“How to keep your customer loyal within today’s online business?”

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Abstract

For fashion online stores loyal customers are as important as they are for traditional retail stores. Through a high amount of loyal customers a company can reduce operational costs and increase its overall profitability. Finally a company can gain more benefits from retaining existing customers instead of acquiring new ones. Therefore it has become more important to win customer share than market share.

To figure out how loyalty can be created a company needs to occupy itself intensively with the concept of Customer Relationship Management. There exist different types of loyalty and not every customer can be turned into a loyal customer. The company has to enter into a relationship with its customers that has to grow like the courtship. At best case the bond will end up in a satisfied win-win relationship that contains benefits for both the customer and the company. The longer the relationship will last, the higher the customer value will get and the more the company can profit from it.

The same rules and principles also count for the online business. Because of higher costs for attracting new customers, high competition in the market and highly demanding customers treating your existing customers well and turning them into loyal customers is the key to success. E-Loyalty drivers give the company an indicator about what generates e-loyalty for company’s website. Why does a customer return to a website and why does he stick to a certain online shop? One of the most crucial factors to create loyalty in an online business is trust. Only when a customer trusts the vendor he will hand out his personal data, will return to the vendor and will recommend the online shop to others.

When it was taken a further look at how online shops tackle the question of loyalty it became clear that the customer is put in the centre. The online shops heavily attempt to keep up with the latest ecommerce trends in order to win over customers. Through Social Commerce the companies have totally new possibilities to interact with the customers and to gain customer insight. In this way it has become much easier to understand the customer and to respond to his individual needs and preferences in order to build up a relationship with him.
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<td>App</td>
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<td>CRM</td>
<td>Customer Relationship Management</td>
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<td>E-business</td>
<td>Electronic Business</td>
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<td>Ecommerce</td>
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<td>eCRM</td>
<td>Electronic Customer Relationship Management</td>
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<td>mCRM</td>
<td>Mobile Customer Relationship Management</td>
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<td>ROI</td>
<td>Return on Investment</td>
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<td>UK</td>
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1 Introduction

1.1 Aims of Research
This master thesis was conducted in order to fulfill the wish of the Swedish online fashion company Nelly to gain loyal customers. The increasing usage of the internet enables companies easily to open up online businesses and to reach their customers. The Swedish online mail order company Nelly.com supposes that today’s new generation of young online customers tend to order their purchases in several different online shops. Lately, the number of new online shops constantly increases and the customers are flooded with an oversupply of the latest fashion products. Companies have to stand out from the mass and are pressured to be special in order to keep their customers. High competition on this market makes it difficult to convince the customers to be loyal and to remain true to one specific online shop, in this case Nelly.com. For this reason the company is interested in offering the sharpest customer loyalty program on the market that stands out from their competitors and gives their customers a unique shopping experience.

1.2 Problem Discussion
Through the increasing amount of fashion online stores on the market companies have problems to stand out from the crowd. The competition in the online business is high and the customer can choose from a varied offer from different suppliers on the market. This makes it difficult to convince the customers to be loyal and to remain true to one specific online shop. While many companies are still busy with constantly attracting new customers online retailers should be aware of the benefits of loyal customers. Many companies struggle to win over customers and have first and foremost problems to keep them. Therefore, companies asked themselves the question how loyalty can be created.

1.3 Structure
In the first part the general elements about the importance of Customer Relationship Management, the increased significance of Loyalty and the application of Loyalty on the electronic business are explained in all its facets. These chapters inform the reader about the basic definitions and foundations of certain terms.

The theoretical part is followed by the practical part that deals mainly with the evaluation of the fashion online business. The company Nelly and other chosen online stores will be presented and evaluated after certain criteria. The evaluations are interpreted and highlights are mentioned. The last chapter sums up what was found out in the report resulting in recommendations for the company Nelly. Finally, suggestions for future research are presented.
1.4 Methodology

In order to give the reader an insight into how the research for this thesis was conducted and how data was collected, a methodological discussion will be given in the following. In this way, it will become clear how the purpose and the aim of the present report were fulfilled and the authors’ approach can be comprehended easily. This section will therefore include a discussion of the chosen research approach, the research strategy, the method of data collection and the quality standards of this thesis.

1.4.1 Research Approaches

Choosing the right approach is a vital step in the process of achieving a proper answer to the given research question. In general, one can differentiate between two ways of doing research. While the inductive method builds theory based on reality, the deductive method starts in the theory and tries to apply it to reality. A short excursion to the roots of research philosophies shows that the deductive method owes to the positivism and the inductive method to the interpretivism. Furthermore, the deductive method can also be regarded as scientific research. (Saunders, Lewis, & Thornhill, 2009)

- **Deduction: Testing theory**

  During a deductive research a theory is developed that will be tested at a later stage. Deductive reasoning aspires to verify how theory works in reality by moving from existing theories to empirical data. (Graziano & Raulin, 2004)

- **Induction: Building theory**

An inductive research starts with empirical examination, one can draw conclusions from, and that can make a contribution to theoretical knowledge. (Graziano & Raulin, 2004)

Not necessarily, one approach can be regarded as the better one. Both approaches can yield valuable data and it highly depends on the emphasis of the study and the nature of the research topic. Finally, a combination of both the deductive approach and the inductive approach can turn out to be the perfect combination. (Saunders, Lewis, & Thornhill, 2009)

This approach can be called abductive reasoning. Some literature regards this approach as the third and final approach when it comes to research methods. This approach allows the author to move between theories and empiric studies and a gradual growth of comprehension is assured.

When a topic has been under examination frequently and a lot of literature already exists, a deductive approach is recommendable while a relatively new topic can be easier approached through an inductive research. Furthermore, a deductive research can be conducted quicker. (Saunders, Lewis, & Thornhill, 2009)
Introduction

The origin of the present research question can be referred to a business problem – to say it more specifically; how a fashion online company can keep its customers loyal. Therefore, the study aspires to gain understanding of what keeps customers loyal to a certain company and its products or services. To find an answer to this question, the research has been conducted with the emphasis on a deductive approach. For sure, an inductive approach starting with qualitative research would have been possible as well. However, it was first of all important to clarify the foundations of loyalty and other surrounding subjects and to gain knowledge regarding this research study before one can start with empiric studies. After the existing theory was studied, it was taken a closer look at the fashion online business and its key players and how the question of loyalty is tackled in reality.

1.4.2 Research Strategy

There exist several possibilities how research can be conducted and how information can be gathered. Inherently, no research strategy can be regarded as better as the other one. The decision to use one method over another or to apply a combination of both depends on the purpose and the objectives of the research study, the existing knowledge, and the amount of time that is available as well as other disposable resources. According to Saunders et al there exist seven different research strategies, namely experiment, survey, case study, action research, grounded theory, ethnography and archival research. (Saunders, Lewis, & Thornhill, 2009) Although a survey can be regarded as one of the most common and popular research methods in business and management research it was decided to do a case study.

A case study can be defined as “a strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence.” (Yin, 2003) A case study is supposed to solve a problem, to explore certain circumstances and to find out underlying principles by investigating it within its real-life context and can also be understood as an in-depth investigation. Instead of following strict rules, a case study involves a solid inspection of a single instance or event; a case. Relevant data is collected, information is analyzed and results are reported. Furthermore, a case study aspires to gain understanding of a certain instance and is supposed to find out what should be further examined in future. It is a detective story that is solved through an empirical inquiry. When a case study is used as a research method, a hypothesis can be either tested or generated. (Yin, 2003) In this case it was first explored how theory and literature would answer the research question and in a second step the real life situation was investigated to find out whether theory is transferred to reality.

In general, three basic steps are necessary to write a case study: research, analysis and the actual writing. In the research phase literature and Internet research give the author insight about the subject and what has already been written before and most important what has already been found out before. In this way existing problems that are interesting to solve can be identified. After the situation has become clear and it is decided what issue the case study is supposed to deal with, it is also important to talk to experts. After all information is
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collected, it must be determined what information is relevant and what information is not needed. The author must figure out what is important, what is happening and what the reader needs to understand the situation. Finally, the problem needs to be broken down into pieces and all information needs to be analyzed. During the writing stage all relevant information has to be put together and the problem must be described. Questions can be raised and the different sections must be organized. (How to Write a Case Study)

For the case study a five star rating system was developed that makes it possible to compare the performance of the key players in the market with each other and to test whether the chosen companies transfer the different e-loyalty drivers, which were found out in the theory part, to reality. The case study gives insight about the performance of crucial competitors and informs the reader in a clearly arranged way about how fashion online stores tackle the question of loyalty, what services they offer to their customers and how they try to win over customers.

1.4.3 Method of Data Collection

When it comes to data acquisition one can mainly differentiate between primary and secondary data.

- **Primary Data**

Primary investigation can also be called field research. It is perceived as the gaining of original data and means the inquiry of empirical data through own field research. This means that the author collects the data him- or herself mostly through methods such as interviews and questionnaires. What is most important to mention about this method of data collection is the fact that it gives access to unique data that is not available to anybody else until it is published. (Dissertation Guide, 2010)

- **Secondary Data**

In secondary investigation, which is also called desk research, one reverts to already available data which was previously used for similar purposes. One will always try to use possible secondary resources first as they are not as expensive as primary investigation and usually faster disposable. Additionally, secondary data often provides a basis for primary investigation. Secondary data can consist out of both qualitative (usually words and text) as well as quantitative data such as numbers, statistics and financial data. Quantitative data is often presented in graphical or tabular form. When secondary data is used, it is important to clarify where it comes from and that it is not out of date. (Dissertation Guide, 2010)

At first sight it seems to be more attractive to collect new (primary) data instead of reanalyzing already existing data. Still, when an author considers how the objectives of the research study can be met, secondary data should not be underestimated. The answer to a
research question might already be hidden (at least partially) in secondary data that can turn out to be a useful source.

To get an answer to the research question and to meet the purpose of this thesis, mainly secondary data was used. After the fashion online company Nelly expressed the wish to develop the sharpest loyalty program in the market, literature soon revealed that first of all a deep investigation of the term loyalty is needed and that the research question needs to be obtain a more general approach. First of all literature and scientific articles partly found on the Internet and partly found in the library of the University of Borås gave further insight into the topic. After a deeper understanding of the subject was gained, it soon became clear that the sub items Customer Relationship Management, Loyalty and E-loyalty should be further examined to get to the bottom, of the research question. Relevant books and business articles were chosen and always supported by additional research on the Internet. Finally, not all sources were used as references in the study but provided a necessary insight into the research area. With the aid of the Internet and former student reports, the authors informed themselves about recent developments in the mail order business, especially within the Swedish market.

One crucial step within the process of the thesis was the choice of the key players in the market. An elaborate motivation can be found in part 5.5. Primarily, companies that are in the interest of the company Nelly were further observed. The performance of the companies in the market, web site awards, fashion blogs as well as expert interviews were the determining factors for the decision which fashion online stores were worth it to take a further look at. Finally, it was chosen for well-established fashion online stores that have approximately the same price range, are all settled in the European market and are well known among young women. All of them are so called Internet Pure Players and function as virtual multi-brand stores on the Internet. For the evaluation of the different web shops all information was taken from the company’s website.

1.4.4 Quality Standards

When it comes to research design, special attention should be paid to the two core areas reliability and validity that can be regarded as the most important quality standards of a research study. By assuring high reliability and high validity, researchers can reduce the possibility that their findings cannot stand up to closer inspections or to say it simple; to prevent getting wrong answers. (Saunders, Lewis, & Thornhill, 2009)

In quantitative studies, validity indicates whether a result is representative for a high amount of people and whether the investigator has drawn the right conclusions. Qualitative studies on the other hand demonstrate if the result is accurate and if it can be trusted. Validity is concerned with the relationship between different variables and shows if it is a true relationship or not.
The reliability of a research paper indicates if the used data collection method results in an unfailing and trustworthy conclusion. If a study yields the same results when it is conducted a second time by other researchers and on another occasion but in a similar way, the reliability can be regarded as high. There exist different threats when it comes to the reliability of a research study. The one that is the most relevant for this study is the so-called observer bias which refers to the fact that different people might interpret given situations and conditions in a different way. (Saunders, Lewis, & Thornhill, 2009) In order to answer the question whether the chosen companies fulfill the e-loyalty drivers and how the different companies try to win over customers, a rough analysis of the companies’ websites was conducted. The evaluation of the online shops of the different companies took place on the basis of a five star rating system that makes it possible to compare the performance of each company with each other. Although this rating system warrants simplicity and transparency, other researchers might have rated the different criteria in a different way. However, for the theory part well-known literature was consulted and compared with each other. Therefore these findings can be regarded as generally admitted. Still, it must be pointed out that especially Ecommerce is a fast changing business and therefore the answer to the question how customers can be kept loyal to a certain fashion online store will change soon. For this reason this study might be regarded as limited in its capability to achieve the same results if it was conducted a second time by different researchers on another occasion.

1.5 Delimitations

Primarily this project is conducted for the Swedish online mail order company Nelly.com. Therefore the field of study focuses mainly on the Swedish fashion market and its present online trading companies, respectively Nelly’s main competitors. In order to get a broader perspective, it is also taken a look at other successful European mail order companies. Although the study is done for the Swedish market at first sight, it is supposed that the results can also be transferred to other European countries the company is operating in the future. Still, it cannot be excluded that some country specific adjustments must be conducted. Due to the amount of time only four fashion online shops were examined in detail. In order to enhance the content of the analysis more fashion online shops could be examined. Because of the fact that the basics and foundations of the theory had to be clarified at first sight the analysis part turns out to be shorter.

1.6 Goals and Objectives

Goal of the present report is to investigate and analyze the foundation of loyalty. Furthermore, the question how recent key players tackle the question should be answered. In this way Nelly gains insights into the first steps into the direction of loyal customers.
2 The Importance of Customer Relationship Management

First let us start with a closer look at the term Customer Relationship Management. Why this is important? When a company expresses the wish that it is longing for customers that are loyal, it definitely cannot get away from Customer Relationship Management. For this reason it is highly recommended to first explore as well as to clarify the broad field of Customer Relationship Management (in the following called CRM) before one can answer the question how to create a loyal customer. One thing is certain; customer loyalty cannot be generated through discounts and point program rewards but through a long-term strategy that needs to be carefully integrated in the whole business process. (Newell, 2000) This preliminary part of the present report focuses on capturing the most important aspects in order to shed light on the term CRM and to answer the question why CRM is such an important matter for companies that strive towards loyal customers.

„Customers have become increasingly bold and aggressive in their demands not only for superior quality but also for responsive service. The only way this can be provided is through Customer Relationship Management.” (Brown, 2000)

2.1 Definition of Customer Relationship Management

Of course, there exist plenty of definitions of the term Customer Relationship Management. However, the meaning of CRM is rooted in the concept of traditional relationship marketing that was first defined in 1983 by Leonard Berry, professor of marketing, as a concept that consists of attracting, maintaining and enhancing customers. (Sinisalo, 2007) To put it simply, Customer Relationship Management can be defined as “the process of acquiring, retaining and growing profitable customers” (Brown, 2000) that can be regarded as a tool to create a meaningful dialogue with a customer in order to strengthen the relationship between the customer and the company. Nowadays it has become fundamentally important to find a way how to, first of all, differentiate your customers effectively and secondly, how to form an individual conversation with him. (Park & Kim, 2003) Special attention should be paid to the fact that each customer has particular desires and wants to be treated differently. No matter if you call it Customer Relationship Management, Customer Value Management or Customer-centric Management; it is about managing customer relationships and knowing your customers’ preferences in order to fortify the bond between you and your client and let your customer become a satisfied customer who gladly comes back to you. (Newell, 2000)

„CRM can be defined as the process of acquiring, retaining and growing profitable customers” (Brown, 2000)
The Importance of Customer Relationship Management

2.2 The Development of Customer Relationship Management

Customer Relationship Management is a business strategy that has not been in the focus of the companies for many years. There were times when the enterprises were the ones who could decide the terms and conditions to the customer and he or she was the one who had to wait for the product and was even told what he or she prefers or would like to have. Companies simply overestimated their products and supposed that customers come back to them only because of their commodities. In the old model, products and communication moved from the organization to the customer and the management decided what products when to sell at what time. (Brown, 2000) Instead of bringing the products to the customer, the customer was brought to the product. (Newell, 2000)

Through the years, the customer was incrementally put into the center of affairs. One can recognize a shift from company-centric marketing with the objective to sell more for less cost, to customer-centric marketing with the goal to get to know the customer better and to build a relationship with him. (Newell, 2000) Thus, a closer look reveals that CRM is nothing else than going back to the old way of doing business when the corner grocer knew each and every customer and its individual wishes and needs by heart. (Brown, 2000) He could deliver the desired goods before his customer even mentioned them and had at the same time a close relationship to his clients being equally involved into his private matters.

- Marketing philosophies through the years

While the priority in the late 1950s was set on product specifications and features, companies concentrated between the 1960s and 1970s on lowering the costs and prices in order to increase their market share. In contrast to that, product quality became in the 1980s the most important factor competition was focused on. Everything had to be better and faster in order to exceed the products of the competitors. Disadvantage was that the rather small differences could be easily imitated from each other. During the 1990s organizations started to turn towards serving quality and service to their customers. (Avanthi & Mythili, 2005) Still, many companies heavily attempted to win over the people by mass media advertising. At that time, markets were not as fragmented as they are today and hence less complicated to reach. With one single marketing campaign it was possible to touch a broad audience without differentiating between the individual personalities. (Brown, 2000)

Today it is not conceivable anymore to reach the same amount of people through one single medium as it was one or two decades ago. Not only are the markets more fragmented than they were before but also the consumers’ use of media. Mass media is no longer effective and marketers have realized that it requires more than just a single emotional TV spot to target their customers. (Brown, 2000) The decline of mass media advertising can be seen as one of the reasons CRM has found great approval of many organizations today. In order to succeed in future and to develop effective marketing strategies, finding a way to understand one’s customers, obtains top priority. (Brown, 2000)
The Importance of Customer Relationship Management

- **Customer Loyalty Programs**

Companies soon understood that CRM is the new band wagon they need to jump on, but finally it was only about capturing data instead of adding value to the customer. At this time marketers were committed to the idea that loyalty programs are the answer to the problem. They were sure that points programs, discounts and club cards would keep their customer loyal. In fact, this was not the case and satisfaction rates remained low. Loyalty cannot be bought. Quite the contrary, studies showed that customers consider these kinds of programs to be confusing or time-consuming and that most of the discounts and rewards are not worth it. Because of the increasing amount, loyalty programs are no longer perceived as something special and customers start to get annoyed of all the cards they need to carry around. Most loyalty programs can be imitated easily by the competition. What enterprises simply overlooked at that time was that real CRM offers benefits to the customers that are not that easy to copy. (Newell, 2000)

- **The rise of the Internet**

The Internet can be regarded as one of the most important developments for marketers and has soon revolutionized the concept of CRM. Frederick Newell, the author of the book loyalty.com holds that we have entered the “Interactive Age” in 1995. In this year the people sent for the first time more emails than they sent stamped letters and rather bought a new computer than a new TV. Nowadays it has become common to regulate everything via the Internet, be it the annual tax declaration or the application for a new job. Most companies have an issue with keeping up with the latest technology and the rapid changes the Internet has entailed. Everything has become faster and is closer to reach. Still, the Internet has brought totally new possibilities to the business and can be regarded as the most powerful communication tool. (Newell, 2000)

As it was described before, CRM is about treating your customers on individual basis, so to speak One-to-One Relationship Marketing. As one can imagine, assuming that you have a customer base of 500.000 customers, it turns out to be difficult to get to know every single customer personally. At first sight, the infinite dimensions of the web seem to be anonymous and faceless but in reality, customer behaviour patterns are much easier to track on the Internet than for example in a traditional retail store. (Reichheld & Schefter, 2000) In this way the Internet enables organizations to do business in a customized way as people were used to in former times but this time – due to the development of the technology - for thousands or even millions of customers. (Brown, 2000) The term One-to-One marketing has turned into the term One-to-One customization.

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*One-to-One marketing* can be defined as a marketing strategy that emphasizes personalized interactions with customers. The purpose of One-to-One marketing is to nurture the relationship with the customer in order to let him become a loyal customer. (One-to-One Marketing, 2003)
The Importance of Customer Relationship Management

- **eCRM**

Resulting from the overwhelming power of the Internet and the corresponding technology, the concept of CRM was further developed into the concept of electronic CRM, in short eCRM. In comparison to the traditional model of CRM, the key feature of eCRM is - understandably - the use of technology, still following the same rules and principles as before. ECRM is enabling the above mentioned mass customization of customer relationships to the companies. (Keller Johnson, 2002) With the aid of the Internet and technology, enterprises can manage customer relationships more effectively than ever before. Customer data as well as information can be gathered and analyzed much easier and, above all, much faster. Traditional market research has always been a very time-consuming and above all very expensive process. This situation has been totally reversed. Studies can be conducted within a few days that would normally take a few months. (Newell, 2000) Companies can now personalize marketing messages and can offer customer service in real time, means they can respond directly to their customers’ problems and requests (Winer, 2001) which broaden the quality of customer service to another level. At least since the emergence of the Internet customer service has become a minimum requirement and is no longer a differentiator. Customers will not settle for poor service but will leave to the competition. (Brown, 2000)

- **mCRM**

MCRM (Mobile CRM) can be seen as the latest enhancement of CRM or more precisely eCRM. While eCRM already enables the customer to utilize customer service from all places where Internet access is available, mCRM is taking the whole concept of CRM a step further. In times of Smart Phones and PDAs with Internet access, people can make use of customer service whenever and wherever they want. Again, the same rules and principles are applied for mCRM as for they are for CRM and eCRM with the difference that all services are conducted through mobile mediums. (Camponovo, 2005) Many companies are currently busy with updating their software in order to offer their customers mCRM solutions as for example text messaging and apps\(^2\) for the iPhone.

Finally one can see a clear development from the traditional objective when companies were only keen on closing short-term transactions and acquiring new customers at any cost to the point when organizations understood that it is more profitable to retain a customer who will for sure invest more money in the company’s products and services. Today, companies highly value their existing customers and do everything they can to foster and to maximize the customer lifetime value.\(^3\) (Brown, 2000) Marketers design strategies that intend to win

\(^2\)An **App** (short form for application) can be defined as a user program that allows companies to offer their services via a Smartphone. Starting with fun applications as classical computer games, most people utilize it for Social Networks. The majority of the applications can be downloaded for free.

\(^3\)The **Customer Lifetime Value** can be defined as the economic value of a customer during his relationship with a company that tells the company how much money it is worth to spend on acquiring and retaining him. The longer the relationship is, the higher the value of a customer is. (Customer Lifetime Value, 2009)
customer share and success is now fastened on retention instead of ROI and market share. (Newell, 2000) But why is it that they do this and how did this development happen? Let us see in the next step.

2.3 The Benefits of Customer Relationship Management

It has now become clear what CRM is all about; building a long term relationship with your customer in order to retain him to your business. At this point the question might arise how an organization can benefit from this. We understood that nowadays the customer is the one who pulls the strings and dictates the rules. Companies need to listen to their customers and need to understand their preferences, but why is everybody so concerned about keeping their customer loyal? The answer is simple. Responding to your customers’ needs does not only satisfy your customer but is also the key to success. (Brown, 2000) The true purpose of CRM contains both maximizing the benefits for the customer as well as to maximize the company’s profit. (Newell, 2000) As it was mentioned before, markets have become more fragmented and competition only on price does not work anymore. Consumers have become increasingly demanding and currently companies are facing customers that are pinched for time and most important that are more informed than ever before. (Newell, 2000) They do not only demand high quality products but also high quality service that is accessible 24 hours through different channels. Consumers are spoilt for choice. People have too many options they can choose from and it has become more than difficult to differentiate what is the best offer resulting in a volatile shopping behaviour. Competition is continuously increasing and companies need to find a way how they can stand out from the crowd.

"The purpose of CRM is maximizing the value of the relationship to the customer for the customer's benefit and the company's profit." (Newell, 2000)

In brief it can be said that Customer Relationship Management is a basic prerequisite that enables companies to satisfy their customers in order to stand up to the competition and to profit from the benefits CRM is entailing. Properly applied CRM will result in reduced operational costs and in an increased overall profitability. (What is CRM?, 2010) A company will soon notice a reduction in cost of customer contacts because acquiring new customers is much more costly than taking care of existing customers; less marketing and sales expenditures are required. Furthermore additional sales and margins will result in a sustainable revenue growth. (Brown, 2000)

However, what a company can most benefit from is the insight into the behaviour of its customer. Handled in the right way, this vital information leads to improved customer service

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4The expression Customer Share can be used simultaneously for Share of Wallet and Share of Pocket and describes the proportion between a customer’s purchasing potential and his actual purchasing. (Brown, 2000)
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and increased call center efficiency. The company can better respond to the customers’ needs, which leads to more customer satisfaction what will on the other hand end up in customer retention and customer loyalty. Moreover marketing and sales processes can be adapted more effectively and customers can be easier profiled and targeted which prevents that companies spend too much money on low-value clients or too less on high value-ones. A carefully developed and performed CRM strategy will also allow for a competition based on service not on price and through up-selling and cross-selling the profitability of customers can be increased. (What is CRM?, 2010) Summing up it can be said that all boils down to the development and the improvement of a customer’s life time value what on the other hand ensures sustainable and profitable revenue growth; the major benefit of CRM. (Brown, 2000)

- **Benefits from a loyal customer**

![Graph of Individual customer's profitability increases each year the the customer is retained.](Figure 1: Retaining Customers equals Profitability)

Source: Own illustrations based on PricewaterhouseCoopers research (Brown, 2000)

Before a company can start to work with CRM, it is significantly important that everybody in the company understands how great the benefit is the organization can get from a loyal customer. In the prevalent market conditions of high competition, saturation and highly demanding customers, treating your existing customers well, turns out to be the key to success. Many companies still focus heavily on attracting new customers that should compensate the customers that are about to leave the company and do not understand that it would be more profitable to retain the existing customers. The calculation seems to be simple; the longer the relationship, the lower the costs and the higher the customer profit as Figure 1 clearly demonstrates. (Brown, 2000) In the long term, a loyal customer causes

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*Cross-selling* means offering or suggesting complementary products to a customer based on the purchases he or she was transacting before while an *upsell-offer* is about superior products a customer might like. (Brown, 2000)
positive effects on the profitability. (Ribbink, van Riel, Liljander, & Streukens, 2004) When the percentage of loyal customers is for example increased by as little as 5%, profitability can be increased by as much as 30% to 85%, depending on the kind of industry the company is in. (Gefen, 2002)

Additionaly, a loyal customer is less price sensitive than a disloyal one and will soon act as an advocate for the company. Moreover he demonstrates more understanding when something goes wrong. (Gefen, 2002) When this stage is achieved, the customer even takes over a function as a cost-free staff member. He is recommending the company and its services to his acquaintances and helps them with difficulties. (Newell, 2000) In times of Blogs and Social Media, a company should never underestimate the power of positive word-of-mouth or, how it is called nowadays, word-of-mouse advertising. In the end CRM creates a win-win relationship both the customer and the company can benefit from.

2.4 Four Types of Customer Relationship Management

CRM enables a company to tailor the right marketing program for the right customer at the right time. In his book Customer Relationship Management, the author Stanly A. Brown describes four different CRM programs. Always remember: Different customers want to be treated differently. (Newell, 2000) Companies need to find out who they are dealing with and need to respond to the customers on an individual basis. While some customers prefer to decide themselves whether they want to be informed about new products or not, others cannot wait until the latest newsletter is published.

- Win Back or Save

A winback or save campaign is intended for those customers with a low usage rate or those who just decided to decline the company’s services. While organizations assumed formerly that it would not make sense to put effort into these kinds of customers, companies today include them into their campaign and see the underlying potential. To persuade a customer who has already decided to abscond, is probably the most time-sensitive campaign but is most successful when the contact is established during the first week after disloyalty. First of all, the success of a winback campaign depends on selecting the right candidates and to sort out the inappropriate ones. (Brown, 2000)

- Prospecting

As important it is to care about customers who are about to leave the company as essential it is to win new customers who are accepting a company’s offer for the first time. It is recommendable to develop a needs-based segmentation model that helps the company to find out what the customer wants from the company and what he or she expects. In this way customers that come into question can be targeted more effectively. A profit-based segmentation on the other hand helps an enterprise to define how valuable the customer is and to decide how much money it is worth to spend to get that customer. (Brown, 2000)
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- **Loyalty**

By using value-based segmentation, needs-based segmentation, and predictive churn models, a company can attempt to avoid that an existing customer will leave the company; in other words to keep him happy. Sounds complicated? Once again, the value-based segmentation tells the company how much it is worth to invest into the customer’s loyalty. Only about 20 percent of the customers provide most of the revenues and profits which is also known as the Pareto Principle. Therefore it might even happen that a company supports an unprofitable customer to leave the company unless he is part of the winback or save campaign. After passing the value-based segmentation, the needs-based segmentation informs the company about the customer’s preferences and allows developing an individual tailored loyalty program that is stimulating the customer’s loyalty. The final step of this campaign is the development of a predictive churn model that makes it possible to forecast customer attrition. Through the ably use of data, companies can discover vulnerable customers and pay special attention to them. (Brown, 2000)

- **Cross-Sell/Up-Sell**

The purpose of this CRM program is to boost your customer’s share of wallet or - in other words - to increase the amount a customer is spending through finding complementary commodities the customer might also be interested in. The offers that are recommended to the customer are chosen on the basis of his former shopping behaviour. This strategy is thus meant for customers that already have a relationship with the customer. A cross-sell offer is a proposal that is similar to the products a customer was purchasing before while an upsell-offer is about superior products. As soon as a customer agrees to these kinds of offers, he is becoming much more cost-effective. (Brown, 2000)

### 2.5 How to implement a Customer Relationship Management strategy?

After we understood that the customer is the core of Customer Relationship Management, one might ask how a company can get started and how a company should approach this matter. Of course it sounds easy to say that you need to listen to the individual needs of the customer in order to satisfy him and to create loyalty. Still, a company has to know what points need to be taken into consideration. Implementing a CRM strategy in a company is a long-term process that does not happen overnight. Due to the fact that this report should only clarify the term CRM itself, giving a whole implementation strategy would go beyond the scope of the script. Therefore the main steps that have to be regarded once a CRM strategy is aspired will be mentioned.

- **Key CRM tasks**

There exist plenty of instructions how a company can build up stepwise an individually adjusted CRM program. According to Newell, four main steps are required to accomplish a successful CRM program. With the first three steps – *identify, differentiate and interact* – a
The Importance of Customer Relationship Management

company can assert to have reached CRM and database marketing. However, the difference that enables companies to stand up to their competitors can only be found in the last step – customization.

First of all a customer needs to be identified through transactions and interactions he was executing over time. Secondly customers need to be differentiated by both the different values and the unique needs a customer has. While the company needs to interact in the next step with the customer, it is continuously learning more about its customer. Finally, a company can differentiate itself from other companies and can add value for the customer in the last step through customization. The company needs to use the feedback it got from the customer to develop individual offers. (Newell, 2000)

„The key to CRM is identifying what creates value for the customer and then delivering it.” (Newell, 2000)

What is important to comprehend for a company is the fact that one cannot build a relationship with everybody or in other words; not every customer wants to enter into a relationship. (Newell, 2000) A company will understand this at the latest when it realizes that it can simply not afford to provide all customers with outstanding service. An organization needs to differentiate its customers first by value and then by needs in order to find out who is worth the effort. It does not make any sense to create a relationship that costs you a lot of money with customers that are not interested in your company and who do not appreciate your efforts. (Brown, 2000) For this reason a company needs to detect its most profitable customers and need to winnow the transaction buyers from the relationship buyers. A transaction buyer is only interested in price and will leave the company as soon as he or she finds the same products or services for a lower price somewhere else. A relationship buyer on the contrary is looking for a company that he or she can rely on. While transaction buyers give the company only little profit, the relationship buyers are the ones who are the most profitable and have the potential to stay with the company for a lifetime. (Newell, 2000)

- **Execution of a CRM campaign**

According to Brown marketers need to start CRM with the composition of a marketing strategy in order to find out how CRM will influence marketing behaviour. Furthermore segments need to be defined; means customers with similar attributes are put into groups. In the next step marketers need to develop campaigns that are aimed for the different segments, determining products, price, promotion, length of the campaign, channel and appropriate candidates. Next, a company needs to browse its customer database in order to choose those customers that are most likely to affirm the offer. Furthermore the campaign needs to be tested on and can be further adjusted. After testing, the campaign needs to be
sampled. The only difference compared to testing is the size of the focus groups. During the testing phase the focus groups represent about 5% of the target audience and during the sampling phase about 25%. On the one hand some enterprises successfully combine the testing and the sampling phase while on the other hand some other enterprises often wrongly assume that they can skip this part. The final step of executing a campaign is the evaluation phase. It is crucial to find out why customers did not agree to the offer. Without the evaluation of negative responses a company cannot improve its CRM campaigns. (Brown, 2000)

This was indeed a rough summary of how a company is supposed to work with CRM. In particular an enterprise needs to value the importance of customer data and needs to understand how to deal with it. Marketers need to be permanently updated about all criteria that might influence their customer’s buying behaviour; means their customer’s behaviour, their feelings, and their environment. What is my customer doing, what is he thinking and what is surrounding him? (Newell, 2000) Finally one can say that a company can definitely not get away from investing a bigger part of their CRM budget to research. Research and value analysis can be considered as the most important components when it comes to CRM and enable a company to find out what it really is that their customers want.

2.6 Database Management

At this point the question might come up how it is even possible to find out. The key word database was occasionally arising and can be regarded as one of the most crucial components the success of CRM is based on. Newell even entitles the database the foundation of CRM. Still, in many cases setting up a database turns out to be the biggest problem. (Brown, 2000) Just like adequate customer service, an efficient database has become a minimum requirement and does not, as some companies might assume, provide the company a competitive advantage. As it was mentioned previously, in former times marketers built up their databases only to capture data instead of finding out what the customer is actually seeking for. (Newell, 2000)

When the key to CRM is finding out what creates value to the customer, the customer database is the master tool for the execution. A well cared data file contains invaluable information about the customer’s buying behaviour such as transactions, complaints and returns as well as personal information such as age, domestic circumstances and interests, to name only a few. (Newell, 2000) A company must be aware of the fact that every transaction and every contact is an opportunity to gain access to useful data. (Brown, 2000) The proper treatment and processing of this information will help the company to find out what the customer values about the relationship to the company and enables the company the urgent required customization of offers. Still, companies need to be careful. The valuable information lies not in the data but in the way the information is used. The data “must be transferred from operational bits and bytes into the information marketers need in segmentation, promotion and analysis.” (Newell, 2000) This is what data mining is about:
Extracting information from data. Thus, all the information a company gained about their customers must be turned into feasible marketing information. Therefore staff is needed with both business and technology knowledge and skills. On the one hand a company needs employees who know about computers and software and on the other hand people who know how to deal with the information the database is containing.
3 The increased Significance of Loyalty

After getting an insight about the importance of Customer Relationship Management in the previous chapter it is of special importance in this chapter to get an overview about loyalty in its entire facets. “How to keep your customers loyal in today’s online business?” – Relating to the task of this project it is necessary to get first of all a deeper knowledge about the term itself as well as further information about what a loyal customer means and how a loyal relationship between a company and a customer looks like.

3.1 Definition of Loyalty

Many people use loyalty as a colloquial term in today’s society. The question still occurs if everybody exactly knows what loyalty means and what it is actually about.

The term loyalty is applied in different contexts, for example loyalty in the economy, loyalty in the literature, loyalty in politics as well as loyalty in the bible. Loyalty is more an internal self-commitment and describes the inner attitude, the truth and faithfulness towards a person or a cause. A closely linked term to loyalty is solidarity, both terms have smooth transitions. Whereas solidarity is rather an internal need and an outward expression compared to loyalty.

(Wikipedia, 2010)

“Loyalty is the inner connection and its expression in behaviour from a person, group or community. Loyalty means to share the values of others and to represent or defend it if they are not fully shared. Loyalty is always voluntary.” (Babylon, 2010)

3.2 Definition of Customer Loyalty

The loyalty a customer displays towards a company can be described as customer loyalty.6 Many companies are focused on having loyal customers what turns out to be beneficial for the organization as well as for the customer. The following definitions will give a deeper understanding about the term customer loyalty.

A very short explanation has been done by Zeithaml who defines consumer loyalty as an intention to stay with an organization. (CYR, Hassanein, Head, & Ivanov, 2006) This means that the customer sticks more or less with one organization where he or she builds a relationship in terms of a connection to and vice versa. This definition is also supported by an article of Sherry Holetzky where she describes customer loyalty as the behavior of repeat customers, as well as those that offer good ratings, reviews, or testimonials about products and services. These subjective statements and evaluations underline the positive attitude of

6 Consumer loyalty can be used as a synonym for customer loyalty
repeat customers towards the company. For this reason they suggest and recommend it also to other potential as well as existing customers. Furthermore, some customers are doing a great free-of-charge service for several businesses by making word-of-mouth publicity through telling friends and family about their own positive experience. This turns those customers to loyal customers. (Holetzky, 2010) In addition, customer loyalty is the result of an organization that creates a certain benefit for the customer so that they will maintain or increase their purchases with this business as well as for the business itself. Consequently, it is tough work to achieve customer loyalty, and it is even tougher when the business wants to keep their customers loyal. Therefore it is necessary that the company has built a relationship to their customers; otherwise there will be no loyalty. (Smith, 2000) Getting a loyal customer is a long way - it is a process, a program, or a group of programs geared toward keeping a customer happy so he or she will provide more business. (Holetzky, 2010) If a company has not built a relationship to their customers; there will be no loyalty. (Smith, 2000)

"Customer loyalty is a deeply held commitment to re-buy or re-patronize a preferred product or service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts are having the potential to cause switching behaviour." (Ribbink D., van Riel, Liljander, & Streukens, 2004)

3.3 What is a loyal Customer?

After getting an insight about the definitions of the terms loyalty and customer loyalty it is time to think about what a loyal customer in reality is. Afterwards the way how to measure loyalty and the four types of loyalty will be presented.

The first idea that comes into people`s minds about the explanation of a loyal customer is somebody who returns to a business where he or she is satisfied with the products and services and therefore repurchases in a constant interval. The customer feels connected to the company and wants to care about it. This sympathy towards the business reflects the involvement and identification of the customer towards it. Furthermore, he or she likes the appearance what the business represents and stands behind it.

In general, a loyal customer has a specific favoritism about what and from whom to buy. (Griffin, 1995) Being a loyal customer means and implies at the same time being satisfied about the offered product- and service-portfolio of certain companies. (Gommans, Krishnan, & Scheffold, 2001)
3.3.1 **How to measure Loyalty?**

Loyalty seems to be a term that is difficult to grasp. Still, when the goal of CRM is to create loyalty it should be possible to measure loyalty in order to figure out whether a CRM strategy has been successful.

In the beginning of the 1980’s many companies counted on customer satisfaction. This was meant to be a guarantee for a successful future but in the end these satisfied customers were also able to shop somewhere else without any hesitation. (Griffin, 1995) For that reason customer loyalty seems to be a more reliable measurement compared to customer satisfaction. (Griffin, 1995)

Customer Relationship Management is meant to build up a relationship between the company and the customer and should alter a customer’s behaviour towards the company. In order to find about whether a customer is on his way to become a loyal customer it is recommendable to take a further look at the change of his buying behaviour. When a company keeps track of indices as for example the amount a customer spends in a certain time period, the frequency of purchases and the date when a customer was at last buying something it can identify a customer’s tendency to be or to become a loyal or disloyal customer. (Newell, 2000)

How to measure loyalty highly depends on the relation between a company and the customer. In the end the only measurement that will capture all of these questions is the customer lifetime value measurement that describes the economic value of a customer during his relationship. (Newell, 2000) The Customer Lifetime Value enables the company to determine the moment when a customer’s revenues exceed the costs the company is having for attracting and servicing him or her.

3.3.2 **Four Types of Loyalty**

It has become clear that loyalty is a term that varies a lot and is not static at all. It highly depends on the individual person what loyalty defines what demonstrate that there have to exist different types of loyalty. In his book Griffin raises four types of loyalty that result from the underneath stated cross-classified figure. This figure presents on the x-axis the high and low repeat purchase, that means the customer’s profitability for the company, and on the y-axis the high and low attachments, that means the customer’s loyalty towards the company.
Some customers do not develop loyalty to certain products or services because of different reasons. They have no intention to stick to a certain company. Usually those customers have a low attachment towards the product or service of a business and this is combined with a low repeat patronage that signifies an absence of loyalty. This type is not loyal as well as not profitable for the company. Companies should avoid the “no loyalty” buyers, because they will probably never be loyal customers in future. Moreover, they are not really beneficial to the financial strength of the business and they are generally unprofitable. The big challenge is trying to avoid targeting as many of these people as possible in favor of customers whose loyalty can be developed. (Griffin, 1995)

- **Inertia Loyalty**

Inertia loyalty is formed by a low level of attachment together with high repeat purchase; this means a profitable but not loyal customer. Mostly it is the type of customer that purchases “because we’ve always used it” or “because it’s convenient”, for example the shoe repair from the nearby cobbler. He or she usually buys out of habit and this kind of loyalty is most typical for frequently bought purchases. Furthermore, these buyers feel some degree of satisfaction with the company, or at least no real dissatisfaction. But if the competitor offers a similar product or service that can show a visible benefit the possibility occurs that the buyer could switch. However, it is also possible to turn the inertia loyalty into a higher form of loyalty by actively courting the customer. The company has to persuade the buyer that their offered products and services have a higher benefit compared to their competitors. (Griffin, 1995)

- **Latent Loyalty**

Latent loyalty is signified by a high relative attitude combined with low repeat purchase. These customers are loyal but not profitable. Situational effects rather than attitude influence a repeat purchase when a customer has a latent loyalty. If a business can understand
situational factors that contribute to latent loyalty, these businesses can develop strategies to help combat them. (Griffin, 1995)

- **Premium Loyalty**

Premium loyalty is the preferred loyalty for all customers of any business. It has a high level of attachment as well as the highest repeat patronage and therefore it is the most leverage of the four types of loyalty – A loyal and profitable type of customer. At the highest level of preference, people are proud of discovering and using the product and take pleasure in sharing their knowledge. The premium loyalty customers become vocal advocates because they constantly refer the product or service to others. (Griffin, 1995)

As mentioned in the previous chapter CRM a company needs to segment and differentiate its customers in order to accomplish a successful CRM strategy. For this purpose the four different types of loyalty can be used as segmentation criteria.

### 3.3.3 Characteristics of a Loyal Customer

After doing research about Customer Relationship Management and Customer Loyalty it has become clear that plenty of authors use Harley-Davidson as one of the best examples that shows how to create customer loyalty. Moreover, Harley ranks among the ten best-known American brands. (Walletpop, 2010) For this reason Harley-Davidson will be presented as an American classic of loyalty that demonstrates the different characteristics loyal customer exhibit.

Harley-Davidson, the well-known American motorcycle manufacturer, started their business in the beginning of the 20th century in 1903. (Harley-Davidson) The business was not going so well in the early 1980’s and Harley-Davidson was the last surviving U.S. motorcycle maker. Because of Japanese vendors manufacturing low priced motorcycles, Harley-Davidson was struggling to survive. Therefore, the company improved their products and in 1987 they got back to its best performance. From that time on they were growing a lot in popularity. Besides the better-made bikes, Harley-Davidson was pushing forward their business because of their well-done developed loyal customer base in the United States. (Griffin, 1995) There are only a few brands which embody great loyalty marketing – Harley-Davidson with its tattooed customers tops the loyalty marketing list. (Smith, 2000) The company identified the “typical” Harley-Davidson owner and began to meet that person’s needs to keep the described loyal customer. (Griffin, 1995) Harley-Davidson has reinvented the motorcycle world and it has nowadays more to do with fraternity than with machinery. When someone is buying a Harley, he or she joins a culture and a “Harley”-family. Moreover, Harley-Davidson is selling a lifestyle. (Walletpop, 2010)
For the reason that loyalty can be defined in terms of customers buying behaviour, as already mentioned in the previous part, a loyal customer can be described with four behaviour as one who:

- Makes regular repeat purchases
- Purchases across product and service lines within the company
- Refers the company to others
- Demonstrates immunity to the pull of the competition. (Griffin, 1995)

These four behaviors of loyal customers will be explained on the basis of Harley owners in the following.

### Makes regular repeat purchases

Most of the customers of Harley-Davidson are ordinary middle-class or upper-middle-class citizens– but usually most of the people think first about bearded and tattooed cliché customers. Both types of customers are totally loyal to Harley-Davidson and they either repurchase new motorcycles from Harley-Davidson or change older models into new ones. Furthermore, one segment of the Harley customer base is submitted to the Rich Urban Bikers (RUB). These people own already plenty of Harley-Davidson bikes and continue to buy new models as soon as they appear on the market. (Griffin, 1995)

### Purchases across product and service lines within the company

In the beginning of the 1990’s Harley-Davidson started a secondary business in selling branded merchandise articles such as sunglasses, T-shirts and leather jackets. Those products were only available at Harley dealers and they belong to an important growth area for the company. Harley customers started to purchase a lot of articles with what they could also pimp their bikes so that the value of the machine was incredibly increasing. However, also customers started to buy those merchandise articles without owning a Harley motorcycle. (Griffin, 1995) Most of these customers are so loyal that he or she does not even want to consider products and services of one of their competitors. Because of this strong relationship the customer becomes an advocate for the brand and believes the competition cannot be better. (Smith, 2000)

### Refers the company to others

The Harley customers are so convinced about the products and services of the company, that they positively recommend it to friends and family. These customers have a totally positive attitude toward the company and they suggest and advise other people to buy Harley-Davidson products. (Griffin, 1995)
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- *Demonstrates immunity to the pull of the competition*

Harleys are classic motorcycles. For an owner of a Harley does not exist another motorcycle brand. It is somehow like a myth, it is not about that Harleys are faster than other motorcycles; it is more about the transcendental riding experience and the feeling to get somewhere on a Harley. (Griffin, 1995)

These four indices of loyal customers go hand in hand. If a Harley-Davidson customer is buying a Harley, he or she may tend to buy also a merchandise article from the collection. Moreover, this satisfied customer inclines to recommend the Harley-Davidson products and services to other people. Because of this high degree of satisfaction the customer defends the brand and no other brands can compete with it.

3.3.4 **Loyalty: A Modern Example**

In the previous part a characterization about what a loyal customer is was presented on the basis of: How to measure customer loyalty, the classification of the four different types of loyalty as well as by the characteristics of a loyal customer on the basis of the example Harley-Davidson that is renowned as American classic of loyalty.

Another outstanding example of a company that knows how to create loyalty is without question the American computer company Apple. Within several rankings it is proven that in one of the latest rankings from www.atelier-us.com the company provides not only the best technical support but has also the best customer loyalty engagement. (Atelier-US, 2010) In the year 2006 Apple belonged besides Google and Symantec to the high-technology companies with the most loyal customers. (macnn, 2010)

It is beyond all questions that Apple belongs to one of the best companies with the most loyal customers. What else is the reason that so many followers sleep outside a store to be one of the first to buy an iPhone. It is obvious that Apple is a company that enjoys fanatical brand loyalty. (The Best Article Every Day, 2010) Apple knows how to arise the interest of many people – but what is their recipe that they have so many brand loyal customers?

The hype and success around Apple in the last years is not a result of luck. The company has a very well-thought-out plan to deliver strong products for the market. (The Best Article Every Day, 2010) Their key to success is not that they work with any customer loyalty cards or with special point systems. Apple creates a special Apple culture with just pure, enriching experiences and offers great products with an innovative and appealing design. (Customer World, 2010) Moreover, they achieve its tremendous customer loyalty by offering complete solutions, familiar formats and “the cool factor” that keeps the customers coming back. (The Best Article Every Day, 2010)

Apple knows how to satisfy their customers in the right way. They pay attention to work on every detail in every facet of their product development. All their products are designed, at
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every stage, with the customer clearly in mind and each product is tailored to make it as easy
to use as possible for the customer, regardless of how technically savvy or not they may be
for the so called "Mac loyalists". (Seeking Alpha, 2010)

In general, customers tend to have the desire to have a bigger choice of products, because it
offers them the feeling of freedom of choice. But too much choice can also lead to a
significant problem, because too many options to choose from will *increase* the expectations
and *decrease* the customer’s satisfaction with the choice they made. But the fact of the
matter is that less choice, and consequently less freedom, is what actually liberates the
customers because it gives them *greater satisfaction*. (Seeking Alpha, 2010)

Apple offers a limited choice of options of their products to their customers to create more
satisfaction. (Seeking Alpha, 2010) With this selection they offer their best products they are
totally convinced of. Moreover, it is much easier for the customer to choose the right product.

On the basis of the company examples Harley-Davidson and Apple it is clearly to see why
they do have such great customer loyalty. They listen to what their customers want, they
involve their customers and this leads over time to a long-term relationship with satisfied
customers as well as to a successful business.

### 3.4 How to create Loyalty?

After it was discussed what distinguishes a loyal customer and what can be defined as
loyalty we now proceed to take a further look at how loyalty can be created. As one can
understand from the previous chapter, Customer Relationship Management is the key to
success when a company aspires to have loyal customers. While a meaningful dialog with
the customer is created, the relationship between the customer and its company will be
established and generates benefits for both the customer and the company. The following
part contemplates the development of a relationship between a company and its customer
resulting in a customer who finally demonstrates his loyalty to the company. One thing is
certain; there will be no loyalty without a relationship. Therefore a closer examination of the
growth of a relationship turns out to be crucial in order to explain how a company can build
up a relationship with its customers. In the first step it is taken a further look at the Purchase
Cycle. This process strongly corresponds to the buying process itself. Still, what happens
during the different stages can be regarded as decisive for the subsequent development of
the relationship.

#### 3.4.1 The Purchase Cycle

Describing the Purchase Cycle is one alternative to demonstrate the different stages a
customer is passing through on his way to turn into a loyal customer. Every time a customer
buys something, he or she comes one step further in the buying cycle. This cycle consists
out of five steps a first-time buyer goes through. The first step is to make the customer aware
of a product or a service – the second step is that the buyer makes an initial purchase. After this the buyer enters the repurchase loop that starts with the post-purchase evaluation and the subsequent decision to repurchase. Finally, the fifth step follows automatically when the decision to repurchase is done. The repurchase loop is repeated a few or hundreds of times during a customer’s relationship with a company and its products and services. The potential exists either to strengthen or weaken the bond with the customer with each revolution of the repurchase loop. “The stronger the bond, the greater the loyalty and the more benefit for the enterprise.” (Griffin, 1995) 

In the following the five different steps of the purchase cycle will be explained more detailed on the basis of the purchase cycle shown in Figure 3.

**Step 1: Awareness**

In the first step the potential customer needs to become aware about the product or service the company offers. It is of big importance to stick out of the competitors and to become first choice in the head of prospective customers. There is a variety of ways to call somebody’s attention as for example by advertising, direct mail, trade press, word-of-mouth communication, and marketing activities such as in-store displays. The goal of this awareness-step is to let the customer know that the company exists with this kind of products and services – at that time a little bond between the company and the potential customer is created. Nevertheless, the possibility that other companies might steal the customer during this awareness-step with their own marketing plans and tactics is not very uncommon. (Griffin, 1995) Also the competitors have to be considered and should not be underestimated.
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- **Step 2: Initial Purchase**

The first-time purchase is of very big importance, because it is fundamental for the ability to raise the customer’s loyalty. In addition to that the company can make a big impression in a positive as well as negative way with the product, the employees, the service, and even the physical surrounding plays an essential role. This impression influences the customer in his or her attitude towards former purchase decisions. (Griffin, 1995)

- **Step 3: Post-Purchase Evaluation**

After the purchase is completed, the customer evaluates the deal consciously or subconsciously. It depends on each individual person if he or she is satisfied or not satisfied about the purchase – this has also a lot to do with the previous imagination about the product or service and if this imagination is fulfilled. The possibility that the customer switches to a competitor is increasing if the customer was not satisfied. Otherwise the possibility to repurchase comes more into focus. But it is also to mention, that customer satisfaction alone does not give a company a strategic advantage. The Auto-analyst J.D. Powers agrees: “A satisfied buyer is a repeat buyer – maybe.” (Griffin, 1995)

- **Step 4: Decision to Repurchase**

The commitment to decide to repurchase is the most essential attitude for loyalty – even more essential than satisfaction. If the customer does not want to repeat purchasing again from the same company, loyalty does not exist. The enthusiasm to go for repurchasing means that the customer has a very positive attitude towards the product or service and that the expectations were fulfilled. Furthermore, this positive attitude is higher than the offered alternatives from competitors. When a customer feels emotionally connected or bonded to the product or service of a company it is often the starting point of the next step to repurchase. (Griffin, 1995)

- **Step 5: Repurchase**

The actual repurchase is the final step of the purchase cycle. If the customer buys several times again from the same company and when he or she repeats many times the steps 3 till 5 of the repurchase loop, the customer can be considered more and more as a real loyal customer. Whenever something is needed the truly loyal customer will usually repurchase everything from the same company and will refuse the products and services from any competitors. This loyal customer needs to be courted, served, and nurtured by the companies. (Griffin, 1995)

3.4.2 The Value Process

The Value Process on the other hand describes the development of the value during the formation of a relationship. While the relationship between a customer and a company is getting preferable stronger, it is going through different stages as it is shown in Figure 4: The
The increased Significance of Loyalty

When a relation is perceived as highly valuable and an enterprise is continuously satisfying its customer’s need, the degree of customer satisfaction will increase what leads on the other hand to a high degree of loyalty. Finally both parties will profit from the relationship and will both perceive it as high valuable. (Brown, 2000)

### Figure 4: The Value Process
Source: (Brown, 2000)

In his book *Customer Relationship Management* Brown claims that a company needs to understand that the relationship with its customers must grow like a courtship. Therefore the following description of the different stages as well as the below stated figure summarize perfectly the rise of a relationship between a company and its customer. While the relationship is growing, not only customer satisfaction increases but along with it customer loyalty. At the same time the customer lifetime value is increasing. All of this will end up in an efficient and satisfied marriage resulting in a win-win relationship.

### Figure 5: The Path to Strategic Customer Care
Source: (Brown, 2000)
The increased Significance of Loyalty

- **The Courtship**

In this stage, the company is getting to know the customer and one can hardly speak about a relationship. The customer is orienting himself and the only reason he is getting into transaction are the products and the prices the company is offering him. Anytime the customer encounters a better offer, he will easily switch to the competition. Now it is the enterprise’s task to court this customer to enter a relationship with the company. (Brown, 2000)

- **The Relationship**

In this phase it is of paramount importance that the company is acquainting itself with the customer’s preferences and listens to him. The customer is slowly getting affected by the company and one can name it a solid relationship. At this time the enterprise needs to provide his customer with before- and after-sales service in order to keep him satisfied and to persuade him to continue the relationship. The customer is no longer getting involved with the company because of the products and both start to benefit from the growing relationship. (Brown, 2000)

- **The Marriage**

At this stage loyalty is no longer based on price and products but on satisfaction and the customer is intrinsically tied to a company. A long lasting relationship has been generated and the bond of the between the customer and the company will continuously be strengthened. The customer has become personally involved with the enterprise and is even starting to get dependant on the company; one can speak about true loyalty. In order to continue this marriage both parties must maintain positive experiences that evoke the desire to continue this relationship. Customers who are in the stage of a marriage are also the ones who will function as the above mentioned advocates; working voluntarily as living advertisements for the company. Although it sounds as if nothing could abandon this stage companies need to be careful that they do not rest on their laurels. After having bad experiences the marriage stage can quickly turn into the opposite extreme. A customer who once was an advocate can easily become a terrorist who publishes his negative experience. (Brown, 2000)
4 Loyalty in Modern Times

Now it has become clear what is meant by the term loyalty and why it is an important matter for companies to keep their customers loyal. It was even further examined how loyalty can be created and what characterizes a loyal customer. Still, this report refers to the research question “How to keep your customers loyal in today’s online business?” and in the online business one does not talk about loyalty but uses the expression e-loyalty. Therefore it is crucial to examine the differences between the online and the offline business. The question might arise whether the same rules and principles that count for the offline business can also be applied to the online business. Is it necessary for online vendors to have loyal customers and is it even possible to create loyalty in such a fleeting business?

The explanation of loyalty in the traditional way is already clarified, but how is the explanation of loyalty in the “modern” way? First of all, the electronic business (e-business) is constantly expanding through-out the world since a couple of years. In the same way the usage of the Internet and Web7 is increasing and has become a fundamental part of nearly everybody’s daily live. The Internet has developed and enabled entirely new forms of social interaction and activities. With the powerful capabilities of the Internet it is much easier to communicate with people around the world with a greater flexibility. Nowadays, the Internet can be accessed from nearly everywhere and it allows many people to work together more effectively compared to earlier times. At the same time the Internet changed, but also added another channel to the traditional ways of communication. Therefore, the Internet has been brought into sharper focus for many people and companies.

4.1 Definition of e-Loyalty

E-loyalty means an extension of the term loyalty applied on the electronic business but at the same time the term e-loyalty is a limitation of the word loyalty focused on the online business.

E-loyalty is further defined as the intention to revisit a website or to purchase from it in the future. Therefore, the term e-loyalty refers to an online service provider, as opposed to actual loyalty behaviour, such as repeat visits and purchases. (Cyr, Hassanein, Head, & Ivanov, 2006) The role of trust, privacy, and security comes more into the center of attention in e-loyalty compared to traditional loyalty. (Gommans, Krishnan, & Scheffold, 2001)

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7 The World Wide Web, abbreviated as WWW and commonly known as the Web, is a system of interlinked hypertext documents accessed via the Internet. (ETH, 2010)
4.2 Loyalty in the Online Business

Especially for online vendors it is of great importance to create a loyal customer base via the Internet. The reason for that is similar as the one for the offline business. Companies make good profit with loyal customers in the long run when they have built up a relationship to them. Reichheld and Schefter figured out an important fact in that context that it costs an online vendor at least 20% to 40% more to attract new customers online compared to the costs vendors spend by attracting new customers in the traditional offline market. If an online vendor wants to get these costs back and wants to show a profit it is even more important to increase customer loyalty compared to the companies counterparts in the traditional marketplace. To recoup the average initial cost of attracting the customer on the website takes over a year of repeat purchases by a typical customer among groceries and apparel websites. This period of time shows again the great importance for many online vendors to have an increasing customer loyalty when they want to survive in the jungle of the online business. (Gefen, 2002)

Reichheld and Schefter describe in their article *E-loyalty: Your secret weapon on the Web* the Web as a “sticky place”. That means that people can get stuck in the Web on certain websites, they just have to get attracted in the right way with the right applications. Many critics argued that the Internet changed all the rules of the traditional business. However, when it comes to customer loyalty, the old rules are as vital as ever. This is independent if it is an online or an offline business. (Reichheld & Schefter, 2000)

4.3 The basic Evaluation Criteria

Before a customer decides to purchase a product or a service an evaluation will take place in his or her head. According to Brown the customer evaluates based on the five evaluation criteria information, communication, transaction, distribution and service further explained in the following. The mentioned parameters were examined by evaluating the sales and distribution channels ability to fulfill the customer’s expectations. (Brown, 2000)

- **Information**

Companies possess a lot of information about the specific characteristics of their products as for example price and quality. The importance is that the companies choose the right channel to communicate them to the customer. This can be done either by informing the customer directly or by the use of another channel that the company owns.
The Internet became a relatively new medium in the channel structure through the rise of the years. For that reason the Internet is very efficient to exchange information. Therefore, it is possible for the customer to get exactly that kind of information he or she is looking for and what is needed to make a decision about the purchase. (Brown, 2000)

- **Communication**

The importance that the customer has the opportunity to contact the company directly is beneficial for a relationship between a customer and the company. (Brown, 2000) A fast response of questions demonstrates the importance as well as the value of the customer for the company. Moreover, the direct contact supports to integrate the customer and to figure out his or her needs and wishes. This customer feedback can be used to change and optimize the company’s product portfolio. Especially since communication can take place via the Internet is has become more important than ever before that a company offers a fast responding customer service. The company must be easy to contact and should react – at best – in real time.

- **Transaction**

For customers it is of tremendous importance that the Internet fulfills 100% of the security standards in connection with the transaction of money. Many people are suspicious when it comes to an online transfer because of the risk that it will not reach the right person. (Brown, 2000) The Internet is sometimes seen as an unsafe channel regarding the lack of security when it comes to online trade and online payment. But people used the Electronic Data Interchange (EDI) already in earlier times for large numbers of transactions between companies and were satisfied with its security.

- **Distribution**

With the increasing speed of the Internet and its processes customers also request fast distribution of their purchased products. Customers want to have an unproblematic and convenient delivery of their products. The delivered goods need to be protected during the shipment, and at the same time customers want to have products that are easy to unpack. (Brown, 2000)

- **Service**

Service can be seen as the most important evaluation criteria for a customer. It plays a central role for the customer to receive high-quality service in connection with the decision to buy a product or a service. Moreover, the after-sales service is of special importance. If the customer has any problems or questions it is necessary that those will be solved as soon as possible. With the support of the Internet it is also possible to supply more kinds of services than many other channels. The Internet offers the possibility that the customer can evaluate the quality of the service by estimating the trustworthiness of the Internet company. This means that the customer is able to evaluate if the company has fulfilled its part of agreement.
as for example on time delivery. These personal recommendations can be useful for other online shoppers in their decision to purchase. Moreover, the customer should feel satisfied by a competent, service-oriented, friendly staff so that he or she likes to repurchase. (Brown, 2000)

It must become clear that these are basic criteria that need to be given in order to fulfill a customer’s basic needs. Since everything can be processed via the Internet, companies have to fulfill high standards. In short, a company at least needs to provide the customer with appropriate information and it should be easy to contact a company. Furthermore, the customer’s security and privacy must be warranted without fail and a quick distribution as well as safe packaging is self-evident. Finally a company needs to be aware of the crucial importance of customer service that can create benefits for both the company and the customer.

4.4 E-Loyalty Drivers

The five evaluation criteria give an insight about the main parameters that influence the buying behaviour of a customer. To determine what generates e-loyalty for the company’s website in the online business it requires additional research of the e-loyalty drivers. The e-loyalty drivers have to be valued by the company’s targeted customer segments. E-loyalty drivers include tangible attributes such as price and quality, intangible attributes like style and experience and emotional beliefs like the “coolness” or prestige, the image, associated with the website or whether the website cares about the customer. Summing up, it is necessary to know the most important buying factors of the company’s most loyal customers and exploring their emotions behind them. (Smith, 2000)

The following e-loyalty drivers are segmented into the five categories value proposition, brand building, trust and security, customer service and website and technology. All of them have a certain impact with each of their attributes on the online buying behaviour of a customer. In the following each e-loyalty driver will be presented with at least one of their attributes.
The e-loyalty driver *Value Proposition* has one important attribute that sticks out. The offering of customized products shows the interest of companies in their customers that are interactively involved in the design process of their ideal customized product. The value of the customized product gets through the interactivity a higher reputation. Furthermore, this customization process creates a stronger relationship between the company and the customer. (Gommans, Krishnan, & Scheffold, 2001)

The second e-loyalty driver is *Brand Building*. Through the exploding number of competitive choices that appeared in a short time period on the online market it is of significant importance to build a brand image if a website wants to attract attention and wants to be recognized on the market. The competitors are only one click away in the Internet and therefore it is necessary to use the offered and unique tools from the Internet to stand out from the crowd. Moreover, do consumers prefer an easy to remember website name with an interesting website content and a story behind that fits to the rest of the overall brand image. (Gommans, Krishnan, & Scheffold, 2001)

The third e-loyalty driver is *Trust and Security*, both factors are closely related to each other and they are also very important factors in the process of the online buying behaviour. Online buyers do not have the physical direct contact to the salesperson. Therefore, it is even harder to build trust in an online business where the Internet is sometimes known as an unsafe, dishonest, and unreliable marketplace. Customers are, as already mentioned in the *Transaction* part of the evaluation criteria, afraid that the security standards are not 100%
fulfilled when it comes to online transactions and privacy settings. This insecurity can have a negative influence to stop potential customers from doing business on the web. Third party approvals like encryption, that assures data security in transmissions, should improve the customer’s trust in the website. (Gommans, Krishnan, & Scheffold, 2001)

The fourth e-loyalty driver is Website and Technology. The first impression that a website creates with its design plays a critical role. The online company targets with its pleasant design of their website their best loyal customers. (Smith, 2000) If online shoppers like the design and capabilities of a website, they are even more eager to revisit a website. (CYR, Hassanein, Head, & Ivanov, 2006) Furthermore, it is necessary that a quick shopping checkout of the website is supported by effective search functions, fast page load, easy navigation, a personalized interface and, as a matter of course, a constant server reliability. The customer should not lose any time and should be satisfied after visiting the website. (Gommans, Krishnan, & Scheffold, 2001)

The fifth and last e-loyalty driver is Customer Service. This driver shows the importance to respond quickly on customer inquiries. This means that the online company should be easy to contact either by phone or by mail to solve any questions from their customers at any time. In general, online shoppers seek for convenience and they appreciate easy payment methods and fast delivery with a choice of delivery options. Especially because website designers cannot avoid a certain degree of complexity in the architecture of a website it is necessary for an online company to offer a well organized customer service system to keep their customers loyal and satisfied. (Gommans, Krishnan, & Scheffold, 2001)

4.5 E-Loyalty: A practical Example

After the drivers of e-loyalty were further explored it is now time for some practical examples. Previously the examples of Harley Davidson and Apple were already demonstrating how companies succeed in creating loyal customers. Still, it will be continued with two examples of two companies who are more than successful in creating e-loyalty.

The number of online shops is constantly increasing and providers have problems to stand out from the crowd. The competition in the online business is high and the customers can choose from a varied offer. Many companies struggle to win over customers and have first and foremost problems to keep them. In the following the prosperous online companies eBay and Amazon will be presented; two companies that perfectly understood how to build up a relationship with their customer (Smith, 2000) and to assure success.

Since many years Amazon has been the biggest online retailer that tops the lists of all online rankings and is definitely worth to take a closer look at. The company is recording a constant growth - even in times of the financial crisis. In the fourth quarter of 2009 the company’s profit as well as the turnover were almost exploding. Amazon was recording a turnover of 6,8
billion euro which means an almost unbelievable increase of 42% compared to the year before. Furthermore, the profit was raised by 72% in comparison to the year 2008. (Amazon, 2010)

The economic success the company is recording seems to be downright creepy. Therefore one might wonder how Amazon is achieving these outstanding results. The answer is, who would have thought, a large number of loyal customers. The leading online book-selling site has managed to create the most trustworthy and reliable website in the whole market (Reichheld & Schefter, 2000) resulting in a large number of customers who remain faithful to the business. About 66% of all purchases are made by returning customers. (Gefen, 2002) Moreover, the company profits from a lot of positive word-of-mouth advertising due to the high amount of loyal customers.

“Amazon uses the ‘right’ tools for the ‘right’ customers.” (Smith, 2000) People trust the company and are not afraid to share personal information as for example their credit card number. The confidence people have in Amazon results in a convenient buying process. Because of all the stored data it is more than easy to make a repeat purchase at Amazon. As soon as a customer would decide to buy a product in another shop he or she simply had to spend more time and effort into making a purchase. This is the true reason why people return to Amazon; they know what they can expect, they can trust the company and eventually it is comfortable. (Reichheld & Schefter, 2000)

The honor in February 2000 for the best music-shop and in April 2000 for the best book-shop by the magazine “tomorrow” underlines likewise the trustworthiness of Amazon. The reviewed shops were tested on the criteria service, delivery time, offer and processing. From 100 reachable points Amazon achieved 96. In the same year the security of the website was tested by a goods quality test and Amazon got the highest level. (Pressemitteilungen, 2010)

During the last ten years Amazon was constantly upgrading the company’s range of products as well as its customer service. The company perfectly understands how to create benefits to the customer and how to make the customer’s purchases more comfortable. It is for example possible to choose between different delivery services. For an annual premium the customer can enjoy all the advantages of Amazon Prime. The orderings will arrive the next day free of charge and without minimum order value. In addition, Amazon has developed in 2006 its own credit card that offers many advantages for its user as for example a $30 Amazon.com Gift Card, an instant credit and a reward point system. With all the money a customer spends in the shop he or she can earn points that, on the other hand, can be redeemed in the shop. (Amazon.com, 2010) Furthermore, it is possible to purchase on account or to borrow DVDs. The latest development regarding customer service is a shopping app for the iPod touch and the iPhone. Amazon excellently manages to develop its customer service in the same speed and size as the company is recording growth. The customer’s expectations are squarely fulfilled and, most importantly, the customers have confidence in Amazon.
To the customers it is most important that they can trust a website. Another well-known website people blindly trust is eBay. The world’s largest online market place that is represented in 39 countries and has a customer base of 80 million people is constantly searching for new solutions to create benefits for their customers. (eBay, 2009) Through its referral system people have confidence in the website because of other customer sharing their experiences. (Gefen, 2002) In this way trust is build up already before a potential customer has made its own positive experiences. The assessments of other users give new customers the trust that it is all right to purchase something from a so far unknown seller. The interactive community the website is providing can be regarded as another reason for the company’s success. The auction idea would by far not work for all other websites and especially not for those that are distributing products that are available at discount prices. (Smith, 2000).

Ebay continuously creates new Web applications that are supposed to ease the handling and at the same time engender e-loyalty. In 2009 the company was for example launching the eBay Sidebar for the Internet Explorer. Through this tool the customers gain easier access to their specific buying and selling activities and gain a better overview. Additionally, they will be informed when they were outbid even when the web browser is not opened. In this way eBay offers its supporters customized notifications tailored to the customer’s specific needs. (eBay, 2009) This company definitely understood how to enhance customer loyalty and how to strengthen relationships with retailers.

4.6 Challenges of Online Shops

Due to the increasing availability of the Internet and the increasing number of people that have Internet access online shopping has become a worldwide trend. (Mail&Guardian Online, 2010) This development brings constantly new online shops on the market. Through the launch each company wants to be recognized and wants to stand out from the crowd in order to survive on the market. In addition, companies have to remember that the competition is only one click away in the online business. It is tough work and challenging to show a good online performance to stay in the head of the consumer.

Since it is considered difficult to gain loyal customers on the Internet it belongs to one of the biggest challenges for an online shop to build a relationship to the customer to keep him or her loyal. (Ribbink D., van Riel, Liljander, & Streukens, 2004)

A customer that purchases in the Internet has one major disadvantage compared to a customer in an offline business; Internet customers cannot touch, smell, or experience the product before they make their decision to purchase. (Gommans, Krishnan, & Scheffold, 2001) They do not have any physical contact to the sales personal in the store and therefore they are not able to evaluate the vendor by the look of the store or the quality of the products. Customers cannot look into the salesperson’s eyes, nor can they judge the trustworthiness and reliability of the salesperson. (Gefen, 2002) They can just rely on images and promises
that the company gives to its customers. Moreover, the lack of security standards of online shops and the subsequent misuse hinder many people to purchase online. The previous mentioned points make it difficult that the shopper feels secure about buying a product online. In order to overcome and minimize this insecurity an e-business should offer good product quality and guarantees. Furthermore, customer service is online even more important than offline. (Gommans, Krishnan, & Scheffold, 2001)

Nevertheless, the increased uncertainty that is involved in commerce affects online as well as offline vendors in more or less the same way. (Gefen, 2002) As already mentioned before, customer loyalty is about earning customer trust and customer trust plays a very important role for online vendors. The challenge that the online customer trusts the vendor is also hard work. In traditional commerce, trust is essential and it is created through direct interactions with a salesperson. Online trust is also fundamental in the e-commerce business and if trust is present then there is a greater willingness to buy from an online vendor. (CYR, Hassanein, Head, & Ivanov, 2006)

Observations have shown that shoppers tend to look for information about their favourite product or service online, but finally purchase it offline. This makes e-loyalty even more problematic and challenging. (CYR, Hassanein, Head, & Ivanov, 2006) If customers trust an online business and are convinced about the convenient use of buying products online, it should actually not be a big challenge anymore in future. Therefore, the establishment of trust and commitment are vital to the exchange, and are dependent on developing shared values and effective communication. (CYR, Hassanein, Head, & Ivanov, 2006)
5 Evaluation of the Fashion Online Business

At this point one could claim that all questions are answered now. Is this not the truth? So far this report tried to capture each and every single component a company needs to be aware of when it comes to loyalty in the online business.

However, while it was first important to examine the foundations of loyalty and how it comes off, the second part of the research question - the online business - should not be forgotten. The term loyalty was already discussed in conjunction with the online business, in short e-loyalty. Still, it might turn out to be interesting to take a look at the real business. While real-life examples as Harley-Davidson and Apple and especially Amazon and Ebay, as representatives for the online business, were already demonstrating how loyalty can be achieved, it is time to take a look into fashion.

The origin of this thesis was the wish of the company Nelly to retain their customers to its business. From the previous elaborations, one could assume how this could be put into action. Still, the objective of the following step is to take a further look at how the key players in the market tackle the question of loyalty. Do they stick to the given rules and principles or do they do their own thing? With the aid of the previous mentioned drivers of e-loyalty different online shops will be scrutinized. How these shops were chosen? In a first step a list of all eligible companies was assembled the four most relevant fashion online stores were finally chosen from.

First of all the company Nelly is described and important developments in the market will be identified. It is crucial for fashion companies to understand the changes the Internet has enabled. Companies rapidly have to attune to the developments in order to survive in the market and to keep up to the standards.

5.1 The online Fashion Retailer Nelly

The Swedish fashion and beauty e-tailer Nelly.com was founded in 2004 and is today operating in the Scandinavian countries Denmark, Finland, Norway and Sweden. Recently, a silent launch in Germany took place. According to its own figures Nelly is the leading e-tailer within fashion in the Nordic region. (Nelly.com, 2010) During the last years the company could record a constant growth in turnover. (NLY Scandinavia AB, 2010) The company is a part of the online division of the Modern Times Group, a leading international broadcasting group and is registered under the official name NLY Scandinavia AB. Today, Nelly is offering more than 400 different brands to its target group that contains men and women between 18 and 36 years. However, when communication campaigns are created, the company thinks of a 25 year old woman and a 28 year old guy, living in a big city who like to go out and party. (Eriksson, 2010) While the first idea simply was to offer fashion goods via the Internet, the company is now supposed to offer the most inspiring fashion as well as beauty products on the European market to both men and women that are highly aware of trends. Significant for
the company is the broad assortment that contains both well-known as well as unique brands. Nelly.com sets the focus on quick delivery time that comes along with a high level of service delivery. (Nelly.com, 2010)

5.2 Description and Segmentation of the Market

In order to deliver the reader an insight into the market this report is dealing with, it is first given a market segmentation. A market segmentation can be defined as a split-up of the relevant market into sub-markets to determine the correct positioning of a company. The segmentation is accomplished according to the dimensions products, region and price.

Products: Apparel, Shoes and Accessorizes
Price: Mid-range price segment
Region: Europe

The Swedish online mail order company Nelly is selling a broad assortment of Swedish as well as international fashion brands for women, men and children including shoes and accessories. Due to the varied offer of brands it is difficult to determine a price segment. Starting with well known mid-priced brands such as ONLY, Nelly also sells smaller designer labels that are higher priced. On average the prices can be described as ordinary. The company’s origin is in Sweden. Still, during the last years the company has expanded within Scandinavia and was recently launched in Germany. Especially within the online business borders are not as important anymore as they were before. The Internet increasingly allows markets to merge and only because an online company is launched in certain countries does not mean that other countries have no access to products. Within fashion it has become popular to order goods from abroad and particular companies with their origin in England can be regarded as strong competitors even though they are not even represented in the country. The Internet provides almost unlimited access no matter where you live. (Posten, 2009)

5.3 Recent Developments in the Swedish Mail Order Business

During a business conference in the end of 2008 in Stockholm, Sweden’s distance selling market was considered to be a highly developed market that contains a lot of interesting divisional and niches and has a lot of open minded and well-funed customers. The market is offering perfect conditions with less pricing pressure. (Schweden biete Versandhandel guten Boden, 2008) About 75% of the Swedish residents make use of the possibility to shop products from home. In the beginning of 2009 the turnover was raised by 5,7% and the number of orders was raised by 22,3%. (Lindell, 2009)

In sparsely populated regions distance selling has always been highly appreciated. Still, since the emergence of the Internet the mail order business enjoys greater popularity than ever before. Especially in Scandinavia the market was demonstrating a continuous growth during the last years. About 5 million people order goods from home at least once a month.
Most orders have been received via the Internet. In 2008 the average consumer spent about 634 euro per year whereas in total it was spent about 7,6 billion euro. While Finnish residents are more reserved, Danes spend the highest amount when they order from home and shop the most often.

In the study Distance Selling in the Nordics 2009 that was conducted by Posten AB most people claimed as a reason why they shop from home that it is more convenient. It allows people to go shopping at any time they want to. Furthermore people appreciate that they can find a greater variety of products no matter where they live. They do not need to travel to a city in order to purchase clothes. This is also one of the main reasons why the mail order business is much more appealing in Scandinavia than in other smaller or densely populated countries. Still, the majority of people in Scandinavia are expecting to find cheaper prices when they shop from home.

The category people purchase the most on distance is - who would have guessed – clothes followed from home electronics, books, CDs and DVDs. (Posten, 2009)

5.4 The Internet has changed it all

During the last years the Internet has definitely revolutionized the mail order business. The market is not only prospering in terms of growth but also in terms of forms of appearance and trends.

- Internet Pure Player

The company Nelly belongs to the so called Internet Pure Players that distribute their products and services solely via the Internet. Since the proliferation of the Internet this type of distance selling has tapped the market. Traditionally, mail order companies started with offering their products and services via a catalogue and added the Internet as an additional channel afterwards. Whether it is more beneficial to have a catalogue or not is a hotly debated topic. While some supporters of the catalogue see many advantages in the printed medium as for example a better overview (Posten, 2009) critics have already predicted the decline of the catalogue.

During the last years Internet Pure Players have recorded the highest growth and continuously new platforms arise what indices the success of those mail order companies. The order channel Internet has constantly gained in importance. In Sweden the amount of orders that arrived via Internet in the year 2009 were raised by 9% in comparison to the orders that arrived via catalogue or teleshopping. (Lindell, 2009) On the other hand catalogues can be stored and can be read when - and wherever the customer feels up to review it. Studies have revealed that even younger customers still appreciate being inspired by a printed catalogue. (Posten, 2009)

Nevertheless, the Internet has enabled companies as Nelly to exist only virtual which turns out to be very cost-efficient. All the costs a traditional retail store entails such as rent, storage
and shop assistants cease to exist and in comparison to the catalogue mail order business printing production costs fall away. One could assume that being an online retailer is an easy business. As long as the technology requirements are given, it seems to be unproblematic to build up an own online business but appearances are deceiving. Internet Pure Players have to struggle with several disadvantages in comparison to their competitors. For enterprises only existing online it is much more difficult to attract the consumers’ attention. As already mentioned before, catalogues provide a better overview and give inspiration. Furthermore, it is easier to remember the company because the catalogue is mostly stored at home. Internet Pure Players such as Nelly simply miss a second foothold they can build on as for example a catalogue or even a retail store. Therefore they need to exploit the possibilities of the Internet in its full spectrum.

- The Long Tail

It has become clear that the Internet has brought totally new possibilities to the business. Stores can exist virtually and communication takes place in real time. In former times companies had to think carefully about what products they take into the store and were limited in the amount and variety of products. In a virtual store on the other hand, there exist an unbounded amount of shelves. Adding new products to the assortment has become only a question of virtual space. Therefore expansion has become as easy as never before, both in terms of product expansion or expanding into a new market. Also the so called Long Tail Effect can be referred to this phenomenon. Thanks to the Internet it has become possible to generate revenues with a high amount of unique products in a relatively small quantity. (Anderson, 2006) Normally, a company would have chosen to sell less popular products on large scale.

Since the appearance of the Internet, people are no longer limited in their choice. They have not only easy access to all kind of information to broaden their mind, but also plenty of possibilities to order goods and services they prefer from all over the world. The Internet is growing constantly interconnected with the number of users, sales in e-commerce, acceptance and behaviour of customers. Everybody can take part and join the conversation. Distribution channels were formed with a low barrier to enter. The democratization of distribution developed by an enormous reduction of costs, on the one hand it is easier to reach the customer and on the other hand the inventory costs are lowered. Goods, which are bought in web shops and on Internet platforms, go directly from seller to customer. (Leyland, Berthon, & Berthon, 1999) Fashion items that previously were uneconomic to offer are in times of Internet part of a profitable business by surfing the Long Tail.

Nelly is for sure not eager for concentrating only on niche products. Still, the company utilizes the Internet to continuously expand its assortment by adding new brands to its portfolio. Thanks to the Internet companies can operate as huge multi-brand stores or even huge shopping malls without manufacturing and offering an own brands and being the middleman between brands and customer.
The importance of Social Commerce

The Internet has brought people closer together. To raise the topic Social Commerce can be regarded as a dangerous matter. After all, whole studies dealing with the importance of Social Commerce for fashion companies are conducted. Still, it is crucial for fashion companies to be aware of the significance of Social Commerce. Especially for people in the age between 18 and 29 information and comments in Social Networks as for example Facebook gain more and more in importance. A study showed that almost 20% of the people in this age group are influenced by recommendations they are reading in communities on the Internet. (Trendstudie Webshopping, 2009)

Within Social Commerce priority is given to the customer’s active participation, the personal relationship to the customer and to the communication among the customers. (Social Commerce Today, 2009) The most valuable for a fashion company is the personal feedback it gets and the ability to communicate with the customer. Often, a company’s designer posts a picture of a product on Facebook and asks for the customer’s color preference. For sure, within a short amount of time the designer will receive several answers. Whether the recommendations of the customers are finally utilized remains to be seen. At least, the customer feels involved into the production process of the latest garments of his or her favourite brand. This is only one example how a company can make use of Social Commerce. Next to the company’s activities in forums and communities, customer ratings and reviews, user recommendations and referrals are highly appreciated. A company can keep track of the customers’ conversation among each other and can draw conclusions for improving products and applications. When a customer spreads positive comments about a company or a product within the Internet, the company’s reputation becomes higher and it becomes more likely that other people are willing to purchase from that company. The Internet has become a highly interwoven network and it is no longer enough to provide the company’s own website. Customers want to take active part in shaping the World Wide Web. What is crucial to understand is that Social Commerce gives companies an unpayable possibility to get into a personal dialogue with its customers and to build up a relationship with him or her; the key to create a loyal customer.

5.5 Choice of Key Players in the Market

As it was mentioned before, this part is supposed to take a closer look at how the key players in the market tackle the question of loyalty. Before one can determine what companies to examine, it is necessary to take a critical look at the market in order to choose the most relevant key players. The Internet is flooded with fashion online shops that play in the same league as Nelly. Since ordering products online from another country is continuously becoming more popular because shops deliver their products into the whole world, the

Social Commerce: “A subset of electronic commerce that involves using social media, online media that supports social interaction and user contributions, to assist in the online buying and selling of products and services.” (Social Commerce Today, 2009)
amount of competitors has strongly stepped up. Gone are the days when a company had to watch out for competitors only in its own country.

Primarily, the competitors of Nelly were further observed due to the reason that Nelly has a strong interest in their performance. It soon became clear that not only Internet Pure Player belong to the group of competitors but also physical retailers such as H&M, Gina Tricot, and MQ. (Eriksson, 2010) While it was first assessed to take H&M into further consideration Gina Tricot as well as MQ were soon out of the question due to their missing online business. Although the main focus of H&M is placed on the physical retail business, the company has become tremendously successful with its online shop and is a role model for other companies all down the line. Still, the concept differs a lot from those companies operating solely online. Having own retail stores available, offering only its own brand and providing the people with a catalogue, the company faces totally different prerequisites. Furthermore traditional mail order companies such as Ellos, La Redoute, and Haléns belong to Nelly’s competitors. (Eriksson, 2010) Those companies are among the most successful mail order companies in Sweden and most of them can look back on a long tradition. Mainly, they target an older audience than Nelly, provide their customers with catalogues and offer in some extent a broader assortment containing for example home furnishings. Due to these differences those companies were not taken into further consideration.

In this case, Internet Pure Players that are similar to Nelly when it comes to the concept were contemplated as most interesting. Peter Eriksson, operations manager of the company named bubbleroom.se, stayhard.se, smartguy.dk, smarktgirl.dk and asos.com as competitors in this field. Asos that is supposed to be the largest online fashion and beauty retailer in the UK soon was regarded as the favourite company to look at. Because of the fact that the company’s website is in English and the products can be shipped to the whole world, Asos is a sharp competitor of every fashion online shop in the whole world targeting the same segment. UK fashion is hip and due to well-priced delivery costs, more and more people choose for ordering clothes from UK fashion online stores such as Asos and TopShop above their own country.

Due to its recent launch in Germany, the company Nelly is highly interested in the performance of the German fashion online retailers, especially 7trends. German online shops mostly distinguish themselves with the absence of delivery and return costs what is a difficult matter for foreign countries trying to penetrate the market. German customers are spoilt with high service and due to the high competition the online shops constantly try to exceed each other with even higher standards such as shorter delivery times and faster return handling. In order to delve more into the Swedish world of online stores, a Swedish fashionista, fully aware of the Swedish fashion branch, was consulted. Sofie is a fashion student, has several years work experience in the fashion business and is an active blogger. During an interview with her she was mentioning several Swedish as well as international online shops she recognizes as most important. The most significant fashion online shops in Sweden are bubbleroom.se, stayhard.se and zoovillage.se, sidandsally.se. The online retailer Zoovillage
that was “Sveriges bästa E-handelsite 2007”\textsuperscript{9} exists already since 1998 and is well known among the Swedish fashionistas. (Niccolai Pettersson, 2010) Sofie confirmed that Asos is a very well known international online fashion shop people gladly order clothes from. Additionally she was recommending miashopping.com where one can find a list with all Swedish online fashion stores. (Mia Shopping, 2010) On this website all web shops are listed and one can regard reviews from other customers as well as entries in blogs. After all recommended websites were evaluated roughly, the following four fashion online shops were assessed to be the most relevant ones. It was chosen for Zoovillage and Bubbleroom as Nelly’s Swedish competitors. Zoovillage is also internationally very well known and was in 2007 awarded as the best Ecommerce website in 2007. Furthermore, Zoovillage has the most experience among all Swedish fashion online stores. Bubbleroom as one of the youngest platforms was tremendously growing in 2009 and was awarded as the best shop of the year 2009. In addition to the Swedish web shops it was chosen for 7trends as a German fellow combatant and Asos as UK’s largest online fashion store.

5.6 Company Descriptions of the chosen Companies

In order to deliver an insight into the chosen companies a short company description of each company will be given.

- **Bubbleroom**

The online retailer Bubbleroom.se belongs to the Swedish mail order company Haléns Holding AB and was founded in the year 2008. Haléns is one of Sweden’s leading distance selling companies and exists already since 1994. While Haléns mainly targets women around 40 and offers next to fashion goods also home furnishing, the younger daughter Bubbleroom sells fashion, shoes and accessories for girls and guys. According to the company’s statement, Bubbleroom is Sweden’s fastest growing fashion online shop. Next to Sweden the company operates in Finland and Denmark with own websites in the corresponding language. However, since Bubbleroom has an English website available, customers from all over the world have the ability to order products online. The company strongly focuses on involving its customer. Therefore the website consists of a perfect combination of brand clothes, second hand, and community blogs. (Bubbleroom, 2010)

- **Zoovillage**

Zoovillage was founded in 1998 in Sweden’s capital Stockholm. According to the website of Zoovillage belongs to one of Europe’s first largest clothing online stores. They offer streetwear, sportswear and luxury clothes for men and women. (Facebook, 2010) Most of their website visitors are from the Scandinavian countries Sweden, Denmark and Finland. (Dataopedia, 2010) The company has an offer of almost 100 different brands with a high variety of products. Zoovillage has an ambition to be an instantly reachable, 24-hour store for

\textsuperscript{9} Sweden’s best ecommerce website
the top clothing brands. This does not depend on where the customers are located in the world. Since Zoovillage has an already 12-year experience in the online fashion business they are a stable and well-organized company that has very good branch knowledge. Their main focus is set on building up a good relationship to their customers that they can trust in Zoovillage. Moreover, the easy navigation of their website as well as to keep the security standards belong to their major goals that the customer feels comfortable and likes to return. The Swedish online business keeps all their items in stock that they can guarantee their customers a fast delivery with no delays. (Zoovillage, 2010)

- **7trends**

The fashion online shop 7trends was founded by two young German entrepreneurs in 2008. The online shop, that is located in Berlin, is offering fashion for so called “Fashionistas” in Germany. The founders of 7trends were mostly inspired by the English fashion online shop ASOS.com. (Deutsche Startups, 2009) 7trends is oriented towards offering catwalk and star looks from celebrities for affordable prices in the mid-range price segment. Therefore, the company looks out regularly for the latest trends and latest must-haves for their fashion victims that should get a special shopping experience at 7trends. For that reason the company sells well-known top brands from Germany and other countries as well as brands that are difficult to obtain from overseas for men and women. (Gründerszene, 2009) The company counts on a good choice of products in their assortment, quality instead of quantity is important for them. The customer plays a very important role and is “The King / The Queen”. Furthermore, 7trends ensures in all their order processes a maximum of service and security and promises a high level of transparency, short delivery time, high level of security, low costs as well as a high level of flexibility to their customers. (7trends, 2010)

- **ASOS**

ASOS.com is the UK’s largest independent online fashion and beauty retailer that is established in June 2000. (ASOS, 2010) ASOS stands for “As Seen On Screen”, its company full name was chosen in order to try to show the brand’s intention to supply the public with outfits seen on or similar in style to those worn by celebrities. In brief, ASOS.com sells versions of designs that are worn by celebrities. By offering these high-street and luxury brands the company has become an online fashion phenomenon that is well-known as “Cutting edge fashion on the web”. (Time Online, 2008) In between 10 years the company became rapidly the market leader in the UK online fashion world. Their sales for the financial year 2009 that was ending on the 31st of March was £165 million. ASOS.com aims primarily at fashion-conscious 16-34 year old women and men. Next to that they also present fashion for kids. The company offers more than 35,000 branded as well as own label products in their online shop. Moreover, they are adding over 1500 new lines to their product portfolio every week. ASOS.com attracts over 6.9 million unique visitors a month and has 2.9 million registered users. (ASOS, 2010)
5.7 The Evaluation of the chosen Online Shops

After a brief presentation about the companies Nelly, Bubbleroom, Zoovillage, 7trends and Asos, the next part deals with the evaluation of each company on the basis of certain criteria. In the previous chapter the reader was informed about loyalty in the e-business. Within this context the drivers of e-loyalty were introduced. The five e-loyalty drivers are Customer Service, Trust and Security, Website and Technology, Brand Building and Value Proposition. From these drivers suitable attributes were chosen and partly adjusted.

In the following each table will present one e-loyalty driver and its different criteria. The evaluation took place on the basis of a rough analysis of the companies’ websites and is supposed to give an overview about how the companies try to win over customers. Do they fulfil the e-loyalty drivers that play an important role when an online vendor wants to gain loyal customers?

To clarify the evaluation the companies can get up to five stars per criteria, whereas five stars mean very good, four stars good, three stars satisfied, two stars sufficient and one insufficient. No star was given when no information was found on the website.

- **Customer Service**

<table>
<thead>
<tr>
<th>Customer Service</th>
<th>Nelly</th>
<th>Bubbleroom</th>
<th>Zoovillage</th>
<th>7trends</th>
<th>Asos</th>
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<tbody>
<tr>
<td>Fast response to customer requires</td>
<td>Email-reply within 24 hours</td>
<td>Not specified</td>
<td>Email-reply within 48 hours</td>
<td>Not specified</td>
<td>Email-reply within 1 hour</td>
</tr>
<tr>
<td>Easy to contact</td>
<td>Contact Form</td>
<td>Hotline (Mo-Fr 09.00-17.00)</td>
<td>Hotline (Mo-Fr 8.00-12.00)</td>
<td>Hotline (Mo-Fr 8.30-18.00)</td>
<td>Contact form (if there will be no solution after 2 emails, ASOS calls the customer)</td>
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<td>Credit Card, Invoice, Cash on delivery, Part payment</td>
<td>Credit Card, Invoice, Cash on delivery</td>
<td>Credit Card, Pay Pal, Transaction, Direct withdrawal (till 200€), Invoice (till 200€), Cash in advance (Only SE)</td>
<td>Credit Card, Pay Pal, Transaction, Direct withdrawal (till 200€), Invoice (till 200€), Cash in advance (Only SE)</td>
<td>Credit Card, Pay Pal</td>
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<td>Nelly</td>
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<td>- No further delivery costs if the customers orders within 14 days</td>
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<td>- First class shipping to all countries for 6€</td>
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<td>- Free freight all over Europe</td>
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<td>- Germany: 3-7 working days</td>
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<td>- Denmark, Norway Finland: 7-10 days</td>
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<td>- Within 14 days</td>
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<tr>
<td>- Deal with customer return within 24 hours. If something is wrong – 10% off for next order</td>
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### Evaluation of the Fashion Online Business

<table>
<thead>
<tr>
<th>Customer Service</th>
<th>Nelly</th>
<th>Bubbleroom</th>
<th>Zoovillage</th>
<th>7trends</th>
<th>Asos</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Product presentation</strong> (Example: Dress)</td>
<td>3 pictures: Front and back, full length</td>
<td>4 pictures: Front and back, full length, close-up of detail</td>
<td>6 pictures: Front and back, full length, 2x close-up of details</td>
<td>4 pictures: Front and back, full length, side</td>
<td>4 pictures: Front and back, full length, close-up of detail</td>
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<tr>
<td></td>
<td>Excellent zoom function</td>
<td>Proper zoom function</td>
<td>Proper zoom function</td>
<td>Excellent zoom function</td>
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<td>Catwalk</td>
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<td>Missing: 360° view</td>
<td>Missing: 360° view, direct customer comments</td>
<td>Missing: 360° view</td>
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<td>All necessary information about the product is available – Standard</td>
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<td>All necessary information about the product is available – Standard</td>
<td>All necessary information about the product is available – Standard</td>
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<table>
<thead>
<tr>
<th>Guidance</th>
<th>Nelly</th>
<th>Bubbleroom</th>
<th>Zoovillage</th>
<th>7trends</th>
<th>Asos</th>
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The category *Customer Service* can be regarded as one of the most important factors when it comes to creating customer loyalty. Due to the high amount of criteria only the highlights will be mentioned. Asos definitely stands out with the promise to answer email requests within one hour. When this promise was tested it really turned out to be true. This is what one could call outstanding customer service that does not occur frequently. Nelly at least replies within 24 hours and Zoovillage within 48 hours. It is important to tell the customer when he or she will receive a response so that he or she knows when an answer can be expected. While the other shops offer only certain times a customer can contact the company, Asos claims to be reachable 24 hours a day and 7 days a week. As a special feature Bubbleroom offers next to its hotline a chat. This is an intelligent application in case that a company wants to offer its customers a possibility to contact the company directly.

When it comes to payment options in foreign countries most companies struggle to offer different possibilities. Most of them offer varied payment options for the country of origin but in most cases people who order products from abroad only have the option to pay with credit card. This might need approval because especially younger people do not always possess a credit card.
Due to the fact that the amount of orders companies receive from abroad increases, online stores attempt to attain low delivery costs all over the world in order to remain competitive. Zoovillage is offering free fright all over Europe and no other online store can keep up with this exceptional service.

While Asos provides the customer with different delivery options as for example Same Day Delivery, the other online shops only offer standard delivery. Still, during the last years the delivery time has become a competitive advantage and most mail order companies aim to deliver their products within one to three working days even though it is standard delivery. The possibility to track the order gives the customer a secure feeling.

Again, Asos sticks out regarding to the return handling and offers extra service on top. The company claims to deal with the return within 24 hours and if something goes wrong the customer receives 10% off her or his next order.

Scandinavian people are used to pay for the costs in case they are returning products they do not like or that do not fit. This is different in Germany. People never have to pay for return costs and during the last years it has become popular that they do not even have to pay for the delivery costs. For UK customers counts the same as for German customers; in their own country they do not need to pay for return costs.

Customers have to rely on the given images and product descriptions because he or she cannot touch the product or even fit it. Therefore, it is crucial that an online retailer provides the customer with as much as possible information. What was outstanding a few years ago has become standard today. In this case, all examined online shops give a proper product description with all needed information. Still, Nelly and Asos stick out because they have catwalk videos available. This application enables the customer to imagine how a garment would fit in real life.

Due to the same reason companies need to offer a size guide as well as a measurement guide. People cannot fit the product and need to figure out the right size. Both Asos and Zoovillage are offering an informative measurement guide, size guide as well as a washing guide. Bubbleroom and Nelly are missing the washing guide and 7trends the measurement guide. Nelly is offering an intelligent size guide application directly next to the product. In this way the customer can easily figure out what size is needed.

Summing up Asos has reached 44 of 50 possible stars what is an indicator that Asos can be regarded as a role model in the field of customer service. Where other companies mostly fulfill regular standards Asos constantly caps it all off.
Trust and Security

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<td><strong>Trust and Security</strong></td>
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<tr>
<td>Third party approval</td>
<td>Tell a friend, Facebook, No Twitter, Direct comments of other customers</td>
<td>Tell a friend, Facebook, Twitter, Direct comments of other customers</td>
<td>Tell a friend, Facebook, No Twitter, Missing: Direct comments of other customers</td>
<td>Tell a friend, Facebook, Twitter, Missing: Direct comments of other customers</td>
<td>Tell a friend, Facebook, Twitter, Missing: Direct comments of other customers</td>
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<tr>
<td>Privacy</td>
<td>Standard security, but no special information</td>
<td>Not specified</td>
<td>High level of security</td>
<td>High level of security and privacy</td>
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The category Trust and Security evaluates the criteria Third party approval, Privacy and Authentication. To gain the customer’s trust it is important to work with referrals and recommendations – from customers for customers. The subjective statements of former buyers about their purchase of a product are necessary because they influence the purchase decision of other customers. Furthermore, customers need to have the opportunity to interact among each other to exchange information. The Social Network Facebook has become a must-have for private persons and therefore a standard for companies to communicate with their customers. Some of the examined online shops have more; some have fewer applications where the customer has the possibility to exchange and share experiences with others. The different applications can create a word-of-mouth as well as a word-of-mouse reaction; this kind of advertising is “for free” and should be utilized by companies in a proper way. The surveyed companies Nelly and Bubbleroom stand out from the other surveyed online shops because they offer the possibility to their customers to leave a direct statement next to the product description. Companies should not hide their privacy policies in their general terms of business. They should rather use their policies to win the customers trust. Nowadays many customers are afraid of the insecurity of the Internet. Companies should be more transparent for their customers that those feel more secure.
Evaluation of the Fashion Online Business

If an online shop gets awards like “Sveriges bästa E-handelsite” they should publish it and inform their customers about it. Awards can be used to build up customer trust towards a company. Moreover, this is a way to make gratis advertising. Zoovillage and Bubbleroom stand out from the rest with a couple of awards for their online shop.

- **Website and Technology**

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<td><strong>Website and Technology</strong></td>
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<tr>
<td>Fast page load</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
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<tr>
<td>Easy to navigate/browse</td>
<td>Easy to use</td>
<td>Easy to use</td>
<td>Easy to use</td>
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<tr>
<td>Language options</td>
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<td>Swedish, Danish, English</td>
<td>Swedish, English, German</td>
<td>German</td>
<td>English</td>
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<tr>
<td>Search functions</td>
<td>Good arrangement after gender, brands and categories (Trends)</td>
<td>Good arrangement after gender, brands and categories (Show top lists and Shop)</td>
<td>Good arrangement after gender, brands and categories</td>
<td>Good arrangement after gender, brands and categories (Looks)</td>
<td>Good arrangement after gender, brands and inspiring categories</td>
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The category **Website and Technology** evaluates the criteria **Fast page load, Easy to navigate / browse, Language options, Currency options and Search functions**.

The evaluation has shown that 7trends seems a little bit too confident because they offer their website only in German language. This could keep off potential customers in Europe.
from ordering. In general, German companies tend to be more cautious in testing and probably 7trends focus only on the German speaking markets instead of directly penetrating whole Europe. Asos presents their website only in English. Nevertheless that English is the global language should Asos consider to offer further language options. The company is well-known in Europe and could think about offering their website for example in French and Spanish for the markets in Southern Europe. By providing an extended language offer the customer will get an additional service.

All online shops fulfill the criteria *Fast page load* and *Easy to use*. These standard requirements assume a smooth shopping experience. Only Bubbleroom could improve some of their applications where the page load does not work properly. Moreover, Nelly, Bubbleroom, Zoovillage and Asos provide their customers with a nice application to choose from different currencies. This makes it easier to order because the customer does not need to convert into other currencies.

The search functions are standardized in each online shop for reasons of clarity and comprehensibility. It usually depends on the personal taste if the customer likes the arrangement of the functions on the website. All surveyed online stores, besides Zoovillage, offer inspiring categories to their customers. Nelly, Bubbleroom and 7trends have an additional filter application on the y-axis that simplifies the search. This additional function is a nice feature, but nevertheless the online shop has to be aware, that the website is not getting too confusing for the customer. Bubbleroom for example has a very long y-axis where the customer has to scroll a lot which could have a negative influence for the usability of the website. Whereas 7trends has a clever filter with an attractive visual view.

- *Brand Building*

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<td><strong>Extras</strong></td>
<td>Standard Membership – Newsletter</td>
<td>Membership – discounts, access to community, information about new products</td>
<td>Membership – Newsletter, saves personal measurements, order history</td>
<td>Standard Membership – Newsletter</td>
<td>ASOS Premier with membership special conditions (only for UK customers)</td>
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Most fashion companies have become aware of the importance of Social Commerce and understand how essential it is to communicate with the customer. To provide an own fanpage on Facebook has become a standard application. All companies give the customers the possibility to directly communicate with friends about products they like. When customers post comments about the company or its products in Social Networks the company has the ability to respond to questions or recommendations. 7trends is communicating a lot with its customers but only onesided. While the customer has access to a lot of extra information through an editor blog and the company’s own magazine, he or she does not play a part in creating these communication tools. Asos on the other hand is offering its customers and own community -ASOS Life- where he or she can communicate with other customers, start up an own blog or group and can bring in own ideas. The same counts for Bubbleroom. The company pays a lot attention to the integration of its customer especially when it comes to blogs. People can create their own blogs and have the ability to interact among each other in a forum. Furthermore blog top lists inform the customer about the most read blogs and the most active blogger. In the category “bloppis” community members can sell second hand clothes. Zoovillage and Nelly still have to improve their activities when it comes to community building. At least Nelly started to ask for the customer’s opinion on Facebook. Recently followers were asked to post their favourite colour for Chucks\textsuperscript{10}. Asos is the only company that offers their customers a Premier Membership. For an annual premium of £ 24,95 customers can enjoy advantages as for example free and unlimited next day delivery all year, free return collection service all year or no minimum order value. Asos definitely understood that customers want to be treated special.

\textsuperscript{10} Casual shoe of the sports shoe company Converse
As it has been described earlier, fashion online stores today have the ability to act as huge shopping malls. The fundament of their business is offering a broad assortment to their customers so that they can find all desired products in only one store. Therefore, the different online stores contend with each other for the highest amount of brands and all of them constantly increase the number of brands and products in their portfolio. In comparison to the other four online shops 7trends still has to catch up and has to adjust the unbalanced amount of brands between men and women. Of course, the company was founded no more than two years ago but Bubbleroom has already double the amount of brands available and is the same age as 7trends. Although it is important for the customer to have large choice, companies need to keep in mind that it is more important to have the right brands instead of the highest amount of brands. A confusing assortment might appear deterrent to the customer.

When it comes to guarantees most companies offer generalities. In case that the delivered goods are faulty or the wrong product was sent, the customer can send it back; mostly at the firm’s expense. After the appeal was handled, customers receive their money back or get a new garment. 7trend customers need to send back the damaged product within one week otherwise it is not a guarantee case anymore. In case that something was wrong customers need to hurry up if they want the product to be replaced. In general, companies should arrange their return policies more clearly. All needed information should be easy to find and should not be hidden in the small print. When a customer needs to search too long for certain information, he or she might get annoyed and might cancel the purchase.
Evaluation of the Fashion Online Business

- **Result of the Evaluation**

Summing up Asos is the obvious winner of this evaluation. The English fashion online store has achieved 90 out of 110 reachable stars. Through its outstanding customer service as for example e-mail reply in 1 hour, premium offers for the customer and an integrated community Asos is always one step ahead. Asos always comes up with something special that distinguishes the company from its competitors. As special features the company offers for example animated product pictures and real-time information. Probably that is the reason why Asos’ website is frequently copied by other fashion online shops that want to gain on. They are followed by the Swedish online retailer Zoovillage that profits from its long experience in the online business and its international awareness. The online shop sticks out with free freight all over Europe. This is a difficult attribute for other online retailers to keep up with. Zoovillage managed to receive 78 out of 110 reachable stars. While the results of Asos and Zoovillage stand out the other three combatants achieved almost the same amount of stars. Both Bubbleroom and Nelly attained with 71 stars one star more than 7trends. Although Bubbleroom did not achieve a proper overall result, its remarkable community activities should be mentioned. The company highly focuses integrating the customer what is one of the most important factors when it comes to customer loyalty. Nelly on the other hand pays a lot of our attention to an excellent product presentation including catwalk video and an exceeding zoom function.

Finally one can say that it is important to regard all criteria separately. The overall result can be seen as an indicator but does not necessarily mean that a company had a bad performance in all categories. While some categories need to be improved every online shop has a certain area of expertise.
6 Conclusion

The topic this report is dealing with is about loyalty in today’s online business. Before one can think about how loyalty in an online shop can be created it was inevitable to first illustrate the term customer loyalty and its further meaning. It has become clear that it is not possible to turn every customer into a loyal customer and that there exist different types of loyalty. It was ascertained that loyalty can only be created when a company is able to build up a relationship with its customers and agrees to form a strong bond with them. To achieve such a target, a company needs to occupy itself intensively with the concept of CRM. It is crucial to comprehend the importance of loyal customers and to understand about the benefits. The goal is to find out what customers value about the relationship with the company and to find out about their preferences. With the help of data mining and an efficient database it is possible to use customer data in an effective way and to adjust CRM strategies on an individual basis. Furthermore, the process of establishing a relationship was contemplated. In order to boost the customer’s life time value, to satisfy him and to increase the customer’s loyalty a company needs to court and nurture the relationship to its customer. During the development it passes different stages and will hopefully end up in a win-win relationship in the final phase.

After all the basics were clarified, it was important to answer the questions whether the same rules and principles can also be applied to today’s online business. Therefore the term e-loyalty was further examined. Can you even talk about loyalty when it comes to the fleeting online business? For sure you can. The old rules and principles are as vital as ever. Loyal customers are as important for the online business as they are for bricks-and-mortar stores; if not even more important. The costs for attracting new customers are 20% to 40% higher in the e-business than they are for traditional retailers. Finally, it turns out to be much more profitable to retain existing customers instead of attracting new one. The longer the relationship with an existing customer is, the lower the costs are and the higher the customer’s lifetime value and with it the profit. For this reason, it is essential for companies that are providing their customers with commodities via the web to know what other requirements their customers ask for. In times of high competition it is vital to explore how customers can be disposed to come back to a company’s website. An online vendor at least needs to fulfil a customer’s basic needs in order to satisfy him. In short, the customer needs to be provided with all needed information, the company should be easy to contact and the customer’s security and privacy must be warranted. Furthermore, an enterprise needs to ensure quick distribution and safe packaging and needs to provide high standard of customer service. If the basics are not given, a customer will not be satisfied and will not return. A company will have no chance to build up a relationship with him. The e-loyalty drivers were giving a deeper insight into the triggers of e-loyalty. The fulfilment of the different drivers will allow a company to satisfy its customers, to gain the customers’ trust and to build up a relationship with its customers.
After all the foundations were clarified, a practical evaluation dealing with the question how the key players in the market tackle the question of loyalty was conducted. It was taken a closer look at the fashion online business and its key players. The purpose of the evaluation was to give an overview about how the examined fashion online shops try to win over their customers and to test whether they fulfil the e-loyalty drivers or not. Do they implement the rules and principles that were found out in the previous part?

Finally it can be said that the chosen online vendors definitely try to attempt to fulfil the e-loyalty drivers in order to attain loyal customers. It remains to be seen if certain offers are only provided in order to satisfy the customers or in order to keep up with the competition. For the customer it does not matter as long as he or she is the one who benefits from it. When the online fashion stores try to outbid each other regarding for example the delivery time, the customer is the one who takes advantage of the competition. Although not all of the examined online fashion stores attained high scores none of them totally failed. The customer has been set into the centre of action and the companies are doing everything they can to satisfy him. In the beginning most online companies were virtual and anonymous shops that were not tangible. This has definitely changed during the last years. It is of high importance that companies are easy to contact and that customers know the personalities behind the scene. Since the rise of Social Commerce companies gained a totally new possibility to have a conversation with its customers and to integrate him or her into the company’s processes. This is a perfect possibility to become acquainted with the customer and to build up a relationship with him or her. While the customer is no longer a spectator but has the possibility to actively participate and to codetermine, the company gains a lot of insight information from the customer’s activities on the Internet. On the one hand a company can learn a lot from the comments and recommendations a customer is posting and from the customers’ conversations among each other and on the other hand the customer will benefit from it because the company is aware of her or is preferences.

6.1 Recommendations

What one could learn is that creating customer loyalty is not about offering discounts. In contrary, it is about getting to know the customers and to get into a personal dialogue with him or her in order to build up a relationship no matter if one talks about an online or offline business. In the particular case of Nelly the company needs to increase the level of communication with its customers. The company provides its customers with well-arranged product descriptions and excellent customer service including email reply within 24 hours, interacts with its customers on Facebook and offers the customers to share his or her experience with other customers directly next to the product description. Still, special customers need to be treated specially. With the help of datamining Nelly should filter its best customers and should provide them with special offers.

The Asos Premier membership could be taken as an ideal example of treating existing customers in a special way. Thereby frequent shoppers can be rewarded with exceptional offers as for example free delivery all year and free returns.
An additional community on the company’s website offers fashionistas the possibility to integrate and to interact with other customers. As mentioned above, the customer has the ability to codetermine and to actively participate and at the same time Nelly will gain a lot of insight information that is needed to get to know the company’s customers and to build up a relationship with him or her.

One of the most important drivers of loyalty is *Trust and Security*. The example of Amazon clearly demonstrated how successful a company can be through a reliable and trustful website. Only when a customer trusts the vendor he or she will hand out his personal data, will return to the vendor and will recommend the online shop to others. Nelly owns the certificate “trygg e-handel” of the Swedish association for distance selling. This certificate guarantees the online shopper security when goods are ordered online and should take away the customer’s fear of online purchases. While other online shops put the symbol of this certificate on the frontpage Nelly does not inform its customers about it. Everything what could influence customer trust in a positive way should be fully utilized.

In the end, it always depends on listening to the customers’ wishes and preferences. Nelly needs to have a constant dialogue with its best customers in order to gain their loyalty. It is all about being updated about trends and developments within Ecommerce and to respond to the customers’ individual needs.

### 6.2 Suggestions for Future Research

The last paragraph already gave an indicator for future research. This report was mainly dealing with clarifying the foundations of loyalty. After this has become clear Nelly can start working with the results. Most important is to listen to the customers. Therefore, the matter of e-loyalty needs to be regarded from the customer’s point of view. When a purchase is made, Nelly’s customer receives 10 days after the delivery of the purchased good a questionnaire via Email that contains 9 questions regarding the customer’s satisfaction. The customer is asked to evaluate aspects as for example return handling and the quality of the product. With the last question Nelly asks the customer to comment on what would convince him or her to purchase more often at Nelly.com. These comments can be analyzed in order to gain consumer insight and to respond to the customers’ suggestions.

Next to the customers’ wishes, trends within Ecommerce need to be continuously figured out. The Internet is a fast changing business and constantly new trends arise. Online fashion retailers as Nelly need to be updated about these trends and implement the most relevant ones. Young fashion consumers are highly demanding and always want to be provided with the latest applications in the market.

To form a strong bond with its customers Nelly needs to occupy itself intensively with the concept of CRM. Data mining and an efficient database enables Nelly for example to segment and identify its customers. In this way CRM strategies can be adjusted on an individual basis.
Reference List

- **Literature Sources**


- **Internet Sources**


Declaration of Authorship

We hereby declare to have written the present thesis on our own, having used only listed resources and tools. All passages that were taken either directly or mutatis mutandis from published or non-published sources have been marked as such. Citations, which had been only available in German language were translated into English by myself and are disclosed as citation. The thesis has never been submitted to a different examination authority in the same or similar form.

Natalie Engelke                                                          Johanna Heller