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Comparison of reward systems in Finnish retail industry

S-card, the market leader

Thesis

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Thesis abstract

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This thesis was written as an assignment from Professor Thomas Lauer. It is a part of the second edition of his bonus card book in Germany. The aim was to find out why the S-group is so successful, and what are the competitors of the S-card in the Finnish bonus card markets. In the conclusion part some ideas are also presented about how the S-group could increase their market share. A questionnaire was also a part of the thesis; it is attached at the end of the thesis.

At the beginning of the thesis the concept of bonus card and reward systems is examined. Also a short overview of the history of reward cards is introduced. Chapter two is about theories that one can apply when speaking of reward systems. The third chapter is about the concerns regarding the reward systems. For example: have the consumers forgotten to compare the prices between different stores in their bonus collecting frenzy. After this, the subject dealt with is the structure of the S-group and their business model. Also the competitors of the S-card are introduced. After that the S-card is compared to two other competitors in Finland. Finally, conclusions are made on the basis of the thesis.

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Tämä opinnäytetyö on tehty toimeksiantona professori Thomas Lauerin pyynnöstä osana hänen bonuskorteista kertovaa kirjaansa Saksassa. Tarkoituksena oli selvittää miksi S-ryhmä on niin menestynyt, ja mitkä ovat S-ryhmän kilpailijat Suomen bonuskortti markkinoilla. Yhteenvedossa esitän myös muutamia kehitysideoita, joiden avulla S-ryhmä saattaisi lisätä markkinaosuuttaan. Työhön kuului myös kysely S-ryhmälle, joka on liitteenä opinnäytetyön lopussa.

Työn alussa selvitetään käsite bonuskortti ja esitellään lyhyt historia liittyen yleisesti bonuskortteihin. Kappaleessa kaksi esitetään teorioita jotka pätevät bonuskortti ohjelmiin. Kappaleessa kolme syvennyttään bonuskorttien huolestuttaviin puoliin, kuten siihen ovatko kuluttajat bonuskortti hurmoksessa unohtaneet kilpailuttaa hintoja kauppojen välillä. Tämän jälkeen aiheena on S-ryhmän rakenne ja toimintatapa, sekä sen kilpailijat. Lopuksi verrataan S-korttia ja sen kahta pää kilpailijaa Suomessa, sekä tehdään johtopäätöksiä työn pohjalta.

Avainsanat: Kanta-asiakkuus, bonuskortti, S-ryhmä

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1 INTRODUCTION

The goal of the thesis was to find out why S-card is the most successful of the loyalty programs in Finland. This is done by comparing it to the competitors; Plus-sa card and Ykkösbonus card.

The customer is the owner in the S-group. The Finnish retail and service branch company network called the S-group has about 1600 places of business. The S-group is formed by cooperative enterprises and "*Suomen Osuuskauppojen Keskuskunta (SOK)*", with their subsidiaries. Together they provide services and advantages for the customer owners and other customers. The cooperative enterprises are cooperative businesses and their owners are also the customers. In the language of the S-group, they are customer owners.

(Asiakas on omistaja [ref. 7th September 2010])

The S-group first thought about starting a loyalty program, began at the end of the 1980's. They figured out the importance of own member group, the customer owners, so they started creating a rewarding system that would be based on utilizing services. In the end of 1988 the S-group began to launch the customer owner system that is in use nowadays and the Bonus began at the start of the year 1989. The bonus system expanded to cover the whole of Finland in 1994.

(Questionnaire, Appendix 1)

Not only is S-group customer owner system based on marketing, it is based on the cooperative company form, where the members own the cooperative shop. Due to

this company form, the cooperative shops have a statutory responsibility to maintain a register of its members. The company form sets a responsibility to inform the customer owners about the membership and the activities associated with cooperative shops as well. These are obligations that the S-group would have to obey even without customer owner system.

Since its company form means that the cooperative shops generate benefits to the members, the S-group sees bonus and other benefits that are paid as money, a modern and cost effective way of paying benefits to the customer owners. So the customer owner systems aim is to inform about the benefits and paying the benefits that the customer is entitled to. Moreover, the Bonus system is created to aim the benefits to the customer owners according to the amount they purchase.

When comparing untargeted marketing and customer relationship management via customer owner communication, the untargeted marketing is seen as a less cost effective option in S-group. At the same time, the activity of S-group constantly seeks improvement on the ground of feedback from the customer owners. That enables S-group to offer services and benefits that meet the needs of the customer owners even better.

(Questionnaire, Appendix 1)

There are some graphs and figures in the thesis that are in Finnish language. I have translated all the words below the figure/graph into English.

1.1 Definition and functionality of a loyalty program

The main idea with loyalty programs for the company is to get bigger amount of the money that the customers spends, by rewarding them with points, money or

`free` goods or services, when the customer shops in a particular store, or group of stores. The amount of money that the customer spends is in most cases directly proportional to the amount of rewards that the customer gets through the loyalty program. On some occasions the reward is in a form of a discount for products. On some of the loyalty programs the frequency of purchases made is the key for getting the benefits.

It is a question of a marketing program established to increase brand loyalty by nurturing a relationship between the marketer and the customer. The key element to success is that the customer makes frequent purchases. The company has to encourage the customer to increase the amount spent each time and persuade the customer to concentrate all, or at least most of the purchases to the particular chain.

One aspect of loyalty programs is the communication with customers. This includes mailing, both regular and e-mail, perhaps a special magazine of the chain. The program may have credit/debit cards in which the customer can add the loyalty card functions. That is convenient way of combining two cards to one. The loyalty cards also collect data about the purchasing behaviors of the customers. This data can be used to make for example better. An additional way of getting information is making surveys for the customers.

Meeting the needs of the customers is the main thing really. One can say that the best reward systems concentrate on constant improving, reacting to the needs of the customers. Because even if the loyalty program gives lot of a financial benefit for the customer, but it does not meet the needs of the customer, the customer is unlikely to return. So in order to have long-term success, the company must constantly seek for improvements and identify the needs of the customer very quickly to keep the customer satisfied all the time.

Cross-selling and upselling are both included in the loyalty program strategies as well. (Cross-selling [ref 3rd November 2010]) defines Cross-selling so that when a customer buys for example a television, he/she is offered a complementary product, such as an extended maintenance. (Upselling [ref 3rd November 2010]) de-

finer upselling so that the sales person might persuade the customer to upgrade and sell the television purchaser also a nice sound system.

(Loyalty program [ref 2nd November 2010]), (The hidden side of loyalty programs, Professor Steve Worthington, Josh Fear, 2009, 1-2) and (Customer loyalty programs [ref 2nd November 2010])

1.2 History of reward cards

The idea of reward cards is by no means a new one. In fact the reward programs already began in the late 1800s. (Credit card reward programs: a short history, travel and airline credit cards [ref 29th September 2010]) is an article that explains history of loyalty programs in this chapter.

The founder was a company of men called Thomas Sperry and Shelly Hutchinson; the men were selling stamps to merchants. " S&H Green Stamps (also known as Green Shield Stamps) could be earned by consumers when making purchases at supermarkets, department stores, gas stations, and other retailers".

Depending on the amount of purchases, the customers got the S&H Green Stamps as bonuses. When one had collected enough stamps, they could be converted into products from the company's catalog or at the local Green Shield shop. These stamps were popular for a very long time in the United States, in fact as long as from the 1930s all the way to the 1980s.

When it comes to the 1980s that is the time when the airlines really began to utilize the reward programs. The names of those programs were frequent flier programs and they provided the customers with airline miles, discounts or free nights

at hotels that were also participating in the system. A couple of years later also the credit card industry was starting to exercise loyalty programs and with a slightly bigger scale.

The first credit card ever to give rewards to customers was the AT&T Universal Card. It "provided cash back on every purchase that could be applied toward the cardholder's phone bill".

Discover Financial Services came up with a popular "cash back" program in 1986. They gave cash back to the customer at the end of the year according to the amount of money he/she had used for purchases with the credit card. According to industry estimates these days more than 60% of all the credit cards that are being issued in the United States of America are in fact combined towards a reward program. For example both airline miles and cash back systems are still in use

(Credit card reward programs: a short history, travel and airline credit cards [ref 29th September 2010])

1.3 Components

The members of loyalty programs are commonly issued with a loyalty card. The simplest example can be a cardboard piece that indicates how many cups of coffee has the customer bought from a coffee shop. The most commonly known type of a modern loyalty card is "a credit card-style plastic card with a magnetic stripe or barcode containing a unique member identification number and perhaps the name of the customer". In most cases the card does not include a payment option. The main function is to survey the transactions that the customer makes and then reward him/her with points, money etc. After a purchase is made, all the informa-

tion about the purchase is recorded beside the member number. That information can be for example price, product, and place of purchase and date of purchase. This way the loyalty program can also find out about consumer behavior via the loyalty card.

The data about purchasing behavior can in fact be very important for the company as well, because the information they get is commercially valuable. This kind of information can be valued as high as the increased sales figures the company gets through customers who are spending to earn the reward points. That is why the concept of `loyalty program` can be seen as misnaming. One can argue would the term `rewards and information exchange program` be better. The transactions between customer and the company could be better explained that way. The customer that uses the loyalty card gets rewards according to the amount they spend and the company gets information about the customer and his/her spending patterns. After the company has examined the data, it can then use the information in order to make more precise offers to the customers and make their marketing approaches more sophisticated. The company also has the potential to sell the accumulated information and `insights` about the behavior of the consumers to their suppliers.

The card can also include payment feature, both credit and/or debit. Using the reward card that has these features can itself accumulate even more benefit for the customer. These features are discussed later in the thesis

(The hidden side of loyalty programs, Professor Steve Worthington, Josh Fear, 2009, 1-2)

1.4 Partner-companies

Many of loyalty programs use partners to cover the fields they are not in. The point in partnering is the long term relationship in order to get mutual success and achieve business objectives. In order to get a business partner the company must have a good idea, otherwise it is difficult to get partners. The company must also prove their work ethic and competence.

One can say the main difference compared to outsourcing is that in partnering the companies work more together. It is more about working with other gifted people and sharing equity. In outsourcing the other company basically works *for* the other company.

Compared to outsourcing there are some benefits in partnering. For example sharing equity means that the company is not spending so much money; it helps to keep the costs down. The other cost saving factor is that partner company rarely needs to be managed, because they are self-starters as well. Partnerships are often more permanent than outsourcing deals, so quality work is most likely in order to get to the win-win situation. Finally, the intellectual property theft is quite low in partnering since the partnership is usually longer term deal compared to outsourcing. Partner companies are usually open to a thorough checking too.

(Why partnering is better than outsourcing [ref6th November 2010]) and (Why partnering works![ref 6th November 2010])

2 RELATIONSHIP MARKETING

Loyalty programs are closely related to relationship marketing hence it is an approach where the emphasis is on the continuing relationship between the customer and the business. The importance of customer service and its' quality and transactions with customers are emphasized. It is a key element in keeping the already existing customers. The first person to describe this theory was Theodore Levitt in 1983.

(Relationship marketing [ref 7th November 2010])

It differs very much from transaction marketing where the focus is on a single sale and after it; they already focus on the next customer and making another sale. Transaction marketing is very short time oriented and customer service emphasis is little. The products and/or services are standardized because the transaction marketing companies do not seek to serve the customer in long-term. Companies that do relationship marketing may provide very tailor made products, because they *do* want to satisfy the needs of the customer as thoroughly as possible.

(Relationship marketing vs. transactions marketing [ref 7th November 2010])

Here is a more thorough list of the main differences between relationship marketing and transactions marketing according to (Relationship marketing, Hennig-Thurau and Hansen 2000, 5)

This comparison between relationship marketing and transaction marketing below can help to visualize the main differences between the two.

<u>Criterion</u>	<u>Relationship</u>	<u>Transactions</u>
Primary object:	Long-term relationship	Single transaction
General approach:	Interaction-related	Action-related
Long- vs. short-term:	Long-term perspective	Short-term perspective
Fundamental strategy:	Maintaining existing relationships	Get new customers
Focus in decision process:	Post-sale activities	Pre-sales activities
Intensity of contact:	High	Low
Mutual dependence:	High	Low
Measurement of customer satisfaction:	Maintaining customer base	Market share
Main quality dimension:	Quality of interaction	Quality of output
Production of quality:	The concern of all	Mainly productions´
Role of internal marketing:	Substantial strategic importance	Low importance
Production focus:	Mass-customization	Mass-production

Furthermore the importance of employees is higher in the relationship marketing than it is in transactions marketing. So if the company takes relationship marketing very seriously, they must not ignore the internal dimension of relationship marketing, hence the next chapter consists of the topic called *internal marketing*. It is also related to reward programs because after all high satisfaction, commitment and perceived benefits are important issues for both customer *and* employee loyalty.

(Relationship marketing, Hennig-Thurau and Hansen 2000, 159,161)

2.1 Internal marketing

In a book Relationship marketing, (Hennig-Thurau and Hansen 2000,161) Veronica Liljander from Swedish School of Economics and Business Administration Helsinki said “A company will not be successful on the external market if it has not first taken good care of its internal market – its employees. Internal service quality affects job satisfaction, and ultimately, customer satisfaction.”

An element of the relationship marketing is the term internal marketing, marketing happening within a company or organization. The key to it is that all staff is involved in marketing processes and that the staff understands their role. In order for them to understand their role, the company has to organize training and staff development. This will increase the knowledge and understanding of the whole marketing orientation inside the company. Another aim of internal marketing is reducing conflicts inside departments and functions within the company.

One can say that internal marketing is the crystallization of a customer-oriented understanding of management. Moreover, best possible customer satisfaction and

keeping care of the customers are key strategic objectives of this concept. In order to achieve these objectives, the following are required:

The policy of general customer orientation and principles in the company must be made fully aware with the staff members.

All employees should accept that they are the ambassadors of the company. All of their behavior and work can have an effect on the company. Hence the customer should be the focus point. The term *part time marketer* really highlights the importance of each employee. Because the actual product may be quite similar between different companies, the total experience is adapted through relationship, often a service.

(Relationship marketing, Hennig-Thurau and Hansen 2000, 12,165, 166, 204) and (Internal marketing [ref 8th November 2010])

2.2 Why relationship marketing?

Many companies choose the strategy because it is a way to increase sales by virtually not having to increase the marketing budget at all. Many a business owner can make a fatal mistake in thinking that a customer will stay, and doesn't try to maintain and grow the relationship with the customer. Later the business owner wonders what went wrong, why did the customer leave?

Mostly the customers leave because of these reasons: 1. Pricing was unfair or too high, 2. because of an unresolved complaint, 3. they took an offer from the competitor, or 4. the customer felt the company did not care about him/her.

The last two make up an unpleasant combination. Basically your old customer has chosen the competitor because you simply did not care enough. The case is that, people often buy products or services because they already have done it previous-

ly. A friend may have referred them also, which can be seen as the free word of mouth marketing. The word of mouth marketers are the existing customers, who recommend the product/service to other people. A satisfied long-term customer is moreover very unlikely to switch to competitors; this makes the work of companies entering the market very difficult.

One may ask why companies are spending 80% of their marketing money to acquire *new* customers in that case. New customers actually spend 33% less than the old, loyal customers. Most cases the new customer are lured with some discount, that along with marketing expenses makes it six times more costly for the company to sell something for a new prospect compared to selling the same thing to an existing customer. Nurturing, retaining and maintaining of the already existing customer relationships do make more sense when considering these statistics.

How easy is it for a company that can't hold on to customers to get new ones anyway? The reputation of the company will suffer if it fails to satisfy and hold on to customers. This will mean that the ability to acquire the new customers will be quite limited for that kind of company. Moreover it costs double the amount of money to get new customers compared to maintaining the existing customer base. In other words, the priority should be in keeping the old customers happy, while getting the new customers is important to a growing business as well.

Treating the customer as a strategic partner and showing that you care will lead to successful results. The right products and services at the right time and location along with right promotion are important in satisfying the customers. Everyday the company has to aim to improve these issues with both big and small transactions to have better customer loyalty.

(Customer relationships are key to your marketing strategy [ref 7th November 2010]) and (Relationship marketing [ref 7th November 2010])

Service management and marketing is a book from Christian Grönroos and it sums up the key issue of this chapter quite well. It states: “ a large number of employees get involved in the production of quality. Moreover, since the frontline employees who actually handle customer contacts in order to serve their customers well are dependent on the support of people beyond them in the service process, these ‘support’ people also become responsible for the ultimate customer perceived quality*. Hence, a large number of employees, not far from ‘everyone’, contribute to quality. If someone in customer contacts or beyond the direct customer interface fail, quality suffers.”

(Service management and marketing, Christian Grönroos 1990, 68)

*Customer perceived quality means the consumer's opinion of a product's, service's or a brand's ability to fulfill his or her expectations.

(Perceived quality [ref16th February 2011])

2.2.1 Different ways of rewarding, incentives

This chapter introduces many ways of doing the things in practice, which were discussed earlier in theory. There are a lot of different ways of rewarding and giving incentives for the customer. Below is a list of some of the ways the rewarding and giving incentives can happen.

User-specific offers. Make the customer feel that this offer is made for just him/her. Good price is always a great incentive.

Free upgrades. When the customer makes a purchase, offering the customer an upgrade of some kind is a good way of making him/her happy. That can make the customer come back. A frequent customer feels that he/she is rewarded of being loyal.

Extended features. This applies to technical gadgets like mobile phones, where the Apple store for example has totally dominated the extended features field. Making extended features adds more value to the product, which for one attracts customers.

Mentions. Mention the name of the customer; make him/her feel that you remember the customer and he/she is important.

Exclusive / special events. Organizing a special event for the loyalty program users can be seen as a good way of keeping the customers happy, as well as attracting new customers, who would also want to join this kind of events. The event could include live music, entertainment but at the same time introducing new products.

Better products, services, content. Make changes to the products and/or services by listening to the customers and their feedback. A good point is also to tell that these changes are made because this is exactly what the customers wanted. This way the customers know that their opinions count, and they can relate to the company a bit better.

Product development. The previous one could be continued with taking some of the customers along in the actual product development. Forming a focus group can both provide whole new ideas and make the customers relate even more to the company.

Priority shipping. If a customer makes a certain amount of products, give the customer free shipping. This is a good incentive for the customer to buy more. A loyal customer could be rewarded with faster delivery.

Prestige. Status. Badges. Reward the active customers with status upgrades, starting with bronze, silver, gold, platinum and diamond being the most important. Different type of customers will make them feel more special and perhaps they will try to reach the next type of status in order to stand from the crowd a bit more.

A courtesy call. Simply noticing the customer, paying attention and perhaps asking how you are doing might be good way of making the customer feel welcomed and keep him/her coming again for the good service.

Print. A physical printed material, such as a magazine for the reward system members is good way of mixing marketing and rewarding the customer with a content based magazine. Advertisements are easy to throw away, but if they are combined with reading content they might get more attention from the customer.

Remove ads. In an online store, the most loyal customer could get rid of advertisements as a reward for their loyalty. The data from the loyal customers might be more significant for the company than money from advertisements.

Private shopping. High street retailer Debenhams allowed some of the Twitter followers to shop in the store privately. Good way of rewarding some of the best customers and getting them from online to the so-called offline shop.

Preferential terms. Especially for B2B companies, better terms for the long-term customers can be used to show the mutual trust.

Add ons. For example a free insurance or an extended warranty could be given for loyal customers.

Birthdays. Loyalty programs often record date of birth, so why not congratulating the customer on the birthday and perhaps giving a discount coupon for example.

Vouchers and coupons. Discount coupons are good incentive, but they are nowadays more than coupons. Mobile discount coupons can be the next trend. Companies should seek ways to personalize the coupons.

Exclusives. People tend to queue to get new high-end electronic devices. A good way to reward the loyal customers is giving them VIP treatment by skipping the queue.

Ad campaigns. Give the customers the opportunity to create their own advertisement. The company can save money and come up with a really special, fresh advertisement.

Product packaging. Innocent Drinks had a campaign where the customers could come up with clever sentences that would go on the bottom of the bottle. This kind of campaigns can create a feel good factor, because the customers like to see their own ideas put into practice and it makes the company closer to the consumers.

Hire them. Some of the customers may be so active and into the company's product that it might actually be a good idea to hire them to work in the company. Expert users often have ideas to develop the product.

(25 ways of encouraging and rewarding customer engagement [ref 2nd November 2010])

3 CONCERNS REGARDING REWARD PROGRAMS

3.1 Challenges in centering purchases to only one chain

The subject of reward cards is somewhat debated from the consumer point of view. For example Kyösti Kakkonen, who owns a chain of inexpensive department store Tokmanni claims that the reward cards can blur the actual prices of products. He argues that the bonuses that are paid afterwards must always be taken into consideration in the actual prices of the products. According to him, this can guide customers into buying also some products they wouldn't actually even need, just to collect more bonus.

The consumer agency shares this worry. According to (Consumer agency [ref 1st October 2010]) the consumer agency they "safeguard and strengthen the position of the consumer in society". Anja Peltonen from the consumer agency states to *Helsingin Sanomat*, that the fact that different reward systems cover almost everything that is possible to buy can affect the consumers' behavior on the markets. The behavior can in fact cause that the customer only shops at a certain group of stores. The marketing does not let the customer know the real price level, and customers don't necessarily even think about it in their bonus frenzy. In the market economy the consumer should be able to compare different options and base the decisions on the comparison.

One of her concerns is also that, do the customers actually know what a reward program is. Because the reward program is always a two way deal, the customer reveals details about his/her consumer patterns, some personal information and so on. In exchange the customer gets the bonus benefits.

The representatives of all the three different reward systems that are being examined in this thesis all share virtually the same view about this matter. A representative from K-chain, Terho Kalliokoski explains that the customers value the system and want to use it. From a company point of view Kalliokoski sees that the system can be used to make better offers for the customers in order to satisfy their needs.

Ykkösbonus representative Kari Luoto said a different option to the bonus card would simply be mass marketing. He sees it as a worse option concerning bonus system. He thinks it makes more sense to address the marketing to the group who actually makes purchases at the stores of Ykkösbonus.

According to the S-chain representative Risto Niemelä, already half of the customers of the S-chain center their purchases almost completely, to only S-chain stores. The stance of Niemelä is more or less the same as the other two; he sees reward program as a way to tailor-made the operations more suitable for the customers. For example get partners from fields of business that their own services don't cover, such as Herz car rental company or The Circus Finlandia.

(Kuluttajavirasto: kauppojen bonuskortit hämärtävät hintoja [ref 1st October 2010])

3.2 Concerns about reward systems

The consumer agency is not the only authorities that are concerned on the reward systems; also the Finnish Competition Authority shares this worry. According to (Finnish Competition Authority [ref 2nd October 2010]) their mission is to “monitor compliance with the Act of Competition Restrictions and EU competition rules (Articles 101 and 102) and to promote efficient competition by various ways as an expert authority”. According to EU competition rules [ref 2nd October 2010] in short: “Article 101 TFEU is an extensive prohibition of all agreements and concerted practices distorting competition between undertakings. The Article is applied to both horizontal competition restraints (cartels) and vertical agreements such as distribution agreements. Article 102 prohibits the abuse of dominant position.”

The Competition Authority states that the ability to compare prices can get blurred if the consumer only thinks about accumulating bonus. This way of thinking can in fact get more costly compared to a way where the consumer compares the prices of different stores. It is possible that the consumer buys more expensive products unnoticed.

In the past, businesses simply marketed their inexpensive prices. Nowadays they also market the images about betterness of different bonus cards. That is obviously a different thing than the inexpensive prices.

A special researcher from The Competition Authority named Mia Salonen states to *Taloussanomati* that it is highly possible that the attention of the customers is not as much focused to the prices anymore, but the bonuses. A good example of this is the fact that two nearby gas stations can have a huge difference in their prices, one of which is very cheap, but shopping in this particular gas station does **not** accumulate any bonus and the other very expensive, but **does** accumulate bonus and the expensive one still attract many customers.

In their yearbook of 2010, The Competition Authority wonders a worst-case scenario where the stores could price the products so that they would be very expensive when the customer would not have the needed bonus card. That would make the "discount", when using the bonus card seem even bigger. This is exactly what would blur the actual price level. Salonen does remind that there is not enough evidence of the effect of reward systems on the markets at the moment.

(Varo, näin bonuskortti hämää [ref 2nd October 2010])

3.2.1 Use of bonus systems

Amazingly only seven percentage of all the consumers in Finland don't own any kind of bonus card. In contrast 40% of the consumers own at least three cards.

The ones who benefit the most of reward systems are households who buy a lot and are able to center those purchases into one bonus chain. Heli Arantola from Vectia consultation company states that people choose their membership of reward system usually on the bases of grocery store, and its location. Usually people choose the supermarket that is convenient to visit on the way to work, or the one that is closest to home.

It is important to remember to use the card on every purchase whether it is small or big. Otherwise the benefit of using the card can diminish. A research chief from National Consumer Research Center (Their mission is to : "investigate, anticipate and identify change and risk factors within the consumer society, in consumer behavior and in the market, and to be communicator of consumer research knowledge" (National Consumer Research Center [ref 3rd October 2010])), named Anu Raijas strongly believes that a big amount of consumers forget to use the bonus card on every single place of business where the possibility of collecting bonus is existing.

When it comes to making grocery store purchases it is still somewhat easy to compare the prices and bonuses since food must be bought several times a month. The consumer has knowledge of the price level and is able to compare relatively easy. But bonus is not limited to only grocery products anymore. It is far more complicated to compare electricity, phone bills or insurance. These fields are covered by basically all of the main three reward systems in Finland. Also from fields such as travelling, eyeglasses, magazines and furniture it is possible to collect bonus points.

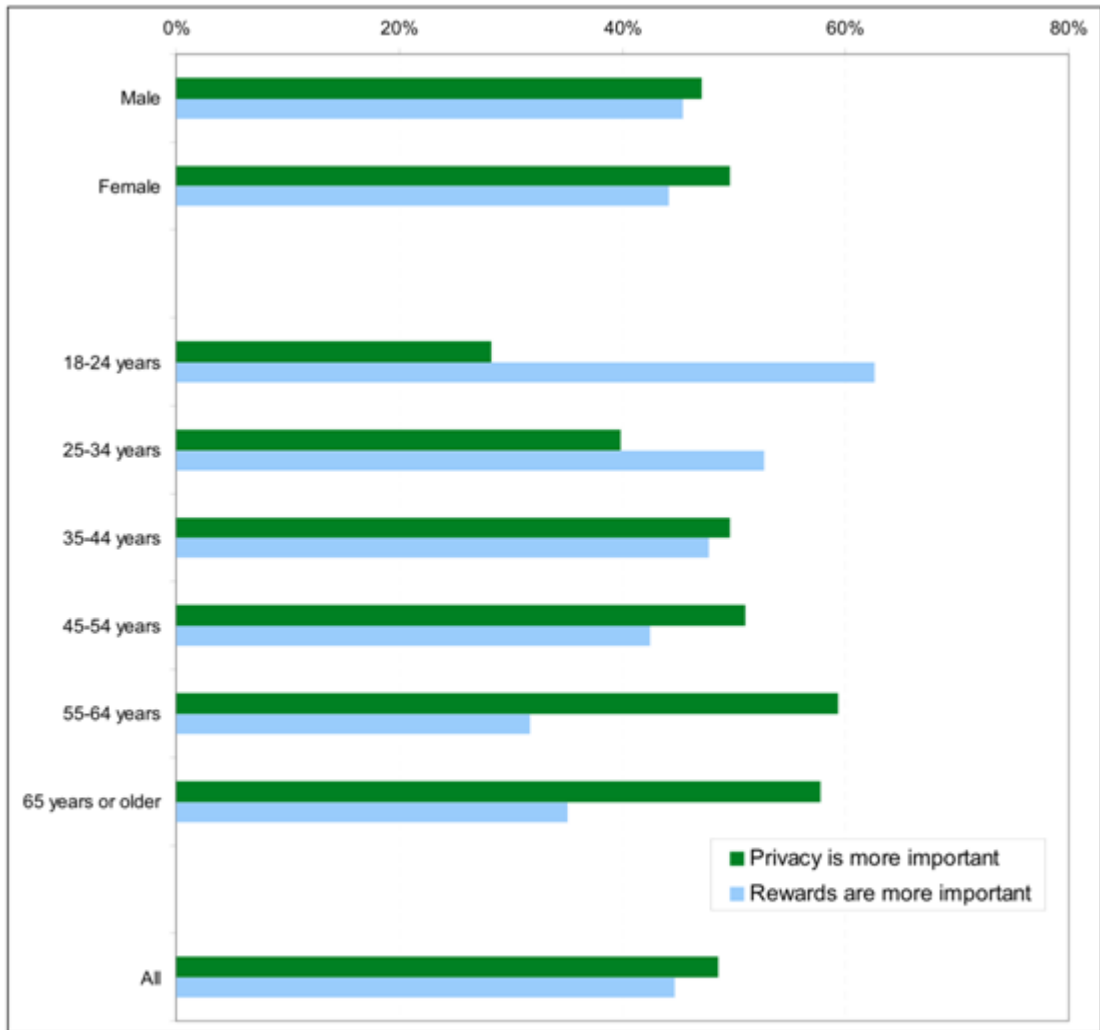
Riitta Kokko-Herrala, a lawyer from the Consumer Agency reminds that bonuses from the insurances or travelling are in most cases collected differently than normal purchases from supermarkets. This adds difficulties in understanding the total prices because it is difficult enough, even without the bonuses to compare for example insurances.

Different consumer officials are not in favor of the bonus cards because they think the cards weaken the clarity of the prices and can even decrease competition.

Kokko-Herrala emphasizes again how important it is to make the buying decisions on the bases of comparing the prices and quality of the stores. If the price is same in two stores, then of course it is advisable to make the purchase in a store where it is possible to accumulate bonus points. But just to collect bonus points should not be a foundation of any decision.

(Älä hullaannu bonuksista & Varo, näin bonuskortti hämää [ref 3rd October 2010])

3.2.2 Do the customers value bonus or privacy?



Base = 832. Question: 'In your view, which of these aspects of a loyalty card scheme is most important?'

Figure 1. Comparing privacy and rewards by gender and age.

(The hidden side of loyalty programs, Professor Steve Worthington, Josh Fear, 2009, 10)

This study was made in Australia and the graph above shows how males and females and different age groups value rewards compared to their privacy. Interestingly, young people don't value their privacy as high as other people. As the age groups get older, the more they want privacy. However, the oldest age group is no

longer worried about privacy so much; the decreasing reward bar is suddenly increased a bit.

Overall the people in this study value their privacy higher than getting rewards and women value it slightly more than men. This is actually very interesting fact because nonetheless the same study also shows that women have more reward cards than men. Men have an average 1.29 cards and women 2.02.

3.2.3 No card, no bonus

In the end the fact is that people without bonus cards will end up paying more than those who have them. That is exactly the reason why Seppo Rekonen from Suomen Rahatieto thinks that it is advisable to own different bonus cards. He states that those people who do not own a bonus card will actually pay a part of the price of the reward systems and not getting any bonus benefits.

(Älä hullaannu bonuksista[ref 3rd October 2010])

3.3 Too much concern?

Heli Arantola, who is a partner of the Vectia consulting company debated about bonus cards a few years ago. She thinks it is almost insulting to think that the consumers would completely fall for the bonus cards and forgot to compare prices. According to her there are no research results towards this kind of behavior. She states that Finnish consumers are very rational and not at all foolish.

(Älä hullaannu bonuksista[ref 3rd October 2010])

4 S-GROUP

4.1 The structure of the S-group

The S-group is structured out of 22 independent regional cooperative enterprises and Suomen Osuuskauppojen Keskuskunta (SOK), which is in fact owned by the independent regional cooperative enterprises. Moreover the S-group also includes 10 regional local cooperative enterprises. The network of these cooperative enterprises reaches the whole country of Finland and there is a strong regional emphasis in the activity.

SOK works as a centrum for the cooperative enterprises. Its function is to provide them with purchase-, expertise- and support services. SOK is also in charge of the strategical guidance of the S-group. Moreover, it is responsible of the development of the different chains that the S-group is consisted of, such as the grocery stores, petrol stations or tourism. The business activity that SOK makes is supplementing for the S-groups supply both in its home country, Finland and in the neighboring areas. As for SOK consortium, it is consisted of SOK and its subsidiaries.

(Asiakas on omistaja [ref. 7th September 2010])

Structure of the S Group

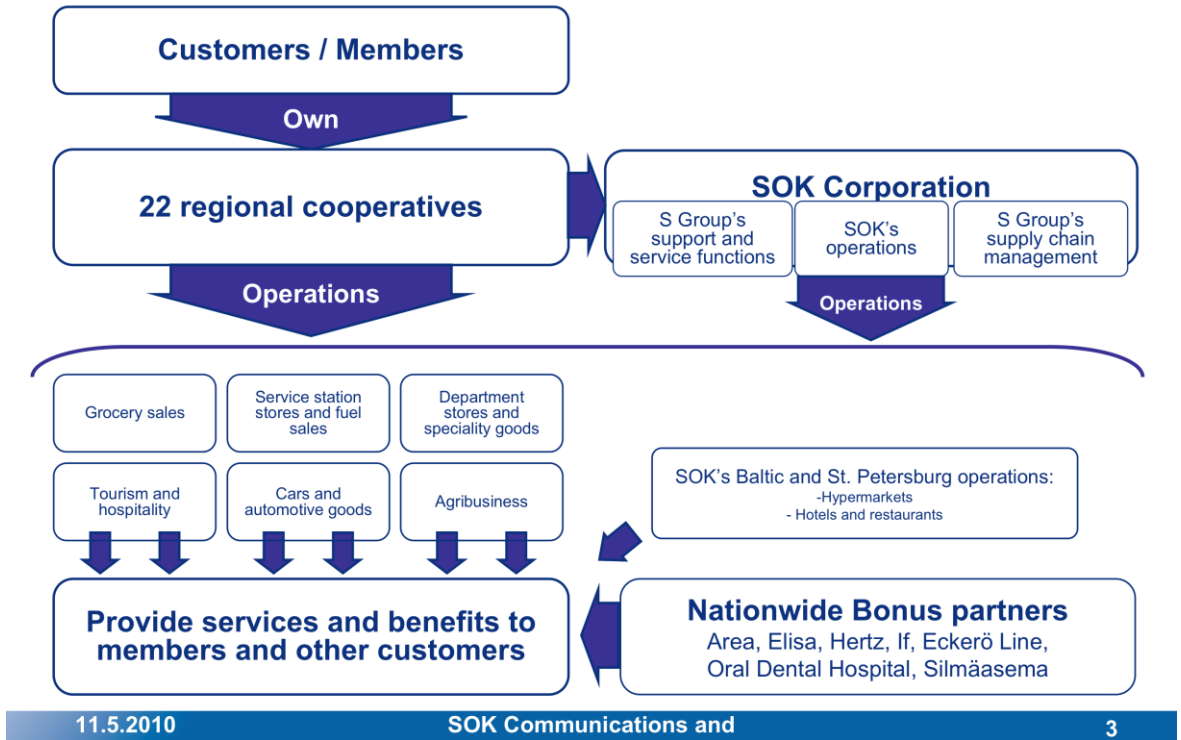


Figure 2. (S_Group_Today_2009_10.5.2010 , page 3)

This chart helps to visualize the structure of the S-group better. It also shows the different operations of the S-group; Grocery sales, Service station stores and fuel sales, Department stores and specialty goods, Tourism and hospitality, Cars and automotive goods and Agribusiness.



22 regional cooperatives



11.5.2010

SOK Communications and

4

Figure 3. (S_Group_Today_2009_10.5.2010 , page 4)

The map shows all the 22 regional cooperatives and their individual names.

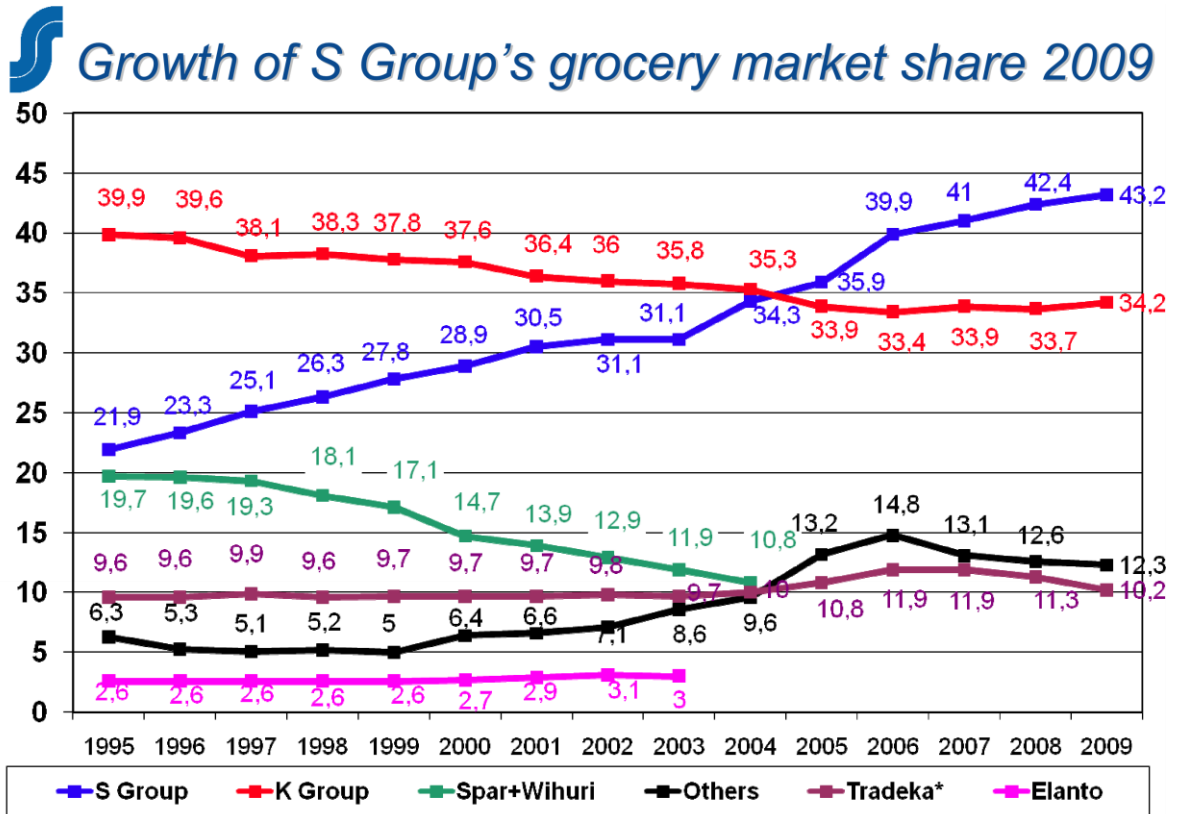


Figure 4. (S_Group_Today_2009_10.5.2010, 66)

The graph demonstrates how S-group has taken over more and more market share in the grocery business. The market share has been growing quite steadily from 1995 to 2009. Mainly the market share is gained from Spar+Wihuri and K group.



S Group Bonus Sales / retail sales % 2001-2009

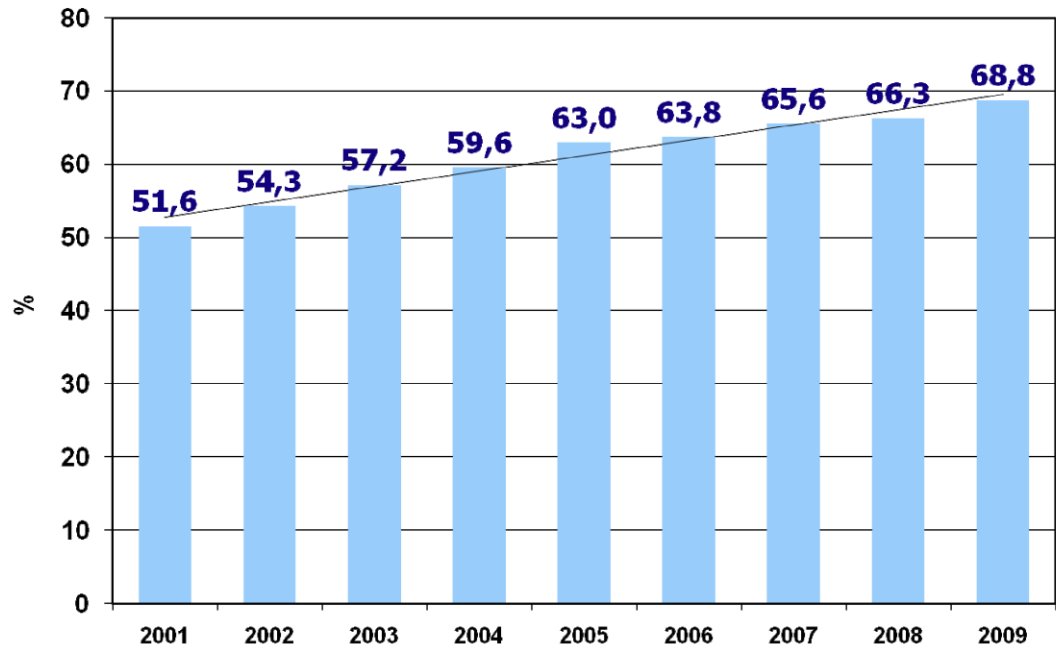
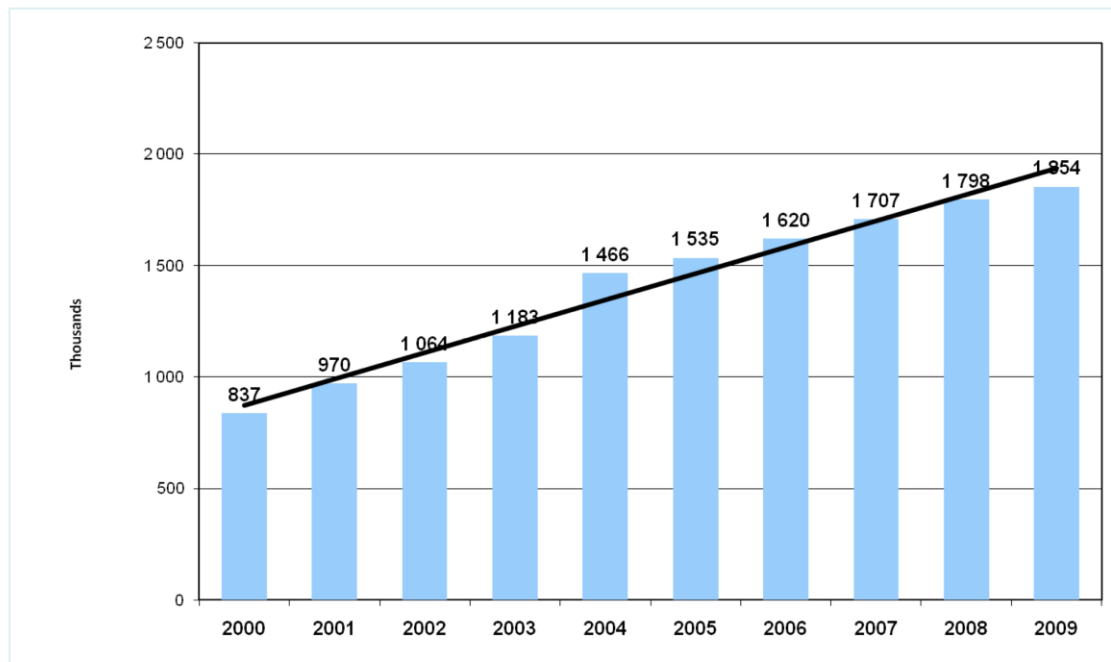


Figure 5. (S_Group_Today_2009_10.5.2010, 71)

When S-group has gotten more market share, the sales have also gone up. These two factors can be seen quite directly proportional. This graph shows bonus sales/retail sales from the years 2001-2009 in percentage.



Number of members 2000-2009 (cooperatives belonging to the Bonus system)



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Figure 6. A graph of the number of cooperative shop members belonging to the bonus system and how it has developed over 9 years. This is an element to the reason why S-group has gotten more market share and more sales. The more cooperatives belonging to the bonus system, the better the business has gone.

(S_Group_Today_2009_10.5.2010, 70)

4.2 Included companies and brands

Partner companies and private labels have helped to gain market share and more sales. In this chapter we look into partners and private labels that S-group has.

S-group has a variety of private labels. They offer the customer an equal quality compared to the mainstream labels, but their prices are more affordable. According to S_Group_Today_2009_10.5.2010, the quality of the private label products is

ensured by Inex. Inex is a subsidiary of SOK that ” produces procurement and logistics services for grocery store chains and logistics services for consumer good chains.”

The private labels that can be found in the S-group stores are: Rainbow, X-Tra, which is a Nordic private label company and the former Daily. Daily products have been transformed into Rainbow products due to a research that showed that the Rainbow brand is more known and considered as being better quality both utilization and image perspective.

The private label products can offer the cheaper prices because there is virtually no marketing or advertising involved. The money savings that they make due to very little marketing is transferred into the prices. Other reason for the affordable prices is that Rainbow buys in big volumes and their purchase procedure is efficient. Furthermore, Rainbow don't have factories of their own. The products are made in the factories of 250 different suppliers from different parts of the world.

(Usein kysytyä [ref.9th September 2010])

The bonus can be accumulated not only from the S-chain stores but also with some partner companies. The fields of these different companies vary from mobile phone connections, Internet connections, insurances, dental care, travel agencies, leisure time services etc. In some cases the cooperative shops have their local partners, for example electricity companies. Moreover, often times the cooperative shops have negotiated discounts for the customer owners in many different events such as; concerts, sport events, exhibitions, festivals etc.

(Questionnaire, Appendix 1)

5 FUNCTIONALITY OF THE PROGRAM

5.1 Process of getting an S-card

You can become a customer owner by filling in a customer owner agreement application. You must also pay a cooperative shop participation share. When you join, your identity will be checked. You will get an S-Bank account opened as well. That is done so that the bonus and other money benefits such as the interest rate of the participation share can be paid to you.

(Näin liityt asiakasomistajaksi [ref. 11th September 2010])

5.1.1 Participation share

The participation share, which you pay when you join, is an investment for the capital of the cooperative shops. If you were ever to give up your membership, the money will be paid back. Most of the cooperative shops pay a yearly interest rate for the participation share. Amount of the interest rate may vary within cooperative shops. Most commonly in use is a €20 and €100 participation share payment.

If you pay €20 you can become a member and you can accumulate the remaining €80 by getting enough bonus points within two years. On the contrary, when you pay the full €100 immediately you can get the bonus points, which you gain by making purchases, into your own use right away.

(Näin liityt asiakasomistajaksi [ref. 11th September 2010])

5.1.2 Where can you join?

You can join in any office of the S-group or you can do it online. If it is a small place of business you can find a membership form on the exhibition shelf. Once you have filled it in, you just give it to the shop assistant. All the big offices have a separate customer service spots where you can find a customer advisor. First you will be given a temporary S-card, which you can use immediately to collect bonus points. The proper S-card is mailed to your home afterwards.

(Näin liityt asiakasomistajaksi [ref. 11th September 2010])

5.2 Power of the customer member

The cooperative shop functions so that the customer member can actually impact on some matters because the customer member is one of the owners of the cooperative shops.

The customer member has an opportunity to vote on elections. The election is done via mail voting. Representatives of the cooperative shops are elected every fourth year. The representatives are the highest organ of the cooperative shops. Anyone can run on election as long as he/she fills these terms: is an adult who lives in the area of cooperative shops, plenipotentiary person member of the cooperative shop. The voter does not have to be an adult in this election. Even people who have turned 15 in the year before the election year can vote.

The S-group also encourages customer members to give feedback. Feedback can be given by filling in a feedback form in a store or calling the customer member service. Several cooperative shops also have customer commissions where the customer members can tell their ideas on how to improve the business.

(Vaikuttaminen (ref 13th September 2010])

5.3 Functions of the S-card



Figure 7. A picture of an S-card with a payment feature (Tsl-Helsinki, kurssit [ref.9th September 2010])

The simplest form of the S-card is the traditional card. With this particular type of the S-card you can accumulate bonus points and benefit from the different service and product advantages. This card has **no** payment feature. The bonus that the customer accumulates from the purchases is paid to the account of the customer owner in the S-Bank. The customer can withdraw the amount of money he/she has gained in the form of bonus points from customer service spots, which are located in the larger S-markets, Prismas or Sokos department stores. The identity of the member must be verified.

(Käteiskortti [ref 11th September 2010])

There is no age limit in getting the traditional bonus card and the customer is not allowed to pay with this type of card.

The member has the opportunity to get parallel cards for all his/her family members free of charge. That way, all the purchases that the family members make will enlarge the mutual bonus amount.

(S-Etukortit perheenjäsenille [ref 11th September 2010])

5.3.1 S-card with a payment feature

There are three different cards to choose from. There are *S-card Visa credit/debit*, *S-card Visa credit* and *S-card Visa debit*. Each card is capable of collecting bonus, can be used as a payment method, collects method of payment advantage from S-group places of business, can be used in Visa place of sales both in Finland and other countries, withdrawals from the atm machines in Finland and atm machines with a Visa sign in other countries and Verified by Visa method of payment online. All three different S-cards with the payment method are free for the customer members and for those who belong in a same household of the customer member.

(Vertaa kortteja [ref. 12th September 2010])

5.3.2 Differences of the payment cards

There are some differences between the three cards. You can make withdrawals from the S-group places of business only with *S-card Visa credit/debit* and, *S-card Visa debit*, but not with *S-card Visa credit*.

You can't charge a purchase or a withdrawal from a debit bank account with *S-card Visa credit*. On the contrary you can't charge a purchase or a withdraw from a credit bank account with *S-card Visa debit*.

(Vertaa kortteja [ref. 12th September 2010])

5.4 Advantages of having an S-card with a payment method

It is of course more convenient to have one card that can be used both as an S-card and a payment card. That saves room from the wallet, which can be already quite full of different cards.

There is a financial advantage when using an S-card with a payment method though. Every time when shopping in any S-group store in Finland, a customer who has an S-card with any of the payment methods that he/she can choose from gets a 0,5% advantage of the total sum of purchase. The advantage can be gathered with any S-card from the family of the customer member as long as it has the payment method.

The advantage is usually collected from the total sum of purchase. If it is a S-group car shop, it is only possible to get the advantage from service, parts and accessories. A purchase of a car does not collect any advantage. In hardware stores of the S-group the advantage can be collected from the same things that bonus points can be collected.

The monthly advantage is paid to S-bank account of the head customer member of the household. The sum of money is paid by the next months 10th day. The amount that will be paid can be followed via *customer member online* and from a bonus calculation that will come with the customer member mail.

According to the questionnaire (Appendice 1) the customer owners got € 3,8 million as payment method benefits in the year 2009.

(S-Etukortilla maksaessasi saat maksutapaetua and Maksutapaetu [ref 12th September 2010])

5.5 How does the bonus accumulate

According to the questionnaire (Appendice 1) The bonus is accumulated according to the amount the customer owner and the possible households collateral card owners spend on the purchases. The bonus is paid according to a progressively growing bonus table. The bonus table may vary a bit between different cooperative

shops. The bonus tables of the cooperative shops can be observed in the web-pages of cooperative shops.

The basic principle is that the bonus is always accumulated in one calendar month periods. The amount of the bonus is 1 – 5 % of the purchases within one month. The more the customer spends, the bigger the bonus percentage, so the more there will be bonus. The following graph will present an example of a bonus table.

Bonustaulukkoesimerkki	
Talouden kuukausiostot vähintään	Bonus %
900 €	5,0
800 €	4,5
700 €	4,0
600 €	3,5
500 €	3,0
400 €	2,5
300 €	2,0
200 €	1,5
50 €	1,0

Figure 8. An example of the bonus table. (Bonuksen kertyminen [ref 25th September 2010])

Translation:

“Bonustaulukkoesimerkki = example of a bonus table”

“Talouden kuukausiostot enintään = the bonus purchases of a household at most”

On the left hand side is the amount of purchases in the period of one month and on the right is the percentage of bonus received if the appropriate amount of money is spend. So if the customer has spent at least € 900 he/she will get 5% bonus and so on.

According to (Bonuksen kertyminen [ref 25th September 2010]) it is also wise to follow the bonus amounts from either from *Asiakasomistaja Online*, or from the da-

ta terminals on the S-group places of business so that one does not miss out on better bonus percentages. For example if one has spent € 399, he/she is only obliged to a bonus percentage of 2 and will get € 7,98 of bonus. But if he/she spends another one euro, then the bonus percentage will rise to 2,5 because the amount is now € 400 and the amount of bonus money will be € 10. This of course is a good incentive for the customer to always spend a little more, and moreover, concentrate most of the purchases to the S-chain.

A special characteristic of the cooperative shop activity is that the customer owners can get money that generates from the cooperative shops business activities surplus. This surplus can be returned to the customer owner annually as an interest rate of the participation share and as a surplus refund. So the interest of the participation share can be seen as revenue of the investment that is the participation share. The surplus refund is based on the amount of bonus purchases that are made in cooperative shops annually. It is a certain fixed percentage of the bonus purchases.

For example in several cooperative shops in the year 2009, the amount of interest rate for the participation share paid was totally € 11,3 million and furthermore € 28,3 million of surplus refund. The amounts were based on the results of the year before. In bonus money, the customers got € 316,4 million overall.

(Questionnaire, Appendice 1)

5.6 Rewarding

Just like the advantage money that the customer gets when using the payment method card, the sum of bonus money is paid by the next months 10th day as well. The money goes to the S-bank account of the head member of the household. Once the bonus money is in the account it can be used anyway the customer wants.

However, if the participation share is still not fully paid, the bonus will be used to cover it until it is 100% covered. Once it is fully paid, the bonus money will arrive to the S-bank account of the member.

Because the bonus is paid as money straight to the account, there is no time limit of when the bonus must be used.

(Bonuksen kertyminen [ref 25th September 2010] and Questionnaire, Appendice 1)

6 COMPETITORS

6.1 The Plussa card



Figure 9. Picture of a Plussa card (Plussan digitaalinen aineistopankki [ref. 9th September 2010])

The K-chain Plussa card claims that it is the most versatile regular customer program in Finland. It actually is the most popular, since the number of people who have Plussa card is more than 3,5 million. That means over 2 million households. Plussa bonus can be received from over 3000 different K-chain places of business and from over 40 partners.

(Miksi kannattaa olla K-Plussa-asiakas [ref 18th September 2010])

The customer can often have a product with a special price when using the Plussa card and the price is different if one doesn't use the card. This can be seen as a factor that drives those people, who normally don't use bonus cards, to have a Plussa card. That is one of the biggest differences between S-card and the Plussa card. It is unusual to see some product with a special price when using the S-card. The Plussa discount is always at least 10% of the normal price.

(Miksi kannattaa olla K-Plussa-asiakas [ref 18th September 2010])

6.1.1 Membership

Joining the program costs € 8,40. Any plenipotentiary adult private person can join. Joining is possible online or at a K-chain place of business. Once joined, the customer will get a temporary card, to start collecting Plussa points immediately. The proper card will be sent by post, as soon as possible. Customer can also get Plussa card with a payment function or add the Plussa feature to his/her already existing credit/debit card. Collateral cards are free of charge and anyone in the same household can have it, as long as he/she is at least six years old.

An interesting piece of information is that the membership ends without any specific action if the customer does not make purchases in at least the amount of €1000 in a period of two consecutive years.

(K-plussa-järjestelmän säännöt and K-plussa käteiskortti [ref. 18th September 2010])

6.1.2 How to get Plussa points

The basic principle in K-plussa is that when a person makes a purchase of €1, he/she will get 1 K-plussa point. In addition, the member can get prize points. Prize points can only be accumulated in certain K-chain places of business.

Furthermore, at times the member can collect additional Plussa points. For example in the following advertisement, Figure 10, when the customer buys a kitchen he/she can get as much as 100 000 Plussa points if he/she purchases a €10 000 kitchen. So the points are ten times more than they normally would be. The extra Plussa points do not accumulate prize points.

(Näin K-plussa-pisteet kertyvät [ref 19th September 2010])

PLUSSA

Nyt on hyvä aika tehdä keittiökaupat!
Petra-keittiön ostajalle
jopa 100 000
LisäPlussa -pistettä!

Ostaessasi Petra keittiön K-raudasta saat kymmenkertaiset peruspisteet, jos ostoksesi ylittää 1000€

Esim. Keittiön arvo	Maksettavat LisäPlussa -pisteet
10 000 €	100 000
5000	50 000
2500	20 000
1000	10 000

Nyt 10X peruspisteet

Tarjous koskee kampanja-aikana 1.3.2010 - 11.4.2010 ostettuja Petra-keittiöitä. Pisteet maksetaan keittiötoimituksen jälkeen. LisäPlussat eivät vaikuta palkintopistekertymään. Etua ei voi yhdistää muihin alennuksiin.

PETRA
 MAAN SUOSITUIN KEITTIÖ

Figure 10. A kitchen advertisement. An example of prize Plussa points (sjl27p40 [ref 19th September 2010])

Translation:

On the yellow base: Now is a good time to make a deal on a new kitchen! When you buy Petra kitchen you can get up to 100 000 extra Plussa points!

On the grey base: When you buy Petra kitchen from K-rauta you will get ten times bonus points, if your purchase is more than € 1000.

Graph on the yellow base: “Esim. Keittiön arvo = example of the value of the kitchen”, “Maksettavat LisäPlussa –pisteet = The extra Plussa points that are paid”.

Small print on the grey base: The offer applies to all Petra kitchens that are purchased from 1st March 2010 until 11th April 2010. The points are paid after the delivery of the kitchen. Extra Plussa points do not affect on the prize points. The offer cannot be combined with other offers.

White text at the bottom right corner below blue circle: The most popular kitchen in the country

6.1.3 Tracking Plussa transactions

Every time the customers have collected 1000 Plussa points they will be sent a points fact sheet. In the fact sheet the customer can see where he/she has spent money and how much. The sheet also reveals how much discount the customer has received because of the Plussa card. The sheet can show different periods of time, but always at least 1000 points. For example if the customer has collected 1000 points in five months, the sheet will show the Plussa transactions over five months. It is also possible to follow the transactions online in the customers *own K-plussa* site. On this site it is possible to do many other things as well, such as; forward the equivalent sum of money in Plussa points straight into the customers bank account, order collateral cards and even follow the *Ravintokoodi.fi* service. This service is free of charge and it tracks the customers' food purchases, giving information and tips on the nutritions that the food purchases contain.

(Seuraa K-Plussa ostopäiviä and Oma K-Plussa [ref 18th September 2010])

If the customer has made a decision about donating Plussa points to charity, the sheet also shows how much was donated. The donating targets change every year, but at the moment they are: Nuorisuomi (children's sports), UNICEF, WWF

(protect the Baltic sea), Finland's war veteran union (supporting the veterans, their widows and their spouse) and Finland's cancer union (the prevention of cancer). If the customer does not choose a specific target, the money will be shared equally by all these different targets.

(K-Plus Oy – Kaikki hyväntekeväisyyskohteet [ref. 18th September 2010])

6.1.4 Rewarding

Along with the Points fact sheet comes points coupon. The points coupon is worth €5 and in Plussa points it is 1000 points. As mentioned earlier, the points can also be forwarded straight to bank account. In that case the customer will not receive the points coupon, but the Plussa points will be rewarded in money straight to the customers bank account.

The points coupon can't be exchanged into cash. The coupon can be used as payment in the K-chain stores. It is notable that the customer will not get any change if the purchase is under the value of the points coupon.

In certain K-chain places of business the customer can also get *instant benefit*. In that case, the Plussa points will not be accumulated but there will be a discount instantly in the checkout. This option is only available at: K-Rauta, Rautia (both hardware stores) and Caratia (jewelry).

(K-Plussan käyttäminen [ref 20th September 2010])



Figure 11. Table displaying the Plussa point accumulation (Näin K-plussa-pisteet kertyvät [ref 27th September 2010])

Translation: “Näin saat Plussa-pisteitä K-ruokakaupoista ja Plussa-yhteistyökumppaneilta = This is how you get Plussa points from K-chain grocery-stores and Plussa partners.”

“Ostoeurot kk:ssa = purchases in Euros per one month”

“Palkintopisteet = prize points”

“Kuukauden kokonaispisteet = total points of the month”

“Alle 300 euron kuukausiostoista sinulle kertyy kuukausittain peruspisteitä = with under € 300 monthly purchases you will accumulate basic points”

The above table displays how the Plussa points accumulate. On the right is the amount of money that is spent in a one-month period. The orange bar represents the basic plussa points, which accumulates according to the € 1 = 1 Plussa point principle. The yellow bar represents the prize points, and the red digit on the yellow bar represents the amount of the prize points. After the two bars, there is the total amount of Plussa points. Finally, on the right side, inside the circle is the amount of money that the customer will get. The lowest bar indicates that if the

amount of purchases is under € 300, the customer will only collect the base points, but not any prize points.

6.2 Ykkösbonus



Figure 12. Picture of an Ykkösbonus card (Omatsivut ykkösbonus [ref. 9th September 2010])

Ykkösbonus is a market challenger to S-card and Plussa card. Getting an Ykkösbonus card is free of charge for the customer and his/her whole household can get free collateral cards as well. One can collect Ykkösbonus from over 2000 places of business around Finland. The card accumulates bonus and sometimes the customer gets discounts when using the card, so the basic principles are quite the same as the other cards.

Ykkösbonus offers the same 0,5% advantage as S-card, when using their bonus card with a payment method for purchases in any of the Ykkösbonus stores. It is also possible to donate those 0,5% or part of it to charity (Finland's conservation of nature).

(Tietoa ykkösbonuksesta [ref 15th September 2010])

6.2.1 Two types of reward systems

The customer can choose whether he/she wants to use the *note system* or the *prize system*.

In the *note system* the customer collects bonuses in a 12 month period. After the period, the customer gets a note of the bonuses he/she has accumulated. The note can be utilized as money in an Ykkösbonus store or on the other hand it can be transformed into cash.

In *the prize system*, customer accumulates bonus points in monthly periods. With these bonus points the customer can reclaim either item or service prizes. The prizes vary from magazines to jewelry, vases, sunglasses and so on. A valuable prize will cost more points.

(Tietoa ykkösbonuksesta [ref 15th September 2010])

It is also possible to collect the bonus points for longer period of time in order to get the prize that the customer wants. The points are usable for 24 months and more prizes are added all the time. The prizes can be ordered from the customers *Ykkösbonus own site*.

(Palkinto ohjelma [ref. 16th September 2010])

Pisteiden kertyminen Palkinto-ohjelmassa

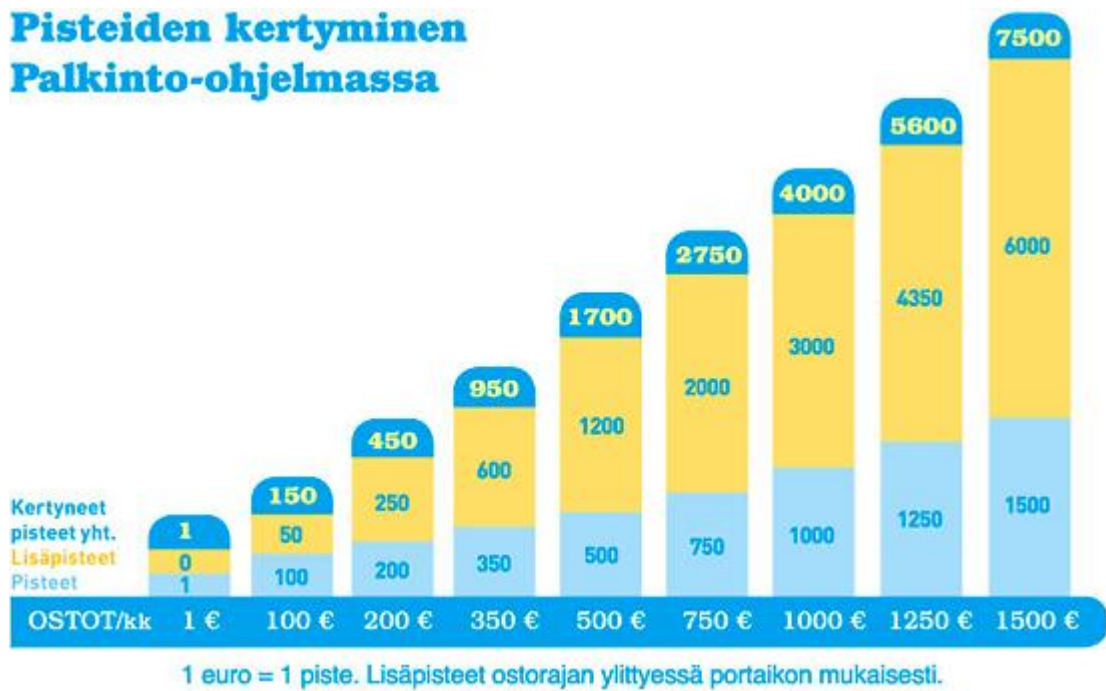


Figure 13. Ykkösbonus prize system in a graph (Palkinto-ohjelma [ref 27th September 2010])

Translation:

“Pisteiden kertyminen palkinto-ohjelmassa = point accumulation in the prize system”

“Kertyneet pisteet yht. = Total accumulated points”

“Lisäpisteet = extra points”

“Pisteet = Points”

“ 1 euro= 1piste. Lisäpisteet ostorajan ylittyessä portaikon mukaisesti. = € 1 = 1 point. Extra points accumulate according to the staircase when purchase border is surpassed.”

This graph above shows how the points in the Ykkösbonus prize system are accumulated. The basic principle is that € 1 = 1 point. But the customer is awarded

extra points as the graph indicates. On light blue is the amount of basic points (same amount as the money spent), on yellow is the amount of extra points rewarded and on top, on the dark blue background is the total points per one month period.

So for example if the customer spends € 470 in a month, he/she will be given 470 basic points + 600 extra points because the limit of € 350 was passed. That makes the total amount of points 1070. In this case the customer was quite close to the € 500 limit, which would have given the customer 1200 points extra.

Bonuksen kertyminen Seteliohjelmassa

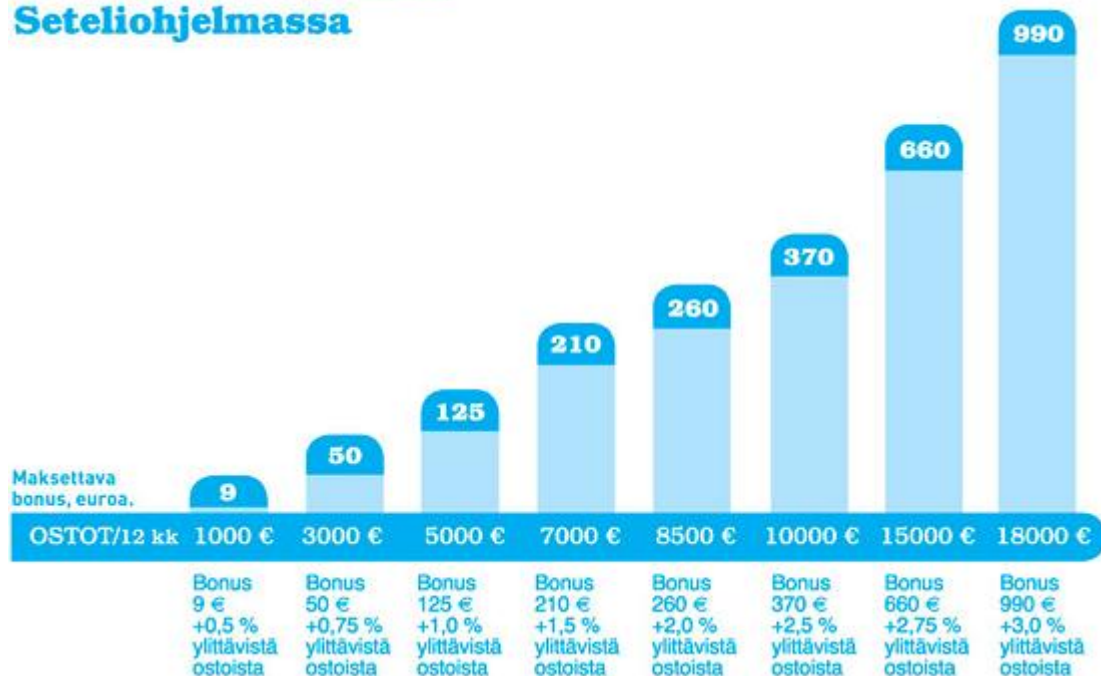


Figure 14. Ykkösbonus note system in a graph (Seteliohjelmassa [ref 27th September 2010])

Translation:

“Bonuksen kertyminen seteliohjelmassa = Bonus accumulation in the note system.”

“Maksettava bonus, euroa = Bonus paid, in Euros.”

“Ostot/12kk = purchases in 12 months.”

“Bonus x € + y % ylittävistä ostoista = Bonus € x + y % from the surpassing purchases.”

In the note system the bonus period is one year and the bonus is paid gradually as the graph indicates. The text in the bottom of the graph tells how much is the amount of Euros the customer gets when spending a certain amount of money a year and how much is the extra percentage of those purchases that go over that certain amount of money.

For example if one spends € 1500, he/she will get € 9 because the amount was over € 1000 and an additional € 25 of the surpassing € 500.

7 COMPARING THE THREE DIFFERENT BONUS CARDS

7.1 Comparison by Suomen Rahatieto

Suomen Rahatieto Oy has made a comparison between all the different bonus cards that are examined in this thesis. Suomen Rahatieto Oy is a company that was founded in 1994 in order to produce independent, beneficial expenditure related knowledge for households and small enterprises.

(Suomen Rahatieto [ref 29th September 2010])

Three different amounts of money a month; € 400, € 600 and € 1000 were spend, to find out was there any difference between the bonuses at the end of a year depending on how big the amount of spent money was.

Also the initial cost of the bonus card was taken into consideration in this comparison. Just to revise, those costs were the following: Ykkösbonus card = free of charge, Plussa card = € 8,40 and S-card = € 100.

The prize differences between the chains or possible discounts that come along with the cards were **not** taken into consideration. Only the amount of bonus that the customer can receive when spending the specific amount of money was compared.

Even though the S-card is clearly the most expensive of the three cards, it still wins the comparison of Rahatieto. According to the comparison there is only one case when the S-card will not be superior. If one keeps the S-card only for two years and the purchases remain in maximum of € 400 per month. In that case the customer will gain the same amount of bonus as Plussa card would gain for him/her when the membership fee is calculated into the equation. If one keeps col-

lecting bonus for a longer period of time, or if the purchases reach over € 400 per month, the S-card will be more profitable than the Plussa card.

(Katso mikä bonuskortti on paras [ref 29th September 2010])

Kauppojen bonuskorteissa keskittämisetu					
Kuukausiostot 400 €/kk		Kuukausiostot 600 €/kk		Kuukausiostot 1 000 €/kk	
Kortti	Bonus €/v	Kortti	Bonus €/v	Kortti	Bonus €/v
S-Etukortti	120 €	S-Etukortti	252 €	S-Etukortti	600 €
Plussa-kortti	84 €	Plussa-kortti	156 €	Plussa-kortti	330 €
Ykkösbonus	64 €	Ykkösbonus	213 €	Ykkösbonus	420 €

Figure 15. Comparison of S-card, Plussa card and Ykkösbonus card (Katso mikä bonuskortti on paras [ref 29th September 2010])

Translation:

“Kauppojen bonuskorteissa keskittämisetu = centralizing benefit in the bonus cards”

“Kuukausiostot x €/kk = monthly purchases € x per month”

“Kortti = card”

“Bonus €/v = Bonus € per year”

These are the results of the comparison. From left to right there is the comparison of € 400, € 600 and € 1000/ purchases a month. After the name of the card is the

amount of bonus they generate in a one-year period if one spends the appropriate amount of money each month.

This calculation below will show how big is the amount of bonus in percentage compared to the money spent (€ 400, € 600 and € 1000) between the three cards.

S-card: € 120 out of € 400 = 30%, € 252 out of € 600 = 42% and € 600 out of € 1000 = 60%

Plussa card: € 84 out of € 400 = 21%, € 156 out of € 600 = 26% and € 330 out of € 1000 = 33%

Ykkösbonus card: € 64 out of € 400 = 16%, € 213 out of € 600 = 35,5% and € 420 out of € 1000 = 42%

So when the consumer spends € 400 the order of the cards is: S-card, Plussa card, Ykkösbonus card. But when one spends € 600 the order changes; The S-card is still the best, but second place goes to the Ykkösbonus card. The order remains the same when spending € 1000.

7.1.1 Use of customer information

The chains and their partners trade the information about customers, which is gathered through bonus cards. The cooperation between the chains and their partners is mainly about advertising and marketing campaigns. According to *Taloussanomati* the number of cooperating companies that share the information varies between chains; S-chain and K-chain have about ten companies and Ykkösbonus has about twenty. According to the three chains, the information is not straightforwardly available to the cooperative companies though. Moreover they don't share the information onwards.

Niina Rynnänen, a representative from K-chain tells that the information is given only one operation at a time; such operation can be a direct marketing campaign. After the campaign, the information is destroyed.

When it comes to precise customer information, rather few of the employers inside the chain can get their hands on them; 35 in K-chain, in Ykkösbonus about ten. The S-chain makes an exception to the rule though. 1500 customer servants around Finland can access their register. Esa Rinta-Runsala from the S-chain explains that the customer service is decentralized close to the customer. The customer servants have signed a confidentiality agreement.

(Harva älyynyt kieltää etukorttitietojen käytön [ref 4th October 2010])

7.1.2 Better aimed advertisement campaigns

The information that the chains collect is usually about the consumption patterns; what kind of stores the customers go to, what kind of products they buy. Maaret Kuisma, a marketing chief from Stockman, which is a department store from Finland, explains that the customer history is helpful for marketing, if the customer uses cosmetics, then one will be given information about cosmetics in the advertising letters and so on.

(Harva älyynyt kieltää etukorttitietojen käytön [ref 4th October 2010])

7.1.3 The gathering of information can be prevented

Many of the customers don't know that they are able to prevent the collection of information. The prohibition of direct marketing is an order that only few take advantage. Elisa Kumpula, an office manager from Data Protection in Finland states that the customer should be informed about any kind of usage of the customer information. Also the option of preventing the collection of the information should be announced to the customers. Data Protection in Finland determines their status

as the following: "The Office of the Data Protection Ombudsman is an independent authority operating in connection with the Ministry of Justice" (Data Protection in Finland [ref 4th October 2010])

The customer information is of course valuable for the chains and their cooperative companies. They want that the customers hand over their information, but unfortunately data privacy issues are not mentioned in contracts. For example the customer has to contact the customer service separately if he/she wishes to prevent the usage of customer information. None of the three main reward systems that are being examined in the thesis offer automatic prevention of the usage of the information when the customer joins in and fills the contract.

Kumpula states that the data privacy descriptions should be more visible. But they are not, and that is why only very few of the customers have set some kind of limitations to the use of their customer information. For example only 2,7 % of K-plussa members have denied the usage of customer information for direct marketing purposes and only under one percentage out of S-chain members.

(Harva älynnyt kieltää etukorttitietojen käytön [ref 4th October 2010])

7.1.4 Total denial of information gathering prevents the customer the accumulation of bonus points

A customer from K-chain is able to deny all information gathering fully. If one decides to use this right, he/she will not be able to accumulate Plussa points anymore though. One is still able to utilize the K-plussa special price offers, but points will not accumulate.

On the contrary, S-chain customer member can not deny all of the information usage completely. S-chain states that it is a condition to the benefits to allow the

information gathering. It is possible to separately deny for example information handling and releasement to direct advertising, and for research purposes.

(Harva älynnyt kieltää etukorttitietojen käytön [ref 4th October 2010])

8 CONCLUSIONS

8.1 Why is the S-chain successful

S-chain is not only about their bonus card, the s-card. Their whole business model originates from the customer owner orientation. In other chains, like the K-chain, the Plussa card is just a card. One can say that in the S-chain the business revolves around the reward card and in other chains the card revolves around the business.

Also the fact that the customer is the owner in the S-chain makes a big difference. It makes a sense of belonging to the chain. In fact all of the three reward systems are after this sense of belonging. They all have for example their own magazine to the customers who belong to their reward system. S-card has *Yhteishyvä*, Plussa card has *Pirkka* and Ykkösbonus has *Me*, which actually means “we” in Finnish. But the fact that S-chain has the special feature, which is the customer owner matter, it will be extremely difficult for the competitors to beat them. The customer can simply identify himself/herself better to the S-chain than the competitors.

The structure of the S-group also enables to give away the surplus, which is a very good way to attract new customers and keep the old ones happy as well. Word of mouth can be seen as a big factor, the old customers telling the potential new customers how much bonus they get.

The customer owner has a real opportunity to make a difference and the S-group takes feedback into consideration very well in order to meet the consumers' needs. So whenever there is a need, the S-group will react and the customer owners are able to center their purchases and not go to the competitor. A good piece of evidence about this is that according to *S-group today* the S-group operates in more business areas than any other company in Finland.

S-group has managed to get quality partners to make business with them, from such business fields as entertainment (circus, music events), car rental, travel agencies, insurance and so on. That helps the customer to collect bonus, from virtually anything he/she does.

S-chain is a good example on how to utilize the relationship marketing into practice. More people get their hands on the customer information in S-chain than their competitors, this might be a good factor, the larger amount of employees know about customers, the better they can provide accurate service. On the other hand, I asked an employee, who works for S-groups gas station chain ABC whether she was informed about some kind of company policies, or whether she knew how s-card works. To my surprise she had not been informed neither about any policies nor the s-card. This can be seen as an area of improvement for the S-group, more internal marketing should be used, for example in order for the employees to know how good their reward program actually is.

8.2 How S-chain could get even better?

According to a survey made by Sorvali & Ursin (Nuorten mielikuvia keskimään asiakasomistajuudesta, 2007) the level of awareness that young people have about the S-card or the S-chain is not particularly high. For example while the surplus might be good bait, the awareness of the surplus certainly is not in the level that it could attract lots of new customers.

Many of the people in the survey think that the amount of the participation share is very high. It could be better explained that the share can first of all be paid in a way that the customer only pays € 20 first and collects the bonus to cover the amount and moreover that it is fairly easy to cover the whole amount with bonus if the customer just centers the purchases effectively. People do not want to invest on unknown issues.

Those people who already have the collateral card should be persuaded into having own cards. It is surely easier to make new customers out of those who have previous experience of the card than those who have not. The survey found out that people see the joining process a bit difficult and time-consuming. There should be a change in that, perhaps a separate stand in the bigger markets like Prisma where the joining could be done with an assistant. People want to join with as little effort as possible.

The marketing especially on the television is very recognizable with the green S-group color and a certain theme song. Some of the people think that the advertisements are a bit boring and similar every time. The commercials where a family is being interviewed splits opinions, some like it but many think that they are a bit artificial.

The marketing is actually aimed more towards families. If the marketing to younger audience and single people likewise could be made better, the S-group would certainly attract more customers. It is of course a fact that a bigger family can get more bonuses though; therefore it is easier to market to families.

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APPENDICES

Appendix 1. Questionnaire sent to S-group

Hei,

Nimeni on Mikko Salovaara ja teen tutkimusta bonuskorteista yhdessä saksalaisen professori Thomas Lauerin kanssa. Tämä tutkimus on myös samalla minun lopputyöni Seinäjoen Ammattikorkeakoulussa. Valmistun ulkomaankaupan tradenomiksi.

Onko mahdollista että, Te tai mahdollisesti joku muu henkilö voisi vastata liitteessä oleviin muutamiin kysymyksiin. Nämä samat kysymykset kysytään muutamilta saksalaisilta yrityksiltä joilla on käytössä bonuskortti.

S-kortti on valittu tutkimukseen, koska se on markkinajohtaja Suomessa.

Kiitos

Mikko Salovaara

Translation:

Hello,

My name is Mikko Salovaara and I am doing a study about bonus cards together with a German Professor Thomas Lauer. This study is also my final thesis in Seinäjoki University of Applied Sciences. I will graduate a Bachelor of Business Administration.

Is it possible that you or perhaps someone else could answer a few questions that are attached. These same questions are asked from some German businesses how are utilizing bonus card systems.

The S-card is chosen for this study because it is the market leader in Finland.

Thank you

Mikko Salovaara



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Questionnaire:

1 Facts regarding the company:

- Name of the company:
- Industry:
- Position in the market (e.g. market leader):
- Revenue p. y.:
- Number of employees:
- Other important things:

2 Questions regarding the program:

- Date of the program launch:
- Number of program members (consumers):
- Development of program members (milestones):

- What are the lessons to learn from your program, why is it successful?

- Anything else that is not mentioned above?

Kiitos!!!!!!