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LOYALTY MARKETING IN AUTOMOBILE DEALERSHIPS

Case: Car dealer X

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HYYRYLÄINEN, HEIDI:

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Automobile Dealerships
Case: Car dealer X

Bachelor's Thesis in International Business, 56 pages, 6 pages of appendices

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ABSTRACT

The purpose of this thesis is to study how customer loyalty is taken into account in automobile dealerships, what loyalty marketing means are used to improve customer loyalty, and what potential new loyalty marketing means can be implemented. The thesis is commissioned by Car dealer X.

In the theoretical part, areas covered are customership and loyalty marketing. Customership includes customer satisfaction, customer loyalty, customer value and customer retention. Loyalty marketing contains a range of its different features, from regular customer clubs to pricing, and loyal customers.

The empirical part of the thesis consists of a qualitative case study. In the study other car dealers are benchmarked to define case company's present situation in the field of loyalty marketing, and to find out if case company's loyalty marketing could be improved. Data was collected by half-structured interviews in Finland and in Germany.

The study indicates that specific loyalty marketing means are widely applied in automobile dealerships, but also raises the potential of newer loyalty marketing means. The results of the study can be used to improve the car dealer's loyalty marketing.

Keywords: automobile dealerships, customer loyalty, loyalty marketing

Lahden ammattikorkeakoulu
Liiketalouden koulutusohjelma

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TIIVISTELMÄ

Tämän opinnäytetyön tarkoituksena on tutkia kuinka asiakasuskollisuuteen suhtaudutaan autokaupassa, mitä uskollisuusmarkkinointitoimia asiakasuskollisuuden parantamiseksi käytetään, sekä mitä mahdollisia uusia uskollisuusmarkkinointitoimia voidaan ottaa käyttöön. Opinnäytetyö on Autokauppa X:n hankkeistama.

Teoreettisessa osuudessa käsitellään asiakkuutta sekä uskollisuusmarkkinointia. Asiakkuusosuus käsittelee asiakastyytyväisyyttä, asiakasuskollisuutta, asiakkuuden arvoa sekä asiakkaiden säilyttämistä. Uskollisuusmarkkinointiosuus käsittelee uskollisuusmarkkinoinnin eri osa-alueita, kanta-asiakasjärjestelmistä hinnoitteluun, sekä uskollisiin työntekijöihin.

Opinnäytetyön empiirinen osuus koostuu laadullisesta tapaustutkimuksesta. Tutkimuksessa määritetään vertailuanalyysin avulla kohdeyrityksen uskollisuusmarkkinoinnin nykytila sekä selvitetään, onko kohdeyrityksen uskollisuusmarkkinointia mahdollista kehittää. Tutkimustiedonkeruu suoritettiin puolistrukturoiduilla haastatteluilla Suomessa ja Saksassa.

Tutkimus osoittaa että tietyt uskollisuusmarkkinointitoimet ovat laajasti käytössä autokaupassa, mutta tuo esiin myös uudempien uskollisuusmarkkinointitoimien potentiaalin. Tutkimuksen tuloksia voidaan käyttää autokaupan uskollisuusmarkkinoinnin kehittämiseen.

Avainsanat: autokauppa, asiakasuskollisuus, uskollisuusmarkkinointi

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1 INTRODUCTION

1.1 Background of the thesis

Acquisition of new customers and losing present customers cost companies a lot of money. Thus, a company's ability to maintain customer relationships has raised its importance.

Car manufacturers and importers have their own influence on car dealers' marketing with the main focus on the product itself; the only aim is to strengthen the brand, increase sales and make profit. Car dealers have realized that other marketing means are needed with focus on winning new customers, maintaining the relationship and not losing present customers.

As loyal customers can bring great financial effort and loyalty marketing is in a significant role in building customer loyalty, it has become a major and visible matter in automobile dealerships.

Work as a sales assistant in a car shop has caught author's interest in performing a study related to car business, and a study about how loyalty marketing appears in car dealerships was considered to be useful for Car dealer X.

1.2 Study objectives and research questions

The scope of the study is to recognize what customer loyalty means to car dealers and how loyalty marketing appears in automobile dealerships.

Study objectives are to compare how Car dealer X's loyalty marketing is organized in comparison with other car dealers and to find out if Car dealer X can improve in some parts of their loyalty marketing operations.

Research questions ask

- *What customer loyalty and loyalty marketing means to car dealers?*
- *What loyalty marketing means are used in automobile dealerships?*
- *What new loyalty marketing means could be implemented?*

1.3 Theoretical framework

The thesis includes theory of customership and loyalty marketing. The research framework in Figure 1 describes the relationships between the basic concepts of the research that are covered in the theoretical part of the thesis.

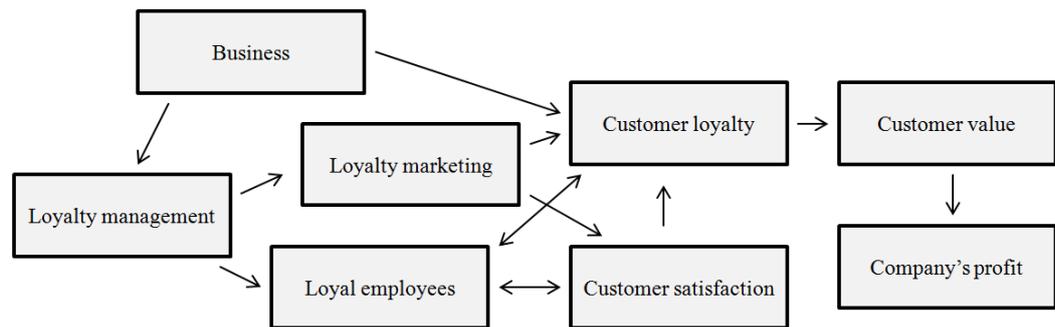


FIGURE 1. Research framework

In addition to customership and loyalty marketing, the theoretical part of the thesis briefly covers car business, with main focus on European, Finnish and German car market.

Written sources of books and articles, as well as internet sources about customership, customer loyalty, loyalty marketing and car business are used as references in the research process.

1.4 Limitations of the thesis

The thesis does not include economic matters related to loyalty marketing actions in studied companies. In the thesis no loyalty marketing budgeting is involved, only the importance and meaning of customer loyalty and loyalty marketing, and the implemented actions are studied.

The thesis neither includes any studies nor calculations to define customer loyalty in the companies.

The main focus of the study is on European passenger car market and the empirical study is limited to car dealers in Finland and in Germany. Interviewed car dealer companies are not identical with each other by size, represented brands or other matters, which is hoped to allow more variation in studying companies' loyalty marketing policies.

1.5 Research method

The empirical part of the thesis consists of a qualitative case study of a Finnish car dealer, Car dealer X.

Yin (2009, 2) defines a case study to be the preferred qualitative research method when

- *“how” or “why” questions are being posed*
- *the investigator has little control over events*
- *the focus is on a contemporary phenomenon within a real-life context.*

As the scope of the research is to understand the importance of customer loyalty to car dealers, and to study their loyalty marketing methods, the research is conducted in their own environment, and therefore a case study is the most ideal research method.

Research data collection of the study was done by implementing half-structured interviews to representatives of various types of car dealer companies. Five German and two Finnish car dealer companies were considered to provide qualified amount of data according to thesis supervisor's instructions. Attendance in the interviews and collected data is handled confidentially, thus the interviewed companies neither persons are named.

Information about Car dealer X was gained from interviews with marketing executives. Other sources of information were the author's own knowledge and the company's internet pages.

1.6 Structure of the thesis

The thesis consists of seven chapters, as visualized in Figure 2. Chapter 1 begins the thesis with an introduction, and is followed by the theoretical part of the thesis; Chapters 2, 3 and 4. Chapter 5 builds the empirical part of the thesis in terms of a case study, followed by conclusions and suggestions of the study in Chapter 6. Chapter 7 concludes the thesis as a summary.

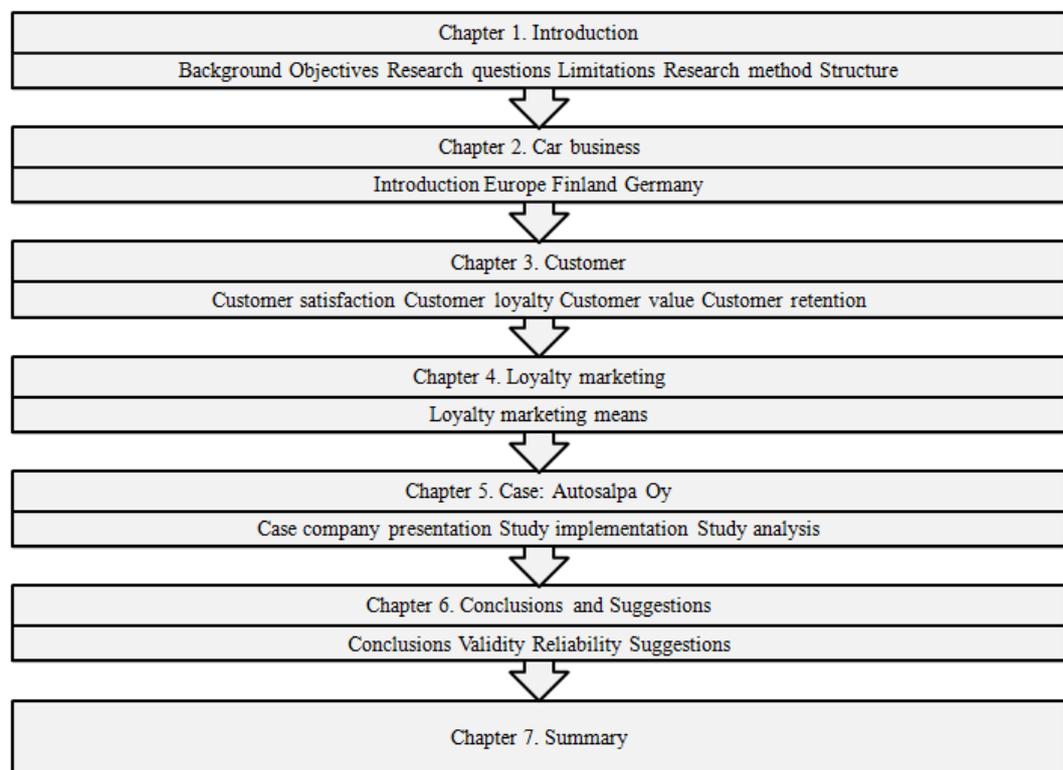


FIGURE 2. Structure of the thesis

The introduction in Chapter 1 starts with an explanation of the background of the thesis. In the same chapter study objectives and limitations are described, as well as research questions and the chosen research method.

Chapter 2 gives a brief general introduction to car business and provides more detailed information about European car market. A deeper look is set on car business in Finland and Germany, which are relevant countries for the thesis.

Chapter 3 provides theory about customership covering a part of the basic concepts of thesis' theoretical framework: customer satisfaction, customer loyalty, and customer value. Last but not least follows the theory of customer retention.

Chapter 4 introduces different loyalty marketing means starting from most familiar and concluding with a feature the importance of which is often forgotten: customer cards and clubs, value-added services, pricing, complaint management and loyal employees.

Chapter 5 consists of the empirical part of the thesis, a qualitative case study. The chapter starts with a brief introduction of the case company Car dealer X's operations and goes into more details with Car dealer X's marketing and loyalty marketing. The presentation of the case company is followed by the study and study analysis.

In Chapter 6 conclusions are given on the basis of the study analysis. The validity and reliability of the study are evaluated, and author's suggestions for future studies are given. Chapter 7 summarizes the whole thesis.

2 CAR BUSINESS

2.1 Introduction to car business

Nearly 250 years ago, in 1769, the first self-propelled road vehicle with a steam engine was invented by Nicolas Joseph Cugnot, a French engineer and mechanic. The following year he built a tricycle that carried four passengers. From those days many things have changed in the automobile industry. Along the way, in 1876, Nicolaus August Otto built the first practical four-stroke internal combustion engine, still known as the “Otto Cycle Engine”. In 1885, the world’s first practical internal-combustion engine powered automobile was built by Karl Benz, and Gottlieb Daimler upgraded Otto’s engine to a prototype of the modern gas engine. In March 1886, Daimler designed the first four-wheeled automobile in the world. (Bellis 2012a.)

Gasoline cars started selling more and more while the purchase of other types of vehicles slowly decreased in the early 1900s. The market was growing and the need for industrial production was increasing. In 1889, the first manufacturers of entire vehicles for sale, Rene Panhard with Emile Levassor, were introduced. Peugeot followed in 1891. The first standardized car model was Benz Velo, and in 1895 134 identical Velos were manufactured. Little less than twenty years later, in 1913-1914, Henry Ford invented the first conveyor belt assembly line. He also created the Model T Ford, of which 15 million models had been manufactured by 1927. (Bellis 2012b.)

Car Fleet (in Mn) | 2009

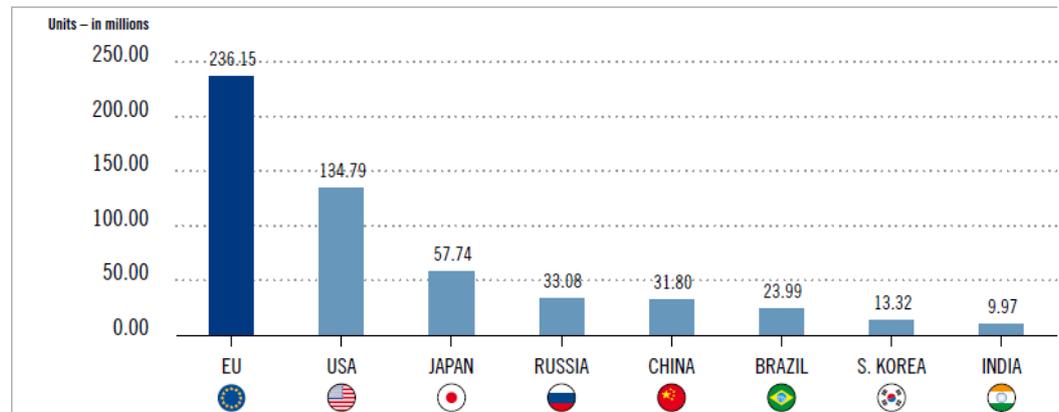


FIGURE 3. Cars in use worldwide, 2009 (ACEA 2011, 65)

After the early 20th century, car business has evolved enormously. In 2011, nearly 60 million passenger cars were produced in the world (OICA 2012). In 2010 over 56 million new passenger cars were registered worldwide, of which 24%, over 13 million units were registered in Europe (ACEA 2011, 56). The total amount of cars in use worldwide was estimated few years ago to be around 600 million cars. No exact data can be found due to lacking statistics, but, according to Figure 3, as the number of cars in use alone in Europe, USA, Japan, Russia, China, Brazil, South Korea and India in 2009 amounted to 540 840 000 (ACEA 2011, 66), there is a reason to believe that the number is considerably higher in 2012.

2.2 Car business in Europe

Figure 4 describes that in 2009 the total number of passenger cars in use in Europe was over 236 million, after growing steadily during the decade.

EU Passenger Car Fleet | 1990 – 2009

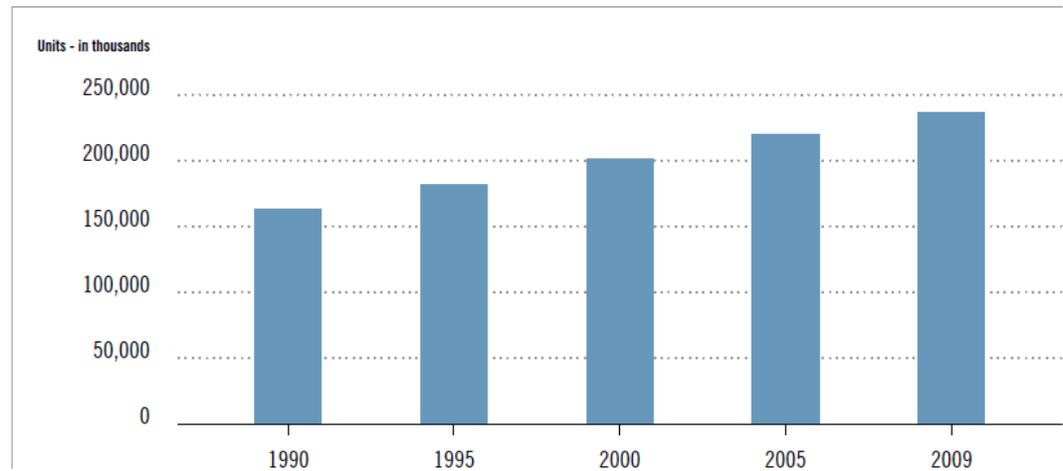


FIGURE 4. Cars in use in Europe, 1990 - 2009 (ACEA 2011, 63)

As shown in Figure 5, Germany accounted for 17,7% of these over 236 million cars, followed by three other European countries that held a share of over 10%; Italy, France and United Kingdom. Finland's share was only 1,2%. (ACEA 2011, 63-64.) 18 271 467 new passenger cars were produced in 2011, production increasing by 5.8% from previous year, accounting 30.5% to worldwide production (OICA 2012). New registrations amounted to over 13,5 million cars in 2011 (ACEA 2012a).

Car Fleet by Country (in units and % share) | 2009

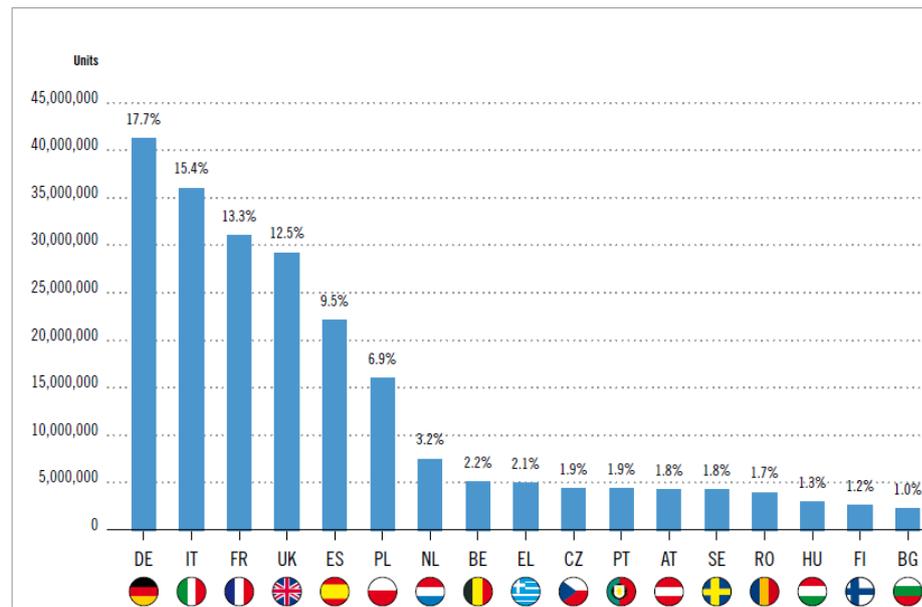


FIGURE 5. Cars in use in European countries, 2009 (ACEA 2011, 64)

Figure 6 includes information on the volume and value of European passenger car imports and exports in years 2009 and 2010. In 2010, over 2,2 million passenger cars were imported to Europe, and over 4,2 million cars were exported from Europe. The value of the imports accounted to over 22 billion Euros, and exports to nearly 76,5 billion Euros. The trade value of imports remained at the same level as in 2009, but the value of exports increased notably from the previous year, nearly 60%. (ACEA 2011, 70.) This shows that European car industry recovered quickly from financial challenges in the year 2009.

Motor Vehicle Trade		YEAR 2009		YEAR 2010		% CHG 10/09				
TRADE IN VOLUME (UNITS)		IMPORTS	EXPORTS	IMPORTS	EXPORTS	IMPORTS	EXPORTS			
	Passenger Cars	2,285,770	3,461,619	2,221,532	4,266,198	-2.8%	23.2%			
TRADE IN VALUE (€M)		IMPORTS	EXPORTS	TRADE BALANCE	IMPORTS	EXPORTS	TRADE BALANCE	IMPORTS	EXPORTS	TRADE BALANCE
	Passenger Cars	21,965	48,240	26,275	22,006	76,460	54,454	0.2%	58.5%	107.2%

FIGURE 6. Passenger car trade in Europe, 2009-2010 (ACEA 2011, 70)

The future of European car business strives for safety and sustainability. Nowadays 100 cars produce as much pollutant emissions as only one car in the 1970's. The recycling of vehicles started in the 1950's and today 85% of components are recycled in cars or in production of other products. A target set for 2015 aims that only 5% of a car results as waste. (ACEA 2012b.)

CO₂ reductions are a top priority in today's car manufacturing. The focus is set on eco-technologies, alternative fuels, eco-driving, and CO₂-related taxation. Where over 50 CO₂-reductive technologies have already been developed, there is still more to come. The development and introduction of alternative fuels such as sustainable biofuels, 85% ethanol and 15% petrol containing FlexFuel, gas forms of compressed natural gas (CNG) or liquefied petroleum gas (LPG), electricity for plug-in hybrids or battery electric cars, and future fuel hydrogen contributes to reducing emissions. Eco-driving, guiding and changing the driver behaviour to be more sustainable, is studied to be a remarkably cost-effective way of CO₂ reduction. CO₂-related taxation also increases demand for fuel-efficient cars with low emissions. (ACEA 2012b.)

2.2.1 Car business in Finland

In 2011 the total number of passenger cars in use in Finland was 2 958 568 (Trafi, 2012). The number increased by 2,8% from 2 877 484 registered cars in previous year (Statistics Finland 2011a). In 2011, 126 123 new passenger cars were registered in Finland (Statistics Finland 2012). Increasing 12,6% from the previous year, when 111 968 new passenger cars were registered (Statistics Finland 2011b).

In Finland only one passenger car production plant operates, Valmet Automotive. Today Valmet Automotive produces a 100% emission-free electric car Fisker Karma. The plant has manufactured cars for Saab, PSA Chrysler, EuroLada, General Motors, and latest Porsche until 2012 and THINK the production of which is on hold at the moment. (Valmet Automotive 2012.) The number of passenger cars produced in Finland amounted to 2 540 in 2011, decreasing considerably, 60,2%, from 6 385 in 2010 (OICA 2012).

2.2.2 Car business in Germany

Common first thoughts about Germany are cars, football and beer. In this occasion football and beer are less relevant issues, but cars can be proven to take their place in the top three for a reason.

In 2011, there were approximately 42 301 600 passenger cars in use in Germany, increased from the previous year, when the number of cars in use amounted to 41 737 600 (Statistisches Bundesamt Deutschland 2012a). In 2010, 2 916 300 new passenger cars were registered (Statistisches Bundesamt Deutschland 2012b).

There are 25 passenger car production plants alone in Germany, of which eight are owned by Volkswagen AG, four by BMW Group, General Motors Europe and Daimler AG both own three plants, Ford of Europe and Porsche AG both own two plants and the last three plants are Funke & Will AG's, Bitter's and Wiesmann's. It is still notable that in addition to passenger car production plants in Germany, many German car producers have production plants in other countries also. (ACEA 2010.)

The total amount of passenger cars produced in Germany was 5 871 918 in 2011, increasing from 5 552 409 in 2010 (OICA 2012). To compare, Finland's passenger car production accounts only 0,04% to Germany's production. The only thing where Finland beats Germany is Finland's slightly bigger car density, as shown in Figure 7.

Cars per 1,000 inhabitants | 2009

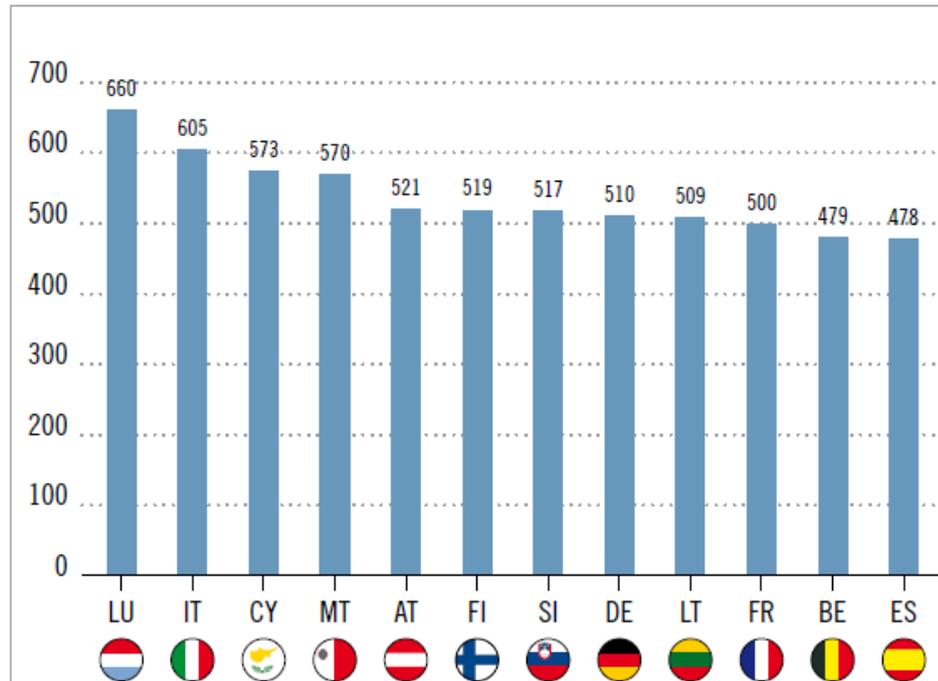


FIGURE 7. Car density in European countries, 2009 (ACEA 2011, 66)

"Ein Auto kann ja kein fünfte Rad haben, alle wissen das." An answer received when requested for the German translation of the idiom "third wheel" that in German is turned into "fifth wheel". *"A car cannot have a fifth wheel, everybody knows it."* The country famous of its autobahns and car producers is definitely Europe's big brother when it comes to cars.

3 CUSTOMER

3.1 Customer satisfaction

Oliver (1980, 461) proposes the Confirmation/Disconfirmation-Paradigm as a model to explain customer satisfaction. The paradigm, described in Figure 8, presents customer satisfaction as a result of an evaluation process between customer's expectation of the product, service or event and the experienced performance. If the performance does not meet customer's expectations, the evaluation results as a negative disconfirmation. If the performance exceeds customer's expectations, the evaluation results as a positive disconfirmation. The performance equalling to customer's expectations results as zero disconfirmation. Satisfaction is then seen to result from the gained type of disconfirmation. Negative disconfirmation creates dissatisfaction, where positive and zero disconfirmation create satisfaction.

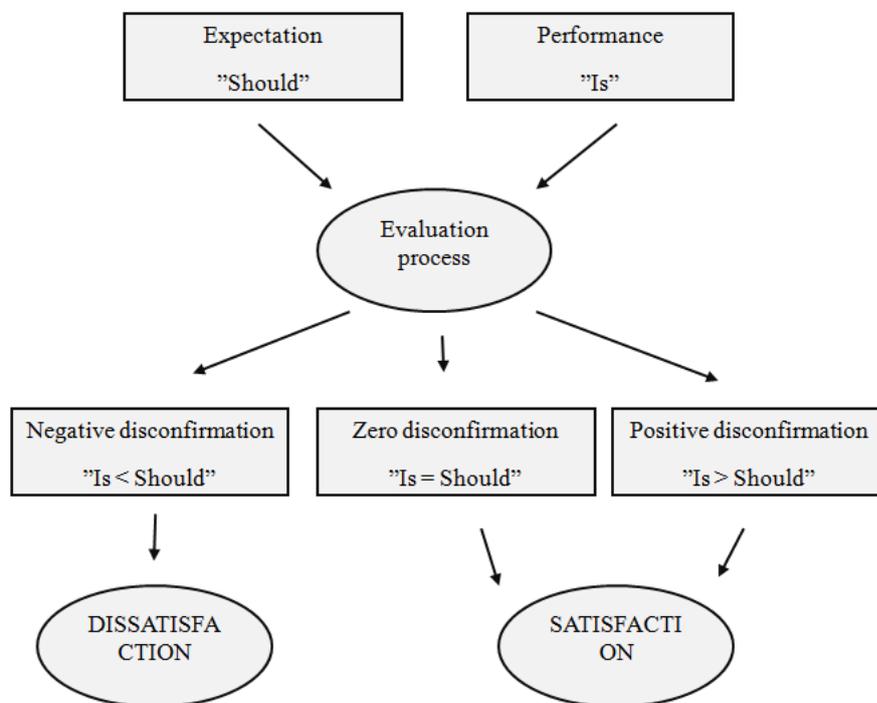


FIGURE 8. Confirmation/Disconfirmation-Paradigm (Based on Oliver 1980, 461)

Customer's expectation is influenced by different factors, of which three are the most common. First, the prior experiences of the product, possible connotation of the brand and other elements having a symbolic meaning may influence the expectation. Second influencer is the communication that takes place in the context, received from salesmen or social referents. Third factor influencing customer's expectations are the individual characteristics of the customer himself. (Oliver 1980, 461.)

For long customer satisfaction was considered to lead to customer loyalty. Today it is better known, that customer satisfaction does not necessarily lead to loyalty. (Arantola 2003, 35.) Studies show that up to 85% of customers who have flown to other vendors have been satisfied or very satisfied with the previous vendor. In car business satisfaction rates average 85% to 95%, but re-purchases remain at average of 40%. (Reichheld 1993, 71.)

3.2 Customer loyalty

There are several definitions for customer loyalty in studies and writings. Most commonly loyalty is divided by the target: **brand loyalty, service loyalty, vendor loyalty** or **store loyalty**. In some circumstances, customer loyalty can simply be explained as **a specified amount of re-purchases from the same vendor during a specific time span**. (Arantola 2003, 26.)

Basu & Dick (1994, 100-101) present that loyalty requires both repeated purchases and favourable attitude against potential competitive alternatives, as high repeat purchases may result due to situational constraints only, or low repeat purchases may simply reflect variety seeking or lacking brand preferences. Also favourable attitude towards a brand does not ensure purchases, if attitudes toward other brands are more favourable.

As presented in Figure 9, strength of relative attitude depends on two dimensions: attitude strength and attitudinal differentiation. Relative attitude is highest when attitude is strong and attitudinal differentiation between brands exists. Existing differentiation from competitors is enough for high relative attitude even if attitude strength remained low. On the other hand, if attitudinal differentiation is

lacking despite strong attitude, other equal considered alternatives might lead to multi-brand loyalty. Likewise the lack of differentiation together with weak attitude creates the lowest condition of relative attitude. (Basu & Dick 1994, 101.)

Together with repeated purchases, repeat patronage, relative attitude can lead to four conditions of loyalty: **no loyalty**, **latent loyalty**, **loyalty** and **spurious loyalty**. Low relative attitude, possibly caused by unfamiliarity of a recently introduced brand or the dynamics of a market where competing brands are considered to be similar, together with low level of repeat purchases equals to no existing loyalty. Latent loyalty, as a result of high relative attitude and low repeat purchases, is the challenge of marketers; how to increase customer's repeat purchases and turn the hidden loyalty into loyalty. The most preferred condition, loyalty, is achieved when both relative attitude and level of repeat purchases are high. Spurious loyalty appears when customer's repeat purchases are high, usually on the situational basis, such as familiarity, deals or social influence, although relative attitude towards the brand remains low and the brand itself makes no importance. (Basu & Dick 1994, 101-102.)

		Attitudinal differentiation		Repeat patronage			
		No	Yes	High	Low		
Attitude strength	Strong	Low relative attitude	Highest relative attitude	Loyalty	Latent loyalty	Relative attitude	High
	Weak	Lowest relative attitude	High relative attitude	Spurious loyalty	No loyalty		Low

FIGURE 9. Formation of customer loyalty (Based on Basu & Dick 1994, 101)

As already mentioned, brand loyalty alone is often not enough. Although the customer can learn and get familiar with the brand, the brand never gets familiar with the customer. This is where individual employees show their importance, and

win in comparison. Also, familiar employees are more likely given a second chance at the moment of dissatisfaction. (Reichheld & Teal 1996, 46.)

Demographics and earlier purchase history can work as an important indicator of customer's loyalty. People buying from personal interest can be considered to be more loyal than people buying due to offers and advertisements, likewise people buying products or services at the standard price, compared to people buying on price promotions. House owners can be considered to be more loyal than mobile people, who always interrupt their business relations when moving. By knowing the customers that are loyal the type of non-loyal customers is known also. Then the company can focus on the customers that are considered to stay and bring more value to the company, and prevent wasting resources on those who most probably will not stay. (Reichheld 1993, 66.)

3.2.1 Customer loyalty steps

Customer loyalty is divided in five different stages, and it can be described as a stairway from bottom up, as in Figure 10.

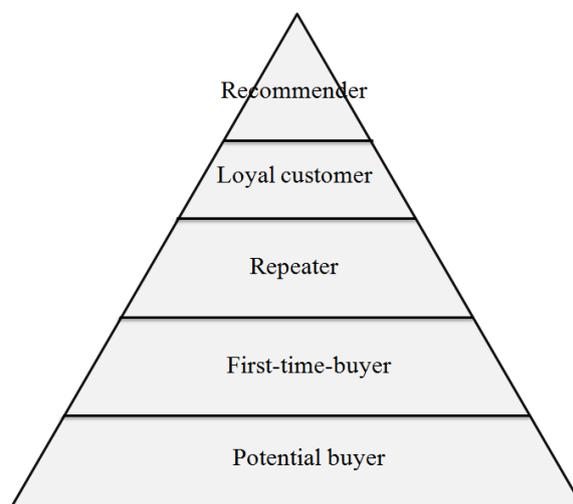


FIGURE 10. The loyalty stairway of the customer (Based on Fuchs & Schüller 2002, 178)

In the beginning a customer is classified as a **potential buyer**. A potential buyer chooses the company that is recommended to him, that seems most convincing and trustworthy, or simply the first one he finds. The upgrade of a potential buyer to a **first-time-buyer** requires that the company's supply meets buyers demand, and the buyer is led to the purchase. Employees in customer contact or an old customer working as a recommender have an important role in leading the potential buyer. (Fuchs & Schüller 2002, 179-187.)

To make a first-time-buyer purchase again, in most cases, the first purchase process has to lead to customer satisfaction. The creation of customer satisfaction is introduced in Chapter 3.1. A failure in the first purchase process is not necessarily crucial, but then winning back the customer requires showing that he really is important. Fuchs & Schüller (2002, 193) state that to develop a first-time-buyer to a **repeater**, the company needs to succeed in building trust on the quality, both in offerings and service.

A **loyal customer** buys often. A loyal customer buys more. He becomes resistant to other companies and their offerings and does not pay that much attention to price differences. He brings a considerable amount of money to the company. (Schüller 2005, 27.) To become a loyal customer, a repeater needs excitement. Offering privileges, gifts, discounts and special offers through regular customer programmes creates excitement, makes the customer feel more important and simply, increases the loyalty of the customer. (Fuchs & Schüller 2002, 203.)

For a **recommender** selling is easier, as he already has the trust of the new potential buyer on his side. Trust leads to quicker decisions and immediate purchases instead of trials. Recommendations will only be given when something really is worth of recommending. Customer can be a recommender at any step of the customer loyalty stairway. (Fuchs & Schüller 2002, 233-234.) A recommender brings a lot of value to the company. This will be described more precisely in the following chapter.

3.2.2 Customer value

The customer value can be divided in six components: acquisition cost, base profit, revenue growth, cost savings, referrals and price premium. The formation of customer value is described in Figure 11.

The investment of **acquisition cost** is needed from nearly every company to gain new customers. All acquisition costs are not equally obvious. They can occur for example from advertising or commissions on sales directed to new customers, or it can also be measured from work time used to customer acquisition. When the acquisition cost per customer is calculated, must all the expenses, also hidden ones, be found out and calculated. (Reichheld & Teal 1996, 42-43.)

Base profit contains all the basic purchases made by the customer, unaffected by time, loyalty, or any other thing. Usually, the price the customer pays covers the company's costs. (Reichheld & Teal 1996, 43.)

In most businesses, customers tend to start purchasing more over time. Customers become more familiar with company's product line and start eventually make new purchases in addition to the basic purchases. These increased purchases form the **revenue growth**. And the longer the relationship between the customer and the company is, the more familiar customers become with the company, and the more they make new purchases. Yet, though the idea of revenue growth is easily understood, it can be very difficult to measure. It is not correct to count the base profit of a customer, and then use an implied growth pattern to calculate the revenue growth, because cross-selling is still very dependent on the customer type. (Reichheld & Teal 1996, 43-44.)

When the customer becomes more familiar with the company, he becomes less dependent on its employees. The customer will no longer ask for information, advice or products or services the company does not provide. The **operating cost savings** can be obvious in some companies, in retailing and distribution they are particularly strong. In automobile dealerships, for example, knowing the history of the customer and his car can save a lot of time from the company. On the other hand, in this matter the effect of employee defection can easily be seen. When an

employee leaves, the operating costs increase as the new employee needs his time in learning to know the customer. (Reichheld & Teal 1996, 45-47.)

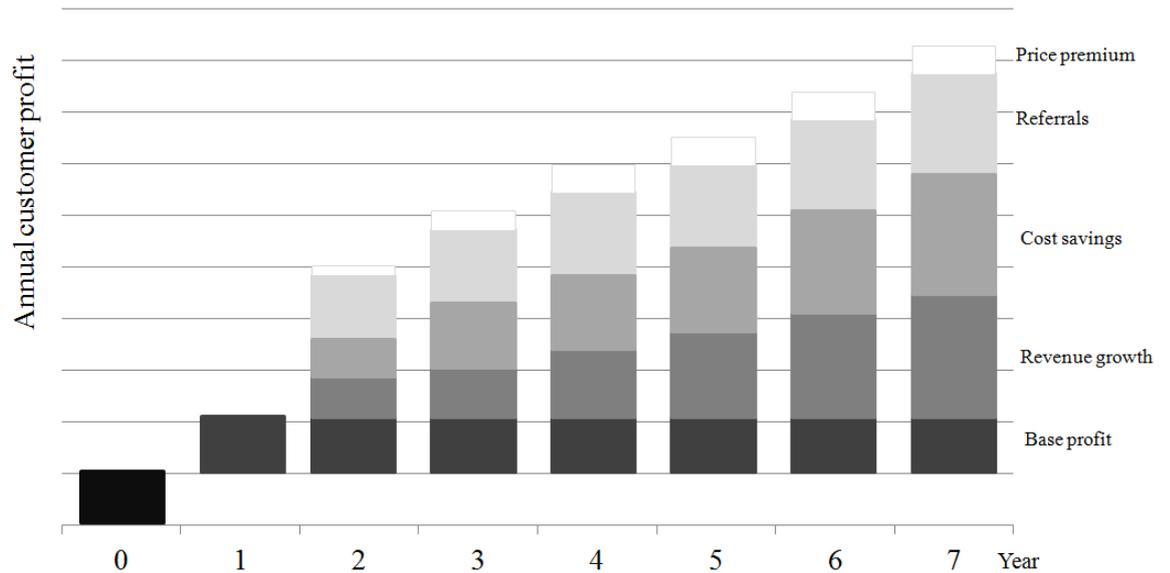


FIGURE 11. Loyal customer value (Based on Reichheld & Teal 1996, 39)

Satisfied customers recommend the company to others. These **referrals** bring new customers to the company, without a need for acquisition cost. These new customers brought to the company by referrals also tend to be more profitable and stay with the company longer, in comparison to customers gained through advertising or price promotions. (Reichheld & Teal 1996, 48.) Familiar expressions related to referrals are customers spoken marketing “word-of-mouth”, and new customers brought by satisfied customers, “member-get-member” (Arantola 2003, 22).

Customers with a longer history with the company get greater value from the relationship. They know company’s procedures and find the company to be there for them. They become less price sensitive than new customers. This **price premium** brings the company even a little more profit from the customer. (Reichheld & Teal 1996, 49.)

3.2.3 Loyalty value

Although measuring neither customer satisfaction nor customer loyalty is included in the thesis, as an example, Schüller (2005, 29) presents how the value of a loyal customer can be calculated. The loyalty value of a customer consists of two components; customer lifetime value and recommendation value. Lifetime value is built from the value of made purchases during the relationship and cost savings (operating costs e.g. unnecessary marketing) gained at the purchases. The recommendation value consists from the purchase value of new customers, brought to the company by the loyal customer, and savings in acquisition costs. The formulas of the components are presented in Table 1.

TABLE 1. Customer's loyalty value components (Based on Schüller 2005, 29)

Lifetime value = $(P \times V_1 \times Y) + (P \times S_1 \times Y)$	P = Purchases (times) V ₁ = Value of the purchase (€) Y = Relationship in years S ₁ = Savings in costs (€)
Recommendation value = $(Y \times V_2) + (Y \times S_2)$	P = Purchases (times) V ₂ = Value of the customer (€) Y = Relationship in years S ₂ = Savings in acq. costs (€)

TABLE 2. Example on customer value calculation (Based on Schüller 2005, 29)

A loyal customer does five times a year a purchase worth of 150 Euros during the relationship of ten years. Cost savings amount to 5 Euros.	Lifetime value = $(5 \times 150 \text{ €} \times 10) + (5 \times 5 \text{ €} \times 10) = 7\,500 \text{ €} + 250 \text{ €} = 7\,750 \text{ €}$
The loyal customer brings every year one new customer to the company, and the value of every new customer amounts approximately to half of the loyal customer's lifetime value. Acquisition cost savings amount to 100 Euros per new customer.	Recommendation value = $(10 \times 3\,875 \text{ €}) + (10 \times 100 \text{ €}) = 38\,750 \text{ €} + 1\,000 \text{ €} = 39\,750 \text{ €}$
The loyalty value	$7\,750 \text{ €} + 39\,750 \text{ €} = 47\,500 \text{ €}$

Schüller (2005, 29) reminds that neither the recommendation values of the new brought customers, nor the values of possible improvement proposals are included in the calculation. These also have an increasing effect on the loyalty value of a customer. In given example, in Table 2, the final loyalty value is almost **five times** as big as the loyal customer's lifetime value alone.

3.3 Customer retention

Customer retention can be seen as a central indicator of how the company performs in creating value to the customers, not only as a statistic among others (Reichheld & Teal 1996, 3). To clarify the terms, customer retention means the rate of customers remaining at the company, where customer defection rate describes customers leaving the company. Customer turnover is also known as customer churn. (Arantola 2003, 38.)

Some companies gather information about their customers without special efforts. Banks, credit card companies and insurance companies, for example, all collect the data as a part of the business. For these kinds of companies, finding out customer defections is quite easy: only organizing the information is needed. For other businesses, in retailing for example, special actions are required. A database for storing and analysing customer information needs to be created and customers are attracted to membership or regular customer programmes. (Reichheld & Sasser 1990, 108.)

Because companies cannot force customers to stay, they must act continuously to prevent defections. All defections cannot be eliminated, but the total amount must be reduced. To find out the reasons why customers are leaving, it is good to ask from those who know the best – listen to the feedback from the leaving or already lost customers. This feedback is usually specific, and unlike usual market researches, it does not result subjective opinions on things like satisfaction or attitudes. Defection analysis shows accurate reasons why the customers left. These will help companies to make the right decisions on investments. (Reichheld & Sasser 1990, 106-109.)

Lost customers are usually associated with having an effect on the company's factors with competitive advantage, e.g. market share or unit costs. Instead, the direct affect to company's profit is more powerful than thought. As a customer's relationship with the company lengthens, profits rise. On average companies lose 15% to 20% of their customers every year. By being able to maintain half of these defecting customers, they can more than double their profits. (Reichheld & Sasser 1990, 105-108.)

4 LOYALTY MARKETING

Customers become loyal and free-spending when the company offers them excitement. That task is to be fulfilled by marketing. (Schüller 2005, 19. Translated by author.)

The most visible forms of loyalty marketing are regular customer cards and clubs, followed by value-added services and pricing. Other important tools for building loyalty are complaint management and loyal employees.

4.1 Regular customer clubs and cards

Regular customer clubs first appeared in Finland in the beginning of the 1980's, and in 1990's customer clubs took their position in the Finnish market. At the generalisation phase of customer clubs they were named and even branded. Company's club could have been copied from competitors or changed a little to make customer's direct comparison harder. After this many things have changed, but commonly loyalty programmes in means of regular customer cards and clubs are meant to reward customers for re-purchases. (Arantola 2003, 49-57.)

Regular customer programmes can include various implemented functions, but in principle there are four main goals that lead to customer loyalty and in the end to growth and profit of the company; customer selection, improving the knowledge on customers, communication and integration, and improving the company's image and increasing the customer's commitment. These goals are achieved by providing more or less individual and exclusive services to the customers. (Dittrich, Reinecke & Tomczak 2005, according to Bruhn & Homburg 2005, 278.)

Improvement in customer selection and customer knowledge can be achieved with information about the customers on the basis of their nature and preferences; defining the target group more specific. Due to the heterogeneity of the target group, new customer segmentation is often needed to help finding out the segments, in which the loyalty effect can still be increased. The more heterogenic the target group is, the broader the scale of offerings, or more price-oriented the

advantages of the customer club should be. This, anyhow, can bring negative impacts on the efficiency of the customer programme. For this, successful solutions can be restricted customer programmes (e.g. yearly purchases more than 100 €), or programmes open to everyone including “a natural selection” via economic criteria (e.g. airline’s programme for a regular flyer vs. once a year flyer). The restricted programmes require a deposit from the customers, and therefore the biggest and most popular programmes tend to be open programmes, very commonly cost-free customer cards. (Dittrich, Reinecke & Tomczak 2005, according to Bruhn & Homburg 2005, 278-280.)

Achieving the goal of more intensive communication with the customer via customer programmes helps integrating the customers better in the performance. The quality of a feedback received in the communication dialogue between the company and the customer improves. An intensive and open dialogue can add additional emotional value, and lead the way to the goal of improving the company’s image and increasing the customer’s commitment. (Dittrich, Reinecke & Tomczak 2005, according to Bruhn & Homburg 2005, 280.)

4.2 Value-added services

Several reasons have increased the need for companies to focus more on providing value-added services. Nowadays, there is less differentiation in product quality and products themselves provide only small competitive edge. Classical products and services don’t have much growth potential, and rival offerings create pressure. Also changing company’s image from product oriented to customer oriented creates great need for value-added services. (Beutin 2005, according to Bruhn & Homburg 2005, 299.)

4.2.1 Goals

Value-added services are secondary product-related services that are provided to fulfil either economic or non-economic goals. Economic goals of providing value-added services are; increasing the turnover with repurchases and cross selling, or to become less dependent on economical fluctuations, as during recession a

customer makes fewer new product purchases but invests more on the maintaining services. Non-economic goals pay more importance on customer loyalty; they aim to better customer integration and longer relationships between the customer and the company. (Beutin 2005, according to Bruhn & Homburg 2005, 300-302.)

4.2.2 Categorization

Value-added services can be divided in six different types:

Information and support services provide the customer with guidance about purchasing and using the product. The services can be either very strongly related, or quite unrelated to the product itself. These services are often considered as “frill services” including unnecessary extra features and their effect on building customer loyalty or customer’s willingness to pay is relatively small. Still, for some companies information and support services can be important. (Beutin 2005, according to Bruhn & Homburg 2005, 304.)

The importance of providing **logistical services** to loyalize customers is often underestimated. They can have a big role on the product or sold service. Rational logistical services would be for example providing a pick-up and delivery service for the car service customer. (Beutin 2005, according to Bruhn & Homburg 2005, 304.)

Technical services are the most common form of value-added services. Almost every company selling technical products also provides technical information to support the use of the product. These technical services are often separated between private and company customers, as an example by asking them to call different hotline numbers. Anyhow, technical services do not seem to have that great impact on loyalizing customers, and they do not increase customer’s willingness to pay. This is why the usual aim is providing as professional, and as suitable priced technical services, as possible. (Beutin 2005, according to Bruhn & Homburg 2005, 304.)

Individualization provides customers with products and services that are individually adjusted to serve their wishes and needs. This service can have a

strong loyalizing effect and customer's willingness to pay is usually high. This service is also more difficult for competitors to copy. (Beutin 2005, according to Bruhn & Homburg 2005, 305.) For example, the scale of individualization in car business is wide. Some brands let the customer make only basic choices taking place in the end of the production, such as paint and interior textile, and others do not even start the production before a customer order is received, and almost every little detail can be chosen by the customer.

Economical services include among others financing, insuring and leasing. Their effect on loyalizing the customer is huge, as they are cancelled usually only under special circumstances. These services can have a very important role in company's operations. Concerning economical services customers' willingness to pay is usually relatively high. As it is not ideal for companies to give discounts, it is more usual to provide other benefits e.g. financing with an attractive interest. (Beutin 2005, according to Bruhn & Homburg 2005, 305.)

Convenience services aim to ease customers' life. Their effect on loyalizing the customers is very big, as well as on customers' willingness to pay. As an example can be named grocery stores or pizzerias home delivery service, or online reservation to car inspector instead of queuing. These services have still great future potential. (Beutin 2005, according to Bruhn & Homburg 2005, 305.)

TABLE 3. Evaluation of the value-added services under specific criteria (Based on Beutin 2005, according to Bruhn & Homburg 2005, 305. Edited by author.)

Value-added service	Information and support services	Logistical services	Technical services	Individualization	Economical services	Convenience services
Criteria						
Effect on customer loyalty	x	xxx	x	xxx	xxx	xxx
Effect on customers willingness to pay	x	xx	x	xxx	xxx	xxx
Implementation frequency	xx	xx	xxx	xx	xx	x
Future potential	x	xx	x	xx	xx	xxx

low x - xxx high

The evaluation of value-added services under their effect on customer loyalty and customers' willingness to pay, implementation frequency and future potential is presented in Table 3.

4.3 Pricing

In addition to regular customer programmes and value-added services, product and service pricing is one of the most effective marketing instruments to create and increase customer loyalty. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 345.) The goal of loyalty pricing is to create as long-lasting customer relationship as possible (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 354).

4.3.1 Quantity based pricing

In quantity based pricing an increasing discount is offered on purchases of bigger quantities. Therefore the main feature of quantity based pricing is that the price per product decreases when the purchasing quantity increases. Two usual forms of quantity based pricing are quantity discount and two-part tariff. The differences are explained with following examples. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 346-347.)

Quantity discount: A company sells a product with the price of 10 € per unit. After purchasing 100 units in a year, the further units are sold with 5% discount. Purchases over 200 in a year are discounted at 10%, and units after 300 purchases are discounted at 20%. A customer that has a demand of 200 products becomes bound to the vendor because of the offered 10% discount on further units, with the next discount level after 300 purchases in sight. The quantity discount is very loyalizing method, and a competitor can compete only with offering similar discounts. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 347-348.)

Two-part tariff: Deutsche Bahn, Germany's national railroad company offers a variety of BahnCard's for their customer. In chosen class, the customer is entitled to a 25% discount on every journey purchased with BahnCard 25, with BahnCard 50 customer holds a 50% discount on every journey and with BahnCard 100 the customer can travel with DB services free of charge annually. (Deutsche Bahn, 2012.) Every purchased journey increases the amount of gained discounts, and at a certain point the gained discounts amount to the purchase price. For example, the normal priced BahnCard 25 for second class, 59 €, pays off already with one purchased journey of more than 200 € (Deutsche Bahn, 2012). The more trips are purchased, the more the customer benefits.

4.3.2 Time and loyalty based pricing

Customer loyalization can also be created and increased by offering discounts on the basis of customer's loyalty or the length of customer's relationship. For example, in many insurance companies the price of the insurance decrease after accident-free years. Customers with many years of insurance and no accidents can reach big savings. Also, another very common example is the pricing of newspaper orders. The longer the order that a customer makes, the more he benefits. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 350.)

4.3.3 Multi-product pricing

Multi-product companies are often interested in reaching common loyalty throughout the whole product line. This is why multi-product pricing builds package offers with different product or service offerings and specific set discounts. The most common forms of multi-product pricing are bundling, tie-in sales, daughter products, and bonus on total purchases. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 351-352.)

In **bundling** different products are offered for a packet price, smaller than the price unit prices form. Bundling can be divided in two forms: pure bundling and mixed bundling. Bundling is called pure, when the products offered in a packet cannot be separately bought and are bound. Thus, mixed bundling allows products being bought separately. One alternative is to offer a discount on a second product after purchasing the first "main" product. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 351.)

In **tie-in sales** the main product is sold with complementary products that have to be bought from the same vendor. Usual examples of tie-in sales are commodities such as computers or copy machines, where complementary products can be software, paper or toner. Sometimes the products can be bound with compatibility or system requirements. The purchase of the main product then leads to automatic long-lasting business relationship. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 351.)

The most typical **daughter products** are updates, for example for software a company uses. They are often provided at a reduced price for existing customers in comparison with new customers. Customers have the choice of buying the update to continue using the software, or changing to new software, which anyhow includes higher purchase barrier in terms of higher price or required training, in addition to other challenges changing the software can cause. These kinds of daughter products have raised the fact that many customers might be unsatisfied, but they have to stay loyal to the company under the binding circumstances. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 351-352.)

In the last form of multi-product pricing, companies offer bonus on total purchases a customer has made under a specific time span, for example a month or a year. The more purchases are done, the more bonus the customer gains. Although the purchase of different products is not necessary, this bonus model makes the customer to centralize his purchases to one vendor, which most probably by time leads to purchases of more and more different products. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 352.)

4.3.4 Multi-person discounts

The goal of multi-person discounts is to win and remain also additional customers in addition to the main customer, which leads to forming additional sales. Bigger groups are also considered to be harder attracted by competitors. Most common form of multi-person discounts are group prices offered in events, accommodation or travelling for instance. Another example can be “friends & family” groups offered by phone operators, where discounts are given on the calls between the named members of the group. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 352-354.)

4.3.5 Contracts and price guarantees

In addition to the previously mentioned indirect pricing actions that are intended to loyalize customers via discounts and incentives, also the direct way of creating a long-lasting contract can be chosen. Extreme contracts set to last decades are rare. Shorter contracts up to five years, instead, exist in several branches. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 354-355.)

The direct way of creating long-lasting contracts appear in automobile dealerships in the form of sold insurances and financing services, of which the last mentioned contracts are commonly done for three years. Anyhow, these contracts bind customers to insurance or financing companies more than to car dealers via whom the contracts are made.

Price guarantees, as the name alone describes, guarantees the price the customer pays for the product or service in different forms. First, it can be guaranteed that a specific price applies for whole determined time span. Other form of price guarantees is that the vendor promises customers money back if he purchases identical product or service with a cheaper price in the same town. Alternatively, the vendor offers the product or service at the price the identical product or service is sold elsewhere. Unfortunately, there is a risk that price guarantees create a price spiral and the guaranteeing vendor becomes dependent on the competitive vendor. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 355-356.)

Still, price guarantees are an interesting instrument of loyalty pricing. There is no reason for the customer to change his vendor, as due to guarantees, the customer knows he always gets the product or service at the best price. (Buchwald, Simon & Tacke 2005, according to Bruhn & Homburg 2005, 356.)

4.4 Complaint management

An unsatisfied customer has two choices: complaining or leaving, voice or exit. In Finland and other Scandinavian countries complaining tends to be chosen more seldom. Loyal customers seem to be more eager in complaining than a customer for whom changing the vendor does not cause great effort. A loyal customer complains, because he wants to improve vendor's performance to be worth continuing the customership instead of leaving. Unfortunately, in most companies complaining customers are seen as trouble that deserves to leave. The complaint should rather be seen as an investment made by the customer, with customer's aim to develop company's operations. (Arantola 2003, 23.)

Complaint management includes all the actions of the company from planning, implementation and controlling to managing the received complaints (Stauss 2005, according to Bruhn & Homburg 2005, 318).

Some usual goals of complaint management are

- making the customer satisfaction to recover by reacting to received complaints quickly and providing a fair solution to the problem
- minimizing the negative impacts of customer's dissatisfaction; losing the customer to the competitor and customer's negative social marketing
- not only avoiding the negative social marketing from the customer, but turning it to positive recommendations through satisfactory complain management.
- using the information given in complaints to identify company's weaknesses and improvement potential. Complaints should constantly be used as a source of important ideas for quality and product development
- creating a more customer oriented company strategy and customer friendly company image.

(Stauss 2005, according to Bruhn & Homburg 2005, 318-319.)

Achieving these complaint management goals requires that customers are provided with an easily accessible tool for giving complaints. Received complaints must then be appropriately taken into account and handled. The information of the complaints shall be analysed and studied to gain information about possible room for improvement. The complete complaint management contains all phases from complaint stimulation, receiving the complaint, handling the complaint, reacting on the complaint, analysing the complaint, reporting, and using the gained information, as well as controlling complaint management. (Stauss 2005, according to Bruhn & Homburg 2005, 319.)

Providing different easily accessible ways of giving complaints and encouraging customers to complaining belong to the tasks of marketing.

4.5 Loyal employees

Aunt Emma, as an owner of a small convenience store, knows and calls all her customers by name. She knows what they buy and need, and communicates individually with each of them. This way she builds an intensive relationship with her limited and manageable customer base. This personal dialogue is the basis of loyalty management. (Gerdes 2005, according to Bruhn & Homburg 2005, 389.) Thinking about this imaginary situation helps realizing the importance of relationships between customers and employees. Many people may find a similar situation in their own lives; the familiar employee at a company who actually is the reason why they choose to do business at the specific company.

The longer employees stay within a company, the more they learn, the more they get to know the business, and the more valuable they may become. Employees in direct contact with customers have an enormous effect on customer loyalty; it is employees customer have their contact with in the company, not the managers. Customers build trust and expectations with exactly those employees that serve customers from day to day, and if that person is gone, trust must be built from the start. (Reichheld 1993, 68.)

As important as selecting the right customers is, the selection of the right employees is also. Hiring is not just about filling the open positions, it is also finding and keeping the employees who are willing to stay, learn and build relationships with the customers. Skills and education of the applicant may count, but finding an employee to stay and grow with the company is even more important. Still, employees will not stay and give their effort for the company if they lack a reason to do so. If nothing else differs, best employees follow the money. As crucial, as it is. (Reichheld 1993, 69.)

The companies aiming for customer loyalty should want to keep their best loyalty builders and do everything they only can not to lose them. Providing incentives, whether it is salary, bonus or any other thing, may significantly increase employees' loyalty towards the company he works for. Investing in the employees and educating them further in customer service results with more satisfied customers, which leads to increasing value for the company. And where employees alone can create customer loyalty, also loyal and satisfied customers can increase the loyalty of an employee. (Reichheld 1993, 69-70.)

To conclude, personal marketing implemented by employees is considerably important in building customer loyalty. Therefore it must also be taken into account when planning company's loyalty marketing actions.

5 CASE: CAR DEALER X

What would a car dealer do, for example, if he discovered that a brand new stereo system was missing from his parts inventory? He would probably turn the dealership upside down. And what would he do if he lost a loyal customer? Most would shrug their shoulders. Yet the probable annuity value of that customer's purchases exceeds the cost of the stereo ten times over. (Reichheld & Teal 1996, 5.)

5.1 Car dealer X in brief

The content of this chapter is not published.

5.1.1 Marketing at Car dealer X

The content of this chapter is not published.

5.1.2 Loyalty marketing at Car dealer X

The content of this chapter is not published.

5.2 Study

As defined in Chapter 1.5 the chosen research method for the study was a case study of qualitative research. The answers to the research questions below are investigated by benchmarking; comparing the data gained from other car dealers with the present loyalty marketing of Car dealer X.

- *What customer loyalty and loyalty marketing mean to car dealers?*
- *What loyalty marketing means are used in automobile dealerships?*
- *What new loyalty marketing means could be implemented?*
-

Germany is a bigger country than Finland, especially in car business as proven in Chapter 2. This is why Germany was found to be the best suitable country for studying thoughts about customer loyalty and loyalty marketing in automobile dealerships.

5.2.1 Data collection

For the study some German and Finnish car dealers were interviewed to gain real-life information on how loyalty marketing appears in their businesses. The selection of car dealers was made according to the idea of gaining data from different contexts, meaning variation in representations of car brands, and company size, among other features. Most ideal option was that the interviewee would represent marketing personnel, but also sales or service personnel were suitable interviewees. Most important for the selection was, of course, their willingness to participate in the research.

The first step of choosing the interviewed car dealers in Germany was contacting several companies by email to inquire whether they would take part in the study. As only one approval was received, among two refusals and many lacking answers, approach strategy was changed. Rest of the interviews were conducted by going directly to the dealer and asking for possibility of an interview, which were then in most cases conducted straight away. When choosing the Finnish car dealers, contacts were made by phone and appointments for interviews were set.

As mentioned in Chapter 1.4 the interviewed car dealer companies were not identical with each other by size, represented brands, common representations with Car dealer X, or other matters, which was hoped to allow more variation in companies' loyalty marketing policies. The background information of the benchmarked car dealers is presented in Table 4.

TABLE 4. Background of the benchmarked companies and interviewees

	Interviewee 1	Interviewee 2	Interviewee 3	Interviewee 4	Interviewee 5	Interviewee 6	Interviewee 7
Country	DE	DE	DE	DE	DE	FI	FI
Represented brands	5	1	2	4	4	13	1
Common brands	0	1	2	3	0	3	0
New/Used cars	Both	Both	Both	Both	New	Both	Both
Number of facilities	13	2	17	2	1	29	1
Position	Service manager	CEO's assistant	Salesman	Sales manager	Salesman	Sales manager	CEO

The data collection method in the study was half-structured interview. The interview handled customer loyalty and loyalty marketing in companies' operations, with the aim to find out both companies' thoughts about customer loyalty, and implemented marketing actions to support customer loyalty. Interview questions provide a guideline for the interview but they let the interviewee answer freely and allow moving to other possibly appearing topics. The interviews in Finland were done in Finnish and in Germany the language used was German. The interview structure is presented in Table 5, and complete interview sheets in English, German and Finnish can be found as Appendix 1, 2, and 3.

TABLE 5. Themes of the half-structured interview

Theme	Questions
Thoughts about customer loyalty	1 - 3
Implemented loyalty marketing	4 - 7
Complaint management	8
Loyal employees	9

The interviews were not recorded as recording could have been considered uncomfortable or even be denied. Instead, research data formed by answers and discussed topics were written on the interview sheets. Approximate duration of the interviews was 30 minutes.

5.2.2 Analysing the research data

After the interviews were implemented, gained data was analysed.

Benchmarking is usually defined as systematic investigating, analysing and improvement of own organization, external performance and factors leading to success. Benchmarking is not spying or cooperation between competitors to limit competition, but comparing own organisation's performance to external methods and operations and using this information for improving own operations.

Benchmarking is based on learning from others. (Kaivos, Laamanen, Salonen & Valpola 1995, 10) Figure 12 illustrates the definition of benchmarking.

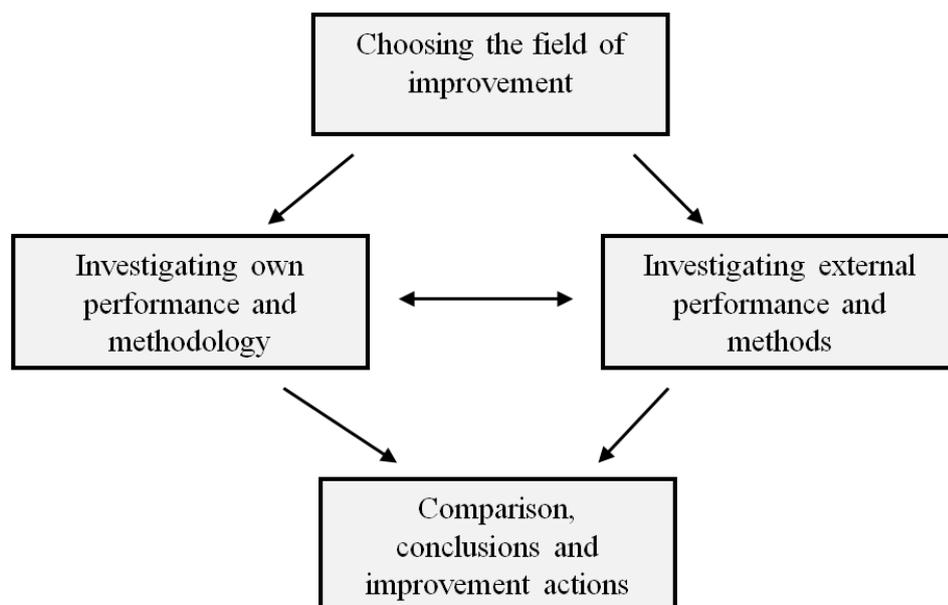


FIGURE 12. Benchmarking (Based on: Kaivos, Laamanen, Salonen & Valpola 1995, 10)

In the following analysis the study results are presented following an order set by the question themes:

Thoughts about customer loyalty:

1. *Do You give more importance to*
 - *the acquisition of new customers*
 - or*
 - *taking care of the present customers and preventing customer retention?*

2. *What do You find to have the biggest effect on customer's loyalty?*
 - *Quality of service/Employees*
 - *Prices/Discounts*
 - *Product/Brand*
 - *Customer rewards/Special offers*
 - *Something else -what?*

3. *Do You measure the loyalty of Your customers?*

The majority of the car dealers found that present and new customers are equally important. The acquisition of new customers was pointed out to be more difficult and more expensive than taking care of the present customer base, but as one of the interviewees pointed out; customers are not lost only because of dissatisfaction but also due to natural reasons, death for example. This is why also new customers are always needed. Two car dealers answered to pay more importance on present customers. Notable is that in no one's opinion new customers were more important than present customers.

A common statement pointed out that very individual factors can lead to customer loyalty. Still there was a unanimous opinion that service quality has the greatest effect on customer loyalty. Customer satisfaction, personal care, employees who know what they are doing, continuity and familiar employees who know the customer were important factors of service quality. The product or brand was generally ranked to be second important. Anyhow, brand may be the most

important factor for one customer, whereas another customer emphasises the price of the product, no exact rule exists. One car dealer mentioned that in studies price or discounts have been closer to not important, whereas another reminded that in car business prices are so affordable that loyalty can be very dependent on the current offers. All in all; whatever has an effect on customer's loyalty is very dependent on the customer himself.

Information about customer satisfaction, study results and calculated satisfaction indexes are mainly given to the dealers by manufacturers. Some car dealers find these measurements enough, whereas a few make customer contacts themselves to ensure customer satisfaction, or to find out reasons for dissatisfaction. Several dealers found that the satisfaction of their customers is good, but many named that there is still room for improvement. Also rivalry between loyalty and reality was pointed out; customer's loyalty to the company can be defeated by cheaper price at the competitor.

Implemented loyalty marketing:

4. *Is there a special focus on customer loyalty in Your marketing management?*
5. *What loyalty marketing means exist in Your company?*
Examples
 - *Regular customer club*
 - *Loyalty points*
 - *Value-added services*
 - *Logistical services/During the service*
 - *After-sales programme*
6. *From the mentioned means, which one do You find to be the most successful?*
7. *Are there loyalty marketing means that You would find possible/are planning to adopt in Your company?*

Special focus on customer loyalty in marketing management seemed to be pretty scarce. Two dealers mentioned special offers that are offered only by them to be their marketing tool for customer loyalty. One told that a customer retention programme is included in their company's strategy. One named the manufacturer to deal with customer loyalty marketing. Only one replied to have its own regular customer card. In any case, no clear focus of loyalty marketing included in company's marketing was named.

Although knowledge on loyalty marketing seemed not to be very common, several loyalty marketing means appeared in the companies. Interview answers considering used loyalty marketing methods are collected in Table 6.

TABLE 6. Loyalty marketing means in use

Customer club or card	<ul style="list-style-type: none"> - No club, loyalty points in future - Experiment, not anymore - No club, service benefits for over 10 years old cars - Customer club was, now customer card with monetary benefits - Brand's own club, dealer's own service card - Brands' own clubs - Customer club was, now part of a bigger loyalty point system
Value-added services	<ul style="list-style-type: none"> - Waiting point with coffee, newspapers, magazines, kids corner - Waiting point, free wlan, coffee, water, fruits, magazines - Free wlan, coffee - Water, coffee, cafeteria, lunch - Waiting point, TV, free wlan, coffee, water, cafeteria, lunch - Waiting point, TV, info gate, magazines, kids corner with TV and games
Logistical services	<ul style="list-style-type: none"> - Surrogate cars, free bicycles, taxi tickets, shuttle service - Surrogate cars, pick-up and delivery service for business customers - Surrogate cars, free bicycles, free pick-up and delivery service - Surrogate cars (free if customer has bought his car from the dealer) - Free bicycles, free taxi shuttle service to city center, car rental, pick-up and delivery service - Surrogate cars, free bicycles with helmets and baskets
After-sales programme	<ul style="list-style-type: none"> - Customer contacts, mailing lists - Mailing lists, phone calls - Phone calls - Personal relationship, phone calls every 6 months - Phone calls 1-2 days after purchase and when financing or leasing contracts ending - Phone call 2 days after purchase, thank you car within a week, invitation to the first service or a reminder when time for service, salesmen informed when customer coming to service, manufacturer's after sales contacts
Other	<ul style="list-style-type: none"> - Social media (Facebook), events, sponsoring, cooperation - Tyre hotel, 1 year free after buying a car - Customer bringing customers rewarded, events for target groups, e.g. taxi drivers, female entrepreneurs

The most common loyalty marketing means existing in automobile dealerships are logistical services provided for the time of service, and convenience services for staying at the car dealer's premises. All interviewed car dealers, as well as Car dealer X, have various logistical services to ease customers' mobility when his car

is brought to service. Six car dealers had their own surrogate car, and a seventh provides surrogate cars via car rental company. Mainly surrogate cars are chargeable, with some exceptions of business customers. Only one German car dealer offers free surrogate car if customer has bought his car from the dealer. In addition to Car dealer X, also some other dealers in Germany and in Finland offer chargeable pick-up and delivery service. Interesting mentioned logistical services were free shuttle services either with bus or taxi. The shuttle service, anyhow, was used by companies with distant location to city centre, and specifically distance brings more value to offering this kind of service. Free bicycles were offered by four car dealers. Car dealer X also offers two free bicycles and though the usage of bicycles is not reported or followed, it is observed that bicycles have not caught customers' interest widely. Free bicycles can be considered to have great usage potential especially in summer time.

Also convenience services offered by several car dealers are pretty similar to Car dealer X. Finnish dealers offer a broader scale of these services in comparison to German dealers, providing very good premises for customers to stay at. Two recommendations for CAR DEALER X were made on the basis of the interviews. Otherwise Car dealer X has arranged their convenience services very well, and the study does not offer any other suggestions for improvement.

One interesting point that came up in the interviews was the scarcity of dealers' own regular customer clubs. Three dealers mentioned that they used to have a customer club but either the experiment was not found successful, or their operations changed to other form of bonus system. It is interesting to notice that both German car dealers and another Finnish dealer satisfy themselves to sold brands having their own customer clubs. Three German dealers have customer card, loyalty points or benefits for older cars in service, resulting only as discounts on service prices. One German car dealer had these service benefits for older cars in future plans.

After-sales programmes of the car dealers also follow the same line. Personal contacts in form of phone calls are preferred. Still, another Finnish dealer reminded that despite customer contacts belonging to salesmen's duties, the

customer being present is number one. The method used by the other Finnish dealer, notifying salesmen when their customers come to service could be very useful for Car dealer X also. Although the customer would not need a new car at the moment, the salesman greeting the customer and asking how he is doing would build their relationship remarkably.

Rewarding customers that bring customers, such as family members and friends, to the company could be seen as challenging but also worth considering. Quite many customers are brought to car shops by their friends and if the referee is found out, an award would definitely be a positive surprise.

Only one German car dealer mentioned using social media as a marketing tool. The topic was named also in the interviews with the Finnish car dealers, who were evaluating social media's potential and challenges. In addition to these two Finnish dealers, also one German dealer gave a straight answer "Facebook" as a loyalty marketing mean they are planning to adopt. This is definitely a chance for improvement and future development. Another notion related to today's technology was smart phone applications that the other Finnish car dealer forecasted to take their place in the future. *"One day you can probably check all details of your car on your phone, as well as information about the next service."* This truly seems potential.

Most successful of the mentioned loyalty marketing means were found to be surrogate cars and the personal contact to the customers. All other dealers but one answered these both, and the one told that the whole package counts.

Complaint management:

8. *Complaint management is also an important mean of loyalty marketing. How does this appear in Your company?*

Two of the interviewed car dealers mentioned using complaint management systems that helps following complaints and improving problems in the

operations. The complaints are received by managers in the company, taken into account and dealt with within 48 hours, reported and archived. The whole process is followed. Other dealer had recently started with the system, taking the next step from “usual” complaint management. “*Jetzt wollten wir es verändern*”, “*Now we wanted to make a change*” tells that they consider complaint management as an important tool for customer satisfaction.

The rest of the car dealers keep to the usual way: manufacturer, CEO or sales manager receives a complaint, depending on the nature of the complaint it is handled by CEO or the responsible person with aim to find a satisfactory solution, and afterwards the case is closed. After these descriptions there is no doubt that the two dealers using complaint management system, likewise to Car dealer X, would have better chance in gaining the valuable outcome of complaints.

Loyal employees:

9. *Loyal employees support customer loyalty. How are Your employees taken into account to improve the customer service?*

Examples

- *Company benefits*
- *Further education*
- *Internal trips*
- *Gifts*

Incentives offered to increase employee loyalty seem to have a few common features between the car dealers. All dealers provide their employees with monetary benefits regarding a car purchase, and in most cases also service. Also every car dealer educates their employees further and finds it important. Some employees, though, educate their employees more than others. Five dealers named giving gifts on birthdays and Christmas for all employees, of which four told that they as well organize internal trips and events for staff. A few car dealers stood out by showing that they pay much attention on satisfaction of their employees. But also interesting was that the first points both Finnish car dealers answered

were that employees get to keep their jobs. This did not come up during the interviews with any German car dealer. Interview answers are collected in Table 7.

TABLE 7. Incentives for employees

Company benefits	<ul style="list-style-type: none"> - Reduced price on a car purchase - No direct discount on car prices but other solutions - Reduced car price - Yes, when purchasing a car - Price reductions, company car - Of course, benefits on buying the car and in service prices - Benefits on a car purchase
Targets	<ul style="list-style-type: none"> - Awards when goals met - Set goals, awards can be specific amounts or percentual raises, prizes from insurance companies
Further education	<ul style="list-style-type: none"> - Compulsory education - Ongoing education themes - Further education, manufacturer's education, extern education, accident management - Continuous education from manufacturer, new salesmen - Goal of 3 days education per year - Important to educate - Further education
Internal trips and events	<ul style="list-style-type: none"> - Different events organized for the staff, e.g. paddling, F1 races - Trips, parties - Summer event, sport events, dinners, working group to plan happenings - relaxation days, energizing days
Gifts	<ul style="list-style-type: none"> - Monetary gifts on holiday and Christmas - Performance oriented - Gifts or birthday congratulations from the CEO - Christmas gifts - Birthday gifts, working years - Sales awards - Result leads to salary, certificates - Birthdays, Christmas gifts (every second/third year more valuable)
Other	<ul style="list-style-type: none"> - They can keep their job - Nice job with support and caring, healthcare, positive feedback - For 10 years work 1 extra holiday week, for 20 years work 2 extra weeks, etc. - Job satisfaction calculations

All the covered ways of how employees are taken into account to support their customer service performance and creation of customer loyalty are also used by Car dealer X. Finnish car dealers seemed to be very similar with Car dealer X, and Germany could not offer any new trends in this area.

6 CONCLUSIONS AND SUGGESTIONS

This chapter provides conclusions for the case study presented in Chapter 5 and answers the research questions proposed in Chapter 1.2. In this chapter also the reliability and validity of the study are evaluated and suggestions for future research are given.

6.1 Conclusions

First of all the study showed that Car dealer X already organizes loyalty marketing very well. Under these circumstances, not so many improvement suggestions were gained from benchmarking other car dealers.

In addition to other car dealers, also Car dealer X recognizes the importance of retaining present customers and keeping them loyal and aligns with the statement that an employee's personal marketing in interaction with a customer, as well as taking care of the relationship with the customer is considered to have the biggest effect on customer loyalty. Several same loyalty marketing methods are used in automobile dealerships, whether in Finland or in Germany. Logistical and convenience services are the most widespread means of making a customer's visit as pleasant as possible.

The main focus of improvement suggestions for Car dealer X according to the study is extending into social media. Also the number of smart phone applications is increasing enormously every day, and it is worth considering how applications could be used to serve customer service and customer loyalty the best way.

The offering of logistical and convenience services at Car dealer X is comprehensive. Only two improvement suggestions were given. In Table 8, answers to the research questions are presented on the basis of study conclusions.

TABLE 8. Answers to the research questions

Research question	Answer
What customer loyalty and loyalty marketing means to car dealers?	<p>Customer loyalty and retaining present customers is important to car dealers.</p> <p>Still, it seems that the benefits of loyal customers are not completely known.</p> <p>Personal marketing of an employee in interaction with a customer is seen to be remarkably important in building customer loyalty.</p>
What loyalty marketing means are used in automobile dealerships?	<p>Most popular loyalty marketing means in automobile dealerships are value-added services: logistical services and convenience services. These make a customer's service visit pleasant.</p> <p>Also regular customer clubs, complaint management and personal marketing of employees are loyalty marketing methods appearing in car dealerships.</p>
What new loyalty marketing means could be implemented?	<p>Social media and smart phone applications are the future. Anyhow, social media also includes risks that require precise planning before implementation.</p> <p>Two improvement suggestions were given for Car dealer X.</p> <p>Car dealer X already organizes loyalty marketing so well that other real improvement suggestions did not result from the study.</p>

6.2 Reliability and validity

The trustworthiness of a study is usually evaluated in terms of reliability and validity. Reliability of a study asks whether the same results are gained if the study is repeated, where validity asks if the study actually studied what was promised. The use of these concepts has been criticized in qualitative research as they have arisen in quantitative research. (Sarajärvi & Tuomi 2002, 133.)

In terms of reliability the study can be seen as satisfactory. Mainly it can be assumed that a repeated study would give the same results as this study. Still, there are factors affecting the reliability of the study. The competition for customers in automobile dealerships is crucial and loyalizing present customers and gaining new customers for long relationships requires constant action. The

more time passes before repeating the study, the more probable it is that new loyalty marketing means have been implemented, and possibly old ones no longer exist.

Other things affecting the reliability of the interviews are language and the attitude of interviewees. The interviews in Germany were decided to be conducted in German to confirm the understanding of the interviewees. Anyhow, the author's very good German skills did not account to complete fluency, and possibility of not understanding or misunderstanding was on the author's side. Recording interviews could have provided more complete data collection as possibly unnoticed or not understood points could have later been studied from the recordings. Some interviewees also simplified their answers to ensure interviewer's understanding and with complete fluency more detailed answers could have been gained. Also the attitude and level of interest of the interviewees had an effect on the quality of the interviews. Most detailed and comprehensive interview results were given by the dealers who instantly after first contacts gave their approvals for an interview. Interviewees' possible preparation and familiarizing with the interview structure was not relevant in this study. Attitude and willingness resulted in best interviews. Still, if there is more time to find interested interviewees who would study the interview questions beforehand, surely more precise data would be collected.

Concerning the theoretical part of the thesis, reliability of the statistics can be criticised to some extent.

In terms of validity it can be concluded that the study was performed as promised. Car dealers' thoughts about customer loyalty and loyalty marketing in automobile dealerships were studied and the research questions set in the beginning of the study were answered. The study objectives to compare how Car dealer X's loyalty marketing is organized in comparison with other car dealers, and to find out if Car dealer X can improve in some parts of their loyalty marketing operations were also met as concluded in the previous chapter.

6.3 Suggestions for future research

In the beginning of the thesis process a possibility of including the car manufacturer's side in the study caught the author's interest; especially the possibility of studying how regulations and guidelines set by the manufacturer turn out in the challenges of multi-brand car shops. After requesting the possibility from one manufacturer's import and marketing organisation and Car dealer X's executive, only definite denials were received as all contracts between manufacturer and car dealer were told to be confidential and the information is not given for the use of anyone else. Contacting manufacturer's headquarters and finding the right person to ask would still be worth trying, as car manufacturers presumably could share interest in the topic.

It was decided that the benchmarked car dealers would be Finnish and German due to the author's stay in Germany from October 2011 to March 2012. As justified in Chapter 2.2.2, Germany is leading European country in car business. Still, more international view could be interesting by studying how cultural or economic differences appear in loyalty marketing.

7 SUMMARY

The subject of the thesis originated from the case company Car dealer X's interest in the topic; loyalty marketing in automobile dealerships. The thesis studied what customer loyalty means to car dealers and how loyalty marketing appears in automobile dealerships. Study objectives were to compare how Car dealer X's loyalty marketing is organized in comparison with other car dealers and to find out if Car dealer X can improve in some parts of their loyalty marketing operations.

The focus of the theoretical framework of the thesis was set on customer loyalty and loyalty marketing. The empirical part of the thesis was formed by a case study of a Finnish car dealer company. Some German and Finnish car dealers were interviewed to gain real-life information on how loyalty marketing appears in their businesses and to find answers to the asked research questions. The gained data was benchmarked in accordance to Car dealer X's current loyalty marketing to find answers to the research questions.

The outcome of the study indicated that Car dealer X already organizes its loyalty marketing considerably well and only few improvement suggestions were given. These suggestions were related to social media, which is considered to have an important role in loyalty marketing's future, and value-added services.

For future research a suggestion was given to include also car manufacturers' side in the study, if possible.

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APPENDICES

APPENDIX 1: Interview sheet in English

Country:

Number of sold car brands:

New/used:

Number of premises:

Position of the interviewee:

1. Do You give more importance to
 - the acquisition of new customers
 - or
 - taking care of the present customers and preventing customer retention?

2. What do You find to have the biggest effect on customer's loyalty?
 - Quality of service/Employees
 - Prices/Discounts
 - Product/Brand
 - Customer rewards/special offers
 - Something else -what?

3. Do You measure the loyalty of Your customers?

4. Is there a special focus on customer loyalty in Your marketing management?

5. What loyalty marketing means exist in Your company?

Examples

- Regular customer club
- Loyalty points
- Value-added services
- During the service

- After-sales programme
6. From the mentioned means, which one do You find to be the most successful?
 7. Are there loyalty marketing means that You would find possible/are planning to adopt in Your company?
 8. Complaint management is also an important mean of loyalty marketing. How does this appear in Your company?
 9. Loyal employees support customer loyalty. How are Your employees taken into account to improve the customer service?

Examples

- Company benefits (e.g. Price reduction when purchasing a car)
- Further education
- Internal trips
- Gifts

APPENDIX 2: Interview sheet in German

Land:

Anzahl der Automarken:

Neuwagen / Gebrauchtwagen:

Anzahl der Filialen:

Die Position des Antwortenden / der Antwortender:

1. Liegt Ihr Hauptaugenmerk eher darauf,
 - neue Kunden zu gewinnen
oder
 - den bereits vorhandenen Kundenstamm weiter zu pflegen und zu erhalten?

2. Welche Faktoren spielen Ihrer Meinung nach die größte Rolle bei der Kundenbindung?
 - Produkt/Marke
 - Servicequalität/Mitarbeiter
 - Preise/Rabatte
 - Besondere Angebote für Kunden
 - Etwas anderes -was?

3. Wie erfassen sie die Bindung der Kunden an Ihr Unternehmen?

4. Gibt es einen Schwerpunkt von Kundenbindung in Ihrem Marketingmanagement?

5. Welche Formen des Kundenbindungsmarketings gibt es in Ihrem Unternehmen?
 - z.B.
 - Kundenclub
 - Bonuspunkte
 - Zusätzlicher Service
 - Logistisch Dienstleistungen

- Kundendienst

6. Welche von den genannten Beispielen halten Sie für erfolgversprechend?
7. Gibt es Formen des Kundenbindungsmarketings, die Sie möglicherweise noch nicht eingesetzt haben?
8. Beschwerdemanagement ist auch ein wichtiges Instrument des Kundenbindungsmanagements. Wie erscheint das in Ihrem Unternehmen?
9. Ihre MitarbeiterInnen unterstützen die Kundenbindung. Wie werden Ihre MitarbeiterInnen im Bereich Kundenservice vorbereitet?

z.B.

- Betriebliche Vergünstigungen (z.B. Preisnachlass beim Erwerb eines Autos)
- Zusätzliche Fortbildung
- Betriebsinterne Reisen
- Geschenke

APPENDIX 3: Interview sheet in Finnish

Maa:

Automerkkien lukumäärä:

Uudet/käytetyt:

Toimipisteiden lukumäärä:

Vastaajan asema:

1. Onko yrityksessänne enemmän painoarvoa

- uusien asiakkaiden hankkimisella vai
- nykyisestä asiakaskannasta huolehtimisella ja sen säilyttämisellä?

2. Millä näette olevan eniten merkitystä asiakkaan uskollisuuteen?

- Palvelun laatu/Työntekijät
- Hinta/Alennukset
- Tuote/Brändi
- Asiakasedut/Erityistarjoukset
- Jokin muu -mikä?

3. Millaisena näette asiakkaidenne uskollisuuden?

4. Onko markkinoinnissanne erillinen painopiste asiakasuskollisuudelle?

5. Mitä uskollisuusmarkkinointitoimia yrityksestä löytyy?

Esim.

- Kanta-asiakkuus
- Bonuspisteet
- Lisäpalvelut
- Huollonaikaispalvelut
- Asiakassuhteen hoito

6. Mitä mainitsemistanne toimista pidätte tehokkaimpana?

7. Onko mahdollisia uskollisuusmarkkinointitoimia joita ette vielä ole ottanut käytäntöön?
8. Vastaanotettujen palautteiden käsittely on tärkeä osa asiakassuhteen huoltamista. Miten tämä näkyy yrityksessänne?
9. Uskolliset työntekijät tukevat asiakasuskollisuutta. Miten työntekijänne huomioidaan asiakaspalvelun parantamiseksi?

Esim.

- Yhtiöedut (Esim. hintaetu auton ostossa)
- Jatkokoulutus
- Yhtiön sisäiset matkat
- Lahjat