



How digitalization has affected the importance of customer loyalty and the nature of customer loyalty programs

Case Study: Developing Case Company X's customer loyalty program

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<p>In recent years, digitalization has introduced significant changes and great challenges in the retail industry, making it one of the biggest game changers in the field of customer loyalty marketing. Therefore, the aim of this study was to investigate how digitalization has affected the importance of customer loyalty and the nature of customer loyalty programs in retail. The research focused on examining the effects of digitalization on customer expectations and what kinds of changes this phenomenon has introduced regarding the initial power setting between consumers and retailers.</p> <p>This was an organizational case study for Case Company X. The author of this research has worked for the case company and recognized major deficiencies and development possibilities regarding the company’s customer loyalty program. The purpose of this study was to offer justifiable suggestions regarding the development and improvement of Case Company X’s customer loyalty program.</p> <p>The research methods chosen for this research were case study and desk research. Traditional quantitative and qualitative research methods were excluded completely to protect the identity of the Case Company X. A thorough literature review was conducted by placing particular emphasis on the role of customer relationship management, customer experience, and customer satisfaction in building customer loyalty. Suggestions concerning the development of the customer loyalty program of Case Company X were provided through performing a SWOT analysis.</p> <p>Results showed that the importance of customer loyalty has increased due to the changed customer expectations resulting from digitalization. This research also suggested that Case Company X should expand its customer loyalty program online, develop a mobile application for the loyalty program, invest in better CRM systems and focus on delivering personalized experiences.</p>	
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1 INTRODUCTION

Doing business successfully in today's competitive and rapidly changing business environment requires not only creativity combined with nerves of steel, but the ability to answer and meet the consumers' constantly changing needs and expectations resulting from changes introduced by digitalization.

Significant changes and great challenges have been recently introduced in the retail industry by digitalization, making it one of the biggest game changers in the field of customer loyalty marketing. The continuously changing retail environment and the consumers' behavioral patterns attributed to the adaptation of new technologies and applications are calling for research (Lazaris, 2014).

Due to the ongoing changes in the field of retail introduced by digitalization, the competition is constantly growing and thus making it crucial for businesses to focus on building long-lasting relationships with their customers. Customer loyalty programs are proven methods for growing and sustaining market share, says Katherine Black in her article "*Why Customer Loyalty Programs Are So Important*" (2017) on Forbes. According to Black, consumers who are already enthusiastic about a brand are more likely to continue buying and are a prime market for a brand's new products, and yet many retail companies don't have an accurate way of measuring how their loyalty programs are actually performing (Black, 2017). Loyalty cards have generated traffic among retailers and allowed consumers owning these cards to enjoy different types of benefits by collecting points and being a loyal customer (Feel the Future, 2017). However, these cards are beginning to disappear due to digitalization driving the change and introducing important changes to the loyalty systems used by most retailers (Feel the Future, 2017).

This study seeks to demonstrate the importance of customer loyalty and customer loyalty programs in retail, by reviewing previously published literature relevant to the topic and studying the effects of digitalization on the most relevant themes and concepts of this research.

The most central theoretical concepts to this research are as follows: *Digitalization, e-tailing, mobile, customer needs, customer expectations, consumer power, customer*

relationship management, customer lifecycle, customer experience, customer satisfaction, customer loyalty and customer loyalty programs.

These concepts will be properly introduced and covered, and their relation to digitalization and the research problem will be thoroughly described and demonstrated.

Current trends and major findings within the field of interest are reviewed and analyzed to be better able to offer suggestions on loyalty program development in the constantly changing and digitalizing business environment. In addition to the elements mentioned above, Case Company X and the company's loyalty program's current form and status are introduced closely to give a deeper meaning to the research made and to give a complete picture of the subject by introducing all relevant aspects.

1.1 Background and motivation

Digitalization is known to have a constantly growing effect on retailers, consumers, employees and society, which has created a significant need for a comprehensive understanding of the phenomenon (Hagberg et al., 2016). According to Chen and Murphy (2019), one of the most essential requirements of a successful B2C retailer is maintaining good customer relations. In order for businesses to generate revenue, they need to focus on creating customer relationships and maintaining them, as without customers businesses cannot operate successfully (Inkinen, 2014).

This is an organizational case study for Case Company X. The case company is a retailer of high-quality kitchen utensils and premium glassware, based in Finland. Case Company X has a relevantly new customer loyalty program available for their customers in the two stores that they currently operate in. This loyalty program is only available in the stores, leaving the company's e-commerce out of reach. Due to this and some other factors that will be introduced later in this paper, the case company's customer loyalty program does not carry out all the requirements of a successful loyalty program and is not currently reaching its full potential.

The author of this research has worked in the case company's B2C sales for over three years and is therefore truly familiar with the company's retail section. The author has

recognized major deficiencies and development possibilities regarding the case company's customer loyalty program. Therefore, this study is conducted to offer suggestions regarding the development of the customer loyalty program and present the needs and reasons behind these changes to be made. According to Feel the Future (2017), as digitalization progresses, loyalty programs and different payment methods will reach new technical dimensions that will benefit the providers as well as the users. This therefore means that companies have to stay aware of the current changes occurring in the industry and adapt to them as efficiently as possible.

One of the main objectives of this study is to examine and analyze customer loyalty and customer loyalty programs and demonstrate their importance in the constantly digitalizing retail industry. The purpose of this study is to offer justifiable suggestions regarding the development and improvement of Case Company X's customer loyalty program. The findings of this research will benefit the Case Company X and other retailers in engaging their customers and developing their customer loyalty programs.

This research is built on a hypothesis that customer satisfaction leads to customer loyalty and may thus increase revenue growth. Together with the research questions, this hypothesis and whether it holds will be answered at the end of this research.

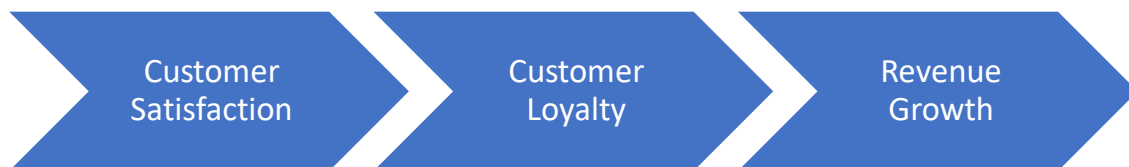


Figure 1. Hypothesis: Customer satisfaction leads to customer loyalty and may thus increase revenue growth.

1.2 Research aim and questions

The main aim of this research is to with the support of literature review, examine and analyze the importance of customer loyalty and the development possibilities of Case Company X's customer loyalty program. Solutions regarding the development of the loyalty program are offered based on the literature reviewed and analyzed, and the

author's observation and experience regarding Case Company X and its customer loyalty program. The research questions are as follows:

RQ1. How digitalization has affected the importance of customer loyalty?

RQ2. How case company should develop their customer loyalty program?

1.3 Approach and limitations

The focus of this study is to see how digitalization has affected the importance of customer loyalty and the nature of customer loyalty programs in retail. The research is limited to retail only and the results gained are reflected to the Case Company X's loyalty program and developing it. Market Business News, or MBN, (2019) defines retail as the sale of products to the ultimate consumers in relatively small quantities. The term ultimate consumer refers to the purchaser, who purchases for themselves and does not resell. According to MBN (2019) the retail sector includes all shops and stores, being either brick-and-mortar, mail-order or online, that sell goods for individuals buying the products for personal use only, not business. Having the consumer sector and customer relationships at the center of this study, the Case Company X's wholesale has naturally been excluded from the research.

This research focuses on examining how digitalization has affected customer needs and expectations and what kinds of changes this phenomenon has introduced regarding the initial power setting between consumers and retailers.



Figure 2. The causal connection between digitalization and changes in consumer behavior.

Specifically, this research attempts to demonstrate the importance of customer loyalty and the reasons leading to it, by placing particular emphasis on the role of customer

relationship management, customer experience and customer satisfaction in building customer loyalty. Other factors influencing customer loyalty, such as demographics, trust or perceived corporate image have been left out to keep the research focused enough.

Ethical considerations have been done regarding various factors. The privacy and anonymity of the case company has been respected by referring to a Case Company X instead of using the company's actual name. Secondly, data privacy has been considered and no delicate information has been published in order to avoid breaking the confidentiality or harming any participants. This being mainly the Case Company X's management and employees, if the company reputation were to suffer from the data published in this research.

1.4 Structure of the study

The hourglass notion of research, introduced by e.g. Professor William M.K. Trochim (2020), has been implemented to this study and used as a foundation for framing and designing the research. As most research projects, this research follows the shape of an hourglass, starting with a broader area of interest that is narrowed down to the initial problem during the research process that then gets operationalized and observed (Trochim, 2020).

In the beginning of this study, background, context and the research problem are made known in the introduction chapter, followed by a comprehensive introduction of the Case Company X. The chapter following includes the literature review that introduces the secondary data gathered from various literature sources, listed under the list of references. After this, the methodology for this research is introduced in chapter three, where the research methods used, and the processes of data collection and analysis are introduced.

The empirical part and the results of this research are covered in chapter four where the Case Company X's customer loyalty program is introduced and compared to the data and results gained from the literature review and the author's experience and observation within the case company. With the help of a SWOT analysis, recommendations are offered and justified thoroughly. Critical discussion concerning the validity and

limitations of the research and conclusions made regarding the results gained can be found at the end of this paper with suggestions for further research and improvements.

1.5 Case company profile

The Case Company X is A Finnish wholesaler and retailer of high-quality kitchen utensils and premium glassware that operates in two brick-and-mortar stores and the company's e-commerce. The stores, the warehouse and the office of the company are all situated in the Helsinki metropolitan area. The company has operated for over 30 years and has quite an established customer base but is also constantly being marketed and getting better reach in new target markets. This study concentrates on the retail (B2C) side of the Case Company X, completely leaving out the company's wholesale.

Case company X's customer base used to be very narrow compared to what it is today, having only consisted of people who were into wine culture and gastronomy and had higher than an average level of interest and knowledge of the industry back in the 80's. Today, due to the constantly growing awareness and interest towards the wine industry and gastronomy among consumers, Case Company X's opportunities for targeting completely new customer segments are also considered great. According to Mikko Numminen on Viinilehti (2016), today every 10th Finn is a wine enthusiast. This indicates that the interest towards the services and products Case Company X offers might also be increasing, which thus increases the significance of this research.

In 2017 Case Company X launched a new loyalty program to be better able to engage their customers and follow their purchasing behavior. A significant share of the revenue comes from the company's e-commerce, leaving the stores with a lower proportion of the sales. The share is expected to grow as digitalization advances and e-commerces gain popularity among consumers. The loyalty program is currently only available in the stores, leaving the company's e-commerce out of reach. This is problematic considering the unequal distribution and the risk of brick-and-mortars losing their convenience and significance in the future.

Since the products Case Company X sells are categorized as premium or niche goods, their prices are relatively high. Due to the higher pricing and specific features, some of these products can also be considered as high involvement products. According to Halkola (2017) “all products can be categorized either as low or high involvement purchasing decisions”. It is the consumer’s level of involvement and how interested they are in buying a certain product or using it that determines the division (Open Textbooks, 2016).

Low involvement products usually include general day to day goods that are inexpensive (Open Textbooks, 2016) and purchased without excessive comparison between different options or much consideration. In contrast to low involvement products, high involvement products carry a higher risk to the buyer if they make a mistake purchasing them, due to their higher pricing (Open Textbooks, 2016). With the higher price comes a higher risk, meaning that consumers need to engage in extended problem solving and gather a significant amount of information regarding the products in question before making a final decision (Tanner & Raymond, 2012). Thereby, companies selling high-involvement products should focus on delivering excellent customer experiences.

Consumers that are highly involved to the purchasing process are more likely to display loyalty towards a brand more easily, claim Quester & Lin Lim (2003). They also suggest that high involvement has been described as a precondition to loyalty. Understanding this is crucial for retailers such as the Case Company X. Due to the relevantly small brand differences perceived by consumers, they may easily decentralize their purchases elsewhere (Kotler & Armstrong, 2012) rather than becoming loyal towards one brand or business.

2 LITERATURE REVIEW

In this chapter the literature used for the research is presented and the key concepts determined are explained and examined as a part of this research. Both primary and secondary sources were used while conducting this research. The primary sources

included research reports and journal articles whereas the secondary sources used consisted of different textbooks, encyclopedias, dissertations and editorial pieces.

The theoretical framework for this research is built based on various theories and literature studying the concepts most relevant to this research's topics, and the possible relationships between them.

As stated, the most central theoretical concepts to this research are as follows: *Digitalization, e-tailing, mobile, customer needs, customer expectations, consumer power, customer relationship management, customer lifecycle, customer experience, customer satisfaction, customer loyalty and customer loyalty programs.*

To be able to demonstrate the importance of customer loyalty and customer loyalty programs in retail, it is crucial to understand what kind of factors affect customer loyalty and what factors should be considered when aiming for customer loyalty and long-lasting customer relationships. The three main factors influencing customer loyalty to be examined are introduced in the figure below:



Figure 3. The three main factors influencing Customer Loyalty

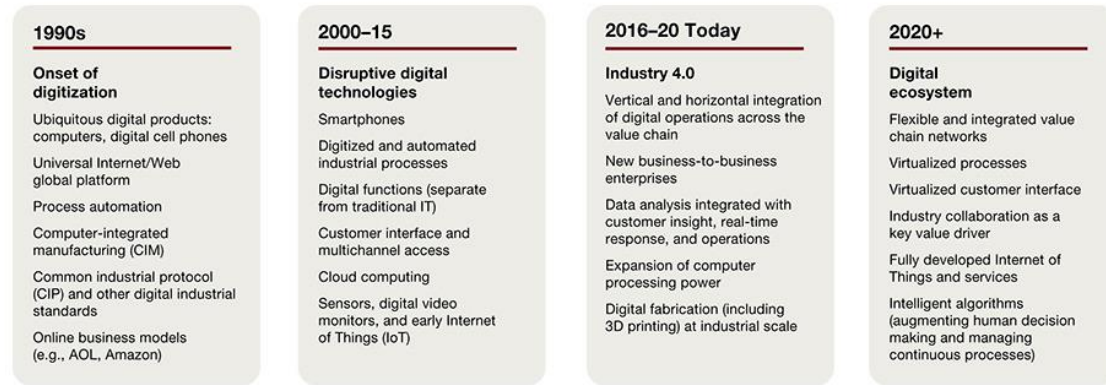
Plenty of research has been done regarding the relationship between customer relationship management, customer satisfaction and customer loyalty. Numerous authors,

such as Kotler & Armstrong (2012), Hajdukiewicz (2016), Hagberg *et al.* (2016) and Kotler & Keller (2015) have already studied topics similar to this study's topics. Different additional factors such as digitalization and its impacts on retailing and consumer behavior are concentrated on and combined with the fundamental ideas of the previous studies made and theories published.

2.1 Digitalization

Digitalization is claimed to be one of the most significant on-going transformations of the contemporary society (Hagberg *et al.*, 2016). According to Gartner IT Glossary (2019) digitalization is “the use of digital technologies to change a business model and provide new revenue and value-producing opportunities”. Digitalization is also described as the process of moving to a digital business, which is based on *digitization*, meaning the process of changing from analog form to a digital one (Garner IT Glossary, 2019). According to Hagberg *et al.* (2016) the transformation from analog to digital is crucial for the retail sector, since it both affects and is being affected by this development.

Retail and consumer goods companies are currently “in the midst of a transformation unlike any before in their history” state Dutzler *et al.* (2016) in their article “*Industry 4.0: Opportunities and challenges for consumer product and retail companies*”. They introduce *Industry 4.0*, a digital revolution that as “a natural outgrowth of the third industrial revolution” has “fully transformed the nature of commerce in the second half of the 20th century with an array of computerization and IT advances” (Dutzler *et al.*, 2016). Below a figure showing how digital technologies have evolved according to the article:



Source: Strategy& analysis
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Figure 4. How digital technologies have evolved to today's tipping point by Dutzler et al. (2016).

Figure 4. demonstrates well how digitalization has actively affected the retail sector for several decades already, and how the customer interface has yet been under the influence and focus for a relevantly short period. Dutzler *et al.* (2016) state that retail companies have focused primarily on digitizing their customer interface in the recent years and that now the digital integration of the end-to-end value chain has become the true strategic priority.

2.1.1 E-commerce and E-tailing

Electronic commerce, better known as e-commerce, is a business model that enables companies and individuals to conduct business over electronic networks, being the Internet (Bloomenthal, 2019). E-commerces operate in all four major market segments: Business to business (B2B), business to consumer (B2C), consumer to consumer and consumer to business. Bloomenthal (2019) suggests that e-commerce has helped businesses globally in establishing wider market presences and in providing more time- and cost-efficient distribution channels for their products or services.

Electronic Retailing, or e-tailing, means the sale of goods or services through the Internet including both B2B and B2C (Chen & Murphy, 2019). According to Chen and Murphy (2019), B2C retailing is the most familiar among consumers and most commonly used of all the e-commerce companies. Hajdukiewicz (2016) states in her article “A new approach

to customer loyalty programs in the era of digitalization: The example of the Freebee loyalty technology platform” that through e-commerces, businesses have gained the automatic access to data concerning customer behavior and convenient tools to analyze it. Hajdukiewicz (2016) points out that it is not a matter of choice but rather a question of “to be or not to be” for many offline businesses, such as the case company’s brick-and-mortars, to possess an effective loyalty program in today’s challenging and competitive business environment.

The competition from e-commerce is constantly growing stronger (Hajdukiewicz, 2016) as technology advances and customer attitudes develop towards more digital oriented consumer behavior. Possibilities for more relevant, efficient, and transparent ways of communicating directly with customers through different systems or tools such as e-mails and SMS are great for businesses that operate in e-commerces. Offline businesses and brick-and-mortars cannot compete as firmly with e-commerces, unless they have other ways to access and track data and communicate with their customers. Loyalty programs may be the solution permitting the survival of offline companies in the competitive market. Efficient loyalty programs offer brands both an automatic access to analyzing consumer behavior, and tools for communicating directly with their customers (Hajdukiewicz, 2016), that will be further examined in chapter 2.7. covering customer loyalty programs.

According to Hagberg *et al.* (2016), digitalization contributes to a possible extension of offerings in product and service ranges, and thus supports the opportunity of combining them online and offline. Combining physical stores with e-commerces has also provided significant opportunities for “increased profitability in assortment allocation”, state Hagberg *et al.* (2016). By offering different selections on different channels based on the customer segments targeted, retailers can at the same time offer a wider assortment of products online, and narrow the range in their stores accordingly to the buyer’s needs and avoid the risk of keeping too many things in storage, and therefore losing profit through the growing stock value (Hagberg *et al.*, 2016).

This can also be described as multichannel thinking, as Matter Agency (2019) refers to it. In retail environment, multichannel marketing involves the integration of marketing activities in physical retail stores and online marketing (Duffy, 2004). According to Duffy

(2004) the online components are evolving in haste and becoming more critical to the success of any retail company. In multichannel retailing, the thinking and operating happens channel specifically, as if the consumers metaphysically existed in different channels (Matter Agency, 2019).

2.1.2 Omnichannel retailing

Levy *et al.* (2013, p. 67, cited in Lazaris 2014) define omnichannel retailing as “a coordinated multichannel offering that provides a seamless experience when using all of the retailer’s shopping channels”. Omnichannel retailing involves an integrated shopping experience that seamlessly merges the physical store with the “information rich digital environment, with the aim of providing excellent shopper experiences across all touch points” according to Frazer & Stiehler’s (2014) detailed description.

Matter Agency (2019) suggests that omnichannel retailing and marketing have only become possible after digitalization and the technological advances behind it. It is emphasized in the article that retailers should focus on identifying the customer in different channels and combining the data gathered through different platforms and channels (Matter Agency, 2019). It is said that in omnichannel retailing different channels are being combined when in fact no channels are physically connected, only data is (Matter Agency, 2019). What happens, is that the data available in all the channels existing is to be gathered together so that a better, deeper understanding can be gained regarding a customer’s actions.

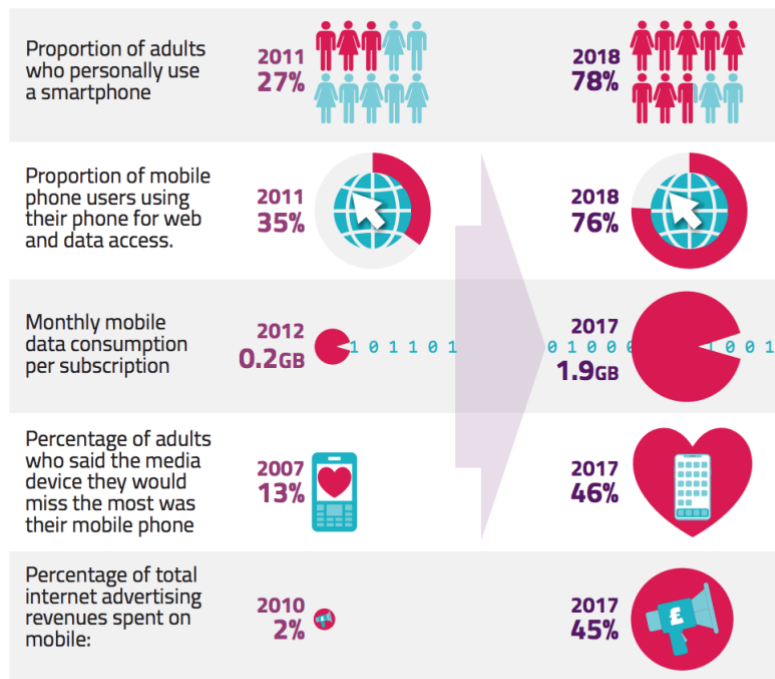
Omnichannel consumers are described in IDC’s report “*Satisfying the Omnichannel Consumers Whenever and Wherever They Shop*” published in 2009, as an evolution of the multichannel consumers that use all of the channels provided simultaneously instead of using them in parallel (Parker & Hand; Ortis & Casoli, cited in Lazaris 2014). This statement indicates that retailers should invest in creating seamless experiences across channels and meeting the customers where they are. And by doing so, businesses can minimize the risk of losing customers that could not be properly engaged during their journey. Lazaris (2014) points out that is crucial for businesses to understand the importance of consumer decision-making, channel switching, and brand loyalty in omnichannel environments.

2.1.3 Mobile

While technology advances, the world is getting more and more mobile oriented. The connectivity gained through mobile technology is outstanding and drives the change for more mobile focused markets. Great adaptation of smartphones means more time spent on phones by consumers, which automatically creates more opportunities for brands to engage with consumers (EyeforTravel, 2016). Businesses should therefore focus on serving impatient consumers in mobile-first micro-moments or they will risk missing the most critical engagement opportunities with them (Solis, 2017).

A study conducted by the United Kingdom’s telecoms regulator Ofcom in 2018 shows that the usage of smartphones has exploded between the years 2011 and 2018. Excessive increases in mobile data consumption, the amount of smartphone users and users that access web and data with their smartphones can be easily noted from the figure below, retrieved from *Communications Market Report* by Ofcom (2018, pp.53).

Figure 4.2: A decade of the smartphone



Source: Ofcom Technology Tracker H1 2018, Ofcom Connected Nations report 2017, Ofcom Adult Media Literacy Tracker 2017, 2016, 2015 and 2014. A3. Which one of these things you use would you miss the most if it was taken away? (prompted responses, single coded). Base: All adults aged 16+ (1890 in 2014, 1841 in 2016, 1846 in 2016, 1875 in 2017), IAB / PwC Digital Adspend Study

Figure 5. The proliferation of smartphone usage between 2011 and 2018 by Ofcom (2018) *Communications Market Report*, p. 53.

The proliferation of smartphones has allowed consumers to connect with brands in new and seamless ways regardless of time and place. According to Hagberg *et al.* (2016), it has also driven the development of mobile applications that enable consumers to access product information, compare prices and even pay for their purchases. Along with this, retailers have been granted with a great opportunity of expanding and relocating their customer loyalty programs into mobile environment.

According to a survey conducted by Official Statistics of Finland (2018), Finns use the Internet “ever more commonly with a mobile phone – even for shopping.” According to the survey, 89% of Finns between the ages of 16 and 89 used the Internet and 75% of them had used their mobile phones to access the Internet. The results of the survey show that the prevalence of purchasing online with a mobile phone has multiplied in the past decade in all age groups, and that one quarter of the population has used their mobile phones for online purchasing (Official Statistics of Finland, 2018). On that account, it is extremely crucial for retailers to be present online and make online purchasing as convenient as possible for their customers. The opportunities offered through evolving mobile technologies to customer loyalty and customer loyalty programs will be further introduced and examined in chapter 2.7.1 where current trends regarding customer loyalty programs are introduced and reviewed.

2.2 Consumer Behavior

This chapter seeks to investigate and exhibit changes in consumer behavior introduced by digitalization and the consequences followed by them.

Digitalization has introduced not only physical changes such as e-commerces and mobile applications, but also major behavioral changes in consumer behavior. The whole relationship and the initial power setting between retailers and consumers have shifted drastically in favor of consumers over a relatively short period of time. Due to “decreasing information asymmetries”, as Doherty & Ellis-Chadwick (2010) put it, consumers today have more power and say over how businesses will cope with the prevailing competition and rapidly changing business setting.

2.2.1 Customer Needs

The Business Dictionary (2019) defines customer needs as problems that customers intend to solve by purchasing a good or a service. Customer motives then are needs that sufficiently press customers to seek satisfaction of the need, state Kotler & Armstrong (2012). MBASkool (n.d.) presents needs as the basis of selling any products or services because if customers do not feel the need for something, they will not purchase. Therefore, identifying the specific needs of the business's customers is crucial for retailers so that they can sell their products or services as solutions to the intended customer problems (MBASkool, n.d.).

Needs can be triggered by either internal or external stimuli, but regardless of the factors affecting or creating the need, the buying process always begins with need recognition (Kotler & Armstrong, 2012). It is crucial for retailers to understand the buyer decision process that through need recognition, information search, evaluation of alternatives and the purchase decision, leads to postpurchase behavior. Postpurchase behavior describes the last stage in the buyer decision process where consumers take further action based on their level of satisfaction or dissatisfaction regarding the purchase. (Kotler & Armstrong, 2012). Thereby acknowledging the consumers' needs and acting on them increases the chances for higher levels of customer satisfaction to be born, which may be of help in building stronger customer relationships and thus generating customer loyalty.

2.2.2 Customer Expectations

The Business Dictionary (2019) defines customer expectations as the perceived-value that customers seek from the purchasing of a product or a service. According to Qualtrics (2019) consumer expectations reflect both past and current product evaluations and user experiences. Consumers today are not only more demanding than ever, but also aware and strict of their time and how it is or should be used. More expectations towards efficiency, convenience and accessibility are constantly being created and the competition is intense. Kotler & Keller (2015) prove the importance of recognizing the customers' expectations by stating that customers are value maximizers and act on their formed expectations of value, that should not be gone under. Ali *et al.* (2015) claim that customer

expectations should not be ignored due to their vital role in customer behavior regarding the repurchasing decisions to be done in the future.

Dutzler *et al.* (2016) suggest that as customer expectations change, retail companies must “begin to embrace the growing digitization and interconnection of products, business models and value chains” and by doing so the companies can be agile and responsive to consumer needs and expectations. Below an illustration that shows the exceptionally demanding expectations that consumers have today towards the goods and services offered to them.

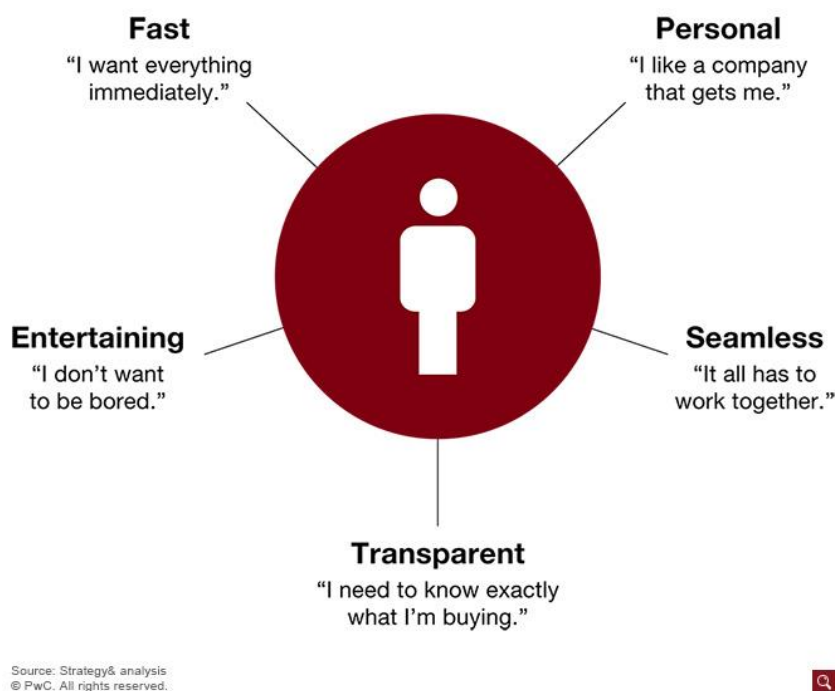


Figure 6. Consumer expectations (Dutzler *et al.*, 2016).

As can be seen in Figure 6. major trends include convenience, transparency, quality, personalization and finally value, that all of the factors mentioned deliver when combined. As mentioned, consumers expect retailers to offer seamless experiences across channels. This has to do with both transparency and convenience, that will be further discussed in chapter 2.7. examining customer loyalty programs.

Personalized marketing is the exact opposite of mass marketing. Kotler & Keller (2015) describe it as marketing, that is “personally as relevant as possible to as many customers

as possible”. This creates many challenges for retailers, while consumers expect to be treated as individuals (Gains, 2016).

Kotler & Keller (2015) use the American Society for Quality’s definition for quality: “The totality of features and characteristics of a product or service that bear on its ability to satisfy stated or implied needs”. This definition supports a customer-centric approach and indicates that whenever a product or service meets or exceeds the customer’s expectations, quality has been delivered (Kotler & Keller, 2015).

A research conducted by the Harris Poll and commissioned by RedPoint Global examining the gap between consumer and marketer expectations surrounding customer experiences shows, that marketers consistently rate their performance higher than consumers do when it comes to customer understanding and personalization (RedPoint, 2019). Furthermore, the report suggests that marketers should focus on “the end goal of creating a differentiated hyper-personalized experience” (RedPoint, 2019). These statements demonstrate well the importance of personalized experiences.

2.2.3 Consumer Power

Already in 2013, Labrecque *et al.* argued in their article “*Consumer Power: Evolution in the Digital Age*” that there is an indisputable connection between the proliferation of digital technologies, such as the internet and social media, and growing consumer power. Labrecque *et al.* (2013) introduce the evolution of consumer power through four power sources, that can also be considered as stages: demand-based, information-based, network-based and crowd-based power (See Fig. 1 in Labrecque *et al.* (2013) *Journal of Interactive Marketing* 27, p. 259). Digitalization has shifted the evolution from individual-based towards more network-based (Labrecque *et al.*, 2013) and permitted the development of the three last stages mentioned. Consumer power that results from digitalization, has increased the overall transparency in the market and enhanced the possibilities for consumers to group together (Doherty & Ellis-Chadwick, 2010), making them thus more powerful than before.

The endless possibilities regarding information and accessing it more conveniently than ever has truly placed the consumer at the center of the game. Acar & Puntoni (2016) state

that due to the power gained from information, consumers no longer accept their passive roles as “recipients of marketing communications”. This indicates that businesses should provide consumers with tools and options to facilitate their decision-making and thus allow them to tailor experiences that suit the consumer’s individual needs (Bauhaus, n.d.; Spenner & Freeman, 2012).

Having all this information available and acknowledging the power gained from it, consumers today are very demanding and certainly know their worth. Vast competition has provided a real cornucopia of offerings for consumers to pick out from. Consumers are aware of the status offered to them by the current circumstances and take full advantage of the situation by constantly setting more expectations towards higher efficiency, convenience and accessibility. But consumers alone are not to be blamed for this.

Digitalization has created an environment where almost anything can be done, anytime and anywhere. Consumers are constantly being exposed to a never-ending flow of information and stimulus that cannot be easily escaped from. Concentrating has become very demanding for consumers ever since the introduction of smartphones. “*Communications Market Report*” published by Ofcom (2018) supports this statement by reporting that people are checking their smartphones on average every 12 minutes during their waking hours.

According to a study conducted by Microsoft (2015), the average attention span for an average human being is as short as eight seconds. The results of the study show that the average attention span has fallen from 12 seconds measured in the year 2000, roughly when the mobile revolution began. This could also indicate that due to the shortened attention span, consumers have become more impatient and are expecting to be served immediately. Furthermore, Kim *et al.* (2019) report in their paper “*When Busy Is Less Indulging: Impact of Busy Mindset on Self-Control Behaviors*” that a rising number of consumers are constantly reporting feeling busier than ever, and that the word “busy” has gained a powerful position in describing the modern-day consumers life (Adam, Darrah *et al.* & Schulte, cited in Kim *et al.* 2019). This means that consumers have less time and energy to focus on their environment that thus creates businesses more pressure to stand

out for their own benefit and to engage their consumers with their own brand rather than the competitor's.

Kotler & Keller (2015) claim that “company empowerment has been matched by customer empowerment”. They also put forth that companies that have understood the importance of consumer power and adjusted their organizational structure to correspond this phenomenon, are more likely to be successful. And that in order to be that, companies must adjust to the changes in the nature and strength of their customer relationships. Kotler & Keller (2015) underline that retailers must be skilled in creating customer value and managing the customer relationships built. In order to create value for customers and thus engage and reward them, value must also be captured from customers in return (Kotler & Keller, 2015)

Kotler & Keller (2015 p. XVI) do also argue that in order to create profit and customer equity, companies must first successfully understand customer needs and wants and based to them, design a customer-driven marketing strategy. By creating value to the customers first, companies may build long-lasting and profitable relationships with their customers and gain value back in return (Kotler & Keller, 2015 p. XVI) through the appreciation and satisfaction experienced by their customers.

2.3 Customer Relationship Management (CRM)

The value of a company's customer base is a major driver of company profitability, claim Kotler & Keller (2015). This indicates that companies should understand the importance of using customer information to enact precision marketing that can be used for building strong long-term relationships (Kotler & Keller, 2015). The nature of customer relationships and how consumers and retailers relate to one another is rapidly changing (Kotler & Keller, 2015) due to major changes introduced by digitalization. Therefore, deeper consumer involvement and a sense of community around brands should be created to ensure the meaningfulness of the brand, and the customer's relationship to it (Kotler & Keller, 2015).

Customer relationship management (CRM) is an important combination of practices, strategies and technologies that companies should use to create, maintain and develop their customer relations in order to create more value to their customers and ensure both the customers' and the company's satisfaction (Bergström & Leppänen, 2009). Kotler & Keller (2015) describe CRM as “the process of carefully managing detailed information about individual customers and all customer touch points” that should be used to maximize loyalty. One of the most important objectives of CRM is to develop the relationship between the company and its customers, and to turn the most potential customers to loyal ones and engage with them.

The importance of data collection and analysis as a part of efficient CRM cannot be underestimated. Based on the information gathered about each valued customer and their changing behavior, companies can easily customize anything from market offerings to services and ways of communicating to meet the customer's individual needs (Kotler & Keller, 2015). According to Kotler & Keller (2015), with the use of CRM it is possible for companies to provide exceptional “real-time customer service through the effective use of individual account information”.

With the operation of customer relationship management and marketing, companies can ensure that their revenue generating customers and potential references are carefully taken care of. According to Bergström and Leppänen (2009), the famous 80-20 rule in Marketing holds true when it comes to customer loyalty: 20% of the company's existing customers create 80% of the company's profit, and 20% of those consumers are old and loyal customers of the company. This means they should be treated with extreme care and caution. Kotler & Keller (2015) support this statement by suggesting that interacting with customers is one of the most crucial things when aiming for increased customer loyalty and retention.

Maintaining relationships with customers requires constant sustenance and effort. The company should know their customers and their true needs in order to be able to react to the signals they are sending (Tikkala, 2011). Any changes in consumer behavior should be carefully followed and remarked, so that the company can instantly react to them. If the company does not react to the customer's dissatisfaction, there is a great risk of losing the customer completely. Most common situations often include complaints or claims that

are not answered immediately or handled well from the consumer's point of view. It is crucial for companies to keep the customer satisfied in order to have them not only coming back to one's business, but to recommend the products or services to others as well (Cutler & Sterne, 2000). By generating good word of mouth, the already existing customers can bring the company more potential loyal customers, thus generating even more revenue.

2.3.1 Customer Lifecycle

According to Cutler & Sterne (2000), "the overall business economy has shifted from process- or product-centric to customer-centric and hence customer life cycle-centric". Customer lifecycle is a frequently used term in customer relationship management that describes the development and progression of steps that customers go through when considering, purchasing, using and maintaining loyalty to a product or a service, says Margaret Rouse (2007). According to Forrest Stroud (n.d.) on Webopedia.com, the term customer lifecycle is being used to describe "the various stages a prospective or existing customer progresses through in a company's marketing and sales funnel."

If businesses want to maximize their revenue for each potential and existing customer, they should understand the customer lifecycle and its five stages that customers go through during the conversion process: reach, acquisition, conversion, retention and loyalty (Johnson, 2017). Cutler & Sterne (2000) introduce a loyalty-centric customer lifecycle that should proceed through five different stages. These five stages explained can be found under Figure 7. retrieved from "*E-Metrics – Business Metrics for The New Economy*" by Cutler & Sterne (2000, p. 26).

Figure 14:
The Customer
Life Cycle from
Introduction
to Loyalty.

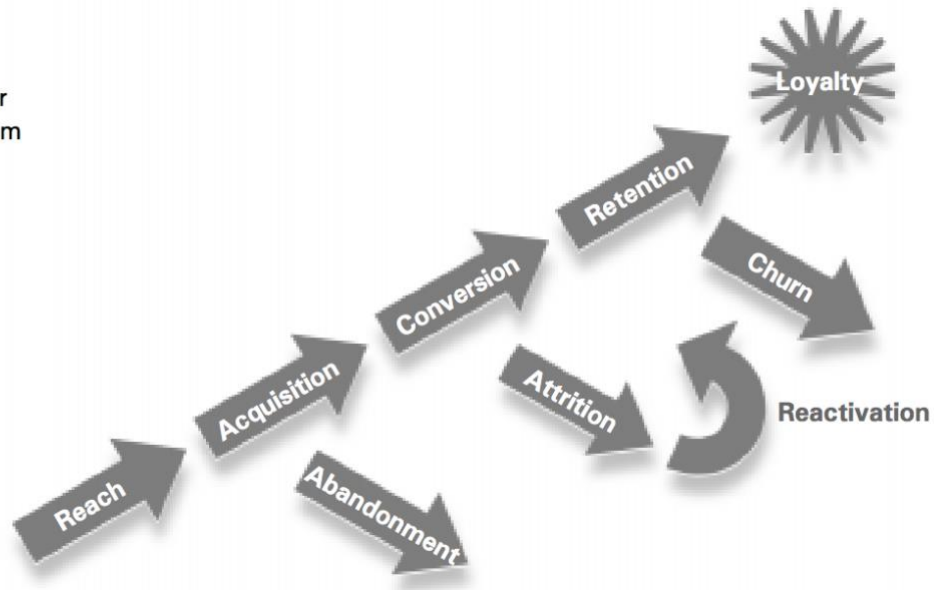


Figure 7. The customer lifecycle from introduction to loyalty by Cutler & Sterne (2000, p. 26).

Reach

According to Cutler & Sterne (2000) the customer lifecycle starts with a business reaching its target market and progressing towards an established loyal customer base. The potential customer's attention should be captured in order for them to become not only aware of the business's products or services, but also interested in them. Only this way a relationship can be developed between the company and the customer.

Acquisition

Once the customer's attention has been captured, they will move into the acquisition stage where the goal is no longer awareness but customer participation (Johnson 2017; Cutler & Sterne 2000). Once a potential customer takes any concrete action expressing interest towards the business, a new prospect has been acquired (Cutler & Sterne, 2000). Cutler & Sterne (2000) also point out that in this stage, "many individual customer life cycles are cut short by abandonment" which can be seen from Figure 7. BigCommerce (2019) states that "contacting prospects directly with personalized communication improves the odds of a future conversion".

Conversion

In a successful conversion stage, a lead will turn into a paying customer (Johnson, 2017). BigCommerce (2019) describes this stage as a developing and nurturing one, where a

business develops a relationship with the buyer and ensures that they are “fully satisfied with their initial transaction”. When converting leads into paying customers Johnson (2017) advises retailers to focus on providing value and building relationships rather than simply selling a product. Figure 7. also indicates that attrition is likely to happen in the conversion stage and hence cut the customer lifecycle if the customer is not being provided with enough value.

Retention

Once the retention stage has been reached and a new customer has been gained, the focus should be put into keeping that customer as a recurring one, states Johnson (2017). The consumer’s needs should be satisfied, and the company should find ways to upsell or cross-sell to that person in order to cultivate the relationship between them (Johnson 2017; BigCommerce 2019). BigCommerce (2019) suggests that by using customer feedback to improve a company’s products or services during the retention stage, the company can make the customer feel as if they were a part of the process, and thus bring them more value than is of help when maintaining the relationship. What should also be considered at the retention stage is the possibility of customer churn, or customer defection and its consequences to the business.

Customers that only buy once or very seldom are not as profitable for companies as customers who do business and purchase their products or services continuously (Kotler & Keller, 2015). It is financially more profitable to take care of the already existing customers and keeping them than to find new customers (Tikkala, 2011). Companies lose purchasing potential with every customer that cannot be convinced to come back and engaged with what the brand has to offer, and the effort and resources invested to that potential customer are lost.

Customer retention should be a priority for businesses as it is much more profitable to continue selling to customers that already exist rather than trying to reach new customers (Johnson, 2017). This statement is supported by Farris *et al.*, the authors of *Marketing Metrics* (cited in Turnbull 2014), claiming that the probability of selling to a new prospect varies between 5% and 20%, whereas the probability of selling to an existing customer is as high as 60-70%.

Loyalty

The ultimate goal of every customer lifecycle should be finding customers and turning them into loyal ones. Succeeding in this is crucial to the ongoing success of any business in today's competitive business environment (Johnson, 2017).

Cutler & Sterne (2000) define loyal customers as customers that “come back frequently, buy often, recommend your company to others, and readily try out new things”. They also remark that customers that are truly loyal may even come looking for products that the company does not offer. This creates even greater opportunities for businesses to gain valuable information regarding their customers' needs and wants, with minimal efforts. This being important so that businesses can better develop their product offerings or services accordingly, without any extra cost originated through launching additional time- and money consuming customer surveys or marketing research.

2.3.2 Extending the Customer Lifecycle

Even though the customer lifecycle is presented as linear in Figure 7., it follows a cyclical pattern that truly never ends (Johnson, 2017). In order to achieve this continual cycle, businesses should extend their customer lifecycles by offering value to their customers. Several authors offer suggestions on how this could be done and the majority of them suggest the same: cross-selling and upselling (See Cutler & Sterne, Hayes, Davila).

Adam Hayes (2019) introduces cross-selling as one of the most effective methods of marketing in his reviewed article on Investopedia. Hayes (2019) describes cross-selling as the sales of related or complementary products while providing an additional benefit to an existing customer. According to Mundt *et al.* (2006), a common aim of cross-selling initiatives is to increase the level of customer loyalty. Mundt *et al.* (2006) verify this by stating that cross-selling can be used to grow revenue and “discourage customer defection though deepening the relationships and increasing the costs of switching”.

Upselling, or suggestive selling, is the act of selling a more comprehensive or a higher priced option or add-on to the current product a customer is purchasing (Hayes, 2019; Davila, 2019). According to Kenton (2017), upselling takes a marginal effort compared with the potential additional revenue to be gained. The purpose of upselling is to provide

the customer with all the options available so they can make a knowledgeable choice, which shows the customer that they are valued, and their needs are considered (Davila, 2019).

What is common to cross-selling and upselling, is that they both focus on creating value for customers instead of limiting them to so called “already-encountered products” (BigCommerce, 2019). The secret behind the success of these techniques is that they enable the overall value of a customer lifetime to be greater (Davila, 2019). This is truly important as the customers with the greatest lifetime value, also known as CLV, are generally loyal to both the products of the company, and the company itself (Cutler & Sterne, 2009). Kotler & Keller (2015) describe customer lifetime value (CLV) as a variable for maximizing long-term customer profitability that “describes the net present value of the stream of future profits expected over the customer’s lifetime purchases.”

In addition to using CLV, retailers should also take the short-term, brand-building marketing activities into account, since they may be of help in increasing customer loyalty (Kotler & Keller, 2015). What is most essential to retention efforts and the increasing of customer lifetime value, is the ongoing engagement throughout the customer lifecycle, states Gains (2016). According to Buttle (2009), this leads to the very core idea of CRM, being that companies should not see customers as a set of independent transactions but rather “as a lifetime income stream”.

2.4 Customer Experience

Retaining existing customers and adding new ones requires focusing on creating and reinforcing pleasurable experiences (Qualtrics, 2019). As studies suggest (See e.g. RedPoint, 2019) consumers today seek and live for new experiences and therefore it is trendy to make experiences out of products. This means that companies should try to build their brands and products so that they tell a story that appears to their own advantage.

When customers experience something, a strong combination of observations and feelings can give birth to good word of mouth that gets widespread and helps in engaging

new customers as well (Salmenkivi & Nyman 2008). The stronger these experiences with a brand are, the more likely they are to generate the company more revenue. Hajdukiewicz (2016) supports this statement by claiming that each customer's contact with a company or their products creates them some type of an experience and that in the long run, the sum of all of these experiences affect the customers' purchasing decision.

Consumers crave for unique, convenient and personalized experiences (Betts, 2018) that should be delivered instantaneously and without faults. According to a study conducted by RedPoint and Harris Poll, 92% of brands think they provide exceptional customer experiences, when as much as 73% of the consumers that have taken part on the survey report that brands struggle to meet their expectations and deliver remarkable experiences (RedPoint, 2019). What companies should therefore do, is to focus on creating value for customers through successful customer experiences.

Eggert & Ulaga (2002) emphasize the importance of value creation by suggesting that value is relative to competition. They ground this suggestion by stating that by delivering a better trade-off between benefits and sacrifices in products or services than competitor does, companies can create sustainable competitive advantage (Eggert & Ulaga, 2002).

Customer-perceived value, also known as CPV, is a term used to describe "the difference between a prospective customer's evaluation of all the benefits and costs of an offering and the perceived alternatives", as Kotler & Keller (2015) put it. Ali *et al.* (2015) describe customer perceived value as the customer's psychological assessment of a product or a service with the expectations of that very product or service. According to Ali *et al.* (2015) study results, perceived value is found to be one of the most important factors affecting customer satisfaction.

What determines a successful customer experience is whether the consumer's expectations meet with the product's or the service's perceived performance (Kotler & Armstrong, 2012). In a case where the customer's needs and expectations do not meet, the experience will result as negative and thus increase the risk for customer abandonment, attrition and churn.

2.5 Customer Satisfaction

According to Smith (2018), customer satisfaction reflects the expectation and experiences that customers have with a certain product or service. Customer satisfaction measures how well a company's products or services meet the customer expectation and showcases the degree of satisfaction customers feel towards them. In other words, the customer is satisfied if the product or service is able to meet the customer's expectations, or even optimally, surpass them. According to Kotler & Armstrong (2012), if a product falls short of expectations, the consumer is disappointed; if it does meet the expectations, the consumer is satisfied and, in a case where the product exceeds the expectations, the consumer is delighted.

Major factors affecting customer satisfaction are customer service, the quality of the delivered service and the expectations made towards them (Inkinen, 2014). Kotler & Keller (2015) validate this as they describe customer satisfaction as a function of "the product's perceived performance and the buyer's expectations".

Identical customers do not exist and therefore every customer should be treated as an individual. Even if several customers were to purchase a certain product to fulfill a certain shared need, it should be noted, that each customer's cultural, social and personal background and motives behind their purchasing decisions vary from another (Inkinen 2014; Kotler & Armstrong 2012). Tong (2015) uses the word *erratic* to describe customer satisfaction, as there are numerous factors influencing customer satisfaction.

Numerous theories exist that seek to study or determine customer satisfaction. One particularly relevant for this research has been introduced by Kotler & Keller (2015): Total customer satisfaction. Total customer satisfaction describes an ideal situation where as many customers' requirements as possible have been met and their needs have been satisfied. Kotler & Keller (2015) claim that customer assessments of the performance of products or services depend on the type of loyalty relationship built with the brand. This argument also supports the statement of consumers forming more favorable perceptions of brands that they have positive experiences with (Kotler & Keller, 2015).

According to Davila (2019), customer satisfaction reduces customer churn rates and offers great opportunities for free marketing. Davila (2019) emphasizes how in the digital

age of information, very few people are willing to trust the performance of any product or service without seeing the reviews first. Thereby, the positive word of mouth delivered by happy customers are worth more than any advertisement to be bought (Davila, 2019).

Measuring customer satisfaction can be to a huge advantage and offer directional, yet trustworthy suggestions about the level of success of a business both currently, and in the future. All retailers should measure customer satisfaction regularly (Kotler & Armstrong, 2012) so that they may usher consumers towards post purchase satisfaction, that may ideally lead to customer loyalty.

2.5.1 Relationship between customer satisfaction and customer loyalty

When studying customer loyalty, the importance of customer satisfaction cannot be omitted. Numerous sources indicate that customer satisfaction is a key in building profitable customer relationships between retailers and consumers (See e.g. Heskett *et al.* 1994, Kotler & Armstrong 2012, Kotler & Keller 2015).

“High levels of customer satisfaction are strong predictors of customer and client retention, loyalty and product repurchase” state the first lines of the article called “*Customer Satisfaction (CSAT) Surveys: Examples, Definitions % Template*” on Qualtrics (2019). The article suggests that by collecting data that provides answers regarding why customers enjoyed their experience, companies are more likely to successfully recreate these experiences in the future.

According to Kotler & Keller (2015) high satisfaction leads to high customer loyalty. Rust & Zahorik (1993) support this argument by stating that customer satisfaction does decide customer loyalty.

Heskett *et al.* (1994) introduce a chart representing the relationship between customer satisfaction and customer loyalty:

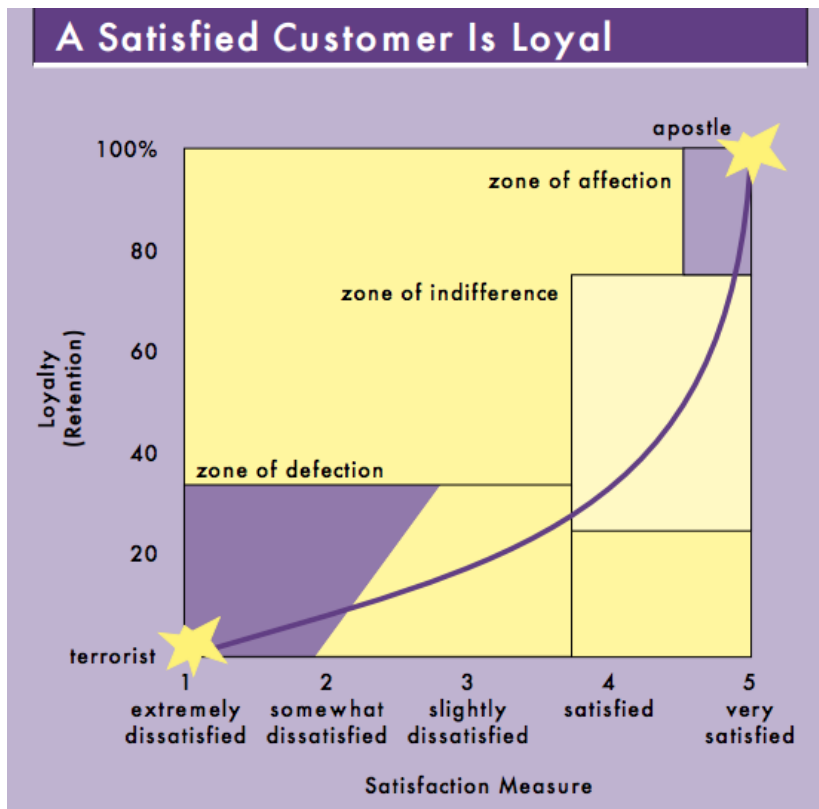


Figure 8. The relationship between levels of customer satisfaction and customer loyalty by Heskett et al. (1994).

Heskett *et al.* (1994) categorize customers into three different zones being zone of defection, zone of indifference and done of affection. Figure 8. demonstrates the level of customer loyalty based on the customer's level of satisfaction regarding a product or a service offered. The most satisfied customers are appointed as *apostles* to underline the loyal nature of these customers and their importance to any business. The customers belonging to this category are impressed with the quality of the product or service offered, and willing to use and recommend these offerings likewise in the future. Hereby, these customers can be considered as loyal.

The absolute other end of the line describes the extremely dissatisfied customers with a term *terrorist*. The word terrorist indicates the most essential, being that the customers of this category will have no positive things to say about the company or its supply. These customers are more likely to spread their dissatisfaction to their circle of influence and discourage them from using the company's services. Needless to say, these customers are not nor will be loyal customers.

What falls in between these two categories is the zone of indifference, where customers can still be retained, but it will require much more effort and efficient communication from businesses.

Along with building relationships, customer satisfaction is also known to increase customer lifetime value (Kotler & Armstrong, 2012). Customers that are satisfied tend to make repurchases, talk favorably of the products or services purchased and hence act as references. Satisfied customers also pay less attention to competing brands and their advertising, since their needs have already been satisfied (Kotler & Armstrong, 2012). Secondly, companies should ensure that the customer expectations are met, or ideally exceeded, to secure the satisfaction of their customers (Kotler & Keller, 2015).

In the event that retailers fail to do so, they will face the consequences of customer dissatisfaction. The larger the gap between the expectations placed and the performance perceived, the greater the consumer's dissatisfaction will be, claim Kotler & Armstrong (2012). The risk of damaging the company image will increase due to the negative word of mouth distributed by a dissatisfied customer (Zephan, 2018). This can be very harmful due to negative word of mouth traveling faster than good word of mouth (Kotler & Armstrong (2012). Dissatisfied customers may also discourage others from trying the products or services of that company (Zephan, 2018).

2.6 Customer Loyalty

Finding an unambiguous definition for loyalty can be difficult. In the context of customer loyalty, it usually means that for some reason, a customer chooses a particular product or service over the competitor's one (Tong, 2015). Kotler & Keller (2015) define loyalty as "a deeply held commitment to rebuy or repatronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behavior". Tong (2015) describes customer loyalty as "a behavior of continuing transactions" that directly reflects to the commitment of also purchasing in the future.

Among attracting and satisfying customers, cultivating customer loyalty and developing long-term relationships with customers should be at every businesses interest (Gremier &

Brown, 1999). Buttle (2009) introduces two approaches to define and measure loyalty: Loyalty based on behavior and loyalty based on attitude. According to Buttle (2009), behavioral loyalty can be expressed through continuing buying and patronage and it may be measured by reference to the customer's purchasing behavior. The customers that are loyal in attitudinal terms are committed to and have a strong preference for a certain supplier, which means that attitudinal loyalty has to be measured by mapping the beliefs, feelings and purchasing intentions of the customer (Buttle, 2009).

When building customer loyalty, Kotler & Keller (2015) underline the importance of combining superior products with excellent services and experiences and targeting them correctly. Quester & Lim (2003) cite an experimental study conducted by LeClerc and Little in 1997, that proves the interaction between brand loyalty and product involvement. The results of the study (LeClerc & Little, cited in Quester & Lim 2003) show that repeat purchase behavior for a high-involvement product indicated brand loyalty, unlike the purchasing low-involvement products that was interpreted as habitual purchase behavior. Thereby, brand loyalty and customer loyalty are significant factors that to be considered in operating the Case Company X.

According to Tong (2015), customer satisfaction, intrinsic value, consumer experience and corporate image are the biggest factors influencing customer loyalty. The factors mentioned are also affected by the competitors of the company, customers and the overall social environment, not only the company itself (Tong, 2015). According to Gains (2016) unique brand experiences that make consumers feel cherished, precede loyalty. This argument attests that creating customer-centric experiences should thus be in interest of retailers seeking for loyal customers.

The aim of customer loyalty marketing is to by different means to convince the customer to choose the company in question repeatedly and to grow their purchases in the future. A loyal customer will focus their purchases to a place that feels familiar and safe and hence causes the company less expenses compared to an occasional customer when it comes to marketing (Tikkala, 2011). According to Gotham (2017) "25% to 40% of the total revenues of the most stable businesses come from returning customers". Gotham (2017) also states that "repeat customers drive 3-7 times the revenue per visit as one-time buyers". This therefore means that repeat, or loyal, customers are much more profitable

for companies. This argument is supported by Gremler & Brown (1999) claiming that the reason behind companies increasing efforts for retaining customers is in the value to the company, created by customers.

According to Tikkala (2011), loyal customers are more likely to be more satisfied, complain less and forgive more than occasional customers that have no relationship to the brand. According to Hajdukiewicz (2016), a satisfied consumer might promote a brand in the market, but a truly loyal customer also recommends it to their friends and family. When acting as references, customers do not only indicate that they have received good economic value from a company, but also prove their intense loyalty by making a personal sacrifice by putting their own reputations on the line (Hajdukiewicz, 2016). Hajdukiewicz (2016) adds that since loyal customers tend to bring in new customers, they help in decreasing the company's marketing costs that would have otherwise been higher when acquiring new customers through expensive promotion. Thereby, the monetary benefits created by a loyal customer should not be underestimated. Buttle (2009) supports this argument by stating that customer loyalty does not only provide better customer insight but does also reduce marketing costs.

By offering their customers different kinds of perks and rewards in exchange for their loyalty, companies try to ensure that the customer stays with them instead of doing business with the competitor (Tikkala, 2011). Kotler & Keller (2015) introduce three main marketing activities that should improve customer loyalty and retention. These activities include closely interacting with customers, developing customer loyalty programs and creating institutional ties of which customer loyalty programs and developing them are at the center of this research.

2.7 Customer Loyalty Programs

Customer loyalty can be built up and boosted by creating and using customer loyalty programs and offering loyal customers special offers and benefits through the program. The main objective of customer loyalty programs is to have the consumer to focus their purchasing and generate long-term customer loyalty (Kilpailu- ja kuluttajavirasto, 2007).

Bergström & Leppänen (2009) state that the aim of customer loyalty programs is to customize and tailor benefits, service channels and ways of communicating so that marketing of these programs can be targeted and the customers themselves can affect them as well. According to Inkinen (2014), one of the best ways to create customer relationships that are profitable in the long run, is to reward customers through carefully tailored customer loyalty programs based on the customer's commitment and loyalty towards the brand.

Customer loyalty programs are helpful in engaging both already existing and new potential customers once they have registered or joined the program. But what loyalty programs are also convenient for, is measuring and following of consumer behavior (Tikkala, 2011). By following and analyzing variables such as the purchasing frequency, average purchases or purchasing time and moment, companies can learn a lot about their customers and benefit from the information when it comes to e.g. planning new marketing campaigns or deciding on product range. According to Gains (2016), loyalty programs can be very effective for retailers that look to engage with their best customers and promote repeat purchasing.

Kotler & Keller (2015) introduce two types of loyalty programs: Frequency programs (FPs) and club membership programs. They suggest that especially frequency programs have a great potential that should be implemented in extending of the customer lifecycle. According to Kotler & Keller (2015) frequency programs can be very helpful when building long-term loyalty with high CLV customers since they create great cross-selling opportunities. Kotler & Keller (2015) also claim that frequency programs can be very useful in rewarding customers that buy frequently and in substantial amounts. Kotler & Keller (2015) summarize the nature of frequency programs by arguing that they may “produce a psychological boost” and the feeling of being elite that is valued by customers. Club membership programs on the other hand attract the customers “responsible for the largest portion” of the company, claim Kotler & Keller (2015). These clubs can be either open to anyone interested and purchasing or limited to a certain group paying a membership fee, of which the more powerful one is claimed to be the latter option when it comes to building long-term loyalty.

Kotler & Keller (2015) argue that with the continuous rise of digital technologies, consumers are increasingly informed and therefore understand to expect companies to “do more than connect with them, more than satisfy them, and even more than delight them”. Oliver Wyman (2015) affirms this statement in his article “*The Future of Customer Loyalty - Building a Next-Generation Reward Programme*” where he argues that consumers seek for an ongoing customer centric relationship with the businesses they have chosen to interact with. Wyman (2015) presents several customer expectations set for modern loyalty programs. According to Wyman (2015), personalized rewards, mobile interaction, being able to follow one’s loyalty status and redeem rewards, two-way communication, real-time offers, rewards for things other than purchases and control over one’s experience and data are the most crucial factors from the customer’s perspective.

2.7.1 Current trends in Customer Loyalty Programs

Consumers today seem to rather seek for immediate benefits than wait for the good that is coming in the future (Tikkala, 2011). Thereby loyalty rewards should be carefully planned and targeted in order for them to motivate and engage customers immediately rather than making them numb.

Wyman (2015) claims that customers do not solely demand for more rewards but wish to build meaningful and beneficial relationships and be at the center of the scheme rather than only being a part of “transaction-based exchanges”. This can be seen in Table 1. below, where Wyman (2015) points out the most essential differences between the traditional and modern loyalty programs.

Table 1. Characteristics of traditional and modern loyalty programs compared

	Traditional reward programs	Modern affinity programs
Foundation	Formulaic deal	Relationship and belonging
Assessment	Transparent criteria, with no discretion	Role for serendipity and judgment
Time horizon	Present and future	Recognition of the past
Program language	Points, statements, terms and conditions	Symbols of belonging (without overstepping the mark)
Identification	Plastic card	Crosses all channels and platforms
Customer benefits	Economic	Broader
Feeling	Entitlement	Appreciation

Source: Wyman, O. (2015, p. 4)

Wyman (2015) identifies several new trends in loyalty programs that respond well to the constantly changing customer expectations. These trends include the increasing use of non-monetary rewards and symbols of belonging, charity-based rewards, services that improve customers' shopping experiences, broader lifestyle applications, exclusive promotions and moving away from point systems (Wyman, 2015) and so forth.

Numerous trends in customer loyalty programs exist and have been introduced by digitalization, and one of the most significant ones is **gamification**. The Merriam-Webster Dictionary (2019) defines gamification as the process of adding game like elements to something to encourage participation, in this case customer participation in repeat and focused purchasing. Hajdukiewicz (2016) states that gamification applying mechanisms and game design techniques to engage and motivate customers.

Hajdukiewicz (2016) suggests that gamification offers fresh approach to loyalty marketing in the form of play, by offering both amusement and potential advantages to the customers taking part to the "game". In her article "*Is It Time to Add Gamification to Your Loyalty Strategy?*" on Forbes, Sallie Burnett (2019) claims that using gamification

marketing to drive engagement is the key to loyalty. Burnett (2019) argues that the most effective loyalty programs will focus on engaging customers through integrated gamification rather than settling for transactions only with these customers.

Wyman (2015) also points out how in the situations with these trends described, customers are often happy to give the retailer access to their **data**. This is because they are being rewarded or helped in more personal and meaningful ways, instead of solely getting points in return (Wyman, 2015). This argument is also supported by Hajdukiewicz (2016) stating that loyal customers are willing to reveal more intimate information about themselves. All in all, this indicates that loyalty programs are a great source for “extensive and current knowledge about customers’ preferences, tastes and purchasing behavior” (Hajdukiewicz, 2016). RedPoint and Harris Poll (2019) report that “in exchange for sharing personal information, consumers appear to expect transparency.” This statement therefore explains why issues of transparency and data security should also be taken into account by retailers.

As stated in chapter 2.2.2 studying customer expectations, **personalization** is widely popular in customer loyalty marketing today. Gains (2016) argues that this is due to customers appreciation towards personal touch and the feeling of exclusivity. Gains (2016) also claims that because “personalized messaging recognizes customers as individuals”, the efforts made by retailers will seem more effective from the customers’ point of view. Although, major risks lie in creating personalized content, since it requires permission for data usage and not all customers are willing to share it with companies due to i.e. concerns related to security.

Hajdukiewicz (2016) suggests that **communities** may also be an answer for engaging customers. Building communities through customer loyalty programs around brands ensures that customers feel safe and comfortable and are less willing to leave the community and risk feeling excluded (Hajdukiewicz, 2016). The feeling of belonging thus reduces the risks of customer churn. Secondly, it may also generate more profit since customers belonging to communities associated with a company are likely to spend more money on the company in question than those who do not (Hajdukiewicz, 2016).

Trends concerning **platforms** for loyalty programs in the digital age are rather unilateral. The proliferation of smartphones has introduced wide possibilities for developing highly operational and convenient mobile applications. According to Hajdukiewicz (2016), mobile applications have obvious advantages from both the customers' and the business's point of view over the traditional plastic cards. Hajdukiewicz (2016) substantiates this statement by remarking how applications can completely eliminate the inconvenience of using traditional loyalty cards that can easily be either misplaced or even lost for good. An application that has once been downloaded on the mobile device ensures an immediate access to the digital loyalty program, which thus reduces the risk of customers finding it frustrating to having to remember a physical card when leaving one's house.

Hajdukiewicz (2016) underlines that loyalty programs in **mobile applications** offer a transparent link between the offer and the reward, which allows customers themselves keeping track on their own progress and how far they are from receiving a reward, regardless of time or place. It often is precisely this higher level of transparency that motivates customers to engage in the program (Hajdukiewicz, 2016) and focus their purchases.

Other convenient **features** offered by these applications may also include offers based of geolocation or microsegments (Hajdukiewicz, 2016), barcode scanning, location-based services and near field communication (Ström *et al.*, cited in Hagberg *et al.* 2016) that all support the transparency between the customer and the retailer. And by using Big Data analysis to get a better understanding of consumers' preferences that evolve over time, apps can calculate and offer suggestions (Hajdukiewicz, 2016) and thus better take notice of the individual's needs and tailor the experience to be more personalized.

3 METHODOLOGY

This chapter presents the methods chosen for this research and provides argumentation concerning the choices made. The type of the research conducted and the processes of data collecting and analyzing are also introduced in this chapter, followed by a statement of validity and limitations related to the research and its methodology.

3.1 Research methods

This research is a combination of observation and the analysis of primary and secondary sources retrieved from various archives. Choosing a combination of an organizational case study and desk research as the research method for this research felt natural due to the author's existing experience from observation, and the author's access to the organizational data.

Considering the nature of this research, being literature based, and the presence of a case company, the method should be systematic enough to minimize bias within the research process (Rolfe, 2014). Due to this desk research, both external and internal, was chosen to support the theoretical frameworks and literature review presented in chapter two.

3.1.1 Case study

The main method and research design chosen for this research is an organizational case study, conducted for Case Company X. Morgan *et al.* (2017) define case study research as a comprehensive method that includes "multiple sources of data to provide detailed accounts of complex research phenomena in real-life contexts".

McCombes (2020) describes case study as detailed study of specific subjects commonly used in social, educational, clinical and business research. As a research method, case study allows the exploration and understanding of complex issues and offers the researcher the ability to go beyond quantitative statistical results or understanding all behavioral conditions through the actor's perspective (Zainal, 2007). This allows the researcher to closely explore the key characteristics, meanings and implications of the subject and the case in question (McCombes, 2020). Conducting a case study may also be useful if a researcher wishes to propose practical courses of action to resolve a certain problem (McCombes, 2020), as in this research.

3.1.2 Desk research

According to b2binternational.com (n.d.), desk research, also known as desktop research, is the collection of secondary data from either internal sources within an organization or external sources such as the internet, libraries, government agencies, trade associations and published reports. During this research, both internal and external sources were used. The internal sources were reached through the researcher's observation and access to the organizational data base, while the external sources were accessed through the conducting of desk research and reviewing of secondary data.

Dr. Sue Greener (2008) defines secondary data as “data, which the researcher did not collect for themselves directly from respondent or subjects”, meaning that “the data was not collected with the researcher's purpose and objectives in mind”. It might have been collected by other researchers, by organizations specialized to publishing research papers and articles or by institutions such as the government (Greener, 2008). Secondary data may consist of published reports and statistics that can be found online or offline, e.g. journals, archives, databases, company information, scholar reports or books (Dingemanse, 2018).

Reasons for choosing desk research as a method include factors such as high effectiveness, low cost, convenience, and the fact that the supportive material collected for the research can be used to answer the research questions without conducting additional time-consuming questionnaires or interviews. Choosing desk research also protects the identity of the Case Company X and prevents any confidential information from being published or distributed.

3.2 Data Collection and Analysis

In this chapter, the data collecting process is presented, followed by the introduction of data analysis and interpretation.

3.2.1 Data collecting process

The process of data collecting began with narrowing down the topic. The research questions were set and limitations regarding the databases and sources were decided on, followed by the selection and evaluation of literature to be used. List of keywords was created and translated into Finnish to broaden the selection of data available.

The theoretical framework for this research was built to determine the scope of the research by defining and evaluating relevant concepts and theories (Vinz, 2015). After the forming of the theoretical framework, the data collection started by online research with the help of the predefined keywords, reading abstracts of scholar works and by searching for new potential sources in the lists of references of different literature sources. In addition to the vast selection of online sources, the data collection was also expanded to cover the archives of local libraries to ensure the diversity and trustworthiness of the data to be used.

The author went through literature and used various months to study the main topics and themes related to this research. Meanwhile, extensive notes were taken and made, and a preliminary bibliography was built, of which the list of references was finally built after thorough reviewing of the literature read and collected.

The raw data gained from observation is also referred to as the author's existing knowledge that was initially gained from working for the case company for three years prior to conducting this research, and also during this research process.

3.2.2 Data analysis and interpretation

After having declared the raw data gained from observation, a profound data analysis was performed by conducting a SWOT analysis examining Case Company X's customer loyalty program.

Strength, Weakness, Opportunity and Threat analysis, better known as SWOT analysis, is a commonly used framework for evaluating a company's competitive position and developing their strategic planning (Grant, 2019). A SWOT analysis can be used to assess both internal and external factors affecting the company's current and future potential

(Grant, 2019). According to Skye Schooley on Business News Daily (2019), conducting a SWOT analysis can be of help for organizations in developing “a full awareness of all the factors involved in making a business decision”.

The SWOT analysis was followed by data interpretation. The data was interpreted by comparing the theories and literature reviewed together with the data gained from the observation and results of the SWOT analysis conducted. This was done so versatile and trustworthy results and deep understanding of the subjects covered in this research could be reached.

The data was interpreted in chapters four and five, where initial conclusions were formulated and reached, and final results and the critical discussion concerning them were properly presented to give the findings of this research a deeper meaning.

3.3 Validity and limitations

To enhance the credibility and validity of this research, various sources were used in both in building the theoretical framework and gathering the literature to be reviewed. All topics were widely explored and examined to be able to offer the reader a reliable and comprehensive understanding of the topics and themes examined in this research.

The focus of this research was to see how digitalization has affected the importance of customer loyalty and the development of loyalty programs in retail. Traditional quantitative and qualitative research methods, such as conducting questionnaires or interviews, were excluded to prevent the identity of the Case Company X or any confidential information from being published.

Since the evidence in case studies may come from fieldwork, archival records, verbal reports, observations or any combination of these (Yin, 1981), the lack of other quantitative or qualitative methods is less significant.

What should be noted, is that as supposed to, no interventions were performed to the real-world case examined during this research. This means that the researcher has addressed

that the measurement may influence the measured phenomenon and has thus restricted this to a minimum (Wieringa, 2014).

Yin (1981) points out that studied events often arise from the researcher's own network or a previously known professional environment. Therefore, obtaining the commitment of both the staff and the management of the organization is extremely crucial in ensuring the favorable proceeding of the research and that the outcome is properly analyzed at the end (Yin, 1981).

There were some limitations concerning the release dates of the material used in this research. All material used for this research concerning digitalization or current trends in customer loyalty programs has been published within recent years, so that recent technological advances can be considered and included, and it can be trusted that no information is outdated and that all references are therefore relevant.

Although, the amount of trustworthy, relevant and current material concerning digitalization is rather scarce. It should be noted that albeit new researches are constantly being conducted, the results are always published with delay. This thereby means that current changes and trends may not have been analyzed thoroughly enough to be published at the time of the research, and that the latest information available is possibly slightly outdated due to the rapidly evolving technologies.

4 RESULTS

This chapter consists of three parts. First, the raw data gathered for the research is introduced. The raw data consists of a detailed description of Case Company X's customer loyalty program, its nature and benefits. This data is based on the author's existing knowledge regarding the program and the observation done during the years spent working for the case company.

Second, a SWOT analysis is conducted of the customer loyalty program's features by dividing them into categories. Finally, the results based on the analysis and the literature reviewed are reported.

4.1 Case Company X's customer loyalty program

In 2017, Case Company X launched a new customer loyalty program. Prior to that, the case company has not had any other loyalty programs for its customers.

The program is based on the cash register system that the case company is currently using in both of its physical stores. The system is provided by a rather common Finnish service provider used by many retailers in Finland. The system is limited to its own standard settings and regulations, and thus not many things can be redesigned or decided on by the retailers themselves. Due to the system used, as previously mentioned, the program is not available for the customers purchasing on the company's e-commerce online.

When first registering to the program, customers become a part of a club with a specific name, that is not being named in this paper to protect the identity of the Case Company X from being exposed. Once a customer decides to join the program, they will hand in their personal information to the salesperson in charge. This information includes the following compulsory articles:

- Full name
- Date of birth
- Postal code
- E-mail address

In addition to the compulsory ones, customers may also choose to voluntarily register:

- Full street address
- Phone number

At the end of the registering, the customer is asked to give their consent for the case company to collect and process their data for marketing purposes, and whether they are willing to receive marketing e-mails exclusively tailored to the club members.

Once the registration has been completed, the customer's profile can be found in the system simply by entering their name to the search engine containing all customer data. This means that no physical, nor digital, cards will be given to the customers themselves, but that all the information will be available for them when they visit the stores and introduce their name by the counter at the time of purchasing. In other words, customers can only follow and view their current amount of points when visiting the stores and asking to know their score at the register.

When compared to Table 1. (See chapter 2.7.1, p. 39) showcasing the differences between traditional reward programs and modern affinity programs, the main characteristics and issues of Case Company X's customer loyalty program can be easily remarked. A cross (X) has been placed by each variable's column to indicate which program type the feature in question best represents.

Table 2. Case Company X's customer loyalty program's features categorized according to Table 1. Adapted from Wyman (2015, p. 4)

	Traditional reward programs	Modern affinity programs
Foundation	Formulaic deal	Relationship and belonging X
Assessment	Transparent criteria, with no discretion X	Role for serendipity and judgment
Time horizon	Present and future X	Recognition of the past
Program language	Points, statements, terms and conditions X	Symbols of belonging (without overstepping the mark)
Identification	Plastic card -	Crosses all channels and platforms -
Customer benefits	Economic	Broader X
Feeling	Entitlement X	Appreciation

As can be seen, most of the crosses have been placed to point out to the traditional reward programs. To be exact, everything except the foundation and customer benefits that is. The foundation of the program can be categorized as modern since it seeks to create a feeling of community and belonging. The program is based on building relationships with customers, but the criteria for assessment does not allow much discretion due to the system used and its limitations. The time horizon of the program is mostly focused at the

customers' present actions and transactions and the future benefits following them. This can be seen in the program language and the point system used that are further introduced in the chapter following covering the nature and the scope of the customer rewards and benefits.

4.1.1 Rewards and benefits

The rewards and benefits offered by the case company's customer loyalty program are both economic and social. In their research paper "*Perceived benefits of customer loyalty programs validating the scale in the Indian context*", Bose & Rao (2011, p. 544-560) classify variables such as low financial cost, saving money and spending less as economic or monetary benefits. According to Bose & Rao (2011, p. 544-560), customers sharing similar values with the company and feeling close to the brand can be categorized into social benefits. They also introduce ego pleasure benefits, that include customers collecting and redeeming points and them feeling distinguished and respected members of the community (Bose & Rao, 2011, p. 544-560).

Case Company X's customer loyalty program is primarily based on a point system where points are handed out in return for each euro spent in the stores. Once a customer has purchased with a certain amount of money and has collected enough points, they will be rewarded with money to spend in the stores. Example given, if a customer purchases something of five euros worth, they will gain five points. Then, once the customer has collected 100 points, they will receive a discount of five euros worth. This discount, or the 100 points collected, can be either saved or used at the time of the next purchasing event. The points collected do not have any expiration date, meaning that customers can collect and save them as long as they wish to. There is no time limit creating pressure on customers to prove that they are given more flexibility and the freedom of choice to use the points as suits them the best.

The program is based on a foundation that seeks to build a relationship between the company and the customer, and to generate the feeling of belonging for the individuals that decide to engage with the company and become members of the loyalty club. This has been done by providing the club members with exclusive offers that vary each month. Most often these offers consist of either specific product discounts or discounts on certain product bundles or brands. Less frequent benefits also include freebies or gaining double

points for purchasing during a certain specified period. All of these offers are introduced to the members by e-mail once or twice a month, depending on the upcoming holidays and the marketing calendar.

From time to time, the case company offers the members of the loyalty club the opportunity to attend private events held for them exclusively. For instance, different kinds of tastings or brand nights with different professionals from the field, or brand endorsers promoting the case company's products. The number of these events usually vary between one and three events per year.

4.2 SWOT Analysis of the customer loyalty program

A SWOT analysis was conducted by categorizing the main characteristics of the Case Company X's customer loyalty program in strengths, weaknesses, opportunities and threats. The aim of this analysis is to introduce the features that require development and recommend a strategy for the future development of the program.

Table 3. SWOT analysis of Case Company X's customer loyalty program

STRENGTHS	WEAKNESSES
<ul style="list-style-type: none"> • No physical cards • Customers' purchase history and receipts are saved to the system • Exclusive offers and events • Non expiration of points 	<ul style="list-style-type: none"> • No online presence • Not transparent enough • Mass marketing, not personalized or customized enough • Not promoted enough • Not enough features to engage • Ineffective data collection • Purchasing behavior not tracked
OPPORTUNITIES	THREATS
<ul style="list-style-type: none"> • Technological advances • Platform adaptation, omnichannel • Mobile application • Gamification • More efficient CRM & data collection • Personalization • Customer experience strategy • Extending the customer lifecycle 	<ul style="list-style-type: none"> • Fierce competition • Quickly changing consumer attitudes • No online or mobile presence • Losing current customers if not successfully engaged

Strengths

The biggest strengths of Case Company X's customer loyalty program include two main features. The convenience of having no physical cards and the fact that the customers' purchasing history and receipts are saved to the system instantly makes the loyalty program more approachable and appealing to modern consumers with high expectations. Other major strengths of the program include exclusive events offered to the members of the club that generate the feeling of entitlement and belonging.

Albeit, even if the exclusive offers can be categorized as strengths, they can in fact be counted as weaknesses as well. This is because while the members of the loyalty club can enjoy and benefit from these offers tailored for them exclusively, at the same time other discounts are virtually always available for all customers purchasing in the stores regardless of their loyalty status.

Weaknesses

The most significant issue with the customer loyalty program is its concise availability. Since the program is only available in the physical stores, it does not reach its highest potential in availability nor awareness. The complete lack of online presence is one of the biggest vulnerabilities of the program and exposes the business at risk as the competition from e-commerce constantly grows stronger (Hajdukiewicz, 2016).

Other weaknesses include ineffective data collection and ineffective marketing of the program. There are no effective CRM strategies or systems used to ease both collecting of and benefitting from the data about the customers. While personal information is collected from customers when registering to the program, data concerning their purchasing behavior is not tracked in any way. In addition to this, there are currently no systematic or automated ways to connect the system and customer loyalty marketing.

This has thus led to mass marketing rather than offering more personalized content and experiences to the members of the loyalty club, which again increases the exposure for customer abandonment, attrition and churn.

An issue of transparency should also be addressed, as customers cannot view their current score on the points collected in any other way than visiting the physical stores.

An even greater weakness of the loyalty program is its weak promotion. The program is not actively promoted to customers in the stores. Some progress has been noted recently, but yet a lot of new potential members are lost on a daily basis due to deficient advertising.

Both the nature and the extent of the benefits offered is relevantly succinct. There are too few elements and features to effectively generate interest and engage customers. As

mentioned in the paragraph above, the availability of promotions for non-loyal customers diminishes the exclusivity of the discounts and promotions offered to the loyal customers belonging to the club. Some customers have even reported the point system to be fairly unclear and unmotivating.

Opportunities

Greatest opportunities for the development of the loyalty program are related to technological advances and platform adaptation. Expanding the loyalty program online would both enable omnichannel retailing and create more opportunities in the case company's e-commerce and the stores, and potentially combine these two.

Broader distribution across different channels would also enable the launching of a mobile application. According to Statista (2020) the monthly active smartphone user rate in 2018 amounted to 82,36 % and the forecast estimates this value to reach 92,82 % by the year 2024, which intrinsically creates more opportunities in terms of mobile distribution. These changes could possibly offer opportunities in terms of gamification as well.

All this could also increase the possibilities for collecting data more efficiently, which could easily allow the case company to use this data to create more personalized content and thus create more value to the members of the loyalty club. This is supported by Kotler & Keller's (2015) idea of creating value for customers in order to capture value from them in return through customer-driven marketing strategies and upgraded customer experience strategies.

Different technological advances, such as online and omnichannel environments and platforms, and the automated data gained from them may thereby increase the opportunities for extending the customer lifecycle if done successfully.

Threats

Fierce competition and quickly changing consumer attitudes are the two biggest threats for the loyalty program. Even if the loyalty program's absence online and mobile were counted as weaknesses of the program, they may as well be counted as direct threats to

it. With no online or mobile presence, the case company continuously loses both new opportunities in terms of sales and marketing, but also in terms of attracting and winning new customers over. Considering the fierce competition mentioned in the market, this can be fatal for the case company.

Other threats include the possibility of losing current customers if they are not successfully engaged, and the different stages of customer lifecycle are not carefully concentrated on when managing customer relationships, as demonstrated in Figure 7. on page 26.

4.3 Suggestions for customer loyalty program development

In this chapter, the results gained from the data analysis are reported. Suggestions concerning the development of the Case Company X's customer loyalty program are offered based on the observation done, literature and theories reviewed, and the SWOT analysis made.

Based on the analysis made, the qualities and faults of the loyalty program were categorized into four main themes: platform, data, features and benefits, and communication.

The following tables will display the customer loyalty program's addressed faults on the left column and suggestions for developing those areas and faults on the right column.

Table 4. Development suggestions on loyalty program platform

PLATFORM	DEVELOPMENT
<ul style="list-style-type: none"> • Only available in the stores • No online or mobile presence • Not seamless across channels 	<p>Case Company X should:</p> <ul style="list-style-type: none"> • Expand its customer loyalty program online, in the company’s e-commerce • Develop a mobile application for the customer loyalty program • The two actions mentioned above would enable: Seamless platform adaptation and omnichannel retailing

Table 5. Development suggestions on loyalty program and data

DATA	DEVELOPMENT
<ul style="list-style-type: none"> • Ineffective CRM & data collection • Purchasing behavior not tracked 	<p>Case Company X should:</p> <ul style="list-style-type: none"> • Invest in better CRM systems and create a new improved CRM strategy • Collect data more efficiently through <ol style="list-style-type: none"> 1) mobile application or 2) new CRM system, preferably both • Start careful and systematic tracking of each customers’ purchasing behavior for marketing purposes

Table 6. Development suggestions on loyalty program features and benefits

FEATURES AND BENEFITS	DEVELOPMENT
<ul style="list-style-type: none"> • 100 points = 5 € • Not enough features to engage • Offers are not available for members of the loyalty club exclusively • 1-3 exclusive events per year 	<p>Case Company X should engage their customers better:</p> <ul style="list-style-type: none"> • Through gamification by <ol style="list-style-type: none"> 1) Creating a program with game like levels that can be reached after purchasing with a certain specified amount 2) Adapting the point system to support the idea of levels, with the principle “the more you spend, the more you get” 2) Offering personalized discounts based on purchasing behavior and activity 3) Offering double points for purchases within a very specific and limited time 4) Offering freebies and non-monetary rewards 5) Introducing new features through the developed mobile application, e.g. QR-codes & favorites lists • By reducing the number of discounts offered for customers outside the loyalty club to increase the feeling of exclusivity • By arranging more events and lotteries to generate the feelings of exclusivity and appreciation

Table 7. Development suggestions on loyalty program and communication

COMMUNICATION	DEVELOPMENT
<ul style="list-style-type: none"> • Mass marketing, not personalized or customized enough • Not enough transparency • Customers can only view their current score by visiting the stores • Not enough promotion 	<p>Case Company X should develop their communications by:</p> <ul style="list-style-type: none"> • Creating an efficient customer experience strategy and focus on creating a feeling of community and belonging • Increasing transparency by allowing customers to follow their score <ol style="list-style-type: none"> 1) themselves 2) in real time • Improving efficient two-way communication by <ol style="list-style-type: none"> 1) allowing customers to easily send their inquiries and communicate their compliments and complaints 2) answering the queries and feedback received with a personal touch and without delay • Promoting the loyalty program more frequently and visibly • Focusing on creating more personalized content and advertisements based on customer demographics, purchasing behavior or location, e.g. personalized e-mails

There are no development suggestions for the qualities and features categorized as strengths in the SWOT analysis made, since these qualities are considered as something

that the loyalty program should carry out and cherish in the future as well. To conclude, customers' purchasing history and receipts should be saved to the system, no physical cards should be put to use, the points collected should not have an expiration date and exclusive offers and events should be offered and held for the customers correspondingly in the future.

5 DISCUSSION

This chapter aims to analyze and discuss the results gained in relation to the theoretical findings and the observation done. This chapter provides answers to the hypotheses made and the research questions set, and critical discussion concerning the findings made and results gained, including the author's views.

To be able to demonstrate the importance of customer loyalty programs in retail and the need for developing the customer loyalty program of Case Company X, it is crucial to understand what decides customer loyalty. A hypothesis was made, on which this research was initially built on:

“Hypothesis: Customer satisfaction leads to customer loyalty and may thus increase revenue growth.”

The theoretical findings of this research prove the importance of customer satisfaction in building profitable customer relationships (Heskett *et al.* 1994; Kotler & Armstrong 2012; Kotler & Keller 2015). Theories also suggest that high satisfaction leads to high levels of customer loyalty (Kotler & Keller 2015; Rust & Zahorik 1993) and is a strong predictor of customer retention and loyalty (Qualtrics, 2019).

Hence, it can be interpreted that customer satisfaction provides a firm basis for achieving customer loyalty and that the relationship between the two concepts is progressive (Tong, 2015). This being relevant to this research since loyal customers tend to bring in more customers, complain less and forgive more, meaning that they help decreasing the company's marketing costs in several ways (Hajdukiewicz 2016; Tikkala 2011). Furthermore, various researches suggest that loyal customers are much more profitable

for companies (Johnson 2017; Tikkala 2011; Kotler & Keller 2015) and can contribute to the revenue growth if successfully engaged with the brand.

Therefore, it can be stated that the hypothesis holds, and customer satisfaction leads to customer loyalty and may thus increase the revenue growth of a company. However, it should be noted that many researchers have yet come to a conclusion that customer satisfaction, in no way, can guarantee customer loyalty (Bose & Rao, 2011, p.544-560).

5.1 Research questions

5.1.1 RQ1: How digitalization has affected the importance of customer loyalty?

The author of this research chose to pose this question to give background and deeper meaning to the research, and to with the light of the results gained, emphasize why all retailers, including Case Company X, should understand the importance and complexity of customer loyalty, and why businesses cannot afford not to develop their customer loyalty programs.

As stated, digitalization has introduced significant changes and great challenges to the retail industry within recent years, showcased in Figure 4. on page 15 (Dutzler et al., 2016). Great technological advances and digitalization together are to blame for the continuously changing retail environment and having generated new platforms that have put the traditional business models and brick-and-mortars to risk. E-tailing and e-commerces are constantly becoming more dominant in the market and creating fierce competition within the retail industry.

While shifting towards new, attracting platforms such as e-commerces, consumers have also become more mobile oriented. Excessive increases in mobile data consumption have been recorded around the world (Ofcom 2018; Statista 2020; Official Statistics of Finland 2018) and the rapidly developing mobile technologies have enabled consumers to access information regardless of time or place. Due to the proliferation of smartphones, consumers are constantly exposed to a never-ending flow of information, which has

coherently offered them a true cornucopia of offerings to pick out from, while yet shortening their attention span. This has offered consumers an outstanding opportunity to set more expectations and demands towards higher efficiency, convenience and accessibility, which thus has caused great challenges for retailers. This can also be noted on Figure 6. on page 21 (Dutzler et al., 2016) displaying the high expectations set towards customer experiences.

This research indicates that consumers' changed needs and expectations, resulting from new technological advances and digitalization, have shifted the initial power setting between retailers and consumers in favor of consumers. The decreasing information asymmetries have supplied consumers with more power over how companies will cope with the constantly changing business environment (Doherty & Ellis-Chadwick, 2010).

As retailers are struggling with adapting to the fast changes occurring, and to all the expectations that consumers keep constantly setting higher, it is highly challenging for them to stand out for their own advantage in the fierce competition. Theoretical findings suggest that it is no longer a matter of choice but rather a question of "to be or not to be" for offline businesses to find creative ways to assess and track data and communicate with their customers, if they wish to survive.

This leads to the very core of this research: The importance of customer loyalty. Before being able to answer the question on how digitalization has affected the importance of customer loyalty, it is necessary to address why customer loyalty itself should be at every retailers' interest.

Customer loyalty should be at every retailer's interest due to the following reasons:

- 1) Customers that are successfully engaged and have become loyal towards a brand are more likely to focus their purchases to one place where they feel safe and valued (Hajdukiewicz, 2016). Also meaning that when loyal customers choose to do business with a company, they are less likely to do business with the competitor and thus create competitive advantage to the company in terms of revenue growth.

2) Customer loyalty offers better customer insight. Loyal customers give retailers free access to their data, which facilitates data collection and tracking of consumer behavior. This is important so that retailers can gain valuable insight and tools for adapting to the upcoming changes and challenges accordingly.

Now, that the relevancy of customer loyalty has been addressed, it can be reported, that this research suggests that the importance of customer loyalty has increased due to the changed customer expectations resulting from digitalization.

The importance of customer loyalty has increased due to digitalization and its consequences on platform development that has thus affected consumer behavior and set customer expectations higher. This statement proves that it is crucial for retailers to stand out for their own advantage in the competition through addressing and answering the changed needs and expectations of consumers. This research indicates that retailers should do this by engaging and rewarding their loyal customers through an effective customer loyalty program.

5.1.2 RQ2: How Case Company X should develop their loyalty program?

The results gained from answering the first research question set (RQ1) are reflected to the continuing discussion concerning the importance of customer loyalty and the answering of the second research question set. This chapter seeks to discuss and review the offered suggestions on how Case Company X should develop their customer loyalty program.

Since the importance of customer loyalty has now been successfully demonstrated, the focus should be put into how the loyal customers of Case Company X should be properly engaged and rewarded according to the findings made.

The theoretical findings of this research suggest that engaging customers and making them loyal towards the company's brand should be done through efficient customer relationship management, customer satisfaction and possessing of effective customer loyalty programs. Loyal customers should be properly engaged and rewarded, meaning

that the Case Company X should invest in better CRM systems and delivering personalized experiences and then implement the following suggestions reviewed.

Based on the analysis made it is suggested that Case Company X should without fail expand its customer loyalty online and make it available in the company's e-commerce, since the program does not currently reach its highest potential in availability not awareness. Moving online would enable greater platform adaptation and distribution of the program seamlessly across channels, creating thus more opportunities for both reaching customers and combining the physical stores with the e-commerce, also enabling omnichannel retailing.

The results of this research do also indicate that Case Company X should develop a mobile application for the customer loyalty program. This might have a high cost to a small company but based on the theoretical findings it can be assumed that the benefits gained from it make it worth the investment. This is supported by numerous researches stating mobile presence is inevitable for the survival of any retailer in Finland as Finns are very advanced when it comes to technology and mobile adaptation (Official Statistics of Finland 2018; Statista 2020).

Developing a mobile application would also enable more efficient data collection and the tracking of changes in purchasing behavior. Since customer attitudes and expectations are rapidly changing as a result of digitalization, the changes in customer and purchasing behavior should be quickly addressed and analyzed so that retailers could quickly adapt to them and develop their services accordingly.

A mobile application would also build transparent two-way communication between the retailer and the consumer. It is suggested that Case Company X should increase the level of transparency by allowing customers to effortlessly communicate their inquiries or issues directly to the case company and by allowing customers to follow their current score themselves and in real time. Based on the theoretical findings, Case Company X should also focus on creating more personalized content and advertisements based on customer demographics, purchasing behavior or geolocation, and promote the loyalty program more frequently and visibly.

The literature reviewed suggests that retailers should engage their customers and create them value through delivering personalized and entertaining experiences (Dutzler *et al.* 2016; RedPoint 2019). The stronger the positive experience is, more likely they are to generate the company more revenue, as customers that are most satisfied with the experience and the brand, can more often than not also be considered as loyal (Heskett *et al.* 1994). As a loyalty program platform, mobile application would also appeal and attract modern consumers as they seek for convenience and experiences (Dutzler *et al.*, 2016).

To generate the feeling of exclusivity and appreciation, Case Company X should arrange more exclusive events and lotteries to the members of the loyalty club. Meanwhile, Case Company X should respectively increase the feeling of exclusivity by reducing the number of discounts offered for customers outside the loyalty club.

Engaging customers through gamification and features such as creating a program with game like levels that can be reached after purchasing with a certain specified amount, or offering personalized discounts based on purchasing behavior and activity, are also highly recommended based on the results of this research. In addition to features mentioned, developing a mobile application would additionally permit the use of QR-codes, favorites list or location-based offer and thus create more value to the members of the loyalty club.

5.2 Limitations

This study was successfully carried out despite some limitations occurred. The first limitation concerns the anonymity of the case company. Since the identity of the case company has been kept a secret due to delicate matters, some data that could have been used to demonstrate certain issues better, has been left unpublished.

Secondly, there were some difficulties in finding up to date information and data published concerning the latest advancements and developments carried out by digitalization when it came to the theories reviewed.

Finally, since this is a bachelor's thesis, the possibilities for making this research as comprehensive and detailed as the author would have originally liked, were smaller due to the limitations set regarding the depth and the length of the research.

5.3 Validity of findings

What should be noted, is that since the author works for the Case Company X, they are biased. Although, the bias was neutralized, since the author exposed their role to the reader at the very beginning of this research paper. Furthermore, explaining the role of the author increases the credibility of the suggestions offered due to their experience and insights.

Secondly, what should be noted, is that secondary data has more often than not been collected for other purposes than the ones this research holds. It has to be considered that the findings of other researches might also concern or include demographics irrelevant to this research problem.

What could have been done differently in this research, is that the author could have interviewed e.g. the CEO of Case Company X in order to gain more insights and aspects to reflect on.

Finally, as a single case study this research does not allow for complete generalization of the results gained, but the findings of this research can however be reflected to other cases to a limited extent.

5.4 Further research

This research suggests that there is room for further research on customer loyalty. Since there are numerous factors affecting to it, and numerous standpoints of which the topic could be observed from, the author believes that conducting similar studies, but with a

focus on different variables such as perceived value or perceived corporate image could be of interest for further studies.

Another interesting point to study to give more perspectives of the current and upcoming trends on customer loyalty marketing and programs would be to study big data or virtual reality in relation to developing customer loyalty programs in the future.

6 CONCLUSION

This study aimed to investigate how digitalization has affected the importance of customer loyalty and the nature of customer loyalty programs in retail, by placing particular emphasis on the role of customer relationship management, customer experience, and customer satisfaction in building customer loyalty.

The purpose of this study was to offer justifiable suggestions regarding the development and improvement of Case Company X's customer loyalty program.

This research was initially built on a hypothesis that customer satisfaction leads to customer loyalty and may thus increase revenue growth. The research questions were as follows:

1. How digitalization has affected the importance of customer loyalty?
2. How Case Company X should develop their customer loyalty program?

The research methods chosen for this research were case study and desk research. Suggestions concerning the development of the customer loyalty program of Case Company X were provided through conducting a SWOT analysis.

This research suggests that:

- 1) Customer satisfaction leads to customer loyalty and may thus increase the revenue growth of a company.
- 2) The importance of customer loyalty has increased due to the changed customer expectations resulting from digitalization.

3) Engaging customers and making them loyal towards the company's brand should be done through efficient customer relationship management, customer satisfaction and possessing of effective customer loyalty programs.

4) Case Company X should expand its customer loyalty program online, develop a mobile application for the loyalty program, invest in better CRM systems and focus on delivering personalized experiences.

The findings of this research suggest that there is room for further research on customer loyalty and that studying big data or virtual reality in relation to customer loyalty program development could be interesting.

7 FINAL WORDS

First of all, I would like to thank you for taking the time to read my thesis. I would also like to thank my supervisor Tove Kietz for the support, comprehension and flexibility she has expressed during this research process.

Writing this thesis has taken almost one year to write, that being much longer than I had originally thought. Several breaks were taken in between the different parts of the research, which also prolonged the process.

The greatest challenge for me must have been the writing of the literature review. I did struggle a lot with it, having realized only after all the data was already collected, that I had included too many topics to the text that were only remotely relevant to the research I was conducting. Although, what I did learn from this was that in the future I will not focus all my energy on the literature review, but on keeping the bigger picture in mind instead.

I believe that the past year spent writing this thesis did also teach me a lot in terms of self-criticism and compassion and showed that I should trust my own intuitions. Finally, I am happy to have finished this thesis and to be able to head towards new adventures in life.

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