Saimaa University of Applied Sciences
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Customer loyalty program

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Abstract

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The objective of the study was to find out the current status and development suggestions for case company's customer loyalty program in Russia. Both customers' and management's opinions were clarified, in order to understand, whether those are congruent.

Data for this study was collected by using both qualitative and quantitative methods. This study was carried out by sending a customer satisfaction survey for the existing loyalty customers, and by interviewing company's management. The theoretical information was gathered from literature, articles, research papers, the Internet and from company's internal and external reports. The empirical part of the thesis was declared confidential.

The results of the study show that case company's customer loyalty program in Russia is in the beginning stage, and there are still many unused possibilities to develop the program in order to serve the customers better. The findings of this study will benefit the management and the decision making process in the future. Further study is required to confirm the fact, that the role of the salespeople is very significant in informing about the customer loyalty program to the customers in the stores, and assisting in the card application process.

Keywords: customer relationship management, loyalty, customer loyalty program

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Terminology and abbreviations

CRM   Customer Relationship Management
DIY   Do It Yourself
GDP   Gross Domestic Product

MS   mind satisfaction
BS   behavior satisfaction
VS   visual satisfaction

SKU   Stock Keeping Unit
Warehousing item that is unique because of some characteristic (such as brand, size, color, model) and must be stored and accounted for separate from other items. Every SKU is assigned a unique identification number (inventory or stock number) which is often the same as (or is tied to) the item's EAN or UPC. (Business Dictionary 2014.)

QR code   Quick Respond code
*QR or **Quick Response Codes** are a type of two-dimensional barcode that can be read using smartphones and dedicated QR reading devices, that link directly to text, emails, websites, phone numbers and more.* (QR Code 2014.)

1 Introduction

In Introduction Chapter the background of the study is defined in order to explain the purpose of the study and the ideas behind the study. Objectives and delimitations are described to show the aims and limits of this study. Objectives and delimitations are followed by the research questions of the study. Theoretical framework is introduced in order to create a picture about the important theory issues related to the research topic. Research methods are explained widely in this Chapter and the last topic in this Chapter is about structure of the study.

1.1 Background of the study

Today's constantly changing and very competitive business environment is requiring sensitive awareness of the situation, and fast reaction abilities from the companies in order to provide products and services to meet customers' expectations. Long and reliable customers' relationships are valued by the companies, and customers are expecting to receive different benefits when shopping on a regular basis in some certain store or retail chains.

Customer relationship management has a remarkable impact to the business. Customer relationship can be considered to be a business strategy for the company, and can be executed effectively via well-organized business processes, which suite best for company's communication with the customers. Customer satisfaction and customer loyalty are closely linked together. When customer satisfaction increases, customer is ready to repeat purchase, and this affects also to business performance of a company. (Buttle 2009.)

It is essential that companies invest in making company or brand more enjoyable to manage. If the company succeeds to get more loyal customers, it could also charge premium price for the very product or brand. When customer loyalty is discussed, usually the customer rewards are also introduced. (Leventhal 2006.)

Most of the trading chains and different stores in Finland have their own customer loyalty programs in use. The structures of the programs differ from each

other. The popularity of customer loyalty programs in Russia is also high and increasing rapidly. Reasons for customer loyalty programs' popularity in Russia are changes in the customer behavior structure and due to this the necessity for forming long-term customer relationships (Berezka).

There exist lots of information and research material about the domestic (Finland) (Arantola 2000) and international (European, USA) customer loyalty programs (Uncles et al. 2003; Berman 2006; Lacey & Sneath 2006; Gable et al. 2008; Daukseviciute et al. 2011). Companies having the customer loyalty program in use in Finland seem to have different levels of goals, metrics and results of the customer loyalty programs. One of the main connotations from the management point of view is that the company does not have ideas about the customer views. This means that company management is facing a question about understanding a relational motivation of customers. (Arantola 2000.)

Customer loyalty programs in Russia are increasing and developing constantly. Case company's intention is to find out customers' image about the customer loyalty program, customers' satisfaction towards the customer loyalty program and management's visions and expectations about the customer loyalty program in Russia. There has been neither customer satisfaction survey for loyal customers or study of management views about the customer loyalty program carried out in Russia.

The aim of this study is to clarify the customer satisfaction situation in customer loyalty program and company's management viewpoint about the status and development possibilities of customer loyalty program. In order to strengthen the customers' commitment in different stores in Russia, it is important to clarify customers' opinions, expectations and development suggestions for the existing customer loyalty program. This study concentrates to clarify customer loyalty program's current status in the Russian market, to analyze shortly the competitors' position in the loyalty program market, and to provide possible suggestions about how to improve the customer loyalty program in the future in order to serve the customers better.

1.2 Objectives and delimitations

The first aim of this study is to analyze the current status of the customer loyalty program. To reach this aim, the purpose is to clarify if the planned actions and expectations of the company for the customer loyalty program meet with the customers' needs and expectations. This clarification is done by comparing the results received from the customer satisfaction survey and answers received from the interviews with management. The company has certain understanding about where do they stand at the moment and towards which direction the company should develop the customer loyalty program. The customers have their own visions and expectations about the customer loyalty program. One important thing to explore is whether the company's and customers' expectations are congruent with each other.

The second objective of this study is to point out relevant development areas, which need to be developed in the customer loyalty program. This objective is reached by analyzing the customer satisfaction survey results and answers of interviews with management, and by reflecting theory to empirical findings.

This study clarifies how the customer loyalty program can be developed in order to strengthen and increase the customers' commitment towards the stores in Russia, and to increase the understanding of the customers' needs and expectations. By understanding the similarities and differences of the company's and the customers' expectations and ideas for development of the customer loyalty program, it could be easier to name certain development areas for developing the customer loyalty program towards the correct and required direction, and to meet more of the customers' needs.

Delimitations in the theory part of this study are made in customer relationship management and its sub-themes. Only basis of customer relationship management, customers' expectations, and customer satisfaction are covered in this study, because these themes are relevant and important for the customer loyalty. Customer commitment, customer loyalty and customer loyalty programs are discussed more in detail in the theory part, because these themes are mostly related to the study topic. Also specific features of Russian consumers

are pointed out, in order to understand the needs for increasing the loyalty among Russian customers.

Delimitations used in the empirical analysis of this study are formed according to the socio-economic status of the loyal customers. Analyses of the customer satisfaction survey results are restricted to certain cities in Russia. Delimitations for the short competitor's analysis have been made by choosing two competitors in Russian customer loyalty programs for the case company. Delimitations for the management interview questions have been made by defining the questions related to the current status and the future perspectives of the customer loyalty program. Delimitations for the customer satisfaction survey have been made by choosing the questions related to the image of the program and future development suggestions for the program.

1.3 Research questions

This study aims to find answers to following two main research questions:

1. What is the current status of customer loyalty program?
2. How customer loyalty program should be developed?

With the first research question the current status of customer loyalty program is described. Current status is analyzed by using the information received from customer survey and interviews with management. Customers' feedback and expectations are studied carefully, and those are compared with the views and visions of the management. The overall picture about the current status of customer loyalty program will lead the study to the next question about how the customer loyalty program should be developed. Identified development areas are discussed based on the customer survey results, answers from the interviews with the management, introduced theory and author's own ideas about the topic.

By answering these two research questions this study provides important information about the status of customer loyalty program for the case company, and suggests identified development areas for customer loyalty program for the future perspective.

1.4 Theoretical framework

Theoretical framework of this study is organized around theoretical base from different existing sources, such as books, articles, studies, and websites. The theoretical base is related to customer relationship management, customer's expectations, customer satisfaction, customer commitment and customer loyalty. All these theoretic substances are strongly related to the research objective of this study, because the aim of the study is to clarify customers' expectations, satisfaction, commitment and loyalty towards the company and the customer loyalty program. Also general information about customer loyalty programs is provided in the theory part, because it is important to understand the basics of the loyalty program and to receive an understandable picture about the current situation of customer loyalty programs in Russia (Figure 1). Sources used in the theory part were in Finnish, English and Russian languages.

Figure 1. Theoretical framework of the study.

Customer loyalty is based on the theory about customer relationship management. The impact of customer relationship management in the commercial market is significant (Buttle 2009). Customers' expectations, customer satisfaction and customer commitment are all strongly linked together. When the company pays attention to customer service by answering to customers' expectations, making and keeping customers satisfied, it will lead to the fact that customers

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will become committed to buy the services and products of the company (Tao 2014.) Commitment plays important role in the formation of customer relationship and it symbolizes the eagerness of the company to invest in the long-term relationship (Lehtonen 2012.)

Customer satisfaction and customer commitment are also strongly related subjects to the customer loyalty (Levethal 2006). It is important to understand basics of the customer loyalty and how a company can manage the customer loyalty in its activities. A company should determine what it wants to achieve, how it will be measured, and to choose the target group precisely (Levethal 2006).

This study concentrates on a status of a particular customer loyalty program in Russia and, because of the main research area, also a common description about customer loyalty programs and customer loyalty programs' situation in Russia are introduced in this study. Arantola (2000) introduces several terms and descriptions for the customer loyalty programs in her study. The most typical way to create abiding relationship with customers is the loyalty programs (Berezka).

Theoretic part of this study will be reflected into the empirical research and most relevant information of the theory will be discussed together with the empirical findings of this study.

1.5   Research methods

This study includes theory and empirical part. In the theory part this study concentrates on describing the customer loyalty management, customer commitment, and clarifies the meaning of customer loyalty programs. Many researchers (Arantola 2000; Berman 2006; Gable et al. 2008; Frow & Payne 2009; Lahtinen 2012; Lehtonen 2012) have already studied these topics from different viewpoints, but this study will concentrate on the fundamental ideas of these topics.

The empirical part includes two different surveys; 1) interviews with the Russian customers, already owning the customer loyalty card. The customer survey will

concentrate to clarify customers' opinion and expectations about the customer loyalty program, 2) interviews with the management of the case company.

The empirical data was collected by using both qualitative and quantitative studies, and the research method is called mixed methods approach. Mixed methods approach is a general term for both quantitative and qualitative data collection techniques and analysis procedures are used in research design (Saunders et al. 2009). Multiple methods were chosen, because those provide better opportunities to answer the research questions, and better opportunities to evaluate the amount of research findings.

Quantitative study was chosen for the customer satisfaction survey and for collecting the data from the customers, because it generates numerical data and consists of data that can be easily quantified to help answer to research questions and meet objectives of the study. Quantitative data can be divided into two different groups: categorical and numerical. Categorical data involve values which cannot be measured numerically, but can be classified either with categories or ranks. Categories identify or describe the variable, and rank order shows the place. Numerical data are values which are measured or counted numerically as quantities. (Saunders et al. 2009.)

The aim was to send a customer satisfaction survey to existing customer loyalty program customers. Customer satisfaction survey was sent to a test group before sending it to the final audience. The aim of sending the questionnaire to the test group was to clarify, whether the logic of the questionnaire was clear enough for the respondents, and were there any spelling mistakes in the questionnaire. After answers were received from the test group, final corrections were done to the questionnaire. Questions were similar to each respondent.

Questionnaire was chosen as the data collection method, because it allows collecting data from heterogeneous group of respondents. Questionnaire was formed for the purpose of testing customer's image and opinions about customer loyalty program. Questionnaire included closed ended questions, which allow respondents to choose from a limited set of responses. Likert scaled questionnaire with scale from 1 to 5 was chosen as a type of scale for this study, be-

cause it measures respondents' attitudes and opinions directly and levels of agreement and disagreement. Likert Scale used in this study was a five point scale, which was used to allow the customers to express how much they agree or disagree with a particular statement (SimplyPsychology). It was also possible for the customers to write open feedback in the two questions of the questionnaire.

Electronic questionnaire was chosen because of low-cost advantages, the easiness for distribution and large target group. This also allowed more efficient and effective analysis of the collected data. Questionnaire was distributed through an electronic survey tool of the case company. This distribution method reached all the Russian loyal customers, who had given the permission to send direct email.

Graphs, charts and statistics as quantitative analysis techniques assist to explore, present, describe and examine relationships and trends within existing data (Saunders et al. 2009). The analyses of customer survey were done by using the electronic survey tool of the case company. The overall image about the customer loyalty program for the customers, customers opinions about the offers and discounts, and communication with the customers were the main issues to be clarified with this survey.

Interviews with the management consisted of two parts. In the first part of the interview, management answered to questions, which estimated the launching of the customer loyalty program and the current status of the customer loyalty program. These interviews also clarified the cooperation between business entities, and raised possible development suggestions. In the second part of the interview, the management evaluated the existing development plan for customer loyalty program.

Qualitative study was used for receiving the data from the management, because it generates non-numerical data or data that have not been quantified. Qualitative data can vary from a short list of responses to open-ended questions in online based questionnaire or transcripts in-depth interviews (Sanders et al. 2009).

The interviews conducted for this study were structured. Structured interviews use questionnaires based on a predetermined set of questions (Saunders et al. 2009). The questions were same to all interviewees. Interview questions with supporting material were delivered to the interviewees beforehand by email, in order to give respondents time to prepare. It was also possible to pose more detailed questions depending on the answers of the interviewees during the interviews. The interviews were done face-to-face with each interviewee. Structured interview proceeds under a stimulus-response format, presuming that the respondent answers honestly to questions determined earlier in order to reveal adequate indicators of the variable in questions, as long as those questions are phrased accurately (Denzin & Lincoln 2003).

Interviews were conducted in Finnish and in English. All the interviews were voice recorded. Interviews were transcribed after the interview and main arguments were selected and listed in the separate table.

Qualitative data analysis procedure assists in understanding the meanings of the interviews. Both deductive and inductive approaches are included in this analysis (Saunders et al. 2009). The interviews of the management were analyzed by using deductively based analytical procedures. Deductive content analysis was used in this study, in order to find out, whether the existing theory supports the approach of the study process and data analysis.

It is possible to group data into three main process types: summarizing of meanings, categorization of meanings and structuring of meanings using narrative (Saunders et al. 2009). In this study summarizing data has been used as analysis process. After transcription of the interviews a summary of key points was produced. Long statements of the interviewees were shortened into briefer statements. Summarizing involves condensing the meaning of large amounts of text into fewer words. Summarizing helps the researcher to get familiar with the principal themes of the interview or its conclusions. (Saunders et al. 2009.)

1.6 Structure of the study

This introduction Chapter 1 describes the background of the study representing objectives and delimitations as well as the research questions of the study. After

theoretical framework review, the research methods are presented. This is followed by the structure of the study.

In Chapter 2 the main theory about customer relationship management is presented. This Chapter includes descriptions about customers' expectations, customer satisfaction, customer commitment and customer loyalty.

In Chapter 3 customer loyalty programs in common, and current situation with customer loyalty programs in Russia, and specific features of Russian consumer are described.
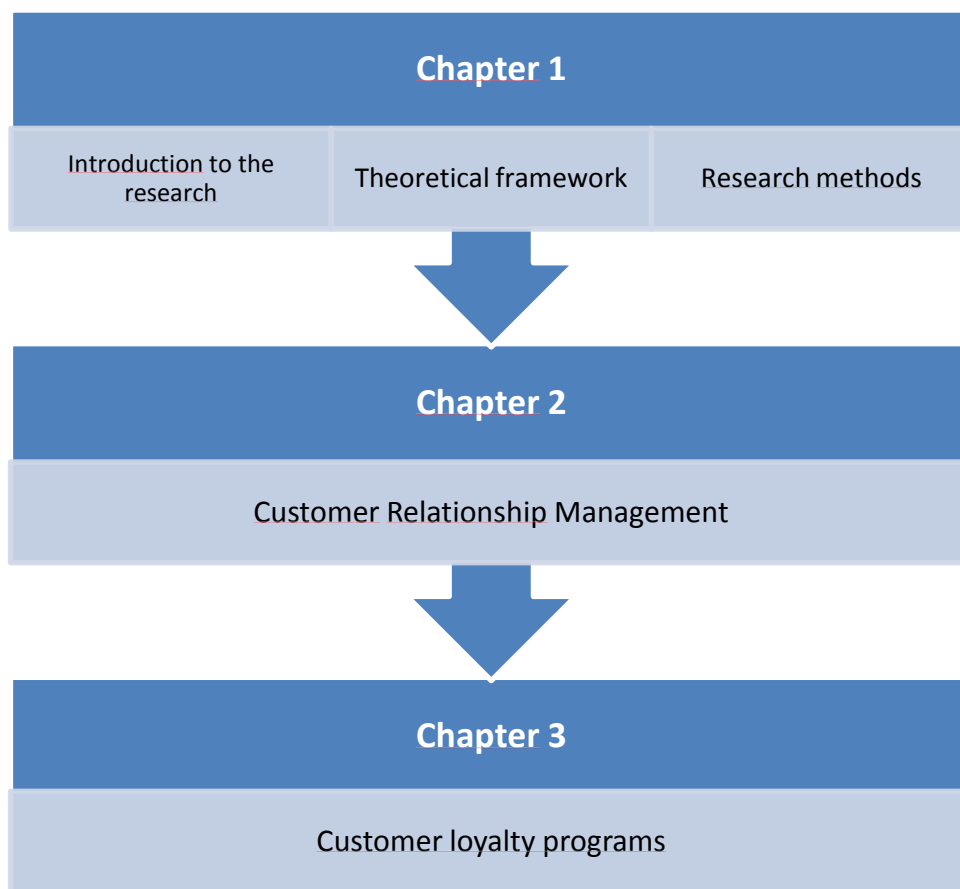
Chapter 1

| Introduction to the research | Theoretical framework | Research methods |

Chapter 2

Customer Relationship Management

Chapter 3

Customer loyalty programs

Figure 2. Structure of the study.

2 Customer relationship management

In this Chapter the meaning of customer relationship management (CRM) to companies and strategic customer relationship management are described, and different types of CRM are shortly introduced. Customer expectations, customer satisfaction, customer commitment, loyalty and especially customer loyalty are also proposed as a part of this Chapter, because these topics are closely related to the study topic about customer loyalty programs.

In many companies loyalty schemes are common, but it does not mean that customer relationship management (CRM) is only about loyalty schemes. Demographic information and information about purchasing data are normally used in CRM implementations to help companies become more effective at customer communication and offer development. Some of the CRM implementations are linked to loyalty schemes (Buttle 2009.)

According to Frow & Payne (2009) customer relationship management (CRM) and relationship marketing are often used correspondently. These two descriptions are used to demonstrate many arguments and views about functional and database marketing. It is more beneficial to characterize CRM as a complicated process rather than technological tool. CRM is a process that combines information about customers, sales, market awareness and market trends (Frow & Payne 2009.)

Many researches consider a successful customer relationship management (CRM) to be a base for long-lasting customer relationship for companies. CRM has a significant influence in the business markets. As the global competition has increased, companies have recognized the need to develop their actions more customer-facing. CRM can be considered to be a business strategy, and company must choose the best and most efficient executive business processes and technology management capabilities, in order to face the customer-facing targets. (Bull 2003; Buttle 2009.)

Customer relationship management (CRM) is also described to affect to company's business strategy, and to create positive value for shareholders of the company. CRM is a core business strategy that aims to receive profit by com-

bining internal processes and functions, and external networks, in order to generate value to targeted customers. (Buttle 2009.) CRM engages suitable business and customer strategies with obtaining and spreading the customer knowledge, managing the customer value, determining the specified customer segment and using the data and technology solutions effectively to form positive customer experiences (Frow & Payne 2009). Customer relationship management technology tools are expected to have an influence on company's costs and revenues from customers (Buttle 2009). Such CRM activities like cross-selling, customized marketing communications or segmentation capture the value of customer data and in this way companies are able to sell more products and manage better their customer relationships (Saarijärvi et al. 2013).

Customer relationship management improves business performance by enhancing customer satisfaction and driving up customer loyalty, as shown in Figure 3, The satisfaction-profit chain. Customer satisfaction increases, because customer insight allows companies to understand their customer better, and create improved customer value propositions and better customer experiences. As customer satisfaction rises, the customer intention to repurchase also rises. This influences to the purchasing behavior, which impacts on business performance. (Buttle 2009.) The preeminent principle of customer relationship management is to build customer loyalty and patronization for a lifetime (Liew 2008).
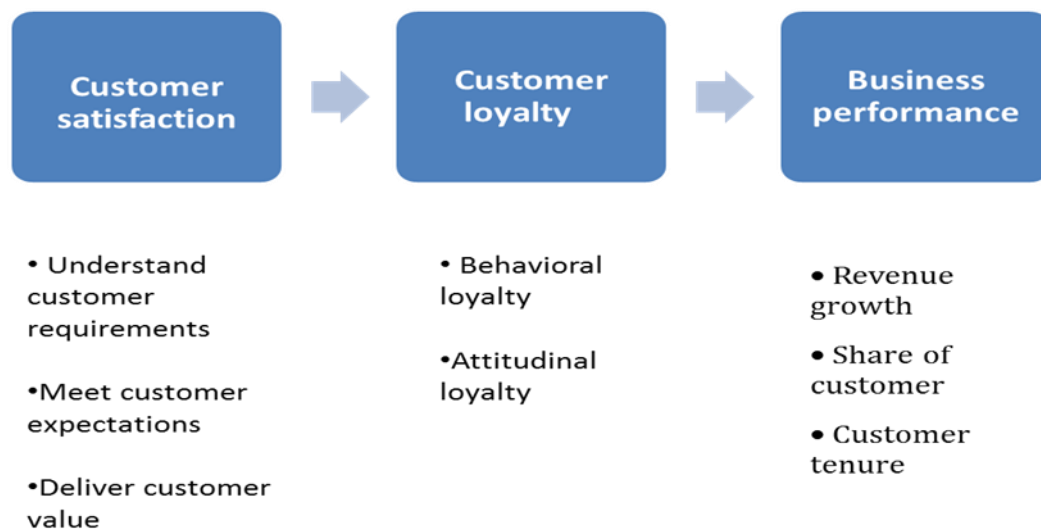

Figure 3. The satisfaction-profit chain.
Source: Buttle, 2009, p. 43

Different types of customer relationship management (CRM) can be identified and listed as: strategic, operational, analytical and collaborative. *Strategic CRM* is a core customer-centric business strategy focusing on winning and keeping profitable customers. *Operational CRM* concentrates on the automation of customer-facing processes like selling, marketing and customer service. *Analytical CRM* is based on the intelligent mining of customer-related data for strategic or tactical purposes. *Collaborative CRM* applies technology across organizational boundaries with a perspective to optimize company, partner and customer value (Buttle 2009.)

2.1 Strategic customer relationship management

Because of the nature of this study; concentrating on customers' opinion about the Loyalty Program and comparing it to views and visions of the company's management, this study will take a closer look to the strategic customer relationship management.

In order to achieve a successful customer loyalty program system, a company should pay a great attention to strategic customer relationship management. Strategic customer relationship management is concentrated on the development of a customer-based business culture. The aim of this culture is to create and deliver value better than competitors, in order to win and keep customers. Leadership behavior, the design of formal systems of the company, and the legends and stories that are created within the company indicate the business culture. In a customer-centric culture, resources should be allocated where they best improve customer value, reward systems should promote employee behavior that enhance customer satisfaction and retention, and customer information should be gathered, shared and used across the business. Those employees, who bring precious customer value or service, should be noticed. Many companies say they are customer-centric, or their mission is to satisfy customer's requirements in a profitable way. In a fact, usually companies are product-oriented, production-oriented, sales-oriented and customer- or market-oriented (Buttle 2009, pp. 4-5.)

In the case where the company works from customers and sales perspective, and it has a good market awareness and knowledge about market trends, it will help the company to influence on technology and human resources, and to understand the customer behavior better. Choosing a relationship type, which is suitable for different customers from company and customer perspective, is a crucial decision for a company when considering a customer relationship (CRM) strategy. Carefully determined customer segments with existing and future profit potential evaluation should be included. After this, it is easy to make a decision about technological solution where chosen relationships can be developed. CRM is described to be a complex process instead of a technological tool. If the company determines, what kind of information about customers is needed, and decides, what it plans to do with that information, the CRM strategy can be very effective (Frow & Payne 2009, pp. 15-16.)

In order to research various customer requirements, buying behavior and motivations, companies should have a differentiated strategy. Companies should utilize strategies to encourage or assure customers to share their information in order to implement customer relationship management in a proper way. (Wu 2010.)

2.2 Customer expectations

In order to serve the customers better, it is essential for the company to pay attention to customers' expectations, and to the fact that, how the company can satisfy its customers.

Customer expectations can be described to be customer's wants, needs or prejudiced ideas about the product or service. Customer expectations can be affected by customer's image about the product or service. Also previous experiences, advertisements, competitors and brand image can affect to customer expectations. (Nikolae et al. 2013.)

Customer expectations must be foreseen and managed. If customers' experience about service quality fails, it affects to the service satisfaction quality. Responsible companies take care of their customers, and allow customers to come with great expectations, and do not let them go away disappointed. By

investing in customer service, companies can be productive. High customers' expectations can increase the cost of a service company (Tao 2014.)

Customer relationship management triangle law describes customer satisfaction as follows:

customer satisfaction = customer experience - customer expectations

This means that customer satisfaction can be seen negatively correlated with customer expectations. Customers' expectations can be described by using customer satisfaction analysis model. Graph 1 show, that customer satisfaction and customer expectations are negatively correlated. Clear difference between the customer experience and customer expectations (positive or negative) is divided into five intervals (very satisfied, satisfied, in general, more dissatisfied, very dissatisfied). When the customer experience essentially flats with customer expectations, the higher customer satisfaction become. On the contrary, com- pared with expectations, the worse customer experience brings lower customer satisfaction (Tao 2014.)

Graph 1. Customer satisfaction analyses model.
Source: Tao, 2014, p. 257

According to the customer expectation management, the customer habits are usually taught by companies in the service process (Tao 2014). For many customers the service process is more important than the product itself (Parke 2012). Information about customer behavior, consumption manners, personal preferences, and feedback about service are the basis of effective management of customer expectations. Analysis of customer needs and expectations is important basis for assessing customer expectations. (Tao 2014.)

Customer expectations have forced retail business to go through many enormous changes. Retailers are obliged to modify their business model, as customers are constantly searching for new possibilities to purchase, shop, monitor, and return commodities. Customers require same shopping experience, whether they shop in the store, on the website, or from the catalogue. (Bengier & Stelzer 2007.)

2.3 Customer satisfaction

In every business customer satisfaction has become a stated goal, and is a critical aspect in the development of customer loyalty (Gable et al. 2008). The interaction between corporate and customer behavior determines customer satisfaction. Tao (2014) states that, theory about customer satisfaction has developed a lot since the theoretical research started in the 1990's, and meanwhile customer relationship management (CRM) begun to develop, and research about customer satisfaction achieved increasingly more attention.

The service quality, product quality and value for money have direct and positive impact on customer satisfaction. Customer satisfaction can be boosted by increasing salespeople's satisfaction. Employees' satisfaction and employees' abilities to sell have a positive influence on customer satisfaction levels. (Evanschitzky et al. 2012.)

Increased customer satisfaction can provide company benefits like customer loyalty, extending the life cycle of a customer, expanding the line of merchandise the customer purchases and increasing customers' positive word-of-mouth communications. (Gable 2008.) When a customer is satisfied with the product or service of one company, it can make customers to repeat purchase, to rec-

ommend product or service to friends. Paying special attention to loyal customers through customer satisfaction is the key competitive advantage of a company. It is impossible for business to develop in case the company ignores or disregards the needs of customers (Tao 2014.)

Customer satisfaction can be described to be the customer attitude in the purchasing of products or services of the company, in accordance with the gap between formed expectations and opinions. Following aspects demonstrate the meaning: 1) customer satisfaction is a relative concept, which is balanced between customer expectations and ultimate value of the degree, 2) customer expectations are related to what they pay - the higher they pay, the higher they expect, 3) customer participate on the higher level - the more effort, the higher customer satisfaction (Tao 2014.)

Different types of customer satisfaction can be listed in the following way. Customer satisfaction can be mind satisfaction (MS), which means the extent of the customer's satisfaction for company's idea offering products or services. Customer satisfaction can be behavior satisfaction (BS), meaning the degree of customer's satisfaction for behavioral mechanisms or the rules of conduct and behavior patterns, which provide products or services to business. Customer satisfaction can also be visual satisfaction (VS), meaning the customer requirements for a variety of company's image (visual and hearing) feel like satisfaction (Tao 2014.)

Customer satisfaction depends mainly on customer's experience compared to customer's perception about product or service. There can be recognized three different states of mind of the customers: 1) customer perception is lower than prior expectations; the customer is not satisfied with the experience, 2) customer's perception is closely equal to the customer's prior expectations and thus becomes a loyal customer, feeling satisfied with the product or service, 3) customer perception is higher than prior expectations and customer is very satisfied and become loyal one (Tao 2014.)

Company must try to improve service level, in order to enhance the customer experience, and company must try to manage customer expectations effective-

ly, in order to improve the customer satisfaction. (Tao 2014.) As the digital future is here, the companies must know, how to satisfy the needs of their customers, as they expect increasingly personalized, quick and effective customer service experiences. Social media and mobile devices are lowering the customer loyalty, and the company must also provide a whole picture of itself to the customer. In order to answer to customers' demand, companies should automate some of their processes. (Minsker 2014.)

2.4 Customer commitment

Arantola (2000) describes customer commitment in the following way: commitment is *behavioral and attitudinal state of the member based on experience and including intentions to act in the future.*

Customer commitment is strongly related to customer relationship management. Commitment is a crucial element for successful, long-term customer relationships. The committed person believes that the relationship is worth working on to ensure that it continues forever, and commitment represents the eagerness to invest in the relationship, in order to have a long-term orientation in it. (Buttle 2009; Lehtonen 2012.)

Commitment cites to the desire to purchase and have an obvious preference towards the company. Common values for commitment can be listed as trust, shared values and belief about difficulty of replacing products or services of one company or certain person and his/her way to serve a relationship. Commitment can be two-way construct. In order to ensure the overall commitment, the customer relationship has to be organized in a way, that both customer and service provider find themselves wanting to commit themselves to a relationship. Commitment is seen as stability in the relationship with one another. Committed party in a relationship feels motivated to continue doing business with another party. (Arantola 2000; Lehtonen 2012.)

Commitment can also be understood in a way that both customer and company avoid short-term alternatives to be able to receive more stable, long-term benefits linked with current relationship. Usually customers make commitments only with trustworthy companies, because commitment requires vulnerability, and leaves customers open to opportunism (Buttle 2009.)

Commitment can be described as the parties' aims to act and their attitude towards working with each other. In a relationship with customers there can be positive, negative or no commitment. *Positive commitment* can be seen as intentions leading to adaptation processes and other behavior, such as positive word-of-mouth. Lack of interest can be considered to be *no commitment. Negative commitment* is shown with customer's willingness to exit the relationship, but in some cases customer is not able to do so. (Arantola 2000.)

Typology of commitment types is introduced in Figure 4. This typology claims that commitment may be bilateral or unilateral. Governance structures are based on formal commitments or promises, which legally describe the nature of an exchange relationship. In case it is successful, the seller-maintained measures result in buyers' increased relational motivation and commitment. Left column can represent the situation in the beginning of the relationship, and the right column situation, which can be possible only after some time has passed. (Arantola 2000.) Bonds are also combined to this Figure, but are not included to this study.
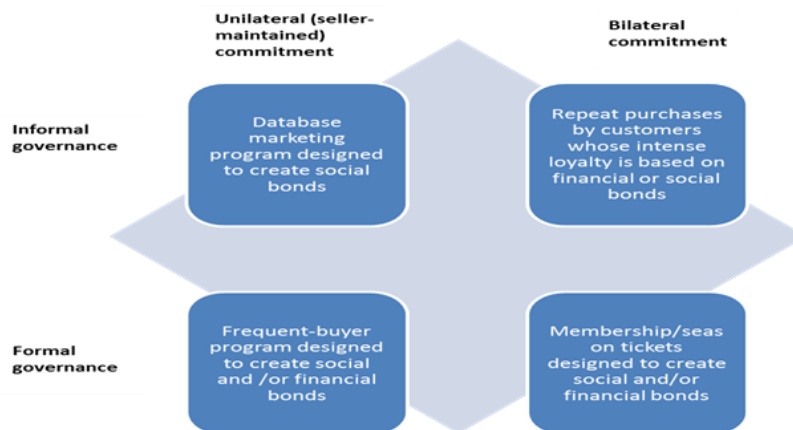

Figure 4. Typology of commitment types.
Source: Arantola, 2000, p.22

Handling the commitment can be done with help of two major ways: affective and calculative. Both types are relatively stable perspectives, but there are different motivations for relationship maintaining. Company, which is affectively

committed, wants to continue a relationship, because it enjoys and feels positively about the partnership, not only because of its short-term benefits. It can also be called a psychological attachment based on feelings of identification, loyalty and affiliation. *Calculative commitment* is based on costs versus benefits basis, and the continuation of the relationship is evaluated after comparing these two things with each other. *Affective commitment* is considered as the most effective for developing and maintaining mutually beneficial relationships. (Lehtonen 2012.)

Amine (1998) describes the affective commitment as a stage, where customer wants to keep relationship with the service provider based on affective attachment and identification with the service provider. According to Fullerton (2003) calculative commitment is a stage of need to keep a relationship due to recognized switching costs. (Kaur & Soch 2013.) Calculative commitment affects more into customers' purchase behavior than affective commitment, as customers consider costs and benefits of the service or product. Usually customers with high level of commitment are ready to pay more for products and services.

Cross-buying makes the customer relationship with the company wider. As calculative commitment is based on economic analysis, customer with calculative commitment will most probably not buy any additional services of the company. It can be stated, that affective commitment positively influences on cross-buying, but calculative commitment has no influence on cross-buying. (Marshall 2010.)

Kaur & Soch (2013) have presented a model of influence of customer satisfaction, trust, commitment and corporate image on behavioral and attitudinal loyalty as presented in Figure 5. Kaur & Soch (2013) have made following hypothesis: 1) attitudinal loyalty relates positively to behavioral loyalty, 2) customer satisfaction relates positively to trust, 3) affective commitment relates positively to attitudinal loyalty, 4) calculative commitment relates negatively to attitudinal loyalty, 5) corporate image relates also positively to attitudinal loyalty, 6) affective commitment mediates the relationship between trust and attitudinal loyalty, 7) calculative commitment mediates the relationship between trust and attitudinal loyalty, and 8) corporate image mediates the relationship between trust and atti-

tudinal loyalty. Kaur & Soch (2013) confirmed that attitudinal loyalty significantly and positively influences on behavioral loyalty and the positive and significant effect of customer satisfaction on trust was also supported. It was also prooved that affective commitment has a positive effect on attitudinal loyalty while calculative commitment has a negative effect on attitudinal loyalty. Corporate image was also revealed to be an important determinant of attitudinal loyalty. Corporate image has also the role as a strongest driver of future intended repurchase behavior. Corporate image was also shown to mediate the influence of trust on attitudinal loyalty. (Kaur & Soch 2013).
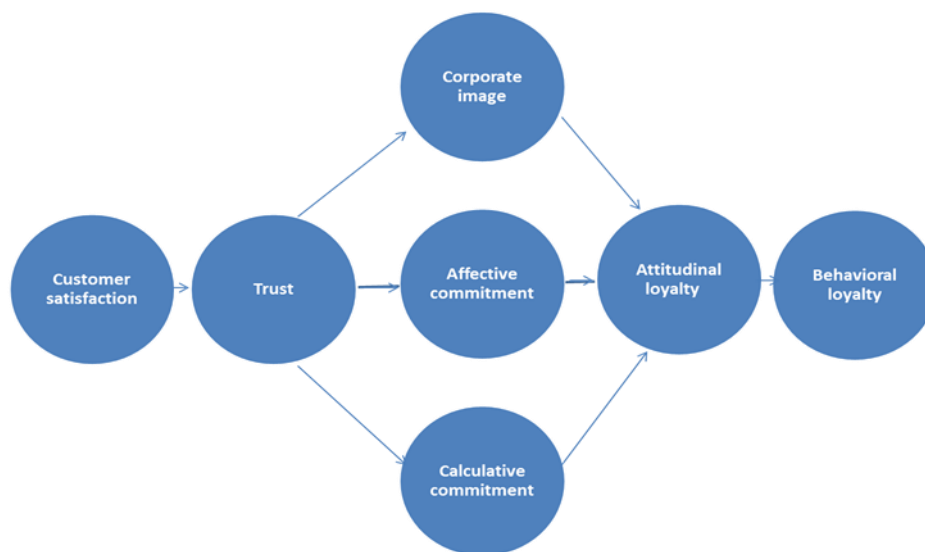

Figure 5. Model of influence of customer satisfaction, trust, commitment and corporate image on behavioral and attitudinal loyalty.
Source: Kaur & Soch 2013

2.5 Loyalty

Loyalty can be understood as a new business philosophy, and a strategy, which allows getting new customers, retaining the trust of customers, personnel, and partners in the process of mutually beneficial cooperation based on participants' voluntary actions. The main idea in this cooperation process with customers, personnel and partners is to offer them product or service in order to satisfy their needs. (Shakhovskaya & Arakelova.) Loyalty is a situation, where customer has a positive attitude towards services, products and workers of a company (service provider). This makes the company (service provider) in a priority posi-

tion compared to its competitors. This is a stable position and usually leads to repeated purchases. (Aimaletdinov 2013.)

Loyalty can be classified in the following ways: 1) tangible loyalty, which includes traditional and program based loyalty; 2) intangible loyalty, which includes procedure and personal factors of loyalty. Tangible loyalty (1) can be divided into 1.1) t*raditional based loyalty,* which can be understood as convenience; the availability of the products and services for the customer and 1.2) p*rogram based loyalty,* which includes different kind of opportunities in forms of financial benefits for the customer. Intangible loyalty (2) can consist of 2.1) p*rocedure intangible loyalty,* which is the customer's and company's cooperation and 2.2) *personal factors of loyalty,* which is the customer service in the company. Tangible loyalty factors support the behavioral loyalty and intangible loyalty factors support the perceptual loyalty. (Ashalyan.)

Javalgi and Moberg (1997) have stated that the nature of the service determines the dominant loyalty type for its loyalty customers. *Spurious loyalty* can be found in services, e.g. haircutting, which the direct recipient is a person and where the action is tangible, and tangible actions directed at goods of physical possession, e.g. dry cleaning. *Latent loyalty* can be found in services, such as the movies, where the action is intangible and the recipient is a person. Loyalty is in services where the action is intangible and the service is directed at intangible assets, e.g. banking or legal services. This classification does not acknowledge the recognized risks, e.g. monetary risk or involvement. (Arantola 2000.)

Loyalty can be divided into three different types: transactional, perceptual and complexional. Transactional loyalty concentrates to find changes in customers' behavior, but it does not provide an answer to questions about which factors cause certain changes. This is so called behavioral loyalty. This type of loyalty can be calculated by customers' share of total amount of customers, who purchase certain brand on regular basis (Lisafeva et al. 2012). The monitoring of the behavioral loyalty can be done by following the factual behavior of the customer and customer's overall activity. (Ashalyan.)

The main aspect of perceptual loyalty is customers' opinions and estimations about the company/products/services. Perceptual loyalty seeks answers to questions such as: which reasons cause the customer loyalty, how is the customer loyalty built up, how can the demand for the particular brand change in the future. Perceptual loyalty is determined with process of regular customer surveys. This type of loyalty can be calculated by customers' share of all customers purchasing particular brand. (Lisafeva et al. 2012.) Perceptual loyalty can be described as the level of customer's awareness of the company, and which needs of the customer can be satisfied with the products and services of the company, and the level of satisfaction of the customer about the products, and services offered by the company. Important aspect in perceptual loyalty is the level of emotional perception of the customer towards the company. (Ashalyan.)

Complexional loyalty can be explained as a mixture of transactional and perceptual loyalty. Complexional loyalty is explained in the separate matrix in Figure 6, Matrix of loyalty and customer satisfaction. (Lisafeva et al. 2012.)

		Perceptual loyalty	
		High satisfaction to brand	Low satisfaction to brand
Behavioral loyalty	Frequent purchases of certain brands	True loyalty	False loyalty
	Purchase of competing brands	Latent loyalty	No loyalty

Figure 6. Matrix of loyalty and customer satisfaction.
Source: Lisafeva et al. 2012, p. 71

Figure 6, Matrix of loyalty and customer satisfaction shows that if customers regularly buy certain brand and have high satisfaction to the brand, it is called

true loyalty. True loyal customers are less interested in competitors' brands or products. True loyalty can be characterized as condition of overall involvement to the brand. The customer is satisfied with certain brand, and has a strong emotional tie with it. Conclusion can be made, that true loyalty includes behavioral (emotional) and rational components of loyalty. This type of loyalty model can be used with different customer categories; with actual and potential customers. (Lisafeva et al. 2012.)

If customer continues to buy products of some brand and does not have any commitment towards the certain brand or even is not satisfied with the brand, the *loyalty* is called *false one*. This kind of situation can happen because of the economic reasons; possibility to receive seasonal discounts of some other brand or if some brand which the customer is used to buy is not available. False loyalty can be described as a condition where the customer does not have any emotional commitment towards the brand. This kind of customer is very sensitive for actions of competing brands. False loyalty customers purchase certain brand, but can easily change to competing brand, if they feel emotional commitment towards the new brand or if the competitors provide some special offers or better quality for the new brand. (Lisafeva et al. 2012.)

If customer is satisfied with some brand, but for some reason, e.g. for missing preferred brand in the market, purchases products of competing company, the *loyalty* is called *latent one*. This kind of loyalty can be found in situation, when customer cannot buy certain brand very often, but values the brand very high. Latent loyalty is characterized with customer's commitment towards the brand. The customer is highly satisfied with the brand and has emotional commitment towards the brand, but he/she buys competing brands instead. The economical situation of the customer or brand missing in the market can be reasons for customer's behavior in the latent loyalty. If customer is not satisfied with the brand, and is not ready to purchase it again, there is *no loyalty.* (Lisafeva et al. 2012.)

According to Uncles et al. (2003) there exist three conceptualizations for loyalty. In Figure 7, Conceptualization of customer loyalty, following points have been described:

1) Loyalty as primarily an attitude that sometimes leads to a relationship with the brand (Model 1)

2) Loyalty mainly expressed in terms of revealed behavior, i.e. the pattern of past purchases (Model 2)

3) Buying moderated by the individual's characteristics, circumstances, and/or the purchase situation (Model 3)

Model 1

Strong attitudes & positive beliefs towrd the brand

The influence of significant others, community membership & identity

- Attitudinal loyalty to the brand (mainly seen as single-brand loyalty – monogamy)

Model 2

Habitual revealed behavior

Satisfactory experience & weak commitment to brands

- Behavioral loyalty to the brands (mainly seen as divided-loyalty to a few brands – polygamy)

Model 3

Purchase situation, usage occasions & variety seeking

An individual's circumstances & characteristics

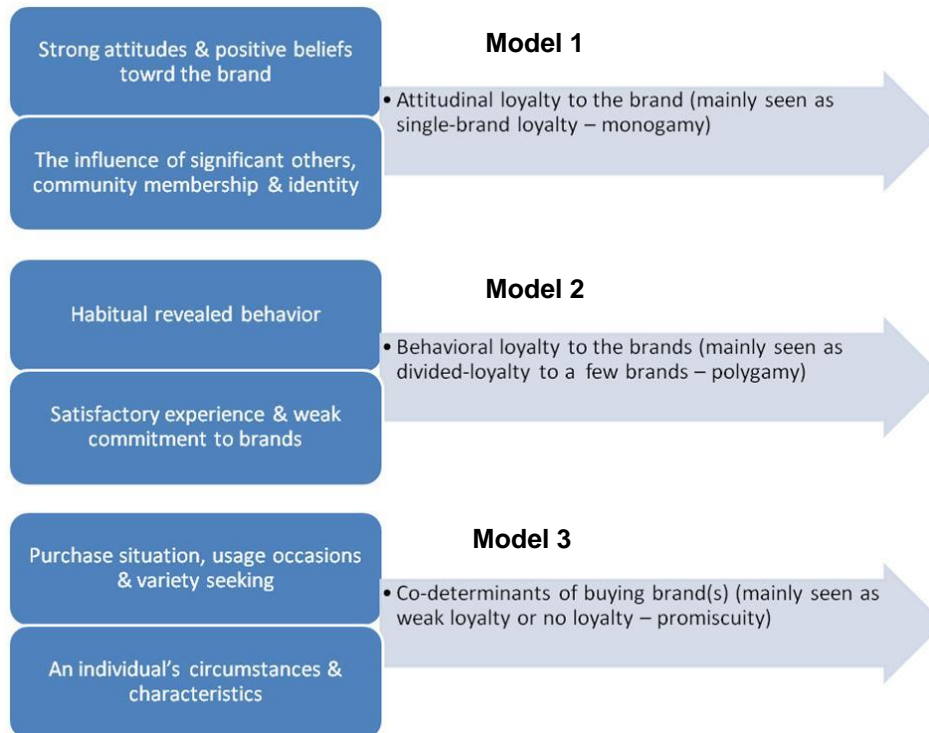- Co-determinants of buying brand(s) (mainly seen as weak loyalty or no loyalty – promiscuity)

Figure 7. Conceptualizations of customer loyalty.
Source: Uncles et al. 2003, p. 296

To measure the customer loyalty, following indicators can be listed as shown in Figure 8, Scheme of indicators for measuring customer loyalty.
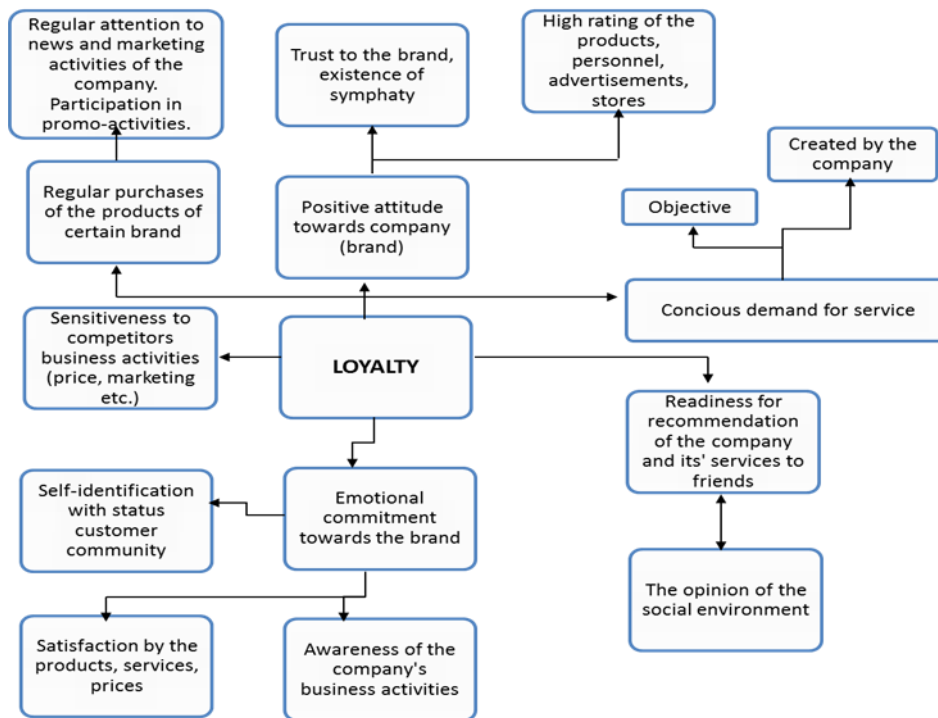
Figure 8. Scheme of indicators for measuring customer loyalty.
Source: Aimaletdinov 2013, p. 58

Increasing customer's loyalty is basically comparable to increasing the customer's desire to buy the brand. This is firmly tied to customer satisfaction, and a company wanting to increase loyalty in terms of attitudinal, improves its product, image, service relative to its competitors. (Peppers & Rogers 2011.)

Recency of purchases, regularity of purchases and monetary value of purchases are three behavioral variables which help to measure behavioral loyalty. Attitudinal loyalty is measured by noting components of attitude such as beliefs, feelings and purchasing intention. Customers who have a stronger preference for, involvement in, or commitment to a supplier, are the more loyal in attitudinal terms. (Buttle 2009.)

Both views have been combined into comprehensive models of customer loyalty. In Figure 9, Two-dimensional model of customer loyalty, four forms of loyalty are indicated according to relative attitudinal strength and repeat purchase behavior. 1) *Loyals* are those, who have high levels of repeat buying and a strong relative attitude. 2) *Spurious loyals* have high levels of repeat purchase, but weak relative attitude. Their repeat purchasing can be explained by inertia, high

switching costs or indifference. 3) *Latent loyalty* exists, when a strong relative attitude is not accompanied by repeat buying. This might be evidence of weakness in the company's distribution strategy, the product or service not being available when and where customers want. 4) *No loyalty* exists, when relative attitude and repeat purchases are weak (Buttle 2009.)

From a practical point of view; the behavioral definition of loyalty is attractive, because sales and profits derive from actions not attitudes. However, taking the trouble to understand the causes of weak or negative attitudes in customers can help companies identify barriers to purchase. It is equally true, that knowledge of strong or positive attitudes can help companies understand the causes of competitor-resistant commitment. (Buttle 2009.)
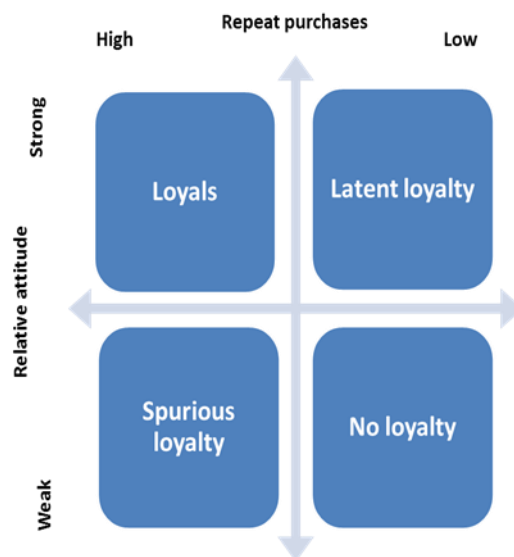

Figure 9. Two-dimensional model of customer loyalty.
Source: Buttle, 2009, p. 45

A loyal customer is the one who has a higher preference and loyalty to corporate or product brands. Loyal customer is difficult to move to use the products or services of other companies, even if the price of competitive products, or promotional activities would be lower. (Tao 2014.)

2.5.1 Customer loyalty

As the business environment is highly competitive and changing rapidly, the service providers need to engage in relationship with their customers in order to strengthen their position in the market. Customer loyalty represents a top priority of company's success in organizational and financial meaning, when customers do repeat purchases of services. Customer loyalty can be seen as a strategic objective for managers to enhance organizational performance. (Lehtonen 2012.) Customer loyalty can be considered to be a byproduct of customer satisfaction (Gable et al. 2008). Customer loyalty can be defined as a complex system of loyalty customer's positive relations with a company (Starkov 2008).

Gentry & Galliny (2008) have grouped the customer loyalty into two categories: extrinsic and intrinsic. Factors of extrinsic loyalty are those outside from the direct control of the marketing manager of the company and intrinsic loyalty factors are those under the direct control of the marketing manager. (Marshall 2010.)

In order to keep loyal customers in the company in the constantly increasing competitive market situation, it is important for the company to understand, that it must pay attention to the quality of the services and products, have qualified personnel, and unified culture inside the company in order to create comfort atmosphere between the customer and the company. Investment to loyal customers brings advantages to the business such as growing effectiveness and profit of the business. Model of customer loyalty is described in Figure 10. (Rukosuev.)
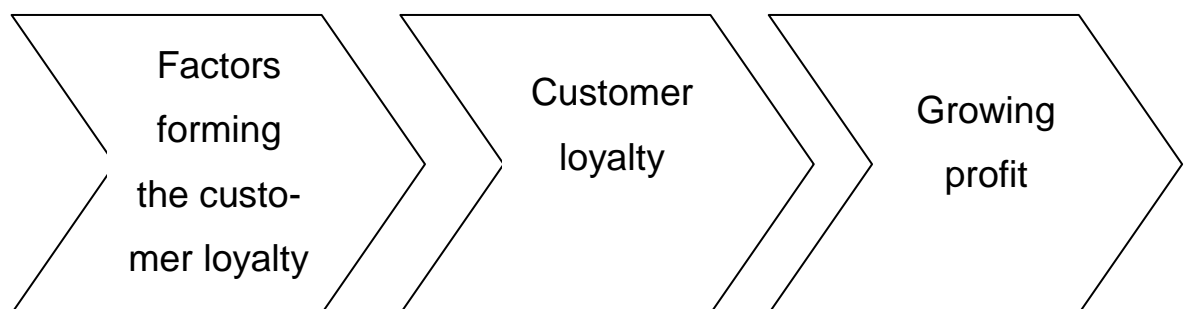

Figure 10. Model of customer loyalty.
Source: Rukosuev

Usually, there are two definitions for the customer loyalty: behavioral or attitudinal. To improve the approach for customer loyalty the businesses should rely on both of these definitions simultaneously. Behavioral loyalty is measured by purchasing behavior of the customer. The attitudinal definition for the customer loyalty means, that the loyalty of the customer is in the customer's state of mind, meaning that the customer is loyal to a brand or to a company having a favorable and positive attitude towards it. The customer likes the company, its products, its services or its brands and prefers to buy from it rather than from the competitor one. (Buttle 2009; Peppers & Rogers 2011.) Customer loyalty can be defined to be voluntary and long-lasting trust towards the company, which is based on rational and emotional values of the company, its products or services and leads to regular purchases in the company. (Kirillova.)

Too often a company thinks that by improving customer satisfaction, they may increase their customers' loyalty. Loyalty may breed satisfaction, rather than satisfaction creating a loyal customer. Loyal customers will remain so, if they perceive that they are receiving exceptional value from the defined relationship with a company. This cannot occur without and excellence of effort from the prospect to the product/service itself. Anything less than this, will not reap the long-term customer relationship that is so important. (Levethal 2006.)

Levethal (2006) gives clear advice for companies, who want to succeed in customer loyalty management. How can a company as a marketer succeed in its endeavors? The company needs to define what it wants to accomplish, how it will measure its efforts, and set the target group clearly. Concrete suggestions for customer loyalty management from Levethal (2006) were written as follows: make every effort to create positive experience, create a strategy that is built around your best customers, avoid mass targeting, emphasize what differentiates you from your competitors, and create a cadre of brand advocates.

Arantola (2000) describes customer loyalty in the following way:

Customer loyalty repeat buying or experiencing the offering combined with a positive attitude.

Arantola has defined the relationship between loyalty and commitment in the following Figure 11, Definitions of loyalty and commitment. This figure illustrates the relationship of loyalty and commitment as follows:

	Repeat buying and other experiences
+	Positive attitude
=	**LOYALTY**
+	Future orientation
=	**COMMITMENT**

Figure 11. Definitions of loyalty and commitment.
Source: Arantola 2000, p. 9

Satisfaction does not automatically lead to loyalty. Ladders of customer loyalty are commonly used. Ladder describes customers entering into a relationship and going through different phases. These phases are 1) awareness, 2) exploration, 3) expansion, 4) commitment, and 5) dissolution. (Arantola 2000.)

Mittal and Lassar (1998), Loverman (1998) have introduced behavioral patterns for loyal customers. They have stated that, e.g. loyal customers increase their share of purchases and buy from one supplier different product lines. Reichheld (1996) has stated that loyal customers are more profitable and they lead the sales to be predictable and increase the profit. Dick and Basu (1994) found out that loyal customers are not motivated to search for alternative options. According to Reichheld (1996), Berry and Parasuraman (1997), Gwinner et al. (1998) loyal customers use personal recommendations and use positive word-of-mouth. Reichheld (1993), East et al. (1995) and Dowling und Uncles (1997) discovered that customers buying at a standard price seem to be more loyal than those buying on discount price. (Arantola 2000.) Material incentives are the easiest and at the same time the weakest way to increase the customer loyalty (Starkov 2008).

According to Kirillova the loyal customers' segmentation gives following possibilities for the company:

1) to separate those customers who are the most precious to the company
2) to think about ways to cut the number of customers who are not loyal
3) to estimate the results of managing loyal customers more carefully
4) to increase understanding of objectives and actions of increasing customer loyalty; both top management and employees who are working directly with the customers
5) to correct the corporative culture of the company in a way that customer loyalty and meeting of supply and demand will become company's main idea/purpose/aim

3   Customer loyalty programs

In this Chapter the term of customer loyalty program is opened, and significance of the customer loyalty programs to companies is described. Goals and metrics, typologies of these programs are outlined, and profitability of these programs is shortly discussed. Information that company receives from the customer loyalty programs is also specified in this Chapter. Current status of customer loyalty programs in Russia is represented in this very Chapter. Attention is also paid to special features of the Russian consumer.

The term, loyalty program, can be described to be any marketing program designed to increase the life-time value of current customers through a long-term interactive relationship. A typical loyalty program includes five elements; a database, an enrollment process, rewards, value-added or soft benefits and customer recognition. (Arantola 2000.)

Arantola (2000) defines customer loyalty program as follows: *A planned program for a group of existing and prospective customer who fulfill criteria set by the marketer and that do something to qualify for or join the program and receive benefits for this group.*

In order to increase and maintain the customer loyalty or brand share, companies launch customer loyalty programs. These programs are based on marketing activities of the company to create long-term, mutual relationship with the

customers, and to strengthen the position of the company in the market. (Kirillova; Uncle et al. 2003.) Loyalty programs can also improve levels of approachability and market conspicuousness for a brand. The aim of the loyalty program can also be to get the brand into the customer's set of acceptable brands, or feeling a pressure of others who already have loyalty programs in use. (Uncle et al. 2003.)

Customer loyalty programs are very popular and those have become diverse. But to keep the customers loyal to the company, receiving bonuses or discounts, is not always enough. (Kirillova)

In order to receive the maximum benefit from the customer loyalty programs, the companies often need to think about the traditional marketing method: customer segmentation. The customer segmentation can be done in two different ways: Firstly, customer segmentation based on the type of loyalty; which is inherent to the customer, e.g. the loyalty to the company or its place, loyalty to the brand, mark, service, loyalty to the personnel. Secondly, customer segmentation based on the loyalty steps towards the company, e.g. anti-loyal customers, no loyal customers, lost customers, potential customers, loyal customers. (Kirillova)

The goal of the customer loyalty programs is to get loyal customers. Customer loyalty programs are important tools for minimizing switching decisions among customers, and are used in all fields of retailing and consumer services. Customer loyalty programs reward customers in many different of ways for coming back, and are usually directed towards large group of consumers. Have the customer loyalty programs become so common, that they have lost their impact on the individual consumer? It seems that consumer will enroll in competing programs to get discounts and not become loyal or committed customer. (Arantola 2000.)

Customer loyalty programs are one of the most important marketing tools for the company. Those allow repeat purchases, and increase the purchase sum, to build customer relationship, and to receive important marketing information about the customer behavior. Company can reach maximum results with mini-

mal financial costs, if the customer loyalty program is built up in a reasonable way. (Ashalyan et al.) Many customer loyalty programs aim to motivate customers to purchase more often by offering certain discounts, bonuses or other benefits (Rukosuev.) Customer loyalty programs intend to increase customer retention, which in general bring better financial results (Gable et al. 2008).

Customer loyalty programs are coordinated, membership-based marketing activities designed to enhance the building of continued marketing exchanges among pre-indentified customers toward a sponsoring brand or firm. Loyalty programs are targeted communications, and customize the delivery of branded goods and services. Often based on cumulative brand purchases, loyalty programs enhance value proposition offerings to preserve active customer status. Loyalty programs are set apart from other forms of promotions by their long-term nature, and deliberate emphasis on preserving customer retention and intensifying purchase frequency. (Lacey & Sneath 2006.)

The international experience about the customer loyalty programs shows, that low price does not play significant role between the customer and the product, brand or company. The only way to gain the continuing customer loyalty is to build customer relationship based on emotions and trust, to offer unique and high valued privileges in the frame of existing customer loyalty program. Material benefits can be a part of the customer loyalty program, but act no certain role by per se. (Ashalyan et al.)

It has been discussed, whether the customer loyalty programs have lost their original meaning. Customer loyalty programs are a tool for decreasing switching that is used in all fields of retailing and consumer services. Customer loyalty programs can be found in industry and service structures. They are common in cases of virtual parity, meaning when there is minor difference between prices or service content, in low-involvement decisions, when there is intense competition among few competitors, when there are high fixed and low variable costs and where idle capacity makes it possible to offer free services. Customer loyalty program can be considered to be helpful in situations like building adds to perceived value, or when lifetime customer value is high, or when customer retention costs are less that acquisition costs. (Arantola 2000.)

Companies having customer loyalty programs in use are removing resources away from customers, who are not participating in the program in favor of customers, who participate in the loyalty programs. This may lead to complaints about discriminatory customer treatment. For customers, who participate in loyalty programs, there is potential for increased concern about the misuse of personal information and loss of control over, how information is being collected and disseminated. The collection and use of information, that can favorably impact the longevity and profitability of customer relationships, is often dependent upon consumers' voluntary participation in these programs. (Lacey & Sneath 2006.)

Loyalty programs continue to be used by companies as marketing tools, to support their customer relationship management (CRM) strategies. This can be seen as a critical gap in the literature, because fairness towards consumer is often forgotten, and it certainly relates to how companies use loyalty programs to collect proprietary information and differentiate value propositions among customer segments. Loyalty programs can be used to convey prestige to customer, and make them feel special, important, and appreciated. However, the effect on the company's nonparticipating customers can lead to dissatisfaction and alienation with the company. Moreover, customer who participates in the program, might become frustrated, and perhaps even disenfranchised, due to their inability to benefit from these programs (Lacey & Sneath 2006.)

3.1 Goals and metrics of the loyalty programs

The actual impact of the programs is often described in the form of total sales from the member base or of campaign returns in the form of cost-per-lead or pull percent. Loyalty programs often segment members according to their buying behavior at their spending. Common goals of the loyalty programs include maintaining sales levels, margins and profits, increasing the loyalty and potential value of existing customers, and activating cross-product buying. The most wanted outcomes are usually directed at specific segments, such as heavy buyers. There can be also tactical motives, such as attempting to differentiate a parity brand, pre-empting the entry of a (new) parity brand and pre-empting a competitor from introducing a similar loyalty scheme. Following goals and

measures can also be stated for the customer loyalty programs; increases in recency and frequency of purchase, customer value in terms of purchase and profit, change in cross-selling effectiveness and share of wallet. (Arantola 2000.)

Berman (2006) describes following potential benefits of an effective loyalty program: increased customer loyalty, lower price sensitivity and stronger brand attitude, access to important information on consumers and consumer trends, higher average sales due to cross-selling and up-selling opportunities, greater ability to target special consumer segments, increased success in implementing product recalls.

Loyalty program objectives can be based on revenues, profits, customer loyalty, and increased information on consumers. Common specific loyalty program objectives are increasing the number of members, reducing member attrition, increasing member purchases, increasing member purchase frequency, increasing member profitability, and generating a satisfactory return on loyalty program investment and receiving valuable market research data (Berman 2006.)

3.2 Typologies of the loyalty programs

Shakhovskaya & Arakelova introduce following classification for customer loyalty programs based on the market features:

1) market based:

   - single industry (association of companies in the field of services)
   - interbranch (association of science organizations, book stores, theatres, passenger transport companies, gas stations, medical centers)

2) function based:

   - economical (bonus, cumulative)
   - social (to create working places etc.)
   - civil (to form civil society, healthy living habits, etc.)

3) territorial based:

- world-wide (outside the country)
- national (inside the country boundaries)
- between regions
- inside regions

There exist different categorizations for loyalty programs, and the classification is often followed by a recommendation of when to use each type of program. One useful differentiation between open and secret programs is, that open programs are openly communicated to members and non-members, and secret program is the marketer's internal way of differentiating the offering and treating customers differently. (Arantola 2000.)

Table 1 shows typologies of customer loyalty program based on rewards.

TYPOLOGIES BASED ON REWARDS		
Type	**Description**	**Program goals**
Rewards program	Awards points for purchases. Points may be exchanges for rewards unrelated to the brand. Also called "borrowed interest" i.e. borrowing the interest in travelling to increase spending in telecommunications. e.g. banking, telecom, credit cards	1. Acquisition program to motivate first-time customers 2. Emotional involvement that results in increased spending by current customers 3. Differentiation
Rebate program	Awards a gift certificate, redeemable against new purchases when a customer reaches a spending threshold. e.g. retailing, restaurants	1. To support the brand and buying habits of the highest-value customers 2. A tool to increase sales without reducing perceived brand image
Appreciation program	Offers a reward selection of the company's products and services in exchange for accumulated points, e.g. banking, telecoms, airlines	1. Lifetime value among current customers 2. Cross-selling services: sampling possibility for the customer
Partnership program	Rewards a customer's accumulated purchases with a partner company's products or services, e.g. telecoms	1. Acquisition program to motivate new customers 2. Access to the partner's database
Affinity program	Offers special communica-	1. Building strong rela-

	tions, value-added benefits and recognition to valued customers. Difficult to measure the effect. e.g. hamburger restaurants, motorcycles	tionships with life-style brands.

Table 1. Typologies based on rewards.
Source: Arantola 2000, p. 73

The most common mistakes made in developing the customer loyalty programs can be stated as activities not planned deeply enough, unprofitable program, unoriginal program, empty promises, rewarding those who are not loyal ones, not corresponding to the image of the company, not enough communication with the customers. A good loyalty program is long-lasting and the purpose of the program, the target group, the budget, customer benefits and communication channels must be determined. The goods or products provided as awards for the customers must be beneficial for both customer and company. Often the companies choose the easiest way for creating the loyalty program, and copy competitors' loyalty programs. If the company is able to create an original loyalty program to its customers, it will most probably receive a competitive advantage. Many companies do not use segmentation for their customers. They create loyalty programs for all customers, not thinking about the differences in requirements and needs of the customers. In some cases, benefits or rewards of the loyalty program are not corresponding to the image of the company. There exist many communication channels, which can be used for communication of loyalty programs with customers. The company needs just to choose the most suitable channel for itself. (DV Reclama 2012.)

3.3 Profitability of the loyalty programs

Customer loyalty programs are expected to be profitable. Accurate estimates about program costs are difficult to foresee. Costs of loyalty programs consist of establishment costs, enrolment costs, IT hardware costs, creating database, maintenance costs, servicing costs, management costs, editorial and production costs of loyalty magazines, the direct rewards costs and the costs of using money on a loyalty program instead of on some other marketing activity. (Uncles et al. 2003.)

To create and run a customer loyalty program, means additional costs for the company, but it can have a positive effect and bring new loyal customers to the company. The costs for attracting new customers are much higher than costs for keeping old customers in the company. (DV Reklama 2012.)

3.4 Information received from the loyalty programs

There are many different data available about the sales, customer behavior and effectiveness of the loyalty program. Interpreting this information can be difficult. There can be too much of some types of sales information and too little of other types. Poorly designed customer researches can also cause the misunderstanding of the information received through the research. (Uncles et al. 2003.)

Information about demographics, lifestyle of the customers, purchasing habits and responses to targeted marketing activities are typically obtained. Data about complete customer experience or the portfolio of bought brands, total market information or marketing activity of competitors are not usually collected. Problems are related to the fact, that collecting right kind of data is challenging. Another problem is that successful loyalty schemes are quickly copied by competitors. Also evaluations on the sales effectiveness of loyalty programs are usually based on a weak design. The choice of benchmark is also critical. (Uncles et al. 2003.)

Maybe the greatest benefit obtained from loyalty programs exists in the data mining and knowledge base, that a company can use to develop statistical models to improve customer loyalty, support customer service, and develop new offerings to help reduce defection and increase customer lifetime value. Loyalty programs represent an alternative to mass-market promotion, since companies have the ability to more precisely target and increasingly fragmented customer base, and communicate customized and relevant value proportions and marketing messages to individual customers. At the same time, when companies are engaging in an unprecedented collection of individual customer information, consumers are becoming increasingly concerned about their privacy and, how personal information is being used and disseminated. Information pri-

vacy exists, when an individual can limit accessibility and control the release of information about oneself (Lacey & Sneath 2006.)

3.5 Customer loyalty programs in Russia

According to PhD student's Svetlana Berezka article about customer loyalty programs in Russia, a remarkable interest towards customer loyalty programs has been arisen during the past years in Russia. This interest can be explained with changes in the customer behavior structure, and with the necessity to establish long-term relationships with the customers. Also, Loyalty360 association states that loyalty programs are gaining popularity rapidly in Russia. Challenges for program developers in Russia are small local databases, lack of human resources and choosing the relevant rewards model. Often, international platforms for program implementation are used. (Loyalty360 2012.) Most of the Russian companies do not utilize the saved data about the customers. Most of the Russian customer loyalty programs cannot guarantee the customer loyalty in its modern meaning. (Berezka.)

Customer loyalty programs in Russia are mostly discount ones, meaning that those are working only on the basis for providing discounts to customers in the purchasing moment. These are purely material benefits for the customers. (Balishev 2012; Berezka; Card City.) Second group of loyalty programs in Russia are winning different prizes among customers purchasing at the certain time. Even if the prize or gift is not needed for the customers, it still creates a positive image for the customers about the company. Also cumulative discount programs have reached the popularity in Russia lately. The benefits of these programs are depending on regularity and amount of purchases of the customers. Bonus programs are also used in Russia. The purpose of the bonus programs is to collect points and after collecting a certain amount of points, customers can use the points for buying services or goods from the company. (Card city.) Starkov (2008) wrote that discount card is not a loyalty program. Loyalty program should be original style of the managers and teams and original relationship culture with the customers. It is obvious, that customer loyalty starts from company's internal business processes.

Majority of the Russian customer loyalty programs are created to attract the customers from the middle or upper middle category. This is related to the fact, that this segment is wide and solvent and responds to material stimulation (discounts and bonuses). This customer group values different discount programs, and the discount received with loyalty card is stimulating these customers to make purchases with the card. The negative aspect is, that all the customer loyalty programs are similar and the main point is to provide discounts and bonuses, but it has been discovered that the most important thing for customers is the size of the discount, not the fact that the discount is provided. (Berezka; Loyalty marketing 2009.)

Some of the customers wanting to purchase luxury products are not interested in discounts or bonuses, but need more efforts concentrating on individual service, exclusive conditions, limitation of the number of participants, and emotional involvement. The only solution in this case is the individual approach, which affects deeply to feelings of the VIP-customer. The customer loyalty program in this case should be used for creating the information database of loyal customers, studying the tastes and behavior of the loyal customers. There are not many customer loyalty programs for exclusive group of customers at the moment in the Russian market. The few which exist can be found in tourist, insurance, bank and retail sectors. (Berezka.)

It is obvious, that it is difficult for the small businesses to find new ways of attracting new customers. Traditional marketing channels like television, radio and magazines are expensive and in the end do not bring high profit for the company. In addition to this the customer does not understand the quality of the products or services if there is no possibility to try those. The problem with customer loyalty programs in Russia is customers' poor awareness of the programs. If the company is not able to communicate about the activities organised within the customer loyalty program, it will not receive wished for profits. (Berezka.)

An article in Russian Loyalty Name magazine stated that before launching a loyalty program the company must be financially stable and it has to recognize the possible risks included to launching of the loyalty program. The company

must also be aware of the amount of administrative costs and workload the launching of the loyalty program requires. (Loyalty Name 2014.)
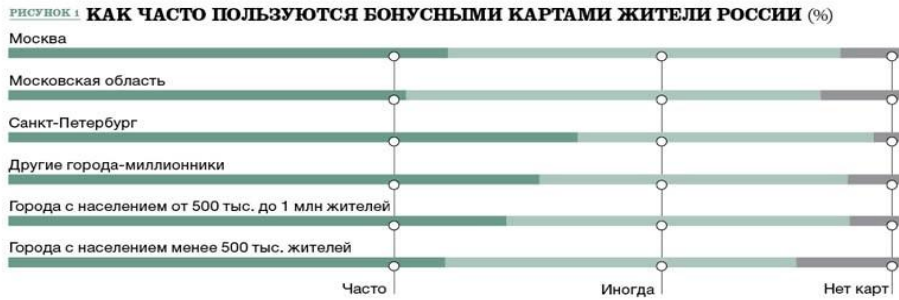
To make the loyalty program more individualized, the company needs to make segmentation for the customers, e.g. by place of living or personal interests. The company can provide the customer more detailed offers based on the personal interests of the customer or customers buying behaviors. (Loyalty Name 2014.) To make segmentation for the customers, correct analyzing instruments are needed. Having relevant IT-systems for making segmentation of the customers and analytics is one of the important issues when working with customer loyalty programs. The company should realize that customers from different age groups and from different regions have totally different motivation factors. Company must clarify, what motivates their customers from different social groups and have the ability to use this information correctly. The marketing strategy and analytics play a very significant role in increasing the customer loyalty. (Balishev 2012.)

In order to provide customers some new features in the loyalty program, the company can consider some alternatives for the plastic loyalty card. As customers usually carry a huge amount of different loyalty or discount cards with them, there are some options to offer something else for the customers. Co-branded payment card with partner companies is one option, meaning e.g. a credit card in cooperation with some bank and company offering the loyalty program to its customers. Personal identification number for the customer, which can be connected to the mobile phone number or account number of the customer, can be on option for the plastic loyalty card. Even fingerprints could be used to identify the customers, but can be considered as a high, future technology. Smart phones are potential, growing trend and in fact can be called as electronic wallets. A loyalty card can be loaded to smart phones in electronic form, as phone is usually always with customer. Mobile flyers are one option for the company to provide discount offers with certain validity of time. Also mobile applications are an option to serve the customers better, and to have active communication with the customers by providing latest offers for them, to make e.g. QR codes for the products. (Balishev 2012; Loyalty Name 2014.)

In Figure 12, the upper figure shows, how often Russians use loyalty cards. Loyalty cards are mostly used in St. Petersburg or in other cities with millions of inhabitant or in cities from 500 000 to 1 million inhabitants. Inhabitants of Moscow and Moscow region are using loyalty cards not on a regular basis. In cities with inhabitants less than 500 000, people do not have loyalty cards or they are using those seldomly. (General Director 2014.)

The figure in the left in Figure 12 states, that loyalty cards are mostly (64.8%) used for purchases of goods and products from the supermarkets among Russian customers. Loyalty cards are also used for purchases of shoes and clothes (64.6%) almost as much as for the food products. Loyalty cards are used 49.7% for purchasing cosmetics and 37.1% for purchasing home appliances and 36.9% for purchasing medicine. Loyalty cards are used 31.5% for buying gasoline and 28.5% for using restaurant services. In 12.4% cases the loyalty cards are used when purchasing books and 12.3% when buying air or railway tickets. Only 5.4% of the purchases with loyalty cards are done when using medical services. (General Director 2014.)

It was studied by RBK research, that Russian woman uses 4,3 loyalty cards during her lifetime, and Russian men uses 3,4 loyalty cards during his lifetime as shown in the right side, middle of the Figure 12. Under this figure it is stated, how collected bonuses can be used in Russia. 80% of the bonuses are used for paying the services, 16% are used for receiving gifts and 4% are used for mixed model of the before mentioned. (General Director 2014.)

РИСУНОК 1 **КАК ЧАСТО ПОЛЬЗУЮТСЯ БОНУСНЫМИ КАРТАМИ ЖИТЕЛИ РОССИИ** (%)

Москва
Московская область
Санкт-Петербург
Другие города-миллионники
Города с населением от 500 тыс. до 1 млн жителей
Города с населением менее 500 тыс. жителей

Часто — Иногда — Нет карт

РИСУНОК 2 **ПРИ ОПЛАТЕ КАКИХ ТОВАРОВ И УСЛУГ ПОТРЕБИТЕЛИ ПОЛЬЗУЮТСЯ ДИСКОНТНЫМИ И БОНУСНЫМИ КАРТАМИ** (%)

Товары из супермаркетов — 64,8
Обувь, одежда, аксессуары — 64,6
Косметика — 49,7
Бытовая техника — 37,1
Лекарства — 36,9
Бензин — 31,5
Рестораны — 28,5
Книги — 12,4
Авиа- и железнодорожные билеты — 12,3
Медицинские услуги — 5,4

РИСУНОК 3 **СКОЛЬКО КАРТ В СРЕДНЕМ ИСПОЛЬЗУЕТ ОДИН ПОТРЕБИТЕЛЬ**

4,3   3,4

РИСУНОК 4 **КАК МОЖНО ИСПОЛЬЗОВАТЬ БОНУСЫ** (НА ПРИМЕРЕ СОВМЕСТНЫХ ПРОГРАММ БАНКОВ И КОМПАНИЙ) (%)

Оплачивать услуги 80
Получать призы 16
Смешанная модель 4

Источник рис. 1–4: маркетинговое агентство «РБК.research»

Figure 12. Overall view about the customers using loyalty cards in Russia. Source: General Director 2014.

The difference between Europe and Russian loyalty programs is remarkable. The market for the loyalty programs is matured in Europe, but in Russia it is still in the developing phase. The European companies are making long-term strategies, when developing the loyalty programs, but Russian companies are providing quick benefits for the customers, and Russian customers still need more attention in order to make long-term relationship with them. European customers have become more sceptical about the bonuses and benefits offered by the companies and they prefer to stay more independent from certain brands than collect bonuses. As Russian market is still in the developing phase regarding the loyalty programs, bonuses and benefits work better for Russians at the moment. (General Director 2014.)

Some examples for developing the loyalty program in one Russian construction company were provided in the article of Effective customer loyalty program in magazine called General Director (2014). Different trade marketing events are organised for the personnel and the customers, e.g. motivating events for personnel and stimulating events for customers. Individual selection from assortment can be used for customers, who work e.g. in the construction site and are interested in cheaper options, than customers working in retail business and are interested in more wide and expensive assortment. Training of customers for different activities concerning construction is used and different events for customers in order to keep the good relationship with customers are organised. (General Director 2014.)

3.5.1 Special features of Russian consumer

The number of inhabitants in Russia in 2013 was 143,347 million. In Moscow the number of inhabitants was 11,979 million in 2013, in Moscow region 7.48 million. In 2013 the number of inhabitants in St. Petersburg was 5.28 million, and in Leningrad region 1.751 million. (RF FSSS 2014.) Russian men are able to leave for pension at the age of 60 years and women at the age of 55 years. The number of pensioners in Russia in year 2013 was 23% from the total number of inhabitants, which is around 33.1 million people. Actual final consumption of households in Russia in 2013 was 40451 billion of roubles. (Ria 2010.) All these statistics about number of inhabitants, number of pensioners and consumption possibilities in Russia, support the fact that the Russian market provides huge possibilities for the companies to grow, and to make successful targeted marketing actions to certain segments and profitable business. Companies need also to understand the regional differences in Russia in order to succeed in their activities.

Every customer uses some of the following types of resources: material, time, cognitive or affective. Consciously or unconsciously people are trying to balance these resources into proportions, which bring them more satisfaction. For example, top manager is trying to save time and spend money on e.g. travelling, which creates him/her emotionally strong feeling. Queues in the stores and traffic jams on the roads are more problematic for him/her than high prices. Being

treated with respect is also important, and rudeness of the salespeople in the store is inexcusable. (Starkov 2008.)

The most important wish of the Russian customer is to buy all necessary goods with fewer resources, which are important to the customer. The importance of the resources for different group of customers is individual. It is important to pay attention to this structure, or otherwise it will be impossible to please the customers. If the company is able to save the valuable resources of its customers, half of the success will be guaranteed. In order to reach the customer loyalty among Russian consumers, it is necessary to provide the missing "things" to the customers. It is still on very rare occasions, where customer receives from the store personnel, e.g. additional information about the calories of the foods or advice for choosing the right meat for cooking. Reason for this is in the missing standards of loyalty, training programs and attitudes of the personnel. (Starkov 2008.)

How to measure the customer loyalty in Russia? Measuring can be difficult, but life styles, employment, food traditions, social demographic group, and incomes reflect directly to customer behavior models. The company should pay attention to the household types. Household with single person usually stops to buy some goods in the store on the way to home from work during the week, on weekends this type of household spends money to fun and time with friends, without using services of grocery stores. Accordingly, to strengthen the loyalty of this customer segment, the company should use possible efforts to make purchases during the evening. Young, working couples without children, repeat almost the logic of single household customers, but usually women make the needed purchases for this household type. In household with children the responsibility for making product purchases is passed to father of the family. It is obvious, that no single loyalty program can reach all the possible customer segments. The company needs to choose the target group for loyalty customers it wants to attract. (Starkov 2008.)

According to market research company QUANS Research (2008), around 25% of the Russian customers visit regularly only to one grocery store, 45% of the customers make purchases in two grocery stores, and around 30% of the cus-

tomers buy products in three or more stores. The reason for this can be explained with the differences in the retail formats. Supermarket in the living area is selected for the daily purchases, and hypermarket is chosen for shopping during the weekends. Why customers choose the third or fourth competitor's store instead of your store? Reasons can be found in the store or assortment of the store; fish was not fresh, conditioner was not working properly, the cashier was impolite etc. The company should find out the reasons by communicating regularly with its customers. (Starkov 2008.)

The opinions, tastes and traditions of the Russian consumer have been changing and have a direct effect on consumption. Customers will value the company's efforts to follow and respect the existing trends. Comfort, convenience and service in the store can be considered as steps towards customer loyalty. Also everything that is related to easing the customers' life, can affect to increasing loyalty, e.g. packing the goods in the cash desk, compact trolleys, easiness to find the goods on the selves. (Starkov 2008.) Russian consumer habits are getting closer to European ones. But still cultural characteristics continue to play significant role in the consumer behavior of Russians, and affect also to development of certain product categories. (Profi 2013.)

Russians are rational consumers. Most of the Russian consumers plan their purchases in advance. Price plays an important role for the Russian consumer, but they are also ready to pay more for certain brand or ecological products. Russians are ready to use time for searching and comparing the needed products with suitable prices for them. Russians do not believe in the quality of the products or services presented in the advertisements, but they rely on recommendations of their friends and relatives, who have experienced the very products or services themselves, and have been satisfied with the quality. (Berezka.) Also in Profi (2013) article, it was stated that Russian consumers prefer to receive recommendations from their friends or experts to support their choice. The research of Nielsen (2012) shows, that 60% of the Russians ask advice or recommendations from their friends, before purchasing some product or service. 63% of the Russians ask opinion from some expert, before making the certain purchase. (Profi 2013.)

Russians can be divided into two groups: consumers who like new products and conservative consumers. According to the Nielsen research (2012) 76% of Russians are interested in new products, although Russians usually want to wait and hear opinions of their friends before purchasing a new product. In this case, the company could concentrate its marketing efforts towards customer segment, who first like to try the new products. It is also important to recognize, that over 70% of the Russians prefer to buy products, which are advertised in Russian language. Russians have also very high brand and quality awareness. The quality of the products is one of the most important factors in making the purchase decision. 60% of the Russians usually choose a brand when visiting the store, and 47% of the Russians are ready to buy a well-known, expensive brand. (Profi 2013.)

Figures

Graphs

Tables

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