13), which had to be optimised for excellent CX.





Figure 13 DHL Freight customer journeys (MacGillavry and Wilson, 2014)

Secondly, employees were taught by their managers, using classroom training, flash mob campaigns, storytelling and a lot of brand collaterals, on how to make each of the interactions seen on Figure 13 match and exceed customer expectations. (MacGillavry, 2016) The company chose a personal approach to ensure their consumers were satisfied with the service – the CX team reached out to thousands of clients by phone to collect their feedback on past interactions, then scheduled follow-up calls with dissatisfied service users to discuss the issues in detail, and they would get back shortly again regarding how the problem had been dealt with.

Finally, the Net Promoter Score (NPS) was used to capture the customer sentiment towards DHL Freight before, during and after implementation of the CEM strategy as a tangible indicator of the programme success. Notably, the feedback collection and optimisation of the consumers' journeys were not just one-off campaigns – they were implemented as continuous processes to be carried out in cycles, several times each year, to improve the CX after every round. (MacGillavry and Wilson, 2014)

The next subsection talks in more detail about the results achieved by the brand through customer experience management efforts.

#### 4.1.2 Results achieved

As mentioned in the previous subsection, DHL Freight used the Net Promoter Score, explained in Figure 14, to measure the influence of the CEM campaign.

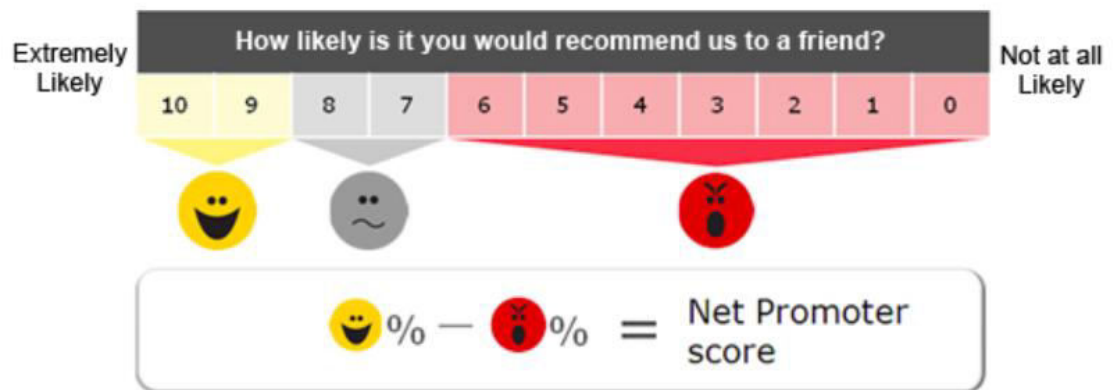


Figure 14 Net Promoter Score calculation methodology (Bain & Company)

Though DHL Group openly talked about using that metrics in all its divisions to boost customer centricity and loyalty, it was difficult to find specific results achieved by DHL Freight. However, the consolidated NPA of the whole organisation for 2013 (the year when the CEM campaign was launched) was presented at the 12th Annual BMDA (Baltic Management Development Association) Conference "Successful 21st Century Organization" in 2014. (See Figure 15)

## GLOBAL NPA PERFORMANCE 2013

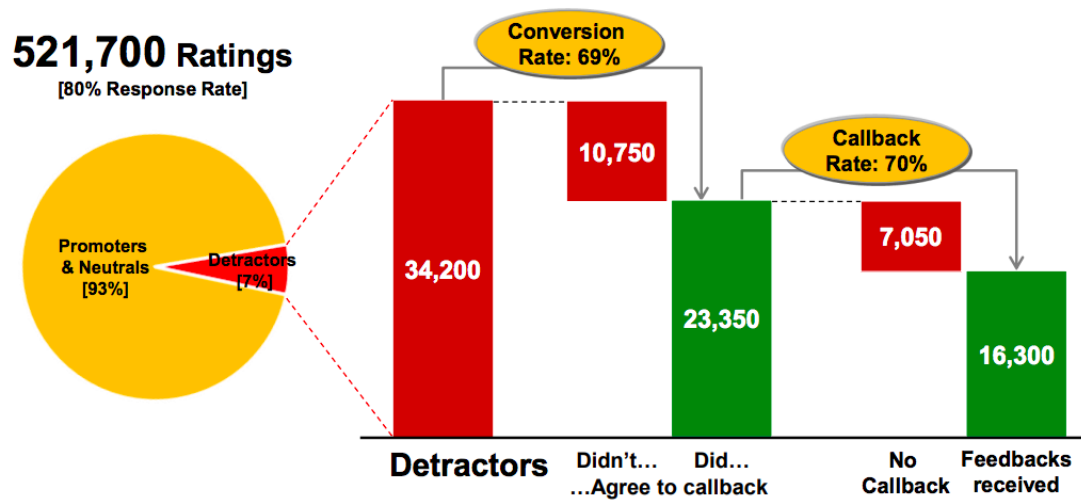


Figure 15 The global NPA performance of DHL Group in 2013 (Liepina, 2014)

Additionally, DHL Group earned the Customer Experience Excellence Network Award in 2016 as the most customer-centric company of the year. (DHL, 2016) Besides earning recognition among other CX professionals, the organisation has succeeded in turning so-called "detractors" (service users with the NPA of 6 or less) into satisfied customers. Here is a case in point based on an experience of a UK client, also presented at the BMDA conference in 2014: "Customer had already arranged for another courier company to visit and discuss transferring their business. After the immediate actions taken as a result of the NPA [Net Promoter Approach] call, customer is delighted that all of their issues had been resolved so quickly and are now more than happy to continue using DHL." (Liepina, 2014) This proves that the company's CEM campaign has been successful.

Nevertheless, there are a few elements that could be improved in the strategy of DHL Freight for earning customer loyalty. First of all, the company chose not to rely on Key Performance Indicators (KPIs) when measuring the results of their campaign. (MacGillavry, 2016) This might make their loyalty measurement less specific and lower the reliability of their reported achievements, especially in the eyes of KPI-driven managers. Secondly, some scholars claim that the Net Promoter Approach chosen by

the organisation is not an optimal way to measure how loyal is the company's customer base due to its oversimplification of customer behaviour (Schneider et al., 2008), which could render DHL Freight's findings from their CEM campaign less useful.

Despite this criticism, the firm has steadily shown growth in important business metrics, which indicates that improving the CX indeed led to stronger loyalty, and subsequently to higher sales. For instance, DHL Freight's revenues have been growing steadily in the past few years, reaching EUR 3.5 billion in Q1 2017. (DHL, 2017) This proves the assumption of Kim MacGillavry, DHL Freight's Vice President of Customer Experience, that "Great results come from happy customers. To make customers happy, everyone needs to deliver a great customer experience." (MacGillavry, 2016) to be correct.

#### 4.2 *Apple Inc.*

Since its founding in 1976 by Stephen G. Wozniak, Steven Paul Jobs and Ronald Gerald Wayne, Apple Inc. has become known all over the world for premium-quality products. The company runs its operations in both Americas, Europe as well as Asia, and it specialises in design and manufacturing of mobile phones (iPhone), portable music players (iPod) and personal computers (iPad, MacBook, Mac). (Investopedia, 2017) Other products and services by Apple include Apple TV, Apple Watch, Apple Pay, iCloud, several operating systems (iOS, OS X and watchOS), software for professional and personal use, plus a range of accessories. The corporation makes their merchandise accessible worldwide through both brick-and-mortar and online sales points. (Reuters, 2017)

One of the major reasons for this organisation's extraordinary success is its commitment to creating a smooth, seamlessly integrated user experience, and taking end-to-end responsibility for the CX. (Isaacson, 2012) All the effort Apple has put into CEM is paying off significantly – the company is topping this year's list of most valuable brands according to Forbes, with the total value estimated at \$170 billion and the revenue at \$214.2 billion. Notably, the corporation's advertising spend (\$1.8 billion) is among the lowest from the top-10, trumped only by that of Facebook and McDonald's, which keep their ad budgets below the \$1 billion mark, but without reaching even half of the chart leader's valuation or revenues. (Forbes, 2017)

These statistics indicate that Apple is stronger at attracting and keeping its customers than any other brand in the world, without overly expensive marketing. The next subsection will cover specific CEM elements that have contributed to the company's commercial success, and the following will link Apple's CX management efforts to customer loyalty.

#### 4.2.1 *End-to-end CEM*

Steve Jobs, Apple's late Co-founder and CEO, would often say "You've got to start with the customer experience and work back toward the technology - not the other way around." (Solomon, 2014) This phrase emphasises that for this company, commitment to great CX is not just a campaign – it is the number one priority in everything the firm creates.

Apple ensures high consumer satisfaction through taking full responsibility for the whole experience with their brand – from designing original hardware, to developing software packages for it, to providing exceptional customer service. (O'Grady, 2008) To understand what exactly the company does in their CEM strategy to achieve such advocacy among consumers, it is worth looking at the specific approaches Apple chooses to shape their customer journey.

##### - **Hardware design**

When it comes to designing products consumers would crave, the corporation takes a non-conventional view of how to meet expectations – by exceeding them. Unlike DHL Freight, where the CEM campaign started with extensive analysis of customers' desires towards the service, Apple has been built on Steve Jobs' belief that "customers don't know what they want until we've shown them." So, instead of collecting feedback through age-old market research methods like focus groups, the company relied on the vision and intuition of its leaders to guide their design process. (Isaacson, 2012) Still, at the core of both DHL Freight's and Apple's CEM strategies was care for the customers' needs and wants, though the brands went about developing their CX differently.

The approach of the Silicon Valley company may be riskier than improving products or services based on direct feedback for three reasons. First, the people who make decisions influencing hardware design could make a wrong choice, which would lead to low sales numbers of new products. Secondly, even if the end result was approved by the market, the brand would run the risk of its commercial success becoming too dependent on few key players within the corporation. Thirdly, as from the start Apple had the ambition of designing products that exceeded current expectations (e.g. Apple I, the very first PC sold by the company, was among the first to include a screen, when most computers at the time had no display at all), there was a possibility of the brand's innovations not being accepted simply due to consumers not being familiar with the product and its benefits over existing counterparts. (O'Grady, 2008)

Luckily, Apple's bet on designing customer-friendly products without actively listening to consumers has ultimately paid off, propelling the brand's sales to record highs – the corporation is set to push its revenue to \$87 billion in Q4 of 2017, strengthening its status as the most valuable publicly traded company. (Webb, 2017)

#### - **Software development**

Besides excellence and innovation in CX, Apple is also committed to elegant simplicity. Much as it is seen in product design and packaging, the company infuses it into its software, too. The content and applications that come with Apple products are built in-house to complete the customer experience, and to prevent consumers from getting disillusioned with the brand because the inside of the device is not as carefully crafted as the external design, or the other way around. The idea behind offering software together with the hardware was to ensure the user's impression of the gadgets stay consistent, and to have control over the full consumer journey. For instance, iTunes allows iPod users to upload music to their device smoothly when connected to Mac. (Isaacson, 2012) Not only does it simplify the customer experience, but it also incentivises consumers with one Apple gadget to expand their collection, thus winning a larger share of wallet for the brand.

#### - **Customer service**

Finally, when a consumer buys an iPhone or a Macintosh computer, their customer experience is not limited to the hardware and software aspects. In fact, the CX of a

future user starts at an Apple retail point, and since the company runs 499 outlets in 22 countries at the time of writing (Apple Inc., 2017), it can control the buyers' first impressions of the brand in many parts of the world.

Designing the flagship stores in accordance with the key principle of the corporation – elegant simplicity – contributes to creating a consistent experience with the firm. Besides, in these outlets buyers with extended warranty on their Apple product can enjoy one-on-one customer service appointments, which proves that the brand is built on the foundation of a consumer-centric vision. (Frey, 2013)

After this subsection outlining the main principles of the corporation's CEM strategy, the following one presents its results.

#### *4.2.2 Behavioural and attitudinal loyalty*

The subsections above include impressive quantitative results achieved by Apple (namely, recent revenues and an estimate of the brand value), which indicate that the company has successfully earned an abundant client base that demonstrates behavioural loyalty (i.e. repeat patronage). Indeed, according to statistics published in Forbes in 2014, 78% of iPhone users could not imagine themselves with any other phone and had the intention of continuing buying the brand's products. At the time, Apple was holding 62% of the total smartphone industry profits, followed by Samsung with only 26%. These results show unbeatable behavioural loyalty achieved by the brand. (Kelly, 2014)

As for the attitudinal aspect – that is, positive word of mouth or any other public expression of affection by Apple fans – there are plenty of examples where iProduct advocates vocalise their loyalty. For instance, in a research conducted by J. Joško Brakus, Bernd H. Schmitt and Lia Zarantonello (2009), users of iPod have made positive comments on their device and the brand in general. More specifically, compliments were paid to the product's pleasant touch and feel, its convenience for sports activities, and it generally being a good fit with the personal lifestyle. Furthermore, the users pointed out they admired Apple's brand and were intrigued by it, and they appreciated being part of a "smart" community.

The company's user feedback has shown that the corporation succeeds in satisfying its target audience and converting it into a loyal customer base. However, it must be considered that other factors may have contributed to building up the company's customer loyalty, besides CEM. For example, the brand is known for its memorable advertising, and its publicity stunts such as offering sneak peeks of new product generate hundreds of millions' worth of free media attention, plus tons of word of mouth which augments customer loyalty. (Graham, 2007)

Still, Apple's ability to create an immersive customer experience is acknowledged as one of the top reasons people love the brand. (Ahmed, 2017) So, to a large extent, the corporation has earned millions of loyal customers by perfecting its CX, though other factors like a well-designed marketing strategy also play a role in achieving loyalty.

#### *4.3 Summary of chapter 4*

In summary, the two case studies have shown how companies operating in different industries can solve one challenge – building a loyal customer base.

One approach is to examine the journey consumers take when buying your product, and collect feedback on the most important features of the CX they seek. Then, align the leadership team and the employees to the new vision of providing an improved experience. The results of these efforts can be measured using the Net Promoter Score – a customer loyalty measurement method which aims to maximise the number of Promoters (those who give the company positive word-of-mouth), while converting Neutrals (those who do not have a strong opinion of the firm) to Promoters, and minimising Detractors (those who speak poorly of the brand). This strategy, though not perfect, has helped DHL Freight to deliver strong business results and even win an award for outstanding customer experience.

Another way to tackle the challenge of winning customers' loyalty, as shown by Apple, is not to follow their wishes but rather define them. The brand has become the most valuable on the planet by showing and delivering to consumers the experience they want with personal devices. What other companies can learn from Apple's approach is not to spend too much resources on consumer research such as focus groups, but instead invest a lot into end-to-end CX.



Both methods have their flaws and may not work for any company, but they have certainly helped Apple and DHL Freight achieve desired results.

## 5 A theoretical framework for building customer loyalty through CEM

In the previous chapters, the theoretical aspects of customer experience management and consumer loyalty have been examined, and case studies have been presented to analyse what CEM strategies are used by real businesses to win customers. Now, it is time to summarise prior learnings into a single framework which identifies elements of a successful CX management initiative, as well as suggests appropriate results measurement alternatives.

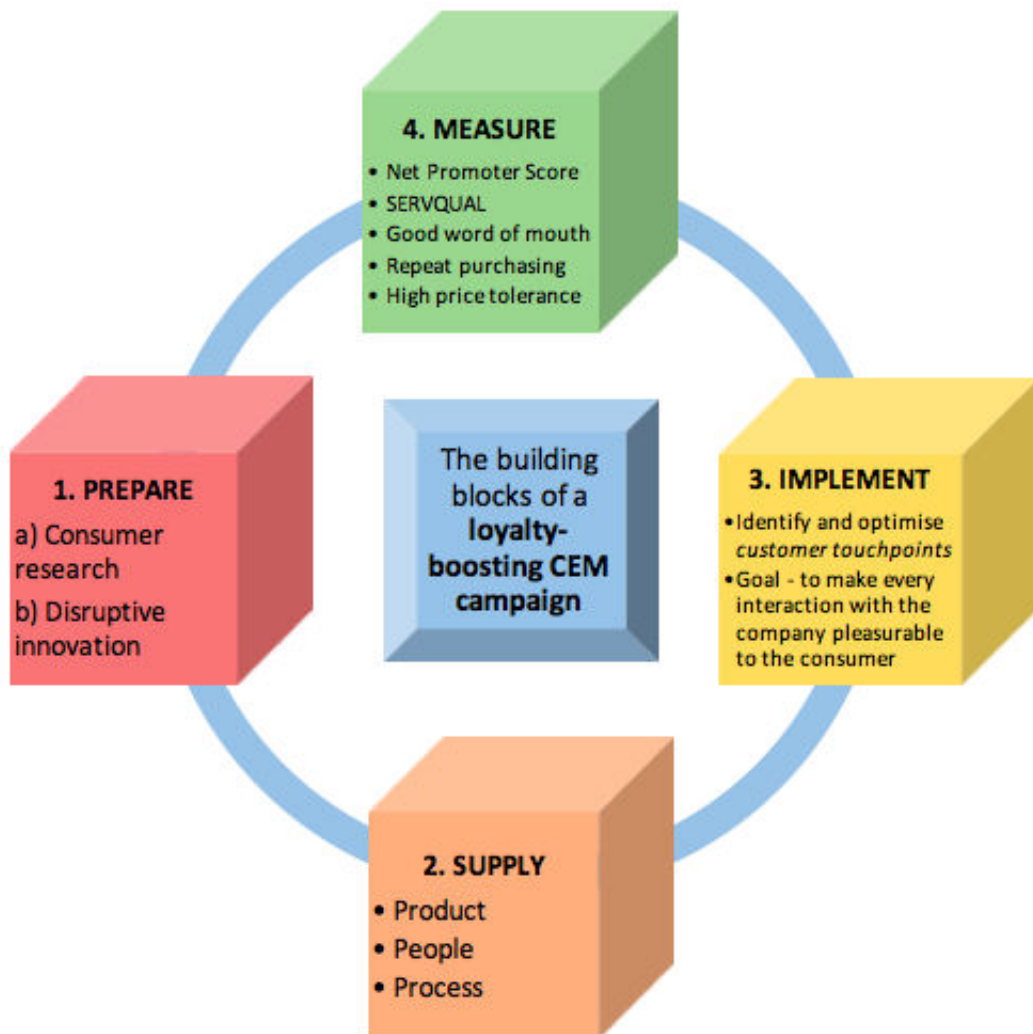


Figure 16 The building blocks of a loyalty-boosting CEM campaign

The model above proposes a recipe for a CEM campaign that increases customer loyalty in four steps:

### **1. Preparation**

As secondary research in chapter 2.2 of this thesis has shown, customers' wants and needs form the foundation of any CEM strategy. (Nasution et al., 2014) Hence, to plan a campaign that will improve CX, it may be useful to collect first-hand information on them via collecting consumer journey feedback. A good example of this approach can be found in the DHL Freight case laid out in chapter 4.1. An alternative way to prepare for improving customer experience is by using Apple's strategy presented in part 4.2 – namely, instead of asking consumers what they want, a company can try to envision what they will want in the future and promote their innovation aggressively.

### **2. Putting resources together**

According to Gartner, to put together a CEM campaign, three core components are required – Product, People and Process – as shown in more detail in Figure 4, chapter 2.3. More specifically, the company needs to create a scalable product that matches the need of its market, to gather an experienced, professional team for serving customers, and to streamline internal processes to allow for growth and further improvement. (Fatemi, 2016)

### **3. Implementation**

At this stage, using the research or brainstorming done as preparation and the resources gathered, the company needs to identify all touchpoints through which customers form their opinion about the brand. Part 2.3 of this thesis touches upon more specific aspects of customer experience that need to be optimised – cognitive, affective, social, physical (Verhoef et al., 2009), sensorial, emotional, pragmatic, lifestyle, and relational elements. (Gentile et al., 2007) Note that the ultimate focus of a loyalty-boosting CEM campaign is on making each interaction with the company pleasurable for the customer. (Kamaladevi, 2009: 32)

#### **4. Measuring loyalty**

Finally, to understand and report on the effect the CEM campaign has had on customer loyalty, it is recommended to use the SERVQUAL tool (Klaus and Maklan, 2013) or Net Promoter Score (Reichheld, 2003) – these are explained in more detail in chapter 2.2. Other important indicators of loyalty worth measuring are positive attitude (attitudinal loyalty) and repeat patronage (behavioural loyalty). (Dick and Basu, 1994) In practice, they are expressed through positive word of mouth and willingness to pay a premium price for the company's products or services (Srinivasan, Anderson and Ponnnavolu, 2002), as discussed in part 3.2.

Finally, if the results have been satisfactory and have justified the investment made by the company into CEM, it may be worth repeating the four-step procedure regularly, because as established in chapter 3.1, building loyalty is not a one-off endeavour, but rather a continuous improvement process. (Etherington and Robinson, 2005)

The framework presented above has its limitations, the biggest one being its generality. The process set out within the model needs to be applied individually so that it serves to solve the problems of a specific company. Additionally, important components may have been overlooked, making the framework less comprehensive. What is more, the proposed strategy for building a CEM campaign has not been tested yet, meaning it cannot be guaranteed that following the model will bring a significant increase of loyalty.

Still, the framework is based on thorough secondary research and detailed case studies of successful brands. So, while it may not be a recipe for constructing perfect CX, it can be quite informative to a company aspiring to build a loyal consumer base through improving its customer experience. Hopefully, the model can be used both by companies and researchers in the field of marketing to test its viability and develop it further.

## **6 Conclusion: is customer experience management the key contributor to customer loyalty?**

In summary, this study has shown that successful customer experience management and high loyalty may well have a strong correlation for several reasons. First, the two

concepts are quite close in nature, with satisfying consumers' needs as a common denominator. In the course of research, it has been found that unlike CRM (customer relationship management), which often focuses on maximising profit rather than delivering superior value, CEM's goal is to strengthen the company-buyer relationship by learning about, meeting and exceeding consumer expectations. As case studies have shown, delivering what a customer wants during each interaction is the core of successful CX management. As for loyalty, it is considered by researchers to be a direct result of consumers' trust in the brand and the value it offers, as well as satisfaction with its products. So, CEM focuses on satisfying customers' needs, which, when done right, is known to increase loyalty.

Secondly, strategic approaches used to build customer experience and loyalty also have common components, which suggests a tight link between the two. A CEM model proposed by Verhoef et al. in 2009 indicates that CX includes cognitive, affective, social and physical components. In the customer loyalty framework, presented in 1994 by Dick and Basu, similar groups of elements (namely, cognitive, affective and conative) were named as antecedents of loyal consumer behaviour. Hence, creating a fulfilling experience for a customer can lead to formation of loyalty.

Thirdly, in addition to the theoretical points above, the case studies of DHL Freight and Apple have shown that taking measures to improve customer experience raises positive word of mouth about the brand and increases its sales – the expressions of attitudinal and behavioural loyalty. All these three conclusions provide evidence that CEM is indeed a crucial factor in growing a loyal consumer base.

As a final word, the research conducted for this thesis can be used for acquiring further knowledge of concrete strategies to strengthen loyalty through CEM. In the future, the framework presented in chapter 5 could be tested in the real commercial environment to measure its effectiveness and improve the model via trial and error. This way, the practical value of the research could be increased, advancing the study from "Does CEM contribute to customer loyalty?" towards "How to construct CX that reinforces customer loyalty?"

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