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## Abstract

Building enduring relationships with customers has become a prime strategic objective of retail marketing. The goal of this chapter is to explain the paradigm of relationship marketing and introduce the underlying principles of customer value, the relationship lifecycle and the constructs of customer loyalty and customer satisfaction. In retailing, loyalty programmes are manifestations of customer relationship management.

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## 16.1 Relationship Marketing as Paradigm

Marketing has typically focussed on attracting new customers. Today, however, companies recognise the importance of retaining existing customers by forming relationships with them (Bruhn 2015, p. 11). This focus on relationships assumes that it is less expensive and more profitable to market to existing customers than to acquire new ones (Reichheld and Sasser 1990). Customer relationship management (CRM) encompasses all the management decisions and processes which go into establishing, maintaining and enhancing long-term relationships with selected customers.

From this perspective, a manager's primary task is to identify profitable and unprofitable customers, focus efforts on the former and balance the cost of acquiring and retaining customers with the current and potential revenue from those customers (Bechwati and Eshghi 2005, p. 88). In retailing, advances in IT and the spread of loyalty cards and data collection from online shopping have provided a means for retailers to identify particular customers and collect customer-specific data, thus enabling individualised marketing. Compared with

other industries, retailers have tremendous advantages in CRM since they are in direct contact with the consumer (Hansioti and Rukstales 2002, p. 260).

### Principles of CRM

Even though the methods proposed for CRM are heterogeneous, some common underlying principles have emerged (Homburg and Werner 1998):

- **Customer data:** companies must gather reliable and detailed information on their existing and potential customers, usually stored in an electronic customer database.
- **Individualisation/segmentation:** strong customer orientation leads to a targeted approach to individual customers or customer segments, instead of a standardised mass-market approach to retail marketing.
- **Profit orientation:** not all customers are treated equally. Instead, they are classified and prioritised based on their profit potential. Investment in customers is then based on their profitability.
- **Customer interaction and integration:** instead of one-directional communication (such as traditional advertising), the aim is to achieve bidirectional customer interaction, including stronger integration of customers into the value-added process.

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## 16.2 Customer Value

Loyal customers can be a strong **asset** for retailers (Shugan 2005, p. 191). However, not all customer relationships are profitable. For example, a study into grocery retailing showed that less than 30 % of the long-term customers are actually profitable (Reinartz and Kumar 2002; Eisenbeiss and Bleier 2012, p. 465). Thus, it is essential to focus on the right customers.

In certain product categories, customers do not just spend money once, but regularly (weekly, monthly, yearly) for the rest of their lives. Since this purchasing relationship can extend over many years, the future revenue stream should be considered to arrive at the net present value of future cash flow. For example, if a single customer spends 400 EUR on clothing every six months, the net present value accrues to about 15,000 EUR between the ages of 15 and 75 (at a discount rate of 5 %).

The rise of CRM has given prominence to the concept of **customer lifetime value** (CLV), which is the difference between what it costs to acquire, service and retain a customer and the revenue generated by that customer over the entire length of the relationship (Bechwati and Eshghi 2005, p. 88). In its simplest form, the formula for CLV:

$$CLV = \sum_{t=1}^n \frac{(R_t - C_t)}{(1 + i)^t},$$

where  $R_t$  = revenue earned from a particular customer in year  $t$ ,  $C_t$  = customer-specific cost in year  $t$ ,  $i$  = discount rate and  $n$  = duration of relationship (in years). The same formula can be used to either calculate an average CLV of the existing customer base or the potential CLV if the relationship duration can be extended.

The most challenging aspect of estimating CLV is projecting future revenues and costs. However, this has become more manageable in recent years, thanks to the availability of historical purchasing data for specific customers, based on loyalty card data or buying data and even clickstream data from online shops, which provide a better base for projection.

CLV can be used to develop a profile of **high value customers**, which can then be used to focus customer acquisition efforts on similar consumers. CLV can also be used to categorise the existing customer base into high, medium, and low value customers, allowing product offers and services to be differentiated according to expected customer value and providing an objective basis for directing retention efforts towards higher value customers. For example, if handling a customer complaint costs 500 EUR but the lifetime revenue value of this customer is 5000 EUR, it might be worth investing the money. The same would not be true for a customer with a value of 300 EUR (Bechwati and Eshghi 2005, p. 89).

The **monetary value of customer loyalty** has different components. Higher commitment to a particular company often leads to more frequent purchasing (i. e., more frequent store visits), larger shopping baskets, lower customer price sensitivity and stronger resistance to counter offers from competitors.

Loyal customers spend less time searching for competing products and service offers. Lower marketing costs are also assumed, since targeted marketing is possible, and the company acquires substantial knowledge about its customers, making marketing more efficient. Other advantages of loyalty include **cross-selling**, where customers buy additional products from the company, and **up-selling**, where the company manages to sell higher value products to the customer, partly because their attitudes and preferences are better understood over time. Accordingly, marketing focus has shifted from market share in specific product categories to increased **share-of-wallet** for particular customers (Uncles et al. 2003).

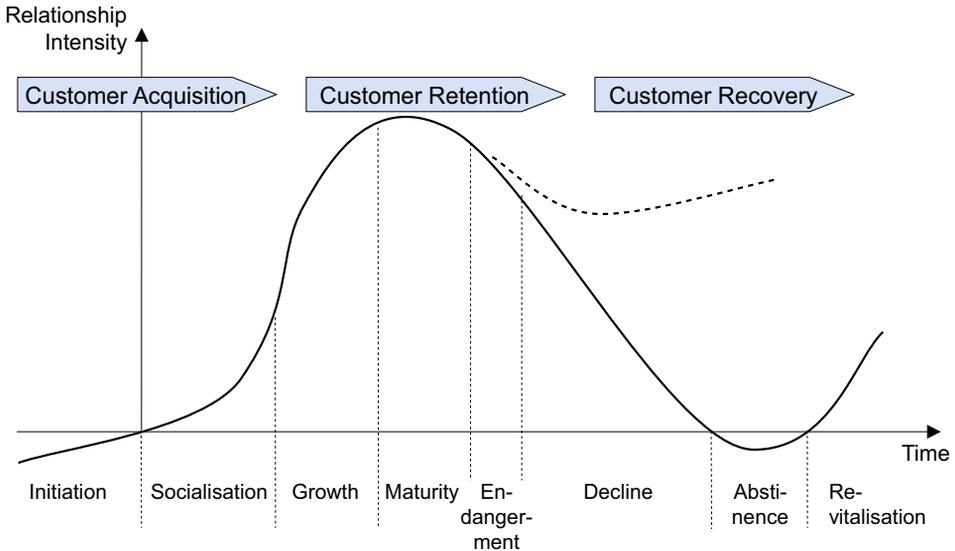
In addition, **non-monetary benefits of loyalty** also accrue. Loyal customers are expected to recommend retailers to friends and relatives, and this **word-of-mouth** is an effective and efficient marketing communication. They also provide **information value** for the company, since they more often complain when performance deteriorates. They communicate with the retailer, thereby contributing to maintaining and enhancing its overall quality (Reichheld and Sasser 1990, p. 108).

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## 16.3 Customer Relationship Lifecycle

Following the notion that customers are potential sources of profit over their entire lifetimes, the relationship between customer and retailer can also be treated as a lifecycle. The relationship thus has a clear beginning, growth stage and maturity stage, after which decline and potential termination are possible (see Fig. 16.1).

The customer relationship lifecycle describes regularly observed patterns in the longitudinal development of customer relationships with a company. However, the model is **non-deterministic**, i. e., not all stages have to occur in a relationship. The durations of the



**Fig. 16.1** Stages in the customer relationship lifecycle. (Adapted from Bruhn 2015, pp. 66–68)

different stages differ, and a retailer can influence the shape of the curve, for example via effective countermeasures during the endangerment stage.

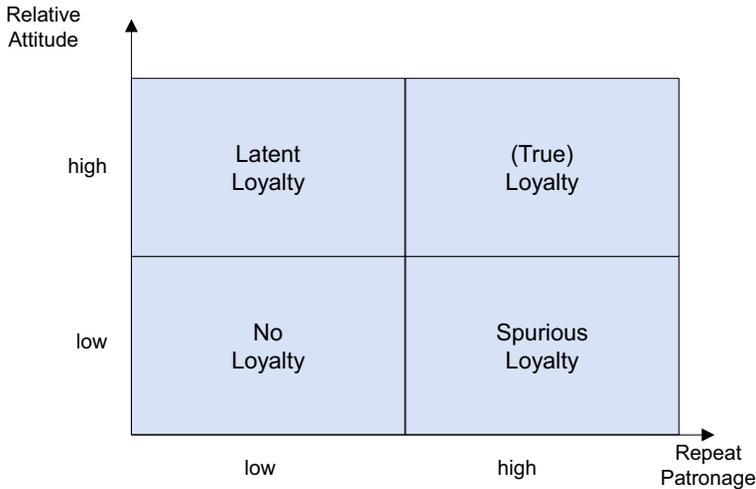
Different stages in the relationship require different marketing approaches (Bruhn 2015, p. 68). In the early stages, the emphasis is on **customer acquisition**. In the growth stage and through maturity, the company needs to strengthen relationships and exploit the full sales potential (**customer retention**). In the later stages of the relationship cycle, it is important to know which customers are at risk of defecting and to employ **customer recovery** measures.

Even after customers have been lost, it may be possible to reactivate them. Identifying the cause of such defections can help win customers back and also help avoid the same mistakes with others. Sending lost customers a special offer or calling them to discuss their complaint might bring them back into the relationship. Data analysis can predict defection behaviour, and customers with the highest propensity to discontinue the retail relationship can be targeted proactively (Brown and Gulycz 2002, p. 124).

## 16.4 Customer Loyalty and Customer Satisfaction

Loyalty has gained increased importance as a marketing objective within CRM. However, there is no universally agreed definition of loyalty. There are two basic approaches to conceptualising loyalty (Dick and Basu 1994, pp. 99–100; Uncles et al. 2003):

- Loyalty is often defined in reference to purchase patterns. **Behavioural loyalty** is measured in terms of repeat patronage, percentage of budget allocation in a category to a store, level of switching or purchase likelihood.



**Fig. 16.2** Types of loyalty. (Dick and Basu 1994, p. 101)

- Many researchers argue that true loyalty requires strong commitment to a company. **Commitment** refers to an emotional or psychological attachment to a company. Furthermore, **trust**, which entails confidence in the retailer's reliability and integrity, is closely connected to loyalty (Morgan and Hunt 1994). **Attitudinal loyalty** can be measured by asking consumers if they like and trust a retailer, whether they feel committed to it and whether they would recommend it to others. For example, the case study on *Trader Joe's* (see Chap. 9) showed how many customers develop a close emotional link to the retailer.

Both dimensions are important for evaluating the type of loyalty (see Fig. 16.2):

- **Spurious loyalty** refers to a situation where repeat patronage is observed, but is not based on a strong positive attitude towards the retailer. For example, a lack of alternatives in the region can result in repeated store patronage. Habitual purchasing behaviour might have the same effect. Therefore, behavioural loyalty may merely reflect situational influences, and will be permanently at risk if situational conditions change, such as rivals entering the market (McGoldrick 2002, p. 114).
- While encouraging a positive attitude is an important objective, attitude does not necessarily correspond with behaviour, and **latent loyalty** can occur. Situational influences can form a barrier between attitude and behaviour. For example, people can have a very positive attitude towards *Tiffany's* despite not being able to buy there. They may feel very positively towards *Harrods* in London, but live hundreds of miles away. Ultimately, retailers need to improve sales rather than attitudes.
- **True loyalty**, the most favourable position, is signified by repeat patronage based on a strong relative attitude towards the retailer (Dick and Basu 1994, p. 102). Most definitions of loyalty now include both behavioural and attitudinal loyalty.

### Customer Satisfaction

Satisfaction is a primary prerequisite for loyalty, and loyalty is expected to rise with increased levels of satisfaction. Satisfaction (or dissatisfaction) is a consumer's post-purchase response to a product, which results from a comparison between (pre-purchase) expectations and perceived performance (Dick and Basu 1994, p. 104). It should be noted, though, that the association between satisfaction and loyalty is moderated by a large number of variables. If, for example, the customer is a variety seeker, or social pressure acts against purchasing at a particular store, satisfaction might only be weakly linked to loyalty. However, dissatisfaction usually leads to a substantial decline in loyalty.

A customer's satisfaction with a retailer derives from their overall evaluation of all prior experiences with this retailer, not just their experience of a specific transaction. Therefore, it is important to increase customer satisfaction at all stages of the customer purchasing process, not only in the **pre-sale** and **sale stages**. From the perspective of CRM, the **post-sale stage** is also a pre-sale stage, since the customer is regarded as being in a continuous **buying cycle**. Retailers who provide their customers with friendly and courteous customer service departments, fair complaint handling, etc. are trying to enhance customer satisfaction after a purchase to increase the likelihood of a repeat purchase.

One challenge associated with customer satisfaction is that results are based on comparing performance with **expectations** – and expectations change. Consequently, constantly meeting or exceeding customer expectations leads to increased expectations over time. Service levels that enthused the customer when first experienced can become standard and become a new minimum expectation level. Thus, maintaining stable levels of customer satisfaction is only possible with steadily increasing levels of service quality – a tough challenge.

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## 16.5 Loyalty Marketing of Retailers

### 16.5.1 Loyalty Schemes and Customer Clubs

In retailing, CRM is closely connected to **loyalty schemes**, which are usually based on **loyalty cards**. The pioneers in Europe were *Tesco* in the United Kingdom with its *Clubcard* and *Albert Heijn* in the Netherlands (Ziliani and Bellini 2004, p. 9). Many retailers now employ some form of loyalty scheme. Typically, loyalty programmes offer delayed, accumulated economic benefits to consumers based on repeat purchases, usually in the form of points that can be exchanged for gifts or vouchers. The discount value of points generally ranges between 1 and 4 % of sales. Providing discounts in different “currencies” (e. g., cash, stamps, miles, reward points) can also offer perceptual advantages, e. g., for the retailer's price image (Cuthbertson and Laine 2004, p. 296; Shugan 2005, p. 190).

Most frequently, the ability to accrue benefits in the form of discounts on purchases, along with the promotional offers connected to the loyalty programme, are the principal motivation for consumers to join a loyalty scheme. However, emotional bonding and psy-

chological relationship awards might also be important. **Self-actualisation** is considered a basic human need, and loyalty programmes can provide recognition to selected customers by giving them an evaluated status and the feeling of being special. In some loyalty programmes, the sense of being a member of a community is considered more important than the financial rewards (Shugan 2005, p. 190; Reinartz 2010).

Loyalty programme rewards depend on customers' cumulative spending at the retailer. There are two basic reward accumulation functions. If the **relative rewards remain constant** even though cumulative spending increases (e. g., one point per EUR spent), this function might lead consumers to distribute their spending (without loss) between different retailers. In fact, it is quite usual for customers to distribute their grocery shopping over different food retailers merely to acquire the loyalty cards for each of them, and then continue their shopping as before and simply collect the points for the purchases. Programmes like this only become attractive to customers who spend at more than one retailer if the **relative rewards increase** with cumulative spending (e. g., one point per EUR when spending is below 100 EUR, three points per EUR when spending is above 100 EUR). This gives customers a real reward for concentrating their spending at a single retailer. This supports a strategy of focusing retention efforts on a small group of high value customers (Reinartz 2010). Sometimes, such a measure is implemented with different tiers of loyalty cards (e. g., *Esprit* that has an *Esprit Friends* card, a Gold card and a Platinum card, with increasing levels of services for each customer group). This increases customers' **switching costs**, since customers can perceive accumulated assets as an investment in their relationship with the retailer. This in turn should enhance loyalty.

### Single-Company vs. Multi-Partner Loyalty Programmes

In terms of sponsorship, there are two types of loyalty programme:

- Single-company loyalty programmes,
- multi-partner programmes (or coalition schemes).

**Single-company loyalty programmes** are run by an individual retailer. Examples include the programmes run by *Auchan* in France, *Peek & Cloppenburg* in Germany, *Esprit* across Europe or *Boots* in the UK. The loyalty card normally carries the retail brand, and points can only be accumulated at that retailer.

A benefit of **multi-partner programmes** is that customers can use their loyalty cards at different retailers, so they can use it more often, collect points faster and qualify for certain premiums or prizes faster (Zentes et al. 2006, pp. 615–616). These programmes' penetration is often higher than that for single-company programmes. This can be particularly beneficial for retailers with a low purchasing frequency (e. g., DIY stores or consumer electronics retailers), for whom it would be difficult to attract customers via a proprietary programme. While single-company programmes only have data on the current customers of a particular retailer, multi-partner programmes have access to far more data about shopping habits, so retailers can also target profitable consumers who are not yet part of their customer base

(Cuthbertson and Laine 2004, p. 302). Knowing purchasing data across retailers facilitates a much broader analysis of customer behaviour (within the limits of privacy regulations and customer acceptance); however, data protection laws often limit the use of data across retailers, even in multi-partner programmes. At the same time, the high cost of a loyalty programme can be distributed among participating retailers. The disadvantage of a multi-partner programme is that loyalty is often focussed on the coalition programme rather than on any particular retailer (Cuthbertson and Laine 2004, p. 298). In addition, the loyalty scheme (e. g., rewards, accumulation function) is not designed to meet a specific retailer's strategy, but must instead appeal to a group of retailers as a whole. Nevertheless, these multi-partner programmes are popular in many countries:

- One of the most successful multi-partner programmes in Europe is the German *Payback* system, majority owned by *American Express*, which includes about 30 store-based retailers and around 600 online shops, including many large retail companies, such as *Real*, *REWE*, *dm-drogerie markt*, *Aral* and *Zalando*. In recent years, *Payback* has internationalised into Poland, India and other markets. However, it is noteworthy that some partners have also left the programme, including *OBI*, *Görtz* and *Amazon*.
- The British multi-partner loyalty scheme *Nectar* has a similar structure, and includes large retail and service companies such as *Sainsbury's*, *Homebase*, *Argos* and *Hertz*. It also includes a large number of online shops like *Asos* and *Ebay*.
- In France, *S'Miles* offers bonus points for purchases at supermarkets and hypermarkets run by *Group Casino*, *Galeries Lafayette*, *Intersport*, *Mr. Bricolage*, *BHV* and others.

### Customer Clubs

In some cases, customer clubs are simply loyalty programmes. However, the focus of customer clubs is usually more on the emotional bond between customer and retailer. The use of club memberships, preferred services, newsletters, online forums, telephone helplines and other measures establishes **two-way communication** so customers can interact with a company and get to know it better (Rowley 2004, pp. 126–127). For example, some retailers let customers register for a “baby club”. They identify (based on loyalty card use) when customers start buying baby products and then directly target them with an invitation. The *Babybonus* programme from *dm-drogerie markt* in Germany focuses less on earning points and more on a welcome pack (including many test products), information for young parents and so on. The *Mondovino* wine club from *Coop* Switzerland promotes interaction with club members. For example, club members get specific information, and some wines are reserved for club members.

## 16.5.2 Collection and Analysis of Customer Data

In CRM, data mining techniques are used to analyse customer information. Since the results of the analysis and the forecasting of customer responses can be used to develop marketing measures and the subsequent behaviour of specific customers can be tracked and evaluated,

a learning system can be created that studies the specific behaviour of each customer and can detect changes in behaviour over time (Zentes et al. 2006, p. 600).

One important potential advantage of CRM is that the success and profitability of marketing measures can be evaluated experimentally by comparing the purchasing behaviour of a target customer group with a control group, based on incremental sales or contribution margin (Hansioti and Rukstales 2002, pp. 262–263). However, IT capacities and data analysis methods have failed to keep pace with the huge amount of data (“Big Data”) collected through loyalty cards (often millions of datasets daily).

Retailers’ customer databases may include the following data (Kumar and Reinartz 2012; Eisenbeiss and Bleier 2012, p. 474):

- **Personal information:** name, address, birthday, e-mail address, phone number, etc.
- **Socio-demographic information:** age, gender, family status, household size, children, occupation, etc.
- **Psychographic information:** personality criteria, lifestyle criteria, attitudes towards specific product attributes (e. g., organic food), etc.
- **Buying transactions:** purchased products (SKUs), purchased volume, date of purchase, price of product, product bought on promotion, type of promotion (e. g., coupons cashed), etc.
- **Clickstream data** (for online shops only): products looked at, sequence of clicking through shop sites, addition of product to shopping basket, abandoning of shopping basket, etc.
- **Retailer activities towards customer:** type of contact (e. g., coupon sent), date of contact, reaction to contact, etc.

### Customer Segmentation

Customer segmentation is a core task of data analysis. In theory, retailers employing loyalty programmes can divide their customer base down to individual customers, but in practice only between 10 and 30 categories are used. Potential **segmentation criteria** include purchasing volumes, demographic characteristics, shopping motives, attitudes and lifestyles.

The options start with simple segmentation criteria. **ABC analysis** is used to categorise customers by their **annual purchases**. Very often, a 20/80 rule is assumed that argues that 20 % of customers (**A customers**) account for about 80 % of retail sales volume. Even though the ratio is rarely so extreme, it has frequently been shown that the relevance of different customers varies considerably. While customer purchase behaviour is a backwards-oriented criterion, **total customer lifetime value** can serve as a sophisticated basis for segmentation. Such customer value-oriented segmentation shows **which** customer groups a retailer should focus on, but it does not show **how** to approach customers.

Segmentations based on consumer behaviour such as **shopping motives** or **attitudes** are better suited to developing tailored marketing campaigns. Many different customer clusters have been proposed in the literature. For instance, customers can be clustered into “price-

oriented”, “quality-oriented” and “service-oriented”, or fashion customers into “fashion enthusiast”, “style seekers”, “classics” and “timids and uninvolved” (McGoldrick 2002, p. 112). Furthermore, customers’ positions in the **family cycle** (e. g., young singles, young couples, couples with young children, older, retired couples) are usually a good predictor of purchasing behaviour.

Based on their customer data, retailers can use a combination of methods to establish customer segments to suit their specific needs.

### 16.5.3 Use of Customer Data as Action

Individual customer information provides insights into consumer behaviour that can be used to bring about a general change in a retailer’s marketing. In such a case, customer data are used to change the macro-variables of retail marketing, such as the merchandise mix, pricing, promotion or location decisions (**micro-macro approach**; Zilliani and Bellini 2004, pp. 12–13). For example, before delisting a product due to low sales, an analysis can be conducted to determine who still buys it. If, for example, only 20 % of customers purchase the product, but those are the most valuable customers in the store, keeping this product in stock is important for retaining these profitable customers (Cuthbertson and Laine 2004, p. 301).

CRM, in contrast, emphasises **micro-marketing** (or **one-to-one-marketing**), which targets specific consumers or consumer segments based on knowledge of their individual behaviour. The retail service (such as the merchandise offered in advertising, promotions, services offered) is then tailored to certain segments and (rarely but increasingly) individual customers. Since the store itself is still standardised for all visitors, CRM often takes place through marketing communication with specific customers. Measures include the following (Zentes et al. 2006, pp. 604–609):

- **Addressed direct mailings:** customised direct mailings to customers’ homes are used in almost all retailer loyalty programmes. The prime communication channel in loyalty programmes is some kind of (tailored or segmented) product brochure, often with targeted promotions.
- **E-mail marketing:** direct customer mailings have increased tremendously with the advent of e-mail, which is used to distribute customised advertising and newsletters to customers. Distribution costs are much lower and customising more flexible and cheaper.
- **In-store multimedia kiosks:** similar to the Internet, multimedia kiosks in retail stores can be used to communicate with each customer individually. At electronic point-of-sale terminals, loyalty cardholders can (among other functions) check their point balances, order rewards and print value cheques with which they can pay for their future purchases.
- **Mobile marketing:** some retailers already use customers’ mobile phones as communication devices, for example of providing coupons by SMS or MMS.

- **Personal shopping assistants:** digital shopping assistants that a customer can carry or attach to their shopping carts are still in the testing stage. After registering their loyalty card, these devices can guide customers interactively through the shopping process in real time. Shopping lists can be displayed, the customer led to certain products or recipes recommended, including the necessary ingredients and their locations in the store.

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## 16.6 Loyalty Marketing and the Internet

Online shops do not need loyalty schemes to collect customer data. Customers usually register after making their first purchase and from then on are known to the retailer. Therefore, online shops can use a higher level of CRM and one-to-one marketing. In addition to these purchases, overall purchasing behaviour can be observed via **clickstream data**. By using cookies, electronic retailers can track the date and duration of each visit to their website, the time customers spend looking at specific products, products viewed but not purchased and the sequence in which products were viewed or websites browsed. Unlike in stores, this data can be used to tailor the retail marketing mix to each customer, from the basic merchandise offer, prices and promotions to store design. Online shops can even segment customers who have not yet registered. As shown in the case study on *Amazon* (see Chap. 13), online shops use the location from which a visitor enters the online shop and even the device they use (e. g., *iPhone*) to profile customers and offer them targeted products, prices, etc.

The most successful example of online CRM, *Amazon*, shows how individualised **product recommendations** are derived by connecting the profile of an individual customer (established from their purchase history) to those of other customers. Demand interrelationships are detected systematically. The date of purchases is considered, because purchasing behaviour can change over time. Using cookies or after logging in, the customer is addressed with a **personalised landing page**.

The Internet has created additional options for loyalty marketing. Loyalty can also be developed by stimulating the interaction between customers. For example, some retailers have started online forums and “communities” where users discuss and give each other advice. Often, experts from the retailer join in the discussion. Home improvement retailers around the world (such as *The Home Depot* or *Hornbach*) and pet stores (such as *Fressnapf/Maxi Zoo* or *PetSmart*) have been among the first to adopt this idea. Fashion retailers (such as *Zara*, *GAP* and *H&M*) almost all have a presence on *Facebook* where they provide their “fans” with information and truly interact with their customers. These types of **social media** have brought new opportunities for retailers to get in closer contact with their customers and build loyalty. The negative side is that, unlike traditional mass advertising, the electronic word-of-mouth stimulated by these instruments is not fully under the company’s control. However, positive referrals by customers to their friends are usually much more effective than traditional advertising.

### Customer Relationship Management in Omni-channel Systems

Today, consumers interact with retailers in many different ways (so called “**touch-points**”): in-store or via the retailer’s webpage, e-mail, standard phone calls, smartphones and/or social media such as Facebook. The term “**omni-channel retailing**” refers to a strategy in which customers have the same customer experience across all of a retailer’s different channels and cross-channel processes are seamless (see Chap. 5). This is made possible by the fact that multiple consumer interactions can be structured so that consumers can easily communicate with a retailer via the channels of their choice (Webster 2010).

In omni-channel systems, CRM faces the challenge that information about specific customers’ buying behaviour across different channels must be collected and integrated to get a full picture. Thus, in omni-channel retail systems, different sources of customer information can be used to gain consumer insights. For a store-based retailer who also operates an online shop, **loyalty cards** (which can be used across all channels) are the instrument that connect the information from different channels.

Mobile phone and loyalty apps are increasingly providing the link between stores and the online world. **Loyalty apps** like “*Shopkick*” allow customers to browse websites at home and put products on a shopping list which they will be reminded about when entering specific retail stores. Points are awarded when a customer enters specific retail stores or buys specific products that the app recommends. This is a modern, **real-time** and **location-based** form of a loyalty scheme.

Retailers can also leverage their assets across these multiple channels by directing consumers to a specific channel. In-store advertising can be used to attract consumers to the company’s online shop. The online shop can recommend that customers visit the brick-and-mortar store. As discussed in Chap. 5, retailers who operate multiple channels increasingly offer cross-channel buying processes. Consumers are invited to search for information on a retailer’s website and then buy in-store, or *vice versa*. Retailers such as *REI* in the USA, *Globetrotter* in Germany and *Marks & Spencer* or *House of Fraser* in the UK bring their online stores’ offers into their brick-and-mortar stores, and consumers can even order from their online shops in in-store multimedia kiosks, increasing customer convenience. Likewise, many retailers now offer store pick-up for products ordered via the Internet. In addition to reduced logistics costs, the main advantage is that customers who pick up products will experience the physical store and the product assortment there. This often leads to additional purchases and to a stronger exposure to the retailer, which usually enhances loyalty.

There are many new ideas for integrating multiple channels to enhance customer loyalty. While it is not yet clear which concepts will develop and which are sustainable, a closer link between stationary stores and online channels will almost certainly be a strong trend.

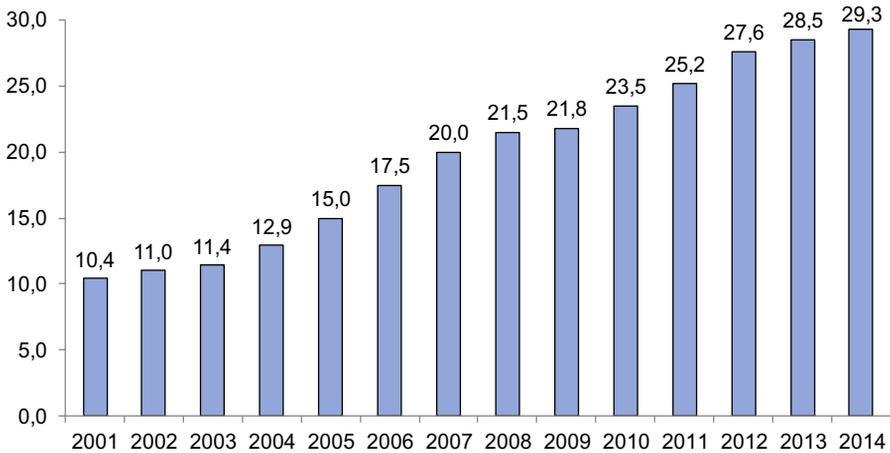
## 16.7 Conclusion and Outlook

Over the past two decades, many retailers have shifted their focus to CRM and introduced loyalty card programmes as a tool. These programmes often incur substantial costs, because of the need to provide rewards, run expansive IT systems and administer the programme (McGoldrick 2002, p. 120). Some researchers are critical of such programmes, claiming that “loyalty programs do not create loyalty” (Reinartz 2010, p. 410). This is because loyalty programmes have to be monitored closely and loyalty cards alone are not enough to establish loyalty, and must be employed as part of the overall retail marketing approach. Some researchers state that it is difficult to judge the ultimate profitability of loyalty programmes, but this is true for marketing in general. Nevertheless, it is usually easier to measure the success of loyalty marketing campaigns than traditional marketing campaigns (Cuthbertson and Laine 2004, p. 299). In addition, online shops and omni-channel systems provide many additional opportunities to track customer behaviour and offer benefits to loyal customers.

CRM must be compatible with the company’s broader strategy. If a retailer’s primary goal is to achieve market leadership by poaching customers from its main competitors and growing rapidly, the maximum number of new customers should be attracted. In this case, focusing on only the most profitable customers would not meet the company’s strategic objectives (Bechwati and Eshghi 2005, p. 96). Thus, while CRM is an increasingly relevant marketing approach in retailing, as with all functional strategies, alignment with overall company strategy is crucial. Some retailers, such as *ASDA*, *Aldi*, *Lidl* or *Trader Joe’s*, believe that adhering to their core strategies is better for establishing and building loyal customers than creating a loyalty programme. While this is certainly true for them, for many other retailers, CRM offers a wealth of options for interacting with their customers. Ultimately, the potential gains from analysing detailed customer data and targeting consumers, especially with new media that lower the communication costs of tailored marketing communication, are enormous.

### Further Reading

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**Fig. 16.3** *IKEA* revenues between 2001 and 2014 in billion EUR. (IKEA 2015a, p. 34)

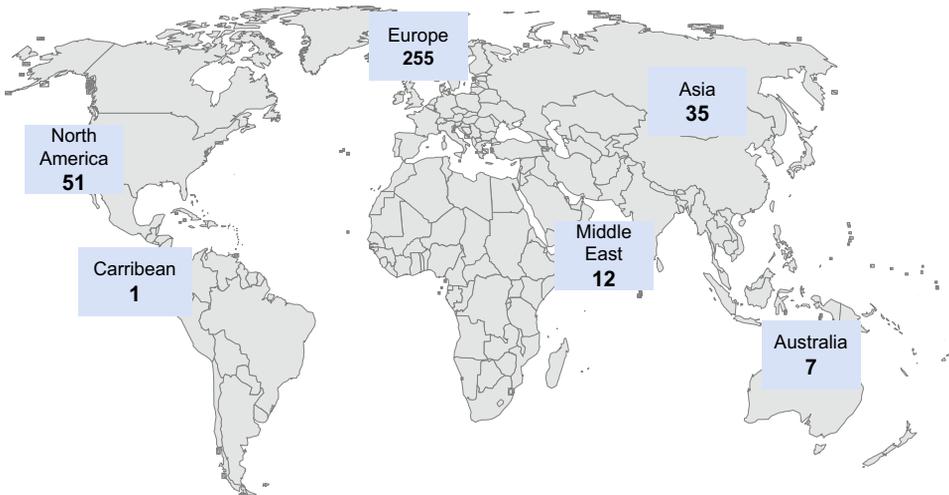
## 16.8 Case Study: IKEA

### 16.8.1 Profile, History and Status Quo

Founded by Ingvar Kamprad in 1943, *IKEA*<sup>1</sup> has gone on to become the world's largest furniture retailer, specialising in stylish but inexpensive Scandinavian-designed home furnishings and furniture. Even today, after more than 70 years of business activity, *IKEA* is still strongly associated with Kamprad. The name *IKEA* is an acronym. *I* and *K* are the founder's initials, *E* stands for Elmtaryd, the name of his parents' farm, and *A* stands for Agunnaryd, his hometown in the Southern Swedish province of Småland. Initially selling items such as pens, wallets, jewellery and picture frames, a **mail order catalogue** was established in 1947 to introduce furniture into the product range, which has been the focus since 1951. Due to customer scepticism towards buying furniture unseen, Kamprad opened a **showroom** in the village of Älmhult in 1953, where customers could examine his products before ordering. In 1955, as a result of a supply boycott caused by pressure from competitors, *IKEA* started designing its own furniture. The first flat-pack furniture, now one of *IKEA*'s trademarks, was invented in 1956. In 1958, the first *IKEA* store was opened in Älmhult, and since then the company has expanded steadily. Its first international venture was in 1963, when the first store outside Sweden was opened in Oslo, Norway (Zentes et al. 2011, pp. 61–62). Today, the company has 361 stores around the world and a sales volume of almost 30 billion EUR.

Even though the company has grown enormously and is today's only truly global furniture retailer, growth rates remain high (see Fig. 16.3). The company is active globally,

<sup>1</sup> As well as the explicitly cited sources, sources used for this case study include the websites <http://www.ikea.com>, investor relation presentations and various annual and interim reports.



**Fig. 16.4** IKEA stores around the world. (IKEA 2014, p. 2)

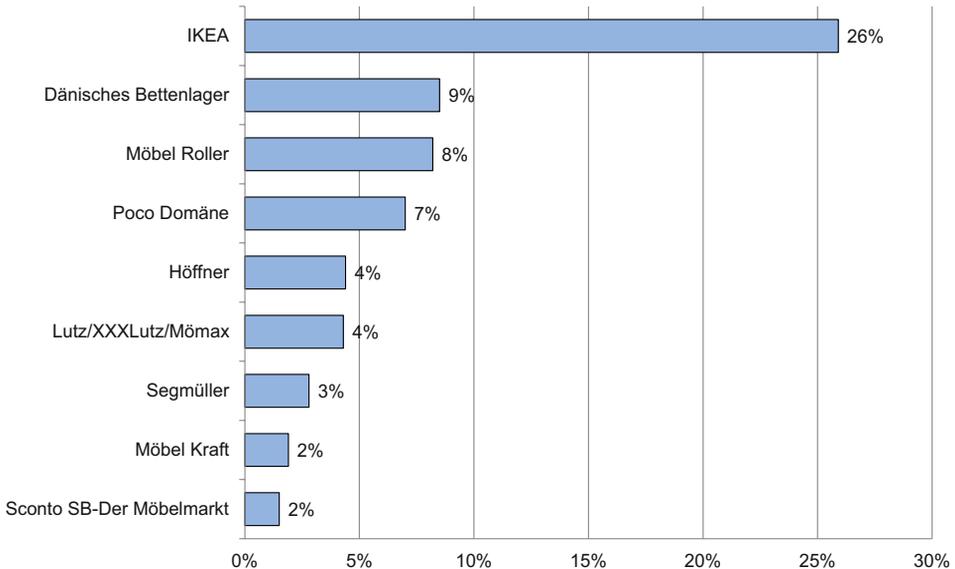
but most of its stores are still located in Europe, as Fig. 16.4 shows. About 70 % of *IKEA*'s sales are in Europe. The most important country markets are Germany (about 14 % of *IKEA*'s sales), the USA (about 12 %), France (about 8 %), Russia and the UK (each about 6 %). The company's main sourcing markets are China (with about 25 % of procurement volume) and Poland (about 18 %) (Statista 2015, pp. 14, 16).

The company has very loyal customers who will travel considerable distances to *IKEA* stores. Thus, the company benefits not just from behavioural loyalty but from true commitment from its customers. For example, *IKEA* is by far the most frequented furniture store chain in Germany (see Fig. 16.5).

*IKEA* achieves this sales success with a total range of about 12,000 products. Each store carries a selection of these 12,000 products depending on store size. The core range is the same worldwide.

### 16.8.2 Positioning of *IKEA* as Modern Category Specialist

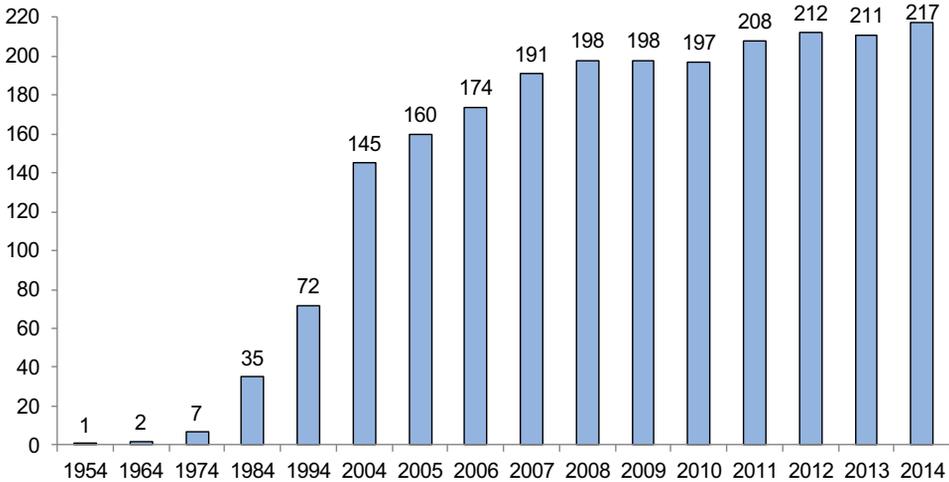
*IKEA*'s retail brand is clearly positioned. The company's official **vision** is "to create a better everyday life for the many people", which is achieved by combining aesthetic and pragmatic furniture design and solid quality with a constant drive to cut costs and pass savings on to customers. This vision manifests itself in the business idea: "To offer a wide range of well designed, functional home furnishings at prices so low that as many people as possible will be able to afford them". In many cases, the cornerstones of this *IKEA* strategy are the exact opposite of conventional furniture retailing, and have turned the traditional foundations of the furniture business upside down (Kling and Goteman 2003, pp. 31–32; Zentes et al. 2011, p. 63):



**Fig. 16.5** Favourite furniture stores in Germany, 2014 (percentage of customers who bought furniture in a store within the last two years). (Statista 2014, p. 38)

- Traditionally, home furniture stores were located as boutiques in city centres. However, *IKEA* has developed large, even huge stores on the outskirts of cities. Even though the company has recently begun to develop an inner-city format, this does not change the overall footprint of huge *IKEA* stores.
- Instead of shop assistance, customers serve themselves.
- As opposed to traditional local sourcing, *IKEA* has sourced on a global scale from the outset.
- *IKEA* has shifted the traditional furniture store focus from middle- to upper-middle-aged customers to younger people.
- Instead of the assembled furniture being delivered at a relatively high price, customers both transport and assemble the flatpack furniture themselves. This allows *IKEA* to offer significantly lower prices than traditional home furnishings retailers.
- When *IKEA* started in Sweden, dark and heavy furniture was popular, but *IKEA* introduced its trademark light Scandinavian style, characterised by blonde wood, natural material and modern design.
- *IKEA's* advertising adopts a very modern style. For example, in Germany, *IKEA* uses the informal “Du” rather than “Sie” in its advertising, immediately implying a close relationship with the customer.

Thus, *IKEA* has always differentiated itself very clearly from the competition, in the process creating a very strong retail brand which gave customers a reason to be loyal. In



**Fig. 16.6** Number of *IKEA* catalogues printed per year in millions. (IKEA 2015b, p. 69; Statista 2015, p. 22)

fact, retail brand rankings currently rank *IKEA* as the second most valuable retail brand in Europe (see Chap. 9).

### 16.8.3 *IKEA*'s Catalogue as Important Advertising Tool

One of *IKEA*'s most important advertising tools is its catalogue. This catalogue is mass distributed annually in the area around each *IKEA* store. The catalogue can also be picked up in-store, ordered online or downloaded as a .pdf. In 2014, almost 200 million *IKEA* catalogues were printed worldwide, and this number is set to rise (see Fig. 16.6).

The catalogue is currently produced in 38 different editions, in 17 languages for 28 countries. However, the editions differ only slightly. National *IKEA* companies can add a few pages to their country's edition, with products they deem especially important. Thus, the catalogue transmits a very uniform image for *IKEA* worldwide (see Fig. 16.7).

Interestingly, in a time of dynamic changes, the *IKEA* catalogue is distributed in late summer of each year and remains valid for a full year. Prices are guaranteed not to increase during this time.

In addition to the print catalogue, *IKEA* launched a catalogue app in 2011. The number of downloads quickly increased, and by 2013 almost 10 million people had already downloaded the *IKEA* catalogue app (Statista 2015, p. 24). In some countries, *IKEA* includes very modern mobile technology in their app. By scanning selected pages in the printed *IKEA* catalogue with the app, users can view videos and get 360° views from furnished rooms. Furthermore, users can see how selected furniture would look in their own living room by using 3D and augmented reality.

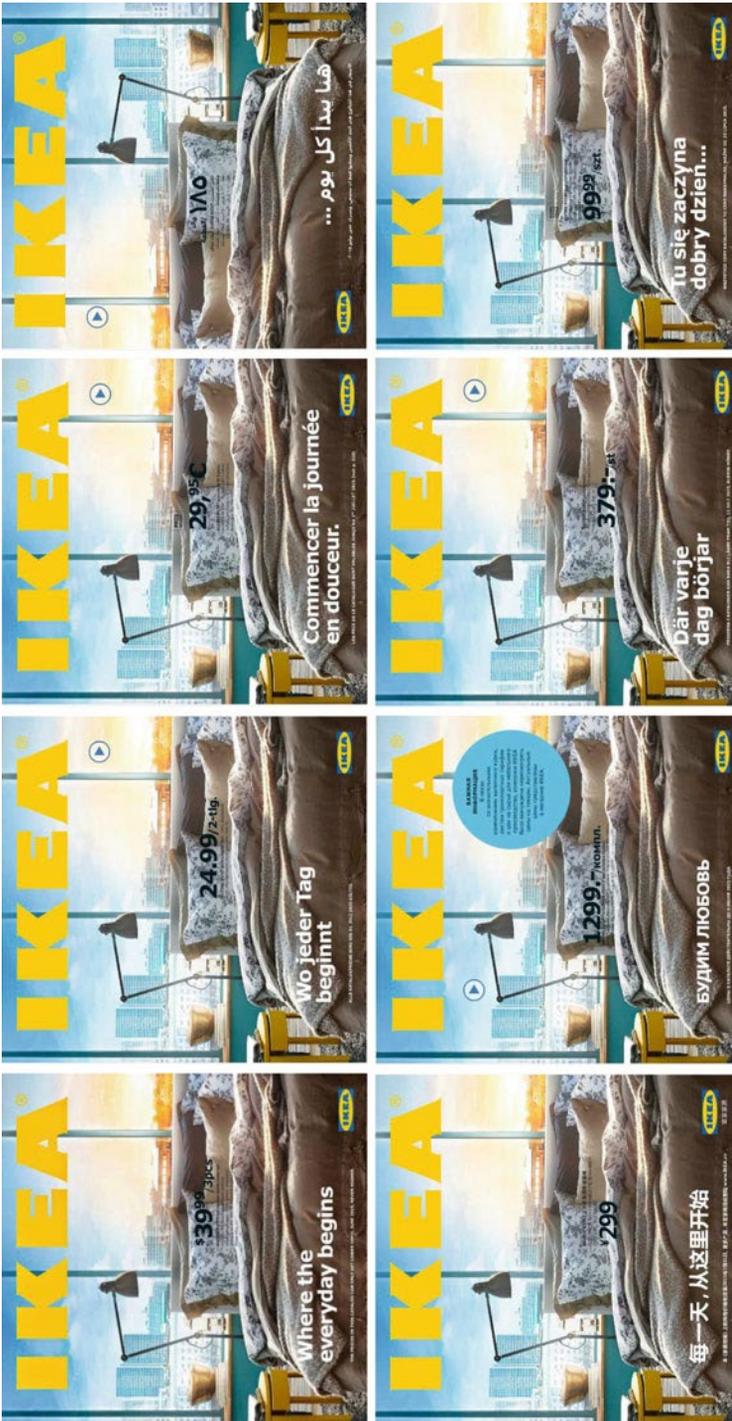


Fig. 16.7 IKEA catalogues in the major country markets. (Ikea)

### 16.8.4 IKEA Family Club

*IKEA's* loyalty scheme is a loyalty card called *IKEA Family*. It is designed as a club with (free) membership. Or, as *IKEA* explains on its webpage: “*IKEA Family* is more than just an orange card [...] It's an *IKEA* fan club [...] It's a pass to special events. But most importantly, it's our way to say 'thank you'.”

The *Family Club* was first launched in Sweden and introduced to Germany in 1985. Not every country has a club. The number of *Family Club* members in Germany (a country with approximately 80 million inhabitants) has not been made public, but in 2012, a manager of *IKEA* Switzerland revealed that Switzerland (a country with approximately 8 million inhabitants) has 1.3 million *IKEA Family Club* members (Graf 2012), which may give an indication of the number of members in Germany.

Club members receive the following benefits:

- Special discounts on regular *IKEA* products,
- access to an exclusive range of products that are only available to *IKEA Family Club* members,
- access to promotional in-store events (e. g., workshops and seminars), especially Swedish festivals like Midsommar,
- a free member magazine which appears in four annual editions,
- participation in sweepstakes (e. g., in 2015 in Germany, a Swedish holiday was given away every month),
- free transport insurance against accidental damage of furniture on the way home and during assembly (when swiping the *Family Club* card at the checkout), and
- free coffee and special offers in the *IKEA* restaurant.

The programme, including the minor benefits like free coffee, has sometimes met with unexpected success. For example, in Xu Hui in China, a dating club for the elderly discovered the *IKEA* restaurant was a good location for its twice-weekly meetings. The dating club members registered for *IKEA Family Club* membership and received their free coffees every Tuesday and Thursday, sometimes spending the entire day in the restaurant, bringing their own picnics, radios, etc. When the number of participants reached about 700 in 2011, ordinary *IKEA* customers were so disrupted that *IKEA* had to restrict where people who only had free coffee could sit (Schütte et al. 2013). Even in Germany, the free coffee is restricted to Monday to Friday to avoid disruption.

In the USA, the *IKEA Family Club* was only launched in November 2011. In less than 6 months, it had 1.6 million members. The US club was immediately linked to a multi-channel media approach. For example, customers can sign up for the programme at an in-store multimedia kiosk on which they can also view exclusive discounts and offers. People can also register via tablet PCs which sales employees carry, particularly during busy periods. Customers can sign up to receive SMS alerts, for example about in-store campaigns. Customers can also use their phone in lieu of their *Family Club* card by sending

a text message to an *IKEA* system which automatically returns the customer's card number to show to a cashier (Tode 2012, RIS 2012b).

### 16.8.5 Facebook as Loyalty Builder

In addition to the *IKEA Family Club*, *IKEA* also uses social media. For example, its *Facebook* site in Germany has about 950,000 fans. A few years ago in the USA, *IKEA* organised events to increase its number of Facebook fans and drive store traffic. For example, the retailer hosted in-store events to which people could invite their *Facebook* friends. For every friend invited over *Facebook*, *IKEA* donated 1 USD to a charity. The event itself had free meals, special discounts and gift card giveaways. In addition, *IKEA* used registration for the event to acquire customer contact addresses to interact with customers about future events and promotions (RIS 2012a).

### 16.8.6 IKEA Business

Another *IKEA* club is *IKEA Business*. This follows the retail trend of targeting micro and small businesses in addition to retailers' traditional clientele of private consumers (see Chap. 7). After families with children, *IKEA's* established target group, business customers are the second major target segment. As part of *IKEA's* retail-to-business strategy (R2B) (Zentes et al. 2015, pp. 14–15), *IKEA* launched the *IKEA Business Club* in a number of countries (e. g., Germany and Japan). Membership is free, and members receive a number of benefits:

- Bonus points with each purchase,
- selected products sold at lower *IKEA Business* prices,
- customers receive an online copy of their invoice with detailed business address and all formal requirements,
- personal and specific sales advice at *IKEA Business Point*,
- specific promotions and information,
- *IKEA* finance solutions so furniture can be bought now and paid for later.

### 16.8.7 Summary and Outlook

*IKEA* has a very broad customer base. It is the largest furniture retailer in the world and the market leader in many of the country markets in which it operates. Its success is based on clear brand positioning and clear differentiation from the competition.

In addition to its mass marketing instruments, *IKEA* runs its *IKEA Family Club* in most countries, which gives special treatment to its members and is intended to increase customer

ties. This club has recently been linked to mobile media in countries such as the USA. *IKEA* also uses the club concept to directly target interaction with business customers – another key segment – via a loyalty scheme and segment-specific services and solutions.

### Questions

1. Discuss whether the *Family Club* scheme really creates further loyalty.
2. *IKEA* is increasingly focussing on business customers. Discuss why this may be the case and whether this is a promising strategy for *IKEA*.
3. *IKEA* is successful across Europe. Discuss whether their clear brand image and positioning with specific target groups are an advantage or obstacle for further growth.

► See also Chap. 7 and the literature on R2B.

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