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A digital loyalty program for micro retailers

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Dedicated to

my mum and dad with love,

thank you for everything.

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INTRODUCTION

In the last twenty years, the way in which businesses are proportional with the market and with its customers has changed. Until the nineties, the marketing activities had as main objectives the growth of the market share, the constant acquisition of new customers and the opening of new sales channels. In recent times, however, it was felt the need to move from short-term relationships to long-term relationships with existing customers.

it has not changed the role and weight that the demand was in the process of strategic planning, but it has changed the concept of "customer" means a person, natural or legal, that you have to know the entire basket of needs and expectations, and it is useful to estimate the value, not only economic, it can generate in the whole cycle of relationship, especially in the medium to long term.

It is on these bases that develops marketing relational as real philosophy for the management of the company: the development of a strategic orientation that focuses on building, developing and maintaining a loyal customer base that is able to increase profitability in the medium-long.

There are many factors of the environment that for various reasons has encouraged the development of relationship marketing within companies:

- The growth of the power of customer information and the ability to affect corporate reputation. In particular, thanks to the spread of social networks in general and of the typical features of Web 2.0, it is radically reversed the logic went where was the company that communicated to the market in one-to-many. Compared to these phenomena, businesses, especially large ones and exposed in terms of brand image, have developed systems monitor the "web reputation" aimed precisely to estimate the extent to which the reputation is associated to attitudes, ideas and situations, positive or negative, expressed by the world of the network;

- The development of complex and integrated offerings where the identification of the component the product and service becomes as unstable as to make them a complex clear distinction. From the mid 2000s, the presence of products developed jointly by several enterprises or whose components are "co-branded" is a constant in all markets where we want to offer integrated solutions that meet a specific function of use.
- The spread of ICT. Another trend now strongly consolidate represented by the growing penetration among all customer segments, of the use of technology, facilities and systems, able to connect with each other millions of people, facilitating and enhancing this effect the cognitive power of the individual customers. There are many markets where the buying process is influenced by information on the most popular social networks or news sites;
- The speed and the capacity to respond in less time. The development of interactive technologies incorporating, in many situations, the ability to respond in short time to external stimulation; indeed, many sites and / or applications available on Smartphone suggest early customer information, or services, which might need in the near future;
- Competitive pressure. The crisis that is characterizing the early years of the new century and the intensification of globalization processes, are exacerbating the competitive dynamics and struggles for the maintenance of market positions acquired. In operational terms, this means that the primary demand of many markets will shrink and businesses will consequently more difficult to acquire new customers, and focus their policies to existing customers.

CHAPTER 1

1.1. CUSTOMER RELATIONSHIP MANAGEMENT

Direct marketing (DM) induces to consider the kind of relationship that the customer (potential, usual, loyal) has with the company. There is a natural correspondence between direct marketing and relationship marketing. The first difference between mass marketing and DM is the database usage; the second one is that DM's aim is to obtain a direct answer from the customers. In the last decade the relationship between the company and the customer has become more and more critical because of a number of causes: exceptional growth of the products and the brands, entrance of a lot of companies in the market, pervading advertisement, proliferation of ways of interaction with the clients, growing customers' expectations. Business marketing understood that to scoop the competitors and acquire competitive advantages in the net economy, a strategy, based on management and continuous improvement of the relationship company/customer, and is needed.

Customer relationship management (CRM), that is the management of the long term relationship with the customer, becomes the cornerstone of the creation and the maintenance of the relationship. CRM is based on the technological developments and on the e-business. It is the activation, the development, the maintenance and the optimization of the long term relationship between the consumer and the company. It is also the integration of all the communication's channels. CRM is founded on the capacity to understand needs and desires of the consumers and it could be realize by putting in the middle of the business those desires, integrating them with the business strategy[1]. This process is used in several business functions

[1]Michael Porter

(production, finance, planning) and in various fields (marketing, IT, accounting and statistics for the quantitative analysis). This knowledge becomes a prerequisite for the management of the relationship with the customers. CRM is not just a business strategy but also an integration approach for all the business functions. The scope of CRM is not to acquire new clients but to maintain and localize more profitable customers. The starting point of this process is the identification of the customer's profile that emerges from the answers given for those questions:

- Who are them?
- What do they need or desire?
- Where do they live?
- When do they have a propensity for purchasing?
- How much are they willing to pay?
- Why do they purchase?
- Which was their purchasing behavior?
- Which communication's channels do they choose to meet with the company?
- Did they use email, phone, website or smart phone for the first contact?

The good or the service that comes from the answers to these questions will be composed by tangible and intangible elements which are functional and psychological and suitable to satisfy the needs and the desires of the customers, actual and potential.

It is possible to list the fundamental drivers of CRM:

- Competition
- More sophisticated expectations of the market and the customer
- Globalization of the markets
- Transition to a new business process model, based on the customer
- Integration of the sales' channels
- Integration with other kind of technologies

- Management of the multi-channel marketing[2]

The achievement of the targets by the CRM happens through several activities. The integration of sales' channels and interactions between company and customer could be reached through a specific customer interaction center inside the company, modifying the communication's strategies, developing the digital channels, improving direct and indirect point of sales in agreement with the needs of the individual customer. Another important element is the management of the customer's life cycle. This is based on the sales' process and on the informative system. Dividing this management in two "spaces", the principal characteristics related to the front-end, are:

- The identification of the customer's preferred channel for the promotion of the supply of goods and services;
- The identification of the kind of good/service that customers are interested in;
- the conclusion of the transaction;

The typical features of the back-end (internal to the company) are the transactions between the company and the customer, which gives the opportunity to update the database, and the activation of the supply chain. That being so, we can say that CRM is a systematic approach to the management of the life cycle of customers who combine the business's need with the more appropriate communication's technologies.

CRM is an approach to the customer and a system of applications software (CRM platform[3]). Its aim is to build, develop, maintain and optimize more profitable long term relationship between company and customer (win- win

[2] V. Gemmo (2006)
[3] The e-CRM is an internet integrated approach related to the architecture of the informative system and to its functionalities

situations in which the company and the customer get reciprocally advantages from the collaboration). This architecture starts from the specific characteristics of the company and from the sophistication's level that it wants to reach.

The identification of the products that satisfy the needs of the customer is just the starting point of the company.

In the CRM’s process we have four stages:

1. The first stage takes place in the marketing function through the analysis of the relationships with the customers, divided on the basis of their preferences and purchase's behavior.

2. The second stage is about the planning and production. In this phase the costumer's desires, recorded through market's researches, and are shifted in the peculiarities of the product.

3. The third stage takes place in the sales' area in which personalized offers are developed.

4. In the fourth stage we have the intervention of the customer support. It has to promptly find a solution for the problems or requests of the clients.

Ultimately we can summarize the purposes of CRM such as a business's strategy aimed to understand and prevent the needs of acquired clients and to identify the potentially prospected customers. The scope of this process is to increase the customer's satisfaction, aiming to create long lasting relationship, boost their profitability and identify the most valuable clients.

CRM requests the planning of new processes and the realization of technology based systems that are able to support a well-coordinated interaction of the company with the customer, through communication's channels (combination: customers/products/channels)[4].

It is important to understand which are the advantages that are possible to obtain with the CRM. Obviously the first one is the competitive advantage. The quality of a product could be easily imitated by competitors (through the utilization of the same technologies of the referential company and appropriate investments). The capacity to promptly respond and anticipate the customer's needs is not easily imitable because it derives from a deep knowledge of the client.

A satisfied customer is also a loyal customer. A lot of satisfied customers give to the company a competitive advantage. From a structural point of view, the technologies, that support the CRM's process, simplify the direct access to the business information gaining a streamlined management of the customer who becomes the center of the system and received a customization of promotion's technique (one-to-one marketing) based on customer's needs and their evolution. There will be a sharp improvement of the ability of markers' diagnosis that gives the possibility to measure and verify the efficacy of the marketing's campaigns, the business activity, and the customer support and to improve the planning of the next campaigns. A last advantage is the reduction of maintenance and sales costs. The CRM software integrates more business's applications and so it is possible to save on the licenses, procedures, customer support and digital memory. Moreover, simplifying the management of promotional campaigns, it is possible to use the necessary data in a more focused way minimizing the wastefulness.

From a practical point of view, it is very hard to guarantee the implementation of the usage's[5] function and the investments related to technology, planning and obviously to the training and education of the staff. The planning of CRM requires an integrated approach. The project could be

[4] A. De Luca
[5] The CRM platform requires synchronic ways of operating while consumers are used to the asynchronic ones.

break into different activities well-coordinated and based on customer focused processes, channels and on the organizational set-up of the company.

It is important to define some basic criteria:

1. Before deciding the IT, it is important to define the relationship-wise and commercial strategy and to involve the top management as the CRM requires structural changes inside the productive organization;

2. CRM requires long times, continuing formation's process and step-by-step development[6]. For this reason gradual investments, oriented to partial targets, are required;

3. Learn from mistakes. Investing in CRM leads to strategically, organizational and technological changes. Mistakes are frequent; it is important to work for avoiding their repetition and for identifying new and correct *iter*:

4. Customer Relationship Management's technologies require new professional profiles, new roles and new business processes (re-engineering), redefined in relation to a new approach to the market and to the customer relationship. For this reason the CRM technology has to be activated after the modification of the company's organizational structure.

5. The precedent point is also connected with the staff's training. CRM process requires learning efforts and re-orientation of daily activities. All the members (front-end and back office personnel) must understand the new *iter*[7];

[6] This the “think big, start small” approach. It means having a global view, realizing the single elements and then integrating them according to the business's purposes.

[7] New technologies make available on the site and in distance learning packages reducing costs of business's

6. Differentiating the CRM targets on the basis of the customer's kind: it is important to aim for loyalty and customer satisfaction for profitable clients and to stimulate reactions in passive customers;

7. Customer database is the cornerstone of relational system must be planned again to focus on the knowledge of the customer;

8. The direct verification of the interaction process mustn't be delegated. Using outsourcing is very important in the call and contact centers to relate with the customers because it is an essential source of learning and innovation for the company;

9. Make the CRM director and the manager of the product and the channel responsible, using a specific encouragement system.

Finally is possible to do one last classification of the CRM:

- Transactional CRM. It supports activities: back office (orders management, supply chain, transaction with the informative system of the company using functions of planning, supply and production), front office (service automation, marketing automation[8], and sales automation), mobile office (remote sales, support to sales).

- Informative CRM (analytic). It is the intelligence of CRM process. It is about the analysis done through business intelligence systems (particularly

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formation.

[8]The purpose of marketing automation, based on the customer intelligence, is to direct to the customer's specific communications. This gives the possibility to design, simulate, and execute multi-channel campaigns (direct mail, e-mail, phone call, sms, wap etc. and verify their execution and efficacy with the appropriate markers.

data warehouse[9], data mart[10], data mining), that give the chance to identify rules and behavior models of the customers in comparison with specific goods, services and channels; it understand the vertical applications and the support activities in the marketing's campaigns.

- Interactional CRM : It simplify the contacts between company and customers, identifying more appropriate channels for each customer and each good/service: it allows the company to create personalized relations (one-to-one) with the customer using multiple channels; it is integrated with the transactional and informative features; it gives the opportunity to do personalized offers for each category of clients and to automatically update data; it allows the company to personalize the offered services through alternative distribution channels base on push technology interfaces (bancomat, websites, etc.) automatically set up for the needs of the customer.

[9] It is the field of integration of various informative systems in the company. It is an informative system that is created to manage data for a decisional purpose. Data are centralized and available for the entire company. There are internal and external data, related one to another. Data are listed using a logical index (metabase) that memorize all the database's profiles. DW data allows doing complex decisional analysis and analysis on the process using development tools based on object oriented languages.

[10] Just as DW, data mart contains a structure of data able to formulate markets strategies on the basis of historical analysis. The big difference between these two kinds of systems is that DW is a generalized system, while data mart is a specific one.

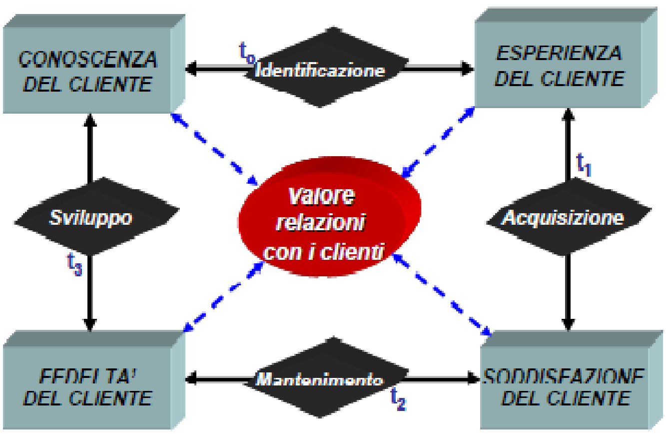
1.2. CUSTOMER RETENTION

As examined in depth in the previous paragraph, Customer Relationship Management (CRM) is the company-customer relationship key, since the company aims to make certain of reach a competitive advantage against competitors. To gain this goal, building a great customer loyalty is the first step towards a customer value increase.

Creating Customer Relationship Equity (CRE) means implement any kind of strategy based on the customer lifetime. It is fundamental to develop company strategies of customer portfolio management. In the model proposed below, it is possible to highlight:

- Customer relationships' evolutionary steps (identification, acquisition, retention, development);
- Customer relationship equity factors (knowledge, experience, satisfaction, loyalty).

In particular, thanks to the paragraph focus, it will be analyzed the model section that deals with the evolutionary steps. It will be examined especially the retention, whereas the study of customer relationship equity factors is postponed through the dissertation.



[11]

[11] Cantone, Risitano, 2007

The first evolutionary step of the CRE Model consists of the customer identification (identification step). It is necessary to underline that companies generally have been attempted to reduce their market heterogeneity. In order to gain this result, companies have been defined their marketing strategies, with appropriate segmentation processes to get closer to consumers belonging to homogeneous groups.

Through Customer Relationship Management (CRM), consumer's analysis is related to individuals, thanks to information and knowledge that the company has available[12]. In this relationship step, the first company purpose is the deep knowledge of the customer identity, which derives from all the different contact opportunities between the company and individuals.

The second evolutionary step of the company-consumer relationship is the acquisition step. In this step there a value exchange between two subjects, measured on the basis of the expected value in the consumer perception. This perceived value is determinate thanks to three elements that compose the overall customer experience:

- Cognitive experience that the company is able to build for the consumer in the pre-purchase step;
- Purchase experience, that is influenced also from previous purchase experiences;
- Breadth and depth of enjoyment of the experience by the customer.

The company aim in this step has to be the realization of differentiated value propositions, on the basis of different characteristics of different consumers, and the consumer acquisition costs minimization[13]. The aim for this

[12] Peppers, Roger, 2004
[13] Wayland, Cole, 1997

process is obviously the maximization of returns on investments in building relationships with consumers.

The third evaluative phase of the relationships is the retention of the client (retention step). The development underlined with the proposed analysis model is idealistic: it is not granted that every client in the portfolio could (and has to) be retained forever. The retention strategies refer to the capabilities of the company in developing and guiding the repurchase behaviors of the supply; the logic antecedent of those behaviors is often identified in the customer satisfaction, the third determinant factor of the relationship value.

Several studies in the literature deepen the dynamics of the repurchase, referring especially to the role of the fiduciary resources[14] e many of these contributes focalize the analysis on distinct levels of customer loyalty (the forth determinant factor of relationship value). The retention strategies definition in non-monopolistic markets can be divided in:

1. Loyalty strategies, used to maximize the client benefits through loyalty programs or occasional initiatives (discounts, promotions, loyalty bonuses, etc.)
2. Anti-churn strategies, tight to the rising of exit costs from the relationship for the client (costs related to the closing of the relation, penalties for the exit, minimum length of contracts etc.).

In both cases the aim of the company is to define a value proposition superior to those of the competitors, directly (loyalty strategies) or indirectly (increasing switching costs).

Considering loyalty strategies, the client is not hit by opportunistic mechanisms of the company which, underlining the power asymmetry of the parts involved, are a risk for the evolution of the relation to the next step. The aim of the companies at this stage of the relation is not to retain every

[14] Morgan, Hunt 1994; Oliver, 1997; Costabile; 2001; Castaldo, 2002

existent relationship but to handle with priority the most profitable ones, supposing as well the customer selection and the consequent harvesting wherever not sufficiently profitable relations occur.

The contextual analysis of the acquisition costs and retention costs of every client, indeed, allows a segmentation of the clients based on current and potential profitability: the definition of the client profile based on this value allows to manage systematically the customer relationships value (Customer Relationship Equity) which are present in the entire customer portfolio, as it shown in the proposed model.

Finally, the fourth and last evaluative phase of relations between company and customer is the development step: in this stage the client has an enormous strategic relevance for the company. Accumulating trust from the client towards the company has shown value through:

1. participation of the client to the selection, purchase and consume experience;
2. A satisfaction level such as it guides the client to the conscious repurchase, which is typical of loyal behaviors[15].

Levels of relationship development at this stage are related to the capabilities of maximizing the profitability of each client acting mostly on the increasing of the per capita incomes. At the moment in which the company builds a retention strategy, it has to consider important decisions regarding the client target to select for the retention itself, strategies to be used and how to measure the final performances of these strategies.

The aim is to establish a long term relation with the customer through policies aimed to increase his/her loyalty to the company.

[15] Oliver, 1997; Costabile, 2001

The implications, from an operative point of view, are several going from the marketing information, which is the creation of databases that can describe the history of the relation with the client and exploit the measurement system which best fits as far as it regards profitability and customer loyalty.

Regarding the database, the information are of several kinds (records, potentiality, affinities, availability, references, innovation, specific needs, purchases and so sales volume, trend, share, management costs, competitive pressure, loyalty, generated satisfaction), approximately based on facts, opinions and external news that the company can obtain from external sources, through specific agencies or by itself, as well as from internal sources, all of the functions have to contribute.

Loyalty rate measurement, instead, requires some specific indicators, that we can classify in this way:

- Customer Retention Rate (CRR): percentage of company's customers who are still active at the end of the financial year, compared with all the active customers at the year beginning. In fact, the appropriate and useful time gap for measuring Customer Retention Rate is linked to the customer repurchase cycle. It is calculated as the difference between consumers of year end and the new consumers acquired during the year, in percentage, on customers' quantity at the year beginning;

- Customers Seniority Average: it is the inverse formula of CCR, which means 1/(1-CRR);

- Unrefined Customer Retention Rate: customers quantity that operate with a company at the commercial period end, expressed as a percentage on the overall number of active customers at the year beginning;

- Retention Rate calculated on sales: it is sales value reached through pinned consumers, expressed as a percentage on overall sales related to all active consumers at the period beginning;

- Retention Rate calculated on margins: it is the profit guaranteed on pinned customers, expressed as a percentage on overall profits generated from all active consumers at the period beginning;

- Share of wallet: it states how many times consumers repeat purchases in a particular products' category, choosing company's product among overall sales for that category (for example: how many times the consumer will fill the fuel tank around Agip stations, on the overall number of times that the consumer will gas up the car.).

On the economic side, instead, the effort is translated in a purchases increase due to relationship duration, lower management costs, customer referrals[16] and premium prices.

Another important operational implication is the segmentation based on the Customer Lifetime Value (CLV), an indicator that Fredrich Reicheld considered one of the most fundamental in the measurement indicators hierarchy[17].

Knowing that a consumer let the company earn more profit than it could gain from the first sale, let it give away earning, or lose on the first purchase to acquire the customer. The money average lost today can be recovered tomorrow.

The Customer Lifetime Value, from this point of view, is fundamental to propose an efficient marketing campaign, because, thanks to the

[16]word of mouth
[17] Reicheld F., "the loyalty effect", Harvard Business School Press, 1996

information that this KPI gives, it is possible to risk in the short run, for reaching higher earnings in a longer term.

A calculating model of Customer Lifetime Value is composed by three components: the consumer value in the time, actualized relationship duration and earnings, calculated separately or together.

Supposing the consumer actual value as constant also in the future, it is possible to easily and quickly approach the Customer Lifetime Value through the equation:

CLV = a x s x g[18]

Where:

- a = company-consumer relationship duration (years)
- s = buying average of a customer in a years
- g = percentage earning.

Supposing, for example, the buying average in one year is €100, that the consumer keeps purchasing from the same company for 4 years and the percentage earning on sales is 35%, CLV is going to be calculated as:

CLV= 4 x 100 euro x 0,35 = 140 euro

Jay Abraham says: "As far as the profit amount, provided from a specific consumer, is not known exactly, it is not possible to know how much time, how

[18] Gray M., "how to determine customer lifetime value?", 1999

much effort, and how much money is possible to invest to acquire that consumer"[19].

Finally, last practical implications of customer retention are development strategies, new products for the same customers.

A higher consumer value can be created through different marketing actions:

1. Cross-selling: promotional actions that companies use to boost the consumer to purchase additional o complementary products;
2. Up-selling: actions that companies use to let people buy a product/service of a higher level compared to the one generally buyed from the consumer, more profitable for the company and more functional for the consumer. In this way, consumer lifetime value could increase.

In conclusion, in the paper "Customer retention. Keeping your valued loads starts with filling needs" (May 2009), Timothy Brady said "it is far easier, and less costly, to keep a customer than it is to find a new one (…). The best method for keeping quality customers is to understand what they need and provide them with what they want". Moreover, he made a list of a set of attributes necessary to create solid basis for establishing an enduring relationship with consumers:

1. Communication: all information has to be provided in short terms and in the clearest way possible.
2. "Say what you'll do; do what you say": never go back on a promise.

[19] Abraham J., "Getting Everything You Can Out of All You've Got", St. Martin' Press, 2000

3. No surprises.
4. Bring forward problems: it is necessary to be always ready to face particular situations and, because of that, it is required to imagine all potential landscapes.
5. Honesty and trustiness: they are fundamental to create a win-win relationship.
6. Safety: arrange all the elements that can contribute in reassuring the consumer during the relationship.[20]

[20] Brady T., "customer retention. Keeping your valued loads starts with filling needs", Fleet Owners, 2009

1.3. CUSTOMER SATISFACTION

The customer satisfaction is the measure of the level of the customer's satisfaction: the global evaluation that the buyer gives to his consumption's experience starting from the purchase's decision and arriving to the results arising from the usage of the acquired good or service.

Specifically the customer satisfaction gives us an assessment of the discrepancy between the performance perceived by the consumer and his expectations and desires.

When we talk about perceived performance, we are dealing with all the feelings and the impressions emerging in a consumer after the use of a product or the fruition of a service. As regard the expectations, we mean all the things that the consumer expects from a product or a service before he has bought them: the expectations are based on cognitive elements, they derived from past experiences, external information and inferences; while the desires are founded on motivational elements, they arise from personal targets, internal urges and external pushes.

Expectations, desires, satisfaction and loyalty are defined in psychometrics and in other fields of science as "conceptual constructs". A conceptual construct is a logical concept that couldn't to be directly observed. This kind of constructs is not easy to be measured as it is an attempt to "quantify" objectively something that falls in the range of the subjectivity.

For example, when the customer satisfaction has been defined we have talked about perceived performance, which defers from the objective performance that is the real tangibility of the product's features, because of the process of perception through which individuals, exposed to information and various urges, perceive, observe and understand them.

As a consequence the quantification of the satisfaction according to the algebraic approach occurs among expectations and perceived performance (cognitive area), while on the basis on the subjective approach it is a personal evaluation of the difference between expectations and perceived performance (sentimental area).

These previous statements show that it's not enough to ask to the consumer "are you satisfied or not?" or "How much are you satisfied?" to correctly measure the customer satisfaction.[21]

The customer satisfaction could be defined as the attitude of satisfaction that the user acquires (and not necessarily shows) by the use of a good or the fruition of a service and by the producer's activity of communication. This attitude probably is going to have, as outcome, the buyback and a positive approach to the purchase by potential customers. Moreover, if this attitude is prolonged, it will strengthen the trustworthy relation with the producer.

A company is interested to measure the level of satisfaction of its customers because this knowledge gives the possibility to take intriguing opportunities bringing to an increase of future profits.

The satisfaction is not a unique concept, there are various factors that produce different effects on the perceptions and the satisfactions of the consumers regarding the offered product or service.

Satisfying the costumers' needs promptly and efficiently, the company could loyalize them and tear down the competitors counting on the quality and a market-oriented strategy.

The level of customer's satisfaction is a tool with a globally recognized importance that represents for the companies a cognitive element very important for the acquisition and the long-term stabilization of competitive advantages.

Indeed the companies invest a lot of time and money in the phase of innovation of new products. Nevertheless just the 25% of these products[22] reaches the sales' goals and a huge number of these products are recalled from the market after just one year from the launch. The success of a product is mostly determined by the number of satisfied customers that will repurchase

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[21] Escofier & Pages, 1988

[22] Data TNS Infratest

the product already tested. To maintain a high standard of success, the buyback e the frequency of the purchase need to be always stimulated but often it's hard to understand precisely what to do. Knowing how to measure the customer satisfaction offers basic elements to understand what to do and how to do it.

Beforehand we touched on the concept of quality ad a driver to opposed competitors as regard the final satisfaction of the customer and the repurchase. The term "quality" is defined in several ways.

Some people explain the quality in relation to one or more must have characteristics, but the traditional definition of the term quality is based on the premise that goods and services have to satisfy the requirements of the consumers. A good or a service is a quality product when it is appropriate to the fixed purpose.[23]

Quality could be meant as a feature (in accordance with the technical peculiarities) or as a value (the use's suitability); it is a relative concept because it express the level of correspondence between the expectations of the customers and the offered good/service: the more the expectations and the good/service overlie the stronger those will be judge as quality products and services.

The Quality is a customer driver because the levels of performance and conformity are established by the customers who are appointed to evaluate the grade of quality.

We can notice some important differences considering quality on one hand the point of view of the customers and on the other the prospective of the organizations. For the consumers quality is:

- Design, sensations related to the product, reliability etc.
- Usefulness (price/quality ratio)

Dealing with this problem from the point of view of the organizations,

[23]Douglas & Montgomery, 2006

Quality becomes:

- Compliance to the requirements
- A cost (cost of prevention, cost of control, cost for faulty products, cost for the management of the guarantee, etc.)

Afterwards the perception of quality is multidimensional and it can depend on the nature of the product/service, the surrounding circumstances (in a specific context could be considered as a quality product something that could be judge ad a tin-pot in another background or by another person), the expectations, the perception (based on the specific knowledge about the product/service, the convictions, the values, the emotions, the information gained throughout media, advertisement and friends) the needs occurring at the moment of the evaluation, etc.

In the 1987 David Garvin identified the “eight dimensions of quality”:

1. Performance (Does the product do its job?)
2. Reliability (Is the product consistent?)
3. Durability
4. Serviceability (Is the product easy to service? Does the company offer enough support after the sale?)
5. Aesthetics (How does the product look like? Is it nice or obsolete? Is the product appealing to the eye?)
6. Features (What does the product do? Is it easy to enact?)
7. Perceived Quality (Which is the reputation of the company? How much does the delivery take? Is the user’s manual clear?)
8. Conformance (Does the product meet with the technical peculiarities? Is the product safe? Is the supplier able to understand the customer's desires? Are there any warranties?)

Is it possible to notice that perceived quality, loyalty in the purchase and buyback are elements strictly linked one to another? For example, if someone regularly takes business trips with a specific airline without any luggage related issue or any delay; this airline will be preferred to its competitors by a particular range of customers who is not going to evaluate competitive offers.

This is just the most obvious relationship between quality and customer's satisfaction.

In the particular we are referring to the capacity of satisfying, in whole or in part, the needs for which the service has been created. It is necessary to notice that there is a fundamental difference between a product and a service. The production and the consumption of services, generally speaking, are simultaneous; for this reason there are no filters of quality as in the industry. Is it not possible to check the quality of services discarding the ones that don't reach a specific standard before the introduction in the market ad it happens for the tangible products?

In wider terms we can underline the distinction between products and services for three characteristics:

1. Intangibility: Services are immaterial, they exist only when they are produced and exhausted, they could be evaluated exclusively ex-post and not ex-ante;

2. Perishability : It's not possible to store services; It's necessary to constantly adjust the supply to the demand to avoid the lost of value of the service;

3. Indissolubility: Basic service, optional services and supply's system (supervisors, infrastructures, ways of consumption's participation etc.) contribute to create the user's perception of the global service.

For the service companies the quality evaluation of the sold products is very complex. There is a widespread belief that when we are talking about quality service we are meaning a service which satisfies the customer. The concept of quality evaluation could be totally relative as two customers who have the same expectations but different lifestyles, will have two diverse perceptions of the selfsame service.

The development of several initiatives for the quality's improvement is based on the huge impact that this kind of operations has on the customer satisfaction. At the same time the results of the customer satisfaction are often used by managers to establish the priorities among the different quality interventions. The bond is unquestionable!

Among the most used techniques to evaluate quality, the ones, based on the direct disclosure of the judgements related to the level of satisfaction, have offered significant results in the area of service quality's ranking. Bestowing growing scores when the satisfaction increases, it's possible to evaluate all the single aspects of the service to obtain a global overview of the perceived quality. If long-term information, about customer satisfaction and about the existing gaps between expected and perceived quality, are available, it is possible to supervise the effects of the strategical choices on the customer satisfaction. This situation gives the opportunity to promptly organize new improvement interventions or strategy's changes.

Having verified the importance of customer satisfaction and its high potentialities in the business area, it's hard to understand where to focus the efforts if we haven't any way to measure the level of customer satisfaction and to foresee what will bring to positive results. The measuring of elements, such as the attitudes, opinions or inclinations, couldn't be simply executed just as you do for the weight and the height. The basic idea is that inclinations could be measured in a one-dimensional space, like a straight line, and that the respondents could be sort on the basis or their inclinations on a continuum[24].

The amalgam of all the sorted ways, used for the measuring of the inclination on a one-dimensional space, is called altitudinal range (they could be: simple if they realize a direct measuring of the inclination and its element

[24] Togerson, “continuum psicologico”

in just one numerically evaluated question[25]; complex if they develop results about more inclinations and categories, they are the most appropriate to measure complicated phenomenon such as satisfaction and loyalty).

As regards the measurement of the customer satisfaction, there a lot of elements that let us choose multi-item altitudinal ranges in which the belief of the subject, in relation to the psychological object in consideration, is based on the combination of the judgements related to all the items.

A Michael J. Ryan, Thomas Buzas and Venkatram Ramaswamy's piece[26] suggested that on three different statistical studies in three diverse areas, the explanatory skill of indexes with multiple entries is greater than the 18% compared with simple aptitudinal models.

The study of the satisfaction is interpreted as an evaluation of the perceived quality related to some particular aspects identified as hidden dimensions. Those elements are quantifiable throughout some variables called markers or manifest variables. Hidden variables are perceived quality, loyalty, expectations etc.), while manifest variables are the ones that could be directly observable and measurable. The links between manifest and hidden variables could be formalized by a clear model which makes strict the process of definition of the consumer satisfaction's concept and its evaluation.

Finally we can briefly describe the fundamental conceptual models:

- SERVQUAL[27]: System of measurement of the customer's perceptions as regard the quality of the service. The theoretical basis is the gap theory: the difference between perceptions and expectations mediated by the weight's effect. The weights are identified by the importance of the dimension;

[25]Bernardi, 2005
[26]"Making CSM a Power Tool: Composite indice boost the value of satisfaction measures for decision making" of M. J. Ryan, T. Buzas, V. Ramaswamy, in Marketing Research-Summer, 1995.
[27]Parasurman, Zeithaml, Berry, 1991

- TWO-WAY[28]: The theoretical basis is the difference between objective (levels of quality) and subjective (levels of satisfaction) hidden factors;
- SERVPERF[29]: It takes into account just the perceptions and not the expectations
- NORMED QUALITY[30]: It is based on the difference between ideal and feasible expectation
- QUALITOMETRO[31]: It is base on the measuring of expectations and perceptions in different moments

SERQUAL, SERVPERF and QUALITOMETRO models are built to verify the customer satisfaction about not specific services. They are general and for this reason they could be useful for one service and unsuitable for another. Often the items are very complex and complicated as they are created to evaluate before the hidden dimensions and then the satisfaction as a summary of the dimensions.

[28] Schvaneveld, Enkawa, Miyakawa, 1991
[29] Cronin, Taylor, 1994
[30] Teas, 1993
[31] Franceschini, Rossetto, 1996

1.4. CUSTOMER LOYALTY

A direct marker to identify the customer satisfaction is the customer loyalty: if the customer is satisfied, there will be more probabilities that he is going to be loyal. This doesn't mean that these two concepts overlie. To avoid misunderstandings is useful to underline the difference between customer satisfaction and customer loyalty, even if both of them have a free description. Customer satisfaction and customer loyalty are bonded by an interdependence relation and they are two different parameters with various businesses' implications. Customer satisfaction measures how much a client is satisfied. Practically we want to know if we have reach and overcome customer's expectations. Unfortunately customer's satisfaction does not mean automatically customer loyalty. A lot of companies could record high levels of satisfaction, but also high rates of desertion.

We can clearly define a boundary between customer satisfaction and customer loyalty underlining their basic stage that differences these two moments: the creation of a feeling between consumer and company that makes the first one sharing the business activity. Satisfaction is not enough, to loyalize a customer, participation is needed. He must feel that the company is worried about him as it is worried for the entire company[32]. This is possible just if we identify all the elements that determine and clarify to the company the sale's choices and the consumer's preferences.

In the second paragraph of this dissertation, we have deepened the concept of retention through the Customer Relationships Equity's model. In that scheme it was possible to identify the fundamental stages of the analysis, among which we have given more importance to the retention phase, and the determinants of the CRE model.

This model is based on the systemic management of four determinants that

[32] Vance Christensen, 2006

express the worth of the relationships with the customers: customer knowledge customer experience, customer satisfaction and customer loyalty. Just as for the retention, we need to deepen the last of these four stages: the customer loyalty.

Customer knowledge is the first considered determinant. There are several kinds of knowledge which could be improve on a strategical ground. In the CRE model are relevant:

1. The knowledge from the customer who creates innovation's processes of the company's supply system;

2. The Knowledge about customer which gives the possibility to identify and analyze the needs, desires and purchase's habits of the consumers. These flows of knowledge are collected in a customer's database.

The second determinant is the customer's experience related to the stages of research, purchase and management of the “experiential living” of the consumer. It gives the opportunity to maximize the

Worth of the relation with the costumer during its phases.

The third determinant of the worth of the relations company/customers is the customer satisfaction that refers to the concept of creating value for the clients, as we have already said.

The fourth determinant in the CRE model is the customer loyalty. In the literature, the loyalty concept has been often discerned in two fundamental dimensions[33]: attitudinal loyalty and behavioral loyalty. According to the first approach, loyalty is considered as a deep attitude to the buyback of a specific brand: this attitude is based on the positive manner that the customer has reached in relation to that brand and on his level of commitment. According to the second one, loyalty is based on the frequency of the buyback that is the result of a negative experience of purchase which generate a low level of commitment. The costumer repurchases the brand's product because searching an alternative is a bigger loss of time and cost[34]. On the basis of this research, loyalty is a determinant of the worth of relationships definable as “deeply held commitment to re-buy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing, despite situational influences and marketing efforts have the potential to cause switching behavior”[35]. This kind of behavior is considered the final stage of an evolutionary process based on four levels of loyalty: cognitive, emotional, conative and proactive. It is to be hoped that the companies activate the customer selection processes aimed to the management of the more profitable relationships, defined through the analysis of the customer's loyalty performances: this process gives the possibility to reach levels of sustaining loyalty[36] in accordance to the purposes of the company. Certainly loyal customers are the ones with whom the company could interact more deeply to define one (or more) of the six options of development of the last evaluative stage considered before (development stage).

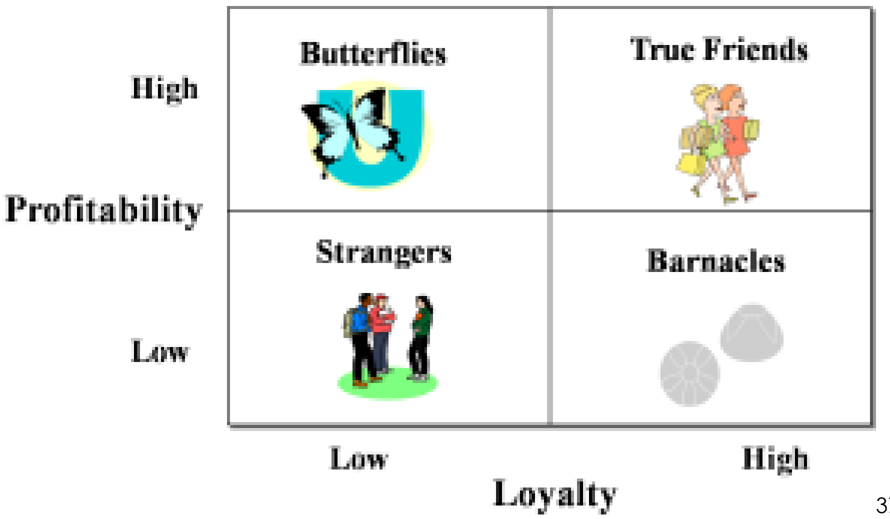
[33]Dick, Basu, 1994; Uncles, Dowling, Hammond 2003; Kumar, Shah, 2004
[34] Uncles, Dowling, Hammond, 2003
[35]Oliver, 1999
[36]Kumar, Shah, 2004

CHAPTER 2

2.1. CUSTOMER LOYALTY PROGRAMS

Reicheld's hypotheses that customers become more valuable over time and they generate profit from increased purchases, reduced cost to serve, from referrals and from price premium, may not hold true in a non-contractual relationship: revenue stream must be balanced by the cost of constantly sustaining the relationship and by fending off competitive attacks; constantly increasing customer satisfaction and retention not only consume a firm's resources but are subject to diminishing returns (to retain costumer you have to defeat competitors, make them satisfied).

This matrix shows the link between profitability and customer loyalty:



[37]

[37] Kumar, Werner and Reinartz, "The mismanagement of customer loyalty", Harvard Business Review, 2002.

- Strangers: little fit between company's offering and customers' needs and lowest profit potential;
- Barnacles: limited fit between company's offering and customers' needs and low profit potential;
- Butterflies: good fit between company's offering and customers' needs and high profit potential;
- True Friends: good fit between company's offering and customers' needs and highest profit potential. If the relation between profit-loyalty would be perfect all companies would be here.

When the profitability and loyalty are considered at the same time, it becomes clear that different customers need to be treated in different ways.

- Strangers: make no investment in these relationships; make profit on every transaction.
- Barnacles: measure both the size and share of wallet; if share of wallet is low, focus on up- and cross-selling; if size of wallet is small, impose strict cost controls.
- Butterflies: aim to achieve transactional satisfaction, not attitudinal loyalty; milk the accounts only as long as they are active; key challenge is to cease investing soon enough.
- True friends: communicate consistently but not too often; build both attitudinal and behavioral loyalty; delight these customers to nurture, defend, and retain them.

Overall trend shows a positive association between loyalty and profitability. However, across different firms there is a segment of customers that is loyal but not very profitable (due to excessive resource allocations), and there is another segment that generates very high profits although it has only low loyalty; this shows that loyalty is not the only path to profitability.

Another important thing is that loyalty program is different from price discount. The first one is not just a relationship between discounts and quantities but also other elements. It's a cost without benefit if there isn't competition; instead you get discount if you buy large quantities.

Average people tend to be more profitable (it means more loyalty more profitable). But for many companies it's not always the case so they need a loyalty program.

We can classify the loyalty based on the relationship between loyalty and product: behavioral loyalty, you always buy the same product; attitudinal loyalty, you really like that product; true loyalty, people are passionate to that product. Loyalty program don't create loyalty, only for true loyalty products.

True loyalty includes both components of loyalty (attitudinal and behavioral) and it involves a certain degree of involvement in the product category (e.g. visibility of the product when using it). The key objectives of loyalty programs are three: efficiency profits, effectiveness profits and value alignment.

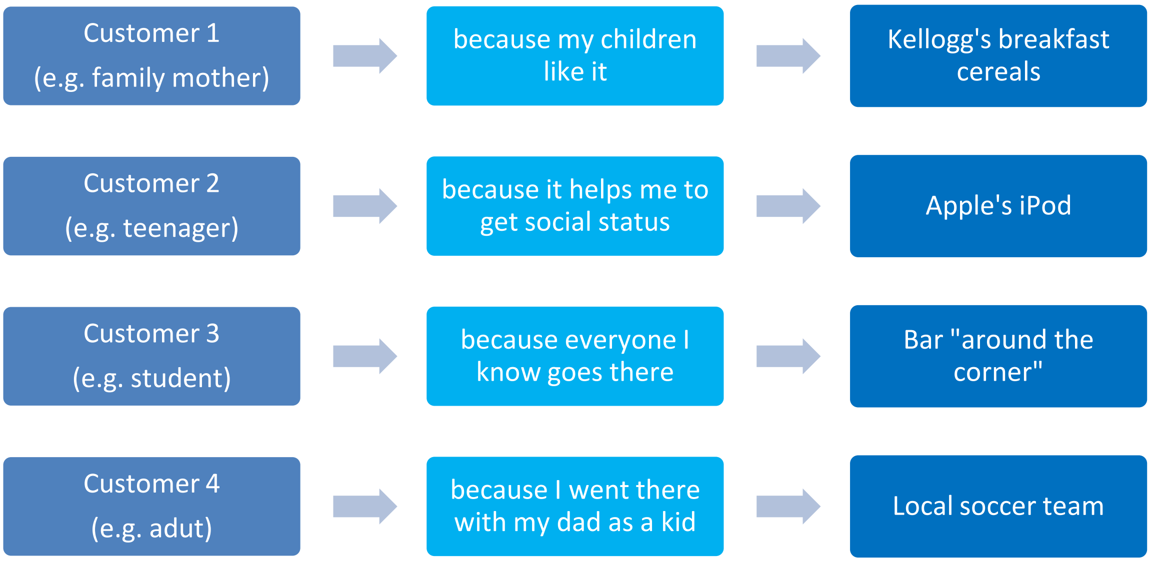
About the first one, there are the profits that result from a change in customer's buying behavior due to the loyalty program. Change in buying behavior can be measured in e.g.:

- Basket size: The number of units moving in one single bill e.g. if you have bought 2 shirts and one trouser from a store then the basket size is 3 pcs. Average basket size is the number of units moving in one singe bill. It is calculated as Total units sold/ No of invoices.
- Frequency: the number of times that a customer buys a product.
- Price sensitivity: The amount by which changes in a product's cost tend to affect consumer demand for that product.

The effectiveness profits are the profits that result from better learning about customer preferences over time. It is the ability to customize and serve people better because you collect information about them. These profits are based on sustainable value creation for customers through customization of products and/or communication.

The value alignment is about loyalty staff. Goal to align the cost to serve a particular customer with the value s/he brings to the firm. Especially important when there is great heterogeneity in customer's value and cost to serve (example airlines, hospitality, industry).

An important consideration is that product is just a proxy of a relation with other persons. People are not loyal to product, but to people. They only do efforts for their relationships with other people.



[38]

Now we can define better the loyalty programs as a marketing process that rewards customers based on their repeat purchasing. Customers who enter a loyalty program are expected to transact more with the focal

[38] Kumar, Werner and Reinartz, "Customer Relationship Management: concept, strategy and tools", Springer, 2012

company by giving up the free choice they have otherwise. In exchange for concentrating their purchases, they accumulate assets.

It started in the airline business. Congress passed the Airline Deregulation Act of 1978, phasing out federal control of domestic air service and marking the beginning of the era in which market forces determine fares and levels of service[39].

Airlines struggled for a point of differentiation. In many cases fares, selection and service were, for the most part, equal. In 1981, American Airlines introduced its frequent flyer program AAdvantage, offering free travel in exchange for some level of loyalty. United Airlines followed shortly afterward with its Mileage Plus program and soon every company in the travel industry created or participated in one or more loyalty programs.

Loyalty programs in the travel industry have evolved. What started as a fairly straightforward proposition "fly with us and eventually fly free" has become much more sophisticated. Every airline program allows travelers to earn extra miles with hotels, car rental companies and credit card companies. Many allow three different credit card options. In the US Airways Dividend Miles program, travelers may earn miles on a Visa Card issued by NationsBank, or they may earn miles on an American Express Card through Membership Rewards, or on a Diners Club Card through Club Rewards.

A new generation of innovative award options has emerged over the past few years. Every major domestic airline offers options to earn miles for dining, long-distance phone service and flowers. American Airlines allows members of its AAdvantage program to earn miles for things like mutual fund investments and mortgages, as well[40].

[39] GAO Report, 1996
[40] Dennis L. Duffy, "customer loyalty strategies" in "journal of consumer marketing" vol. 15 n. 5, 1998, MCB University press

All these options and enhancements evolved over time and they evolved because the basic proposition to the traveler was compelling. The idea of earning free travel was motivational and achievable through the eyes of the business traveler. That is why frequent flyer programs have become so powerful and in fact have become an integral part of the airline product. In fact, it has been said that frequent flyer programs have played a significant role in the demise of many post-deregulation airline start-ups[41].

[41] GAO Report, 1996

2.2. DIFFERENT TYPES AND STRUCTURES OF LOYALTY SCHEMES

Since 1995 to date almost all GDO's suppliers have launched store cards, showing their intention to pass form macro to micro-marketing. Commercial card is a necessary but not sufficient to realize a competitive advantage depending on:

- Preview of the competitors in the development's stages of micro-marketing;
- Innovation in the segmentation and selection of targets that express weaknesses that need to be correct
- Differentiation of the loyalty programs and creation of traffic over competitors;
- Conservation during the time of individual actions of micro-marketing just in presence of an appropriate elasticity;
- Usage of the relations with the customers to improve the supply compared with the spatial differentiation of the demand;
- Sharing of informative heritage with the industry to realize an integrated micro-marketing.

Loyalty programs are not a phenomenon circumscribed to the grocery distribution; Indeed areas in which is possible to use detailed information on the customers (credit cards, airlines, telephone operators and department stores) are populated by companies that are very active in this sector. This fact supports the idea that in the virtual market the micro-marketing finds the ideal development's conditions.

Loyalty schemes have to develop at least the behavioral element of loyalty that is the repeated purchase in the groups of customers chosen by the company. For this purpose is necessary to identify the appropriate “granularity” of the segmentation and the suitable incentives. The most part of loyalty schemes works in an elementary segmentation of two groups: card's holder and non-holder. Because of the fact that the benefit is the same for all the holders, that often represent the 80% of the customers, this kind of loyalty program is de facto a mass marketing promotion. A higher level of segmentation is the cluster one that identifies 5 socio-demographic segments to which communication and promotion is addressed: students, singles, families, elders and others. The last level, called category[42], implies the collection for each holder of analytic data related to the composition of the basket. This situation requires an increase of difficulty and cost on the basis of informative systems: in this level every kind of analysis and specific action, based on the individual product or customer, is possible.

Incentives, whereby the company differentiates the service and/or the experience of the customer, could take the aspect of reductions (below the line) or increases of utility (awards, additional services, privilege (above the line). Which in turn, the incentives could be distributed immediately or differed in a period of time. The deferral is suitable to shape the costumer's habits for a period of time sufficient to interiorize the behavior wanted by the company: it will have more loyalizing value compared with the immediate distribution, but it will bring also more financial obligation for the supplier[43].

Incentives are the more visible component of loyalty programs and it is the element that identifies and differentiates it compared with the competitors. It is not a surprise that in the market there are frequent innovations in this aspect of micro-marketing and fast actions of imitation of the most successful ideas. We have classified the incentives founded in the loyalty programs in four categories: reductions, awards, privileges and services.

The below the line incentives are the most used. Reductions could be

[42] Ziliani, 1999

[43] The bigger obligations are caused by the rule, existing in every country, to set aside reserves proportional to the value of the reductions that the customers could ask. They need to front the possibility of a contemporaneous collection of the points' value by an huge number of customers.

immediate, deferred or is possible to give to the customer the possibility to ask them when he wants.

The below the line incentives are easily imitable: their efficacy depends on the level of details that is possible to reach during the data analysis and the distribution. Unlike generic reductions, personalized ones are extremely effective and less imitable. For this reason, electronic kiosks and other similar devices are so interesting. They can recall, using the card the purchase's history of the customers, putting him in a fixed segment and offering specific proposals.

The above the line's area is the one in which the retailers have used their fantasy, because the differential's possibilities are wider. The set programs based on these incentives are distinguished for: a) the nature of the award that could be a good, a service or a privilege and b) how the customer earns the award. Indeed, card holders could have access to privileges effortless just owning the card (in this situation we are talking about reward) or having specific behaviors during the time (incentives).

The most interesting area is the service's one. On the basis of the loyalty built around the brand, bigger retailers have undertaken for so long diversification, extending the services supply to fields very different from grocery goods, just as financial and insurance products, air tickets, and Internet's services.

At the moment of introduction, loyalty program work at an elementary segmentation level and it offers fewer incentives: in the further stages of its life-cycle, also as a respond of imitable actions of competitors, the program enriches itself with options and incentives, trying to operate a mass customization of the service and of the shopping experience.

Web site is, in the virtual market, what in the physical market is loyalty card. Theoretically, any company that is provided with a website can do micro-marketing. Indeed Internet obliges the companies to manage information. As in the case of loyalty cards, we can find that this tool is a necessary but not sufficient condition to let the orientation to segmentation and personalization realize.

From the view of micro-marketing potentiality is possible to classify websites in three groups:

- First generation sites: they are based in the simple transposition on internet of the contents of communication's papers used as mass communication. This web-sites offer the same information to everybody. In this case the site is probably a further medium inside the “communication mix” of the company and the informative flux that link it to the marketing process of the company is one-directional: the contents produced in the all the various functions of the company are published on the site, but most likely no information coming from the web could be reinsert in the company's decisions. In this case there is no use of Internet for the micro-marketing.
- Second generation sites: they realize a first level of interactivity, for example allowing research of information in a database and contact through e-mail. They don't collect information on the users. A site of this kind is also a tool for customer service because it gives to interested people the possibility to directly contact the company and to receive information and support, using emails. If email addresses are stored in a database, they will be an important tool to relate with subjects that show an interest in the company. They could be objects of marketing strategies.
- Third generation sites: interactive and personalized, they give different information and sales conditions for each user who is recognized in various ways: through online registration, the insert of loyalty card code, the sending of cookies. Probably the recognition and segmentation technologies used by this kind of sites show that no contact is waisted, customers and visitors are identified and followed during the time.

Therefore, if the presence of a website is a necessary condition to let the company develop micro-marketing, the sufficient condition is the fact that the site itself, and moreover the virtual channel, covers a non-occasional role in the business strategy. It is not necessary that the strategical role of internet is being a sale's channel: to do micro-marketing is sufficient that the site has a strategical role and informative channel.

The Internet stimulus for micro-marketing of loyalty is:

1. incentives (information, free goods or services);
2. loyalty programs (out and out) ;
3. personalization and differentiation of the message and (when it is possible) of the good/service;
4. Maintenance of the communication (email, virtual communities, customer relationship management).

Incentives.

When the potential customer has been attracted by the retailer's site, through the acquisition tools already described, the company will have to give appropriate incentives to collect information about him that are essential for segmentation and the subsequent stages of supply addressed to the conservation of the relationship.

Among the fundamental incentives used for the collection of information about the visitors of the web-site, we have found:

- free information
- access to discussion forum
- request of sending free product
- request of sending brochure or other offline material
- purchase of the product
- download of softwares, music and videos
- participation to games or lottery
- loyalty programs

To obtain the benefits related to the incentives the user must fill an online form. This form collects the address (real and virtual), socio-demographic data and/or other data useful for the segmentation.

As in the case of loyalty card subscription, the inscription form is a precious moment to collect information, otherwise not available, about the user: the quantity of requested data varies from a website to another and in consequence also the micro-marketing possibilities will modify.

Loyalty schemes.

In the virtual market there are loyalties programs there are Internet based loyalty schemes and cross loyalty schemes that operate also in the physical market.

a) Internet based loyalty schemes.

They exist just on Internet and they can be divided in two types: the ones offered by “loyalty intermediaries” and the frequent shopper schemes designed by the e-retailers. When we talk about “loyalty intermediaries”, we mean website that are used as accesses to dozens of retailers that deal with different products, pooled together by the possibility to collect points for the same scheme. The loyalty scheme is the “engine” of the website, there isn't any promoter retailer.

For example, the customer could print reductions' coupons through the website, fill a wishlist that he can pay through the website of the company. The aim of the coupons for the loyalization of the customers could be implemented downstream through the deferred liquidation, upstream using the segmentation and the differentiation of the promotional offers on the basis of the socio-psychographic and behavioral features of the visitor.

Among the intermediaries there are companies that offer points to the visitors on the basis of the number of visited pages or the duration of the connection because of the fact that the minor costs of Interned based loyalty scheme's management give the opportunity to offer more valuable points compared with the cross loyalty schemes (7-10% of the value of purchase vs. the 1-2% of the loyalty cards). Moreover, a lot of virtual retailers offers a loyalty scheme similar to the physic retailer's ones.

Are shown below the mechanisms for the discrimination of the conditions and the incentives that we have outlined in the Internet based loyalty schemes: we can notice that in some situation visitors collect points not just purchasing but also for other activities, such as the simple visualization of the web pages, the answer of questionnaires, the reading of advertisement’s email[44].

How we can collect points:

- Subscription
- Viewing of the website's pages
- Viewing partner websites
- Filling of questionnaires
- Reception of commercial email
- Online Purchases
- Purchases from partner websites

Incentives of programs:

- Reductions on purchases
- Points to obtain gifts on the brochure
- Points to obtain gifts or reductions from online and offline partners
- Points for air miles
- Points for cash

[44]Ziliani, 1999

- Gift certificates

Points give the possibility to obtain, as gift or as a self liquidating offer, a lot of products: hardware, holidays, toys, and magazines, sport stuff and so on. It is also possible to donate them to charity or to participate to a lottery. Direct links to the partners's sites are present in any page of the website, each partner can change everyday its offer and the number of points needed. Through the website, the user could check the amount of points, change his personal data, ask for information and see the brochure.

b) Cross Loyalty schemes.

Also the physical retailers are present on the web with their own loyalty schemes. In particular, while they used their web just as an "informative and service addition" for their loyalty schemes, the retailers bricks & clicks[45] have expanded their scheme from the physical market to the virtual channel, allowing the customers to combine his collection of points. Retailers consecrate at least a page inside their website to the loyalty scheme...

At an elementary level, information given is about: the name and the picture of the cars, mechanism of reward and a list of the awards and promotions ongoing. Other websites give the possibility to download the subscription form.

For example, the service that gives to the customer the possibility to check its amount of points pressing his card code has several purposes:

1. Identify in the databases of card holders all of them who have an internet connection, in order to study their socio-demographic profile and their purchases behaviors;

[45]Is a jargon term for a business model by which a company integrates both offline (bricks) and online (clicks) presences. The advent of mobile web has made businesses operating bricks and clicks businesses especially popular.

2. Collect email addresses to start a communication through this new tool;
3. Send regularly special offers that could be easily personalized on the basis of the previous purchases of the customer, shopping list, news about the sales point (new insertions, changes in the opening hours, new services) and also extracts from the magazines.

Other examples of services are ad hoc sites through which you could receive the card at home, check the points, participate to contest, chat with other cardholders, see the brochure and suggest new partner companies. At the end, for the retailers who don't sell in the physical channel, but that want to offer customers the possibility to do their purchase online, the card cold be useful to introduce home shopping and delivery services.

The benefits of the integration of micro-marketing are bigger for the retailers bricks & clicks that have activated the e-commerce channel. Definitely, both in the physic world and in the virtual one, cards are useful above all to establish a channel of communication and measure the loyalty, not to create it.

Also in the virtual world it is true that without a superior product and brand, the efficacy of the loyalty schemes and of general promotions is reduced and it is inclined to decrease fast. It is important to underline that Internet offers the right context to expand the micro-marketing actions because the trade off between reach and richness, typical of the real world, disappears. The lack of temporal and spatial boundaries and the interaction of this tool give the opportunity to calibrate the supply in a punctual way in accordance to the needs of the micro-segments, without any reduction of the market's dimension. A mass customization of the supply and service's offer becomes possible, moving the limit of the loyalty marketing[46]

Personalization of the communication of the offer and the service.

[46]Ziliani, 1999

The personalization of the communication and the value proposition to the customers of the website could be realized using these four tools:

1. Sending of email. We have already discussed about this above.
2. Use of Push technologies to give personalized information. Particularly used by the providers of content, this kind of technologies gives the possibility to send interesting information to the users without the need of a connection to the site. The website sends contents into the users' pc when it is not under intensive usage. The user could modify his preferences and the supplier could change subsequently the sent contents.
3. Displaying of specific information when the customer sees the website. A third generation web site or a superior one could recognize when the visitor connects thanks to his provider address, the presence of a cookie[47] or the use of a previous password. You can show to the customers the specific categories of information and/or products, that they are interested in, as first thing that they see, and it is also possible to offer specific promotions based on his history of connection (and online purchases). Depending on the used technology, the personalization could happen thanks to rule based system or collaborative filtering. Rule based systems act from the point of view of the supplier; once established that the customer is in a specific segment, they can offer a product or a specific interface, realizing a personalization "vendor driven".

If a customer visits a musical CD websites four times not purchasing anything, but doing researches always in the same category, at the fifth visit a rule-based system will offer him a reduction of the 10% on a product of the category. The collaborative filtering works from the point view and in advantage of the buyer: it is not possible to know in advance what the

[47] A cookie is a little file of data that identifies a pc when it is inserted in its memory. The software used to surf the web automatically download cookies in the PC when he meet websites which use it. Until the cookie is inside the memory of the PC, this will be automatically identify every time that the user will visit that site.

system will recommend, but it will be on the choices and behaviors of the customers and his similar users. In the same musical site, a collaborative system will be able to suggest new music, alert of the outcome of a new album, offer tickets for interesting concerts and show the comments of similar buyers.

4. Creation of a virtual community. The value of a virtual community[48] is, for the company, very important both from the point of view of loyalty creation and traffic of customers. IN the grocery area, some retailers have developed a community for the discussion of themes related to the safety of foods and nutrition related issues, that could be used as tool to promote biological goods with a commercial brand and, in general, for the brand's reputation.

Customer relationship management.

A lot of retailers need to manage contacts and relations with customers on both markets, physic and virtual, both when the website is a simple channel of information (second generation websites), and above all what it is use as a channel of e-commerce for the customer. The capacity to handle relationship with the customer in a unique way, even if the point of connation are several and different, becomes an important incentive of micro-marketing.

More often customers use a lot of tools for their purchases process: website, requirement of information through email, vision of the product in a sale point, orders, and delivery at home. The company needs to consider all these situations as a part of a unitarian purchases history and to use it to differentiate the conditions during future contacts. To do this, customer relationship management software have been developed. They give the

[48]Armstrong e Hagel, 1996.

possibility to collect and consolidate all the customer's contact, wherever they happen, making available the information for the future interactions.

2.3. CREATING LOYALTY THROUGH DIGITAL LOYALTY PROGRAMS

Steve Hemsley[49] says that one silver lining in the economic cloud is online loyalty schemes, which are proving popular among consumers keen to capitalize on operators' efforts to reward their spending.

A lot of programs are rewarding shoppers with redeemable points or cashback incentives to encourage them to spend more. Such web-based programs are helping brands consolidate existing relationships seek out new ones and turn one-off purchasers into loyal, repeat buyers[50].

Bill Gates first did not understand the potential of search marketing and loyalty programs and, in 2008, he launched the Microsoft Live Search Cashback program[51]. He is a relatively late arrival to the online loyalty scene. The sector is big business and has proved to be cost-effective way of managing customer relationships. The schemes, which have become particularly popular since the advent of web 2.0, work on the basis that consumer loyalty in encouraged when a brand demonstrates affinity with its customers. Purchases and lifestyle preferences can be tracked closely online, and the data used to target people with future offers across a variety of products and retailers. Yet a scheme will only tempt people to sign up if the rewards available genuinely excite them and are relevant to their gender, age and personal tastes.

It is just an example how the big names of e-commerce moved. But the question is how we can create loyalty through web 2.0. The collapse of large numbers of dot-com companies has required managers, who felt that the Internet had changed everything, to relearn that profits indeed do matter[52] and that the traditional laws of marketing were not rescinded with the arrival

[49] Stephen J. Hemsley, CEO of UnitedHealth Group Inc.
[50] Special report: loyalty and motivation, promotions & incentives, September 2008.
[51] The scheme lets consumers compare prices and get cashback when they search online for products and services from 700 retailers.
[52] Rosenbloom, 2002.

of the e-commerce era. It has been reinforced that organizations not only need to attract new customers, but also must retain them to ensure profitable repeat business. The high cost of acquiring customers renders many customer relationships unprofitable during early years.[53]

Without customer loyalty, even the best-designed e-business model will soon fall apart. In their quest to develop a loyal customer base, most companies try their best to continually satisfy their customer base, most companies try their best to continually satisfy their customers and develop long-run relationship with them.

Although satisfaction measures seem to be an important barometer of how customers are likely to behave in the future, there are two issues to consider:

- Satisfaction measures are likely to be positively biased[54].
- Establishing the relationship between satisfaction and repurchase behavior has been elusive for many firms[55].

The relationship between satisfaction and loyalty seems almost intuitive. Despite this appeal, the strength of the relationship has been found to vary significantly under different conditions, the competitive structure of the industries for example. The true loyalty can only be achieved when other factors such as an embedded social network are present. Competing businesses are only a mouse click away in e-commerce settings, so it is critical that companies understand how to build customer loyalty in online markets[56].

We can study the relationship between e-loyalty and e-satisfaction through the analyses of the impact of individual and business level factors: inertia, convenience motivation and purchase size are the three individual level factors; the two specific firm variables are trust and perceived value.

[53] Rolph Anderson, Srini Srinivasan, Psychology & Marketing, February 2003.
[54] Peterson & Wilson, 1992.
[55] Mittal & Kamakura, 2001.
[56] Anderson & Srinivasan, 2003.

At first we have to define e-loyalty and e-satisfaction.

The first one is defined as “the customer’s favorable attitude toward an electronic business resulting in repeat buying behavior”[57].

The second one is defined as “the contentment of the customer with respect to his or her prior purchasing experience with a given electronic commerce firm”[58]. A dissatisfied customer is more likely to search for information on alternatives and more likely to yield to competitor overtures than is a satisfied customer. Also, a dissatisfied customer is more likely to resist attempts by his or her current retailer to develop a closer relationship and more likely to take steps to reduce dependence on that retailer.

Now we can analyses the individual variables that tend to either accentuate or reduce the impact of e-satisfaction on e-loyalty of customers.

The inertia is a condition where “repeat purchases occur on the basis of situational cues rather than on strong partner commitment”[59]. These customers visit the sites out of habit rather than by conscious determination on the basis of perceived benefits and costs offered by the e-business. When a customer has a high level of inertia the sensitivity of e-loyalty to e-satisfaction is likely to be lower. On the other hand, when the inertia of a customer is low, the impact of e-satisfaction on e-loyalty is likely to be higher.

The need to save money is often the main reason that drives some consumer’s choices. In e-commerce, in internet at general, the biggest benefit that the consumers perceive is the convenience and this motivation is evident especially between online and offline shopping. For consumers, the need for convenience in purchase is stronger than the inconvenience of repeat search for new providers for their products and services. Therefore it is more likely that a customer satisfied for the convenience of a purchase shows

[57] Anderson & Srinivasan, 2003.
[58] Oliver, 1997.
[59] Campbell, 1997.

higher levels of loyalty. Hence, the relationship between e-satisfaction and e-loyalty is expected to be stronger for customers with a high convenience orientation relative to customers with low convenience orientation.

There is a positive relationship between purchase size and loyalty. The risk for consumers who spend less is smaller. They tend likely to be less loyal than those consumers who spend more. Hence, the impact of the e-satisfaction on e-loyalty is higher for higher-spending customers than for light spenders. They in fact are more emotionally involved with their purchasing decisions while who spend less is less involved[60].

The impact of e-satisfaction on e-loyalty is also likely to be affected by business level variables such as trust and perceived value.

The risk associated with online purchasing is the most important reason that a customer link with the trust or confidence in online business. . According to Medintz, customer concerns about security, privacy, and protection against business scams are very high and have created a market for rating agencies and seals. A lot of e-commerce customers don't trust the online businesses also because they don't know where their personal information, like credit card, physically is going. They are dealing with to keep their purchase data confidential. "Trust is a crucial variable that determines outcomes at different points in the process and serves as glue that holds the relationship together"[61]. In the electronic commerce context, customers who do not trust an e-business will not be loyal to it even though they are generally satisfied with the e-business. Therefore, it seems apparent that e-satisfaction is likely to result in stronger e-loyalty when customers have a higher level of trust in the e-business[62].

[60] Kim, Scott and Crompton, 1997.
[61] Singh and Sirdeshmukh, 2000.
[62] Anderson & Srinivasan, 2003.

The importance of the perceived value in electronic commerce is derived from the ability to compare prices and features of products more easily in online market than in offline one. According to Bakos, the search costs in electronic marketplaces are lower, resulting in more competitive prices to the consumer. The reduction in search costs not only increases the likelihood that customers will compare prices, but also enables the customers to compare the array of benefits that they will derive from the products and services that they buy[63]. We can also establish a positive relationship between the intention to purchase and the perceived value. When the perceived value is low, customers will be more inclined to switch to competing businesses and consequently we get a decrease in loyalty. They will seek out other sellers in an ongoing effort to find a better value. The relationship between e-satisfaction and e-loyalty appears strongest when the customers feel that their current e-business vendor provides higher overall value than that offered by competitors.

As already mentioned, customer loyalty is essential for any business that plans to survive in the future. Now the question is how we can create loyalty in online market. According to many case studies, we can resume in five strength points that a business owner have to do to build customer trust.

1. Connect with Fans through Social Media: use the social media is the best way to reach the consumers. People use it as a rapid way to know the company and to see what other consumers think about it. According to a 2014 study from Deloitte, 75% of online Americans say product information found on social channels influences their shopping behavior and enhances brand loyalty.
2. Offer customer service assistance online: even if customers do not have direct contact with company staff, they need to catch information or say something to a business. The best place to do it, with

[63] Bakos, 1991.

the lowest cost, is internet. The company can serve this need simply by having a Frequently Asked Questions section on the site, or a customer service chat can help if consumers need it. This is increased in mobile market thanks to the ease of use of applications. They prefer web-based solutions to talking to a live agent[64].

3. Build an effective loyalty program: it's not obvious. Build trust in a consumer is not the same to let him use a loyalty program. The 76% of North American consumers are more likely to choose retailers that offer loyalty programs[65]. There are a lot of ways to implement loyalty programs for online customers. This can be through email, coupons, loyalty points, free shipping perks, contests, etc.

4. Push customers to make and publish reviews: one problem of online customer is that they aren't able to hold the product in their hand or test it before they buy it. The 70% of global consumers have trust in online reviews and if these are coming from friends and family the trust is higher. Business owners can use this to their advantage and use the words of their satisfied customers to boost confidence in online shoppers. Encouraging reviews also lets current customers know that a business cares about their opinion. This builds loyalty.

5. Offer multiple payment options: Business owners will find more consumers who only uses a certain payment method and the sites that have it are at an advantage over those that don't.

What we study now is what a digital loyalty program must have to be "perfect". The most important thing is to be sure that it is simple for both, business owner and customer, and that it keeps customers happy after they've signed up and generates valuable data for you.

First step is about the information you ask at sign-up. Don't ask too much. Some companies ask a lot of profiling questions. For every data point you

[64] Loyalty360 found that for US mobile shoppers.
[65] Nielsen.

require, your adoption rates will drop. It is important make the registration easy and quick and then obtains permission to engage the customer.

When we are asking a customer to sign up for a loyalty program it's important to offer an incentive. Instant gratification will improve the loyalty program adoption. About the gratification, it doesn't have to be expensive.

Third step is about what happens after the customer has registered. This phase is very important to generate additional revenue. For example we can find a digital loyalty platform that automates the re-engagement process by making it easy to contact customers with a message.

Fourth point is about over-communicated. A good digital loyalty program should be permission based, so business owners should text people who have opted to receive them. When customers entrust you with their contact data, make sure you respect that and only communicate when you have something of value to offer. Being transparent is a rule and we have to give to customers the opportunity to opt-in or opt-out of receiving messages and notification. Constant communication can be perceived as overly aggressive and may case customers to unsubscribe.

In the end, make the offers simple by naming a specific dollar amount. Also make sure you create a sense of urgency with time-limited offers. A promotion that is good for one to three days helps keep your offer fresh in their minds.

2.4. MEASURES OF LOYALTY

It is useful for understanding and managing brand loyalty to consider five methods of loyalty's measurement. These are obtained by considering:

1) The current behavior;
2) The switch costs;
3) The satisfaction;
4) The sympathy;
5) The involvement.

The current behavior of the consumer is closely related to the loyalty. We may consider:

- The re-purchase rate
- The proportion of purchases
- The number of brands purchased

Brand loyalty by consumers may vary depending on the class of products considered and the number of competing brands. However, data on current behaviors are costly to detect and provide only uncertain forecasts on future behavior. It would also be difficult to distinguish the real changes branded those apparent, for example, a change in the purchase of a brand could simply be due the fact that purchases may have been made by different members of the same family or different departments of the same company.

The greater cost, in case of change, is due to expenses incurred to install a product or system and staff training. Among the costs, then, must be included a component risk in every change ("There is a strong resistance to fix something that is not definitely broken"[66]). A company should be able to assess what are the costs of change which can take advantage of, so it

[66] Aaker, 1997

should strive to increase the dependence of consumer from the product and / or service.

Detector on each level of brand loyalty is the measure of satisfaction or better dissatisfaction. Why helpful, satisfaction should be measured periodically, reliably and on representative samples.

The sympathy can be a significant barrier to entry of competition, as it can be more difficult to counter a widespread feeling of sympathy, hard to explain, that a specific product. And 'possible to measure the sympathy by the higher price that the customer is willing to pay to have the brand or by the price differential that competitors should offer to gain a loyal customer.

The strongest brands, charismatic, have the largest number of consumers involved. An indicator is what the consumer likes to talk about it, especially explaining the reasons for the purchase, and how important is the brand for him, in his activities and his personality.

What we said is a theoretical description of the elements that we have to consider to measure loyalty. In practice, we can evaluate the effect of a loyalty program in terms of its ability to alter normal repeat-purchase patterns. Loyalty programs are likely initiated by marketers in an effort to achieve some sort of financial pay-off of their long-term competitive position. Financial returns depend on increases in market share and repeat-purchase loyalty or increases in the degree of insensitivity customers have towards competing offers.

While most marketing activity for established brands is defensive, its primary purpose being to maintain current market position and revenue flows, marketers often initiate interventions with the objective to generate sales gains. That market share gains seldom occur is due to the fact that competitors are also intervening in the market, marketers must "run hard to stand still"[67]. Like most mass market loyalty programs it was a very expensive marketing intervention, involving considerable set up and on-going running costs. A sales gain was necessary in order to recover these costs. So the loyalty program was launched with the expectation that it would increase the purchase loyalty of customers, as well as possibly attracting some new buyers, and overall bring about increased sales and market share[68].

The traditional approach to assessing the impact of marketing interventions is to use either a control market or comprehensive "before" data. Both these approaches have considerable practical problems, particularly when it comes to assessing the impact of a mass market intervention such as a loyalty program. An alternative is making use of the known empirical generalizations concerning the repeat-purchase patterns in stationary or near stationary markets (which is most markets most of the time)[69]. The Dirichlet model of repeat-purchase behavior is capable of providing estimates of the repeat-purchase patterns for a stationary competitive repertoire market, and can do so from just a few inputs. By providing brand-by-brand estimates of expected performance if the market were stationary, it can be used to assess non-stationary for particular brands that have initiated major marketing interventions. Thus, Dirichlet can be used to provide a natural benchmark against which the impact of a loyalty program can be assessed[70].

The Dirichlet model belongs to the class of stochastic models, known as the integrated brand purchase incidence choice models, which estimate the probability of simultaneously choice between brands and frequency of purchases in a time interval.

The Dirichlet model is used in marketing to provide a probability distribution for repeated purchases, made by the buyers in a period of time, of brands

[67] Ehrenberg, 1997
[68] Byron Sharp and Anne Sharp, "Loyalty programs and their impact on repeat-purchase loyalty patterns: a replication and extension, 1997.
[69] Sharp and Sharp, 1997.
[70] Ehrenberg, Hammond and Goodhardt, 1994.

that compete within a category of product. This model was developed by Goodhard, Ehrenberg and Chatfield (1984) and is used for the analysis of repeated purchases of brands within a product category.

The data are multivariate, as they are considered different brands; also, are discrete, non-negative integers and, since we consider counting the number of purchases. The model Dirichlet specific probabilistically how many purchases fulfill every buyer and which brands are purchased in each chance. It combines, therefore, the elements concerning the frequency of purchase and the choice between brands in a single model.

In this model it is assumed that consumers act as if they had a great buying experience for that class of product; they, therefore, are not affected by a long previous purchase or advertising. Consumers act, in the time period considered, as if they had personal propensities purchase constants. Marketing-mix variables or attributes on consumers are not, therefore, made explicit in the model. This is because the market is steady and, therefore, the effects of these variables are included in the market share of each brand, which in turn influences other performance measures calculated by the model. If the model is not stationary, however, there will be discrepancies between the performance measures calculated using observed data and predicted by the model.

Another assumption is that the brands considered in the model are characterized by their probability of purchase and, therefore, from their market share; this implies that the model is not specified if brands have product differentiation or not or whether the market is segmented. Then, it can be said that the model Dirichlet describes how often are bought products of different brands in the case of stationary and non-segmented markets. This occurs when the time period considered sales of each brand did not vary much and brands show no particular groupings.

The application of the model is of particular interest as it reproduces the behavior of purchase, repurchase and choice between brands of many consumer goods and allows the calculation of performance measures of the brand, useful for diagnosing and sales forecasts and quotas market.[71]

As already mentioned, this approach measures the value of customer loyalty based on repeat-purchase patterns. The next method suggests an alternative way. The proposed approach for the quantification of the dynamic evolution of the value of the brand in perspective of relations is characterized by the adoption of a differential logic (analysis of changes in the value of relationships in different time intervals) and perspective (focusing on the flows of the result that the reports will be capable of generating). The basic assumption is that, in economic terms, the value of the brand is due to the value of relations with customers that it is able to generate, and that the latter is defined by the sum between the value of the stability and reproducibility of the value of these reports. In analytical terms:

$$WRC = Wra + Wrn$$

Where:

- WRC = value of customer relationships activated by the brand;
- Wra = value of current relationships;
- Wrn = value of new relationships.

The value of the stability of the relationships (Wra), in turn, depends on:

- The coefficient of loyalty, expressed by the percentage of customers who, for a precise act of will continue to maintain relations with the company in the time interval considered;

[71] the description of the model was made to achieve a more theoretical than technical goal, taking information from sources generalist and popular. About the assumptions underlying the Dirichlet model and mathematical and statistics proofs, please refer to specific academic sources.

- The resulting longevity perspective of current relationships, or their expected life in the abovementioned ratio of allegiance;
- The expected margin from current relationships, net of costs related to the management and development of these relations;
- The discount rate.

The value of the reproducibility of the relations (Wrm) is instead influenced by:

- The coefficient of attracting new customers, which expresses the ability of the expand the network of market relations;
- The duration of the new reports, according to the coefficient attraction expected;
- The margin generated by new customers, net of acquisition costs;
- The discount rate.

Therefore, the evaluation formula proposed for estimating the value of relationships with demand can be expressed as follows:

$$WRC = Mra \, . \, a_{\overline{n}|}\, i + Mrn \, . \, a_{\overline{m}|}\, j$$

where:

- WRC = value of customer relationships;
- Mra = expected margin from current relationships;
- Mrn = expected margin from new relationships;
- i , j = discount rates;
- n = number of years corresponding to the average longevity perspective of relations;
- m = number of years corresponding to the estimated duration of the new reports[72]

[72] Bertoli, 2000.

Concerning the quantification of the margins expected from existing and new relationships, we can refer the general considerations of the doctrine. These margins are taken, from an account by customer, without the contribution margin of the costs associated. We may estimate these margins using different approaches. It is interesting for the present work highlight how the foundation took place in the projection method of historical results (the continuity with the past) does not appear unfounded in light of the nature of highly inertial wealth of relations firm[73].

Even about the choice of discount rates of the flows generated by the relations existing and new, we can see the considerations in the literature. Peculiar features seem to assume, however, the problem relating the risk treatment of the reports; to first sight, this problem can be addressed using the mathematics of semivariance. By this approach what results is the variability of the time series of the coefficients of loyalty and attraction as well as the contribution from new and existing customers[74].

In practice, the stability of customer relationships is expressed through the indicator of customer retention. We can get it by dividing the number of customers that existed at the beginning of the year and at the end of this range has remained in the portfolio with the initial number of customers. the customer retention rate, however, only captures the behavioral dimension of customer loyalty. this dimension is relevant to the repetitiveness of consumption choices, ignoring the cognitive dimension, which generally refers to the customer loyalty in the brand.

To avoid errors[75] in the assessment of the stability of relations, it is therefore appropriate to weight the customer retention rate with a second indicator,

[73] Vicari, Bertoli and Busacca , 2000.
[74] Vicari, Bertoli and Busacca , 2000.
[75] A high customer retention rate may in fact derive from the impossibility for dissatisfied customers of abandon the relationship with the company, because of the existence of exit barriers, such as high cost of conversion. If the portion of such customers proves high, it is immediate to understand the effects that the disappearance or weakening of these barriers would produce on the stability of relations firm.

expressing the customer loyalty; in this respect it is suggested to use adequate index of customer satisfaction as some parameters already previously analyzed in this paper.

$$C.f.c. = c.r.r. \times c.s.r.$$

where:

- C.f.c. = Coefficient of customer loyalty;
- c.r.r. = Customer retention rate;
- c.s.r. = Customer satisfaction rate.

It is immediately seen as the weighting increases the "prudence" of the estimates. Only in the case of complete customer satisfaction (customer satisfaction rate of 100%), in fact, the coefficient of loyalty is equal to the index of customer retention.

the average longevity perspective depends on the coefficient of fidelity, which is the estimated duration of relationships. Still referring to the practice, it is determined by calculating the reciprocal of the rate of turnover of customers[76].

it should be noted that the formula in question is based on considerable simplifications. For example, it is assumed that the customer base to which to apply the customer retention rate in several years remains constant and that customers longest acquired are the first to break the relationship with the company.

The calculation of the average longevity perspective of current relationships should be reported to the different cohorts of customers. The average of the coefficients of fidelity obtained in different time intervals, with reference to the customers in the same cohort, defining the coefficient of

[76] defined by the complement to 1 of the C.r.r.

fidelity of the latter. On this basis it is possible to determine the longevity of each prospective cohort.

CHAPTER 3

3.1. FRAMEWORK

All the major retail chains and big brands will come with the mobile loyalty programs. The phenomenon involved immediately American companies such as Best Buy, Walgrees, Sephora and others who realized early on the potential of new technologies adding to existing plastic loyalty cards new proposals and programs based on mobile devices and ad hoc applications. The devices and APP have become the new channels for marketing and promotional campaigns targeted before, during and after the purchase of a product in a physical store or online.

The implementation of such programs is served to the marketing departments of companies also to educate the public of consumers and customers to use new technologies and ways of interacting. Relationship and transaction. The fundamental objective of these investments and programs acceleration and thinning of the decision-making processes of buying and building a lasting relationship with the consumer in time.

To support their marketing strategies and commercial companies do not need to develop APP ad hoc but can use ad hoc services and existing applications to implement their marketing campaigns during peak shopping, announcements of new products or simply to reach their sales targets.

Whether the goal is to continually increase sales or to jumpstart sluggish revenue, customer-loyalty programs appear to have become a staple for many large corporations. But what about small businesses? Recent study reveals that for early adopters who already have a customer loyalty program in place, 64 percent of them report it's been effective, meaning it makes more money than costs to maintain it[77]. It's important for business owners to keep in mind that customer loyalty isn't just for big businesses, a well; designed program can help any size business scale and reach new heights.

The reason because customer loyalty programs matter to small business is described here:

A repeat customer gives and gives. Having a customer loyalty program could help increase repeat customers, which in turn could increase the revenue of your business. Based on the same report Manta and BIA / Kelsey, a repeat customer spends 67 percent more in a purchase than a new customer. It should be rewarded for this action. With loyalty programs consumers are not only happy but become true ambassadors of the company. They can easily spread through word of mouth business networks and help small business owners increase their customer base even more.

Rise above the competition. It can be difficult for a small business to compete with a great brand. The big brands can count on a greater spread in the territory and on cost advantages. However, a good program of customer loyalty is an easy way for small businesses to show their personal side and remain competitive in areas dominated by large companies.

Customer loyalty does not cost a fortune. A good program to be valid need not be expensive. Small businesses do not have to empty the budget to compete with larger companies. Today you can exploit the potential of mobile technologies. These allow obtaining the same results with reduced costs and increased efficiency. Belly, a mobile app on digital-awards, allows small business customers to earn points on their purchases simply by using their smartphones. Similar services are PunchTab and Perkville, who have a subscription price as low as $ 50 a month. For small businesses use digital

[77] Manta's and BIA/Kelsey's joint report "Achieving Big Customer Loyalty in a Small Business World".

programs also saves on paper and ink and time. More importantly, are making it easier for their customers to continue to use their service.[78]

We can briefly define who is a small business. According to the Civil Code and the European standards, a micro enterprise is a company with a staff of no more than 10 people. In addition, the micro enterprise has a turnover not exceeding EUR 2 million. In general are typical micro companies, the merchant district, or small grocery store, or the craftsman, but also the restaurants or small hotels. For these businesses are important customers even more than for large enterprises. The big brands can count on the amount of reports that accumulate. Small shops instead should focus on the quality of relationships. A loyal customer who returns in the store allows you to spread the cost of customer acquisition as well as to increase the value of a single transaction. Forward, the very personal nature of the service means that the customer accepts a premium price that gives advantage to the small operator. The customers of the small shop are very geo-localized. For this reason it is essential that the owner of the company points to increase customer loyalty with special programs.

Below we can explain how a program "small business friendly" can be:

- Buy 10 get one free: This is a great reward system for companies selling a tangible product. This type of program was typical of those shops that used punch cards. It is effective with the use of virtual cards and mobile applications. An example of this is sweetFrog, a frozen yogurt franchise that offers a virtual punch card via smartphone.
- Points Toward Purchases: Customers accumulate points when they purchase from your business. The number of points they earn is based on how much they spend. The points are then applied toward future purchases[79].

[78] Williams and Swanciger, "why small businesses should be utilizing customer-loyalty programs", 2014.
[79] Williams and Swanciger, 2014.

- Rewards Partner: This is a fantastic way to create partnerships with other companies. You can offer discounts when a customer buys from a company with similar interests. An example of this is a hotel that offers discounts for a particular restaurant. This is a great way for your business to save money by offering a discount for a customer.

In the end, we can analyze the "pros and cons" of this type digital loyalty programs.

Pros:

- Customization: A digital loyalty program can be customized to meet the needs of customers and spending behavior. You can customize your rewards based on your preferences. if the customer feels "recognized", he more easily perceives the value of the company by the relationship.
- Segmentation: It is an important aspect of marketing and customer understanding. segmentation can be done by studying the demographic information, the residence of the customer, customer preferences, purchase frequency etc.
- Linking social media: A great function of implementing a digital rewards program is that it can be linked to your customers' social media accounts. This is a great way to gain additional exposure because your customers will be able to share discounts and promotions, which ultimately means that they're sharing your business with their friends and family.
- Increased metrics: App contains many of the tools to be able to analyze in real time the progress and results of the loyalty program.
- Email campaigns: it is important to inform customer about promotion but it is more important that the company doesn't over-communicate and lets the customer opt-in or opt-out to receive notifications.

Cons.

- Negative experience: it's very important to be prepared. The program has to have a recovery plan to turn away the customers by negative experiences.
- Fee based programs: customers should not have to pay to be rewarded.
- Lost revenue: It doesn't make sense to implement a loyalty program if you are going to lose revenue. Make sure that any discounts or promotions being offered make sense for your bottom line.
- Complexity: the business owner must be sure that his app is easy to use. The complexity turns customers away.

3.2. DIGITAL MEDIA FOR IMPROVING CUSTOMER LOYALTY

Social media is the umbrella term for web based software and service that allows users to come together online and exchange, discuss, communicate and participate in any form of social interaction.

The key aspects of social media are: information, quick response, influencing, creating "proselytism", virality and collective intelligence.

The brand present on social media makes customer happier, provides feedback, creates better product and engages make customer.

In the field of social media we have the social intelligence which is the activity of listening and analysis of social media. It has three areas of investigation:

1. Customer: analysis of customer reviews and comment on social media
2. Competitors: studying the competitive area
3. Brand reputation: analysis of opinions about brand through the analysis of "conversation" and identifying influencers.

Brand must be where customer is, humanizes the relationship, answers simply/effectively with appropriate language and uses a unique strategy tailored for each platform.

There are different forms of social media:

- Forum and blog comment: the first one allows members to hold conversation by posting messages; the second one is similar except it is attached to blogs and usually the discussion centers around the topic of the blog post
- Media sharing: allows people to upload and share various media (pictures, videos); most services have additional social features (Flickr and YouTube)

- Micro blogging: consist in a short message broadcast service that sets user to keep people up to date (Twitter)
- Social network: allow users to connect with other people of similar interest and background (Facebook and LinkedIn)
- Q&A websites: help users find answers to some of their questions (Yahoo! Answer)
- Social bookmarking sites: allow users to save, organize and manage links to various websites and favorite web sources, categorize them with "tags" and share them (Magnolia)
- Submission sites: allow people to post various news item or links to outside articles and then allows its users to "vote" on the items (Digg)
- Podcast: a series of digital media files distributed over the internet (Apple's iTunes).

Social media are the best tool to create company loyalty and influence customers. It is not just to have a presence in the social network. This is to maximize the value of the presence on the network of consumers.

Every social network offers a unique value proposition for brands. Every social network allows consumers to communicate with each other through instant messaging services. But each platform allows companies to communicate with their customers in a specific way for the specific social. Companies that effectively use social media to build loyalty from the public are the ones who know how to use multiple platforms simultaneously.

Facebook: Facebook is the perfect platform for brands that want to influence the general public, while interacting with consumers one-on-one. The Facebook platform allows brands to easily offer exclusive deals for users who have "liked" the brand page. Companies can post on Facebook different discounts, promotions or other types of messages, and those who follow the page can share and repost personally messages on his page.

Users of social media are demanding that the company does not use the social only as an advertising medium; even require commitment, exclusive offers and relevant content. So, another tactic to build loyalty through Facebook is to facilitate relations with fans and also host discussions within their own page. Brands can do this by asking the opinions of fans, promptly responding to the concerns of a customer and using information gathered from online conversations to influence the actions outside of Facebook.

Twitter: Twitter's uniqueness comes from its 140-character limit, forcing brands to be concise with their message. This, however, leads to a great advantage: the speed of customer contact. Airlines are a sector that has took full advantage of the power of Twitter, use it to quickly respond to the myriad of questions and complaints that come in every day. This kind of personal attention, if done consistently, builds trust and loyalty with a brand, because the customer feels like the brand cares enough to solve problems when presented with them.

YouTube is the perfect place for brands to develop brand loyalty through openness and transparency by sharing videos. An example is McDonald, who in the face of accusations of "pink slime" to be an ingredient in its chicken nuggets, decided to open the doors and let everyone see how the product is made fast food.

Another option brands can use to build loyalty via YouTube is to create informative content that consumers will find useful. For example, Kohl uses YouTube as a way to educate consumers on how to use her beauty products. These "how-to" video, the so-called tutorial, are also displayed in the search results of Google, to help integrate social media strategy of the brand with its objectives of optimizing search engines[80].

[80] Business2community.com

A good strategy loyalty through social media, however, has to start from a positioning statement. For this purpose, there are four basic elements: purpose of the brand (his "why"), the ideals and the values it represents, psychographic and behavioral attributes of its target consumers and the value proposition offered by the brand of those who become loyalists identity.[81]

This framework is used to control not only the message, but also the strategic use of any digital platform. Helps companies to rhyme faithful to their own identity on all social. Consumers, who perceive these attributes, consolidate them in their minds.

Thanks to social media, consumers can now easily share information about themselves, their buying habits, travel preferences, hobbies, religious and political views, and more. The brand needs to use this information in a creative way. The identity of the brand, however, has to be not only authentic and recognizable but especially sustainable. Social media becomes a channel used to communicate the ideals and values to form authentic identity connections with consumers.

The identity of a brand should be defined by the brand itself. This is not always the case, however. Some of the most successful companies in the world are over targeted by competitors. In contrast, when brand managers define the identity of their brand proactively and consistently, it is more difficult for competitors and detractors to contaminate the reputation because consumers have a positive association. Since this association is real, can be used to defend the brand.

Another element that strengthens the link between the company and the customer is when both contribute to the success of the company. Which further increases the fidelity is engaging customers to co-develop the brand

[81] Americus Reed and Samuel Botts, 2014

identity. To achieve this, the social are indispensable. Some companies encourage customers to make suggestions in fact, suggest changes, and this is an excellent opportunity for growth.

At the center of each strategy Identity Loyalty, regardless of social platform used to run, is a commitment to authenticity. Social media can give brand managers a powerful way to communicate the values of their brands, while consumers also leaving help define narratives brand incisively. The framework Identity Loyalty allows brand managers put Identity principles of loyalty at the forefront and maintains consistency in building strong and deep connections with their audiences.[82]

The question now is: in practice, how do we proceed to increase customer loyalty on social? An interesting article titled "How to Use Social Media to Increase Customer Loyalty" describes two methods: the first is called "Social Media Organization" and the second is called "Customer Loyalty Initiatives".

About the first method, we have four steps:

1. Set up social media accounts. It is important to create a blog to describe the company, its products, people who work there, the corporate culture. The account must be set with the exact name of the company.
2. Assign each account an administrator. The number one rule in social media is consistency. Update the status often with interesting content helps to increase attention on accounts. It is important for the administrator account to know the differences between the socials. For example, Twitter accounts should be text-based and conversation-oriented. Facebook is ideal for pictures and event marketing. LinkedIn content should be focused towards professionals, jobs and press releases.

[82] Americus Reed and Samuel Botts, 2014

3. Assign a customer service representative dedicated to social media accounts. When the company encourages the customer to participate in "social" life of the company, it is necessary to respond quickly. The customer service has to work on time that new technologies require. Moreover, it is important to appoint someone who can handle the criticism. Most customers do not believe in only positive reviews, because mistakes happen to everyone. The error is not as important as how we react to it. It is best to find a solution to the criticism and turn in our favor rather than delete the comment.
4. Encourage employees to interact with the accounts of the company and, in the end, check that no post can damage the image of the company.

The second method involves a series of initiatives that can increase customer loyalty by exploiting the characteristics of individual social, for example foursquare.

- Create an account on Foursquare. Foursquare is a social media channel that allows people to "check in" when they arrived at the place and share it on other social as Facebook or Twitter. This location-based service is designed specifically to promote customer loyalty in a place. The amount of the award depends on the number of times that the customer will visit the same place.
- Create a mix of content on all social media channels and not only post "pitch" of new products. The heterogeneity increases attention.
- Exploit all accounts once to launch contests, coupons or promotion codes. In this way we can, first, keep track of how popular are our channels and, second thing, after 6 or 12 months, we can determine which channel is more successful.

- Everything that is posted on the web has to be replicated in the individual stores. So we can physically encourage customers to "follow" the company on socials.
- Offer our fans "Sneak Peek" of upcoming products or services. This works especially well for musicians, directors and promoters of events. We can offer to customers an exclusive access to special contents through codes that they can find on social channels.
- Encourage conversations or discussions on your pages or profiles. Social media offer the opportunity to talk to your customers directly and publicly, and to show them that you care. This is an extremely important part of customer loyalty. Also you can Pay attention to trending topics on the Internet and interact with customers on what is important to them.
- Encourage people to review your products on your account. Through small surveys you can see which products are more successful.
- Develop their social media brand identity over time. Although this may not be obvious when you are beginning.

As we have said, one of the strengths of social media is to create a direct and immediate link with customers. The problem is that, to achieve this, the social must be used wisely. In fact, if the social are not used in the right way, they may damage consumer loyalty.

A first way to lose the trust is not keeping promises. Through social, we promise different things like discounts, previews, events etc. As soon as we do not respect the expectations or ignore requests, we lose the trust of the customer who will be difficult to regain.

Ignore customers is another way to lose them. As mentioned, you have to respond to comments and questions in the "timing" of internet.

If the first rule of loyalty through social is consistency, inconsistency is a great way to destroy all the work. Customers need to know that what they read on their PC or Smartphone is what they will find physically in the company.

There are not many things that kill customer loyalty like watching a brand that is on the defensive and attacking its clients in full public view. Unfortunately, this happens a lot in social media.

The last thing is not giving the impression that the company takes care of its customers. The company must make it clear that it loves what it is doing through the care of the details, messages, answers, advice.

3.3. OVERVIEW OF DIGITAL LOYALTY PROGRAMS FOR MICRO-RETAILERS

The genetic code of the company has changed because they have recognized the importance of the relationship with the customer and its value. Thanks to this, companies have been able to adopt different strategies. Loyalty programs are tools supporting these strategies. Yesterday implemented through programs and loyalty cards, today also through smartphones and tablets. The APP loyalty are numerous, the result of investments by large companies but also startups.

Loyalty schemes are not new and are part of the strategies and initiatives of all the companies that have put the customer at the center of their vision and philosophy. The main strategies are activated through the distribution of loyalty cards that offer various discounts and benefits. The real benefits of the consumer are not certain but the success of the cards and loyalty programs is evident. This explains why the investments of brand manufacturers and large retailers continue to grow.

Since the introduction of the first loyalty card in Italy introduced by GS more than ten years ago, the world market has completely changed. Today there is no business, brand or company that is not equipped with its own loyalty program associated with loyalty card or other forms of collection points designed to reward customers with gifts, discounts and great deals.

The diffusion of mobile devices and the pervasiveness of the applications have also fostered the rapid transformation of loyalty programs. The consumer has been so in a few years from having a wallet full of loyalty cards of paper or plastic to APP on his smartphone that guide him. With APP any business is now able to set up new loyalty programs designed to facilitate purchases but especially to gather useful marketing information on them and to use them for customized promotions[83].

The advent of the smartphone and digital wallets has changed the reality of the market and consumer habits. The wallet full of loyalty cards are replaced by smartphones and digital cards manageable form of APP. these APPS are able to manage the purchase but also the provision of points and advantages usually associated with the loyalty card.

The idea of loyalty cards into an APP comes from the observation of a widespread trend of the market. This sees 68% of smartphone owners use it in stores[84]. New applications aim to replace the traditional channels of loyalty and to offer companies the opportunity to save money on marketing and advertising budget.

The market is guarded by giants of large retailers such as supermarkets. It has an APP which offers the consumer the possibility to obtain discounts on measurement on a basket of selected products. Currently on the market is also Carrefour with an Android application and other retail chains.

The loyalty programs is not unique to large retailers but also hotel chains like Best Western and other manufacturers of brands that are trendy and enjoying the satisfaction of consumers. All these programs have become mobile and digital. They pass through an APP and services similar to those of plastic loyalty card. With the added benefit of increased automation of the process of buying and use of loyalty card dematerialized and more opportunities to manage the prize by each consumer.

Therefore companies, to move towards the loyalty 2.0, must acquire new skills. They must be able to recognize and classify each customer based on demographic factors but especially in behaviors, habits and purchasing

[83] Linckedin.com
[84] Venderedipiu.it

decisions. All this must be done faster than in the past. Collected all the data that need, they must be able to define appropriate strategies and focus the right priorities in the definition of commercial and marketing programs and construction of the proposition offering. Finally must be able to interact with the customer using all available channels and the media, especially the technological ones.

The radical change we have witnessed in the last decade has been achieved thanks to the increased availability of information. The new dimension of the information and the ease with which they are accessed, they changed the processes of choice for consumers in deep and lasting. Consumers today are more informed, more aware, more connected and prepared to purchasing decisions more complex. They are able to deal with an offer increasingly rich, complex and “smart” from the point of view of marketing and sales.

The information revolution has been accelerated by the arrival of new technologies Mobile, by the exponential growth of the Web and search engines, by the diffusion of mobile devices and their applications. New technologies have transformed the consumer but also the relationship it maintained with commercial enterprise, the store or brand. The many channels and media available, have made consumers more demanding and conscious and more difficult to meet. The new types of consumers confirm the validity of marketing visions that aimed all about the customer relationship, but most of all on the ability to give to this relationship continuity and progressiveness.

Companies that have always embraced this vision or those who have decided to adopt it today are the companies that are now investing in new technologies and loyalty programs that make use of mobile devices and APP. they can take full advantage of their technical characteristics and features to customize, contextualize and locate the offer or promotion. Above all, they can create a conversation made of SMS and tweets, tips and informative insights, new knowledge, new ideas and entertainment[85].

Now we can analyze the landscape of app available in the market. Most of these are multi-platform, i.e. they are available for both iOS devices and for Android devices. As for the business model, almost all include the possibility to test for short periods a light version and then make an upgrade and pay a monthly subscription. Specifically these apps are[86]:

- **Belly**: spread to over 34 countries and used by nearly 5,000 commercial entities and companies and thousands of small businesses, available on both Android and iOS platform that used by nearly 20 million consumers. The app is integrated with social network, contains and manages warning mechanisms and promotional email campaigns and provides analytical tools. The app costs $ 79.
- **Pirq**: an application that allows consumers to manage their purchases by taking advantage of promotions, bonuses, discounts, etc. scores. The consumer after downloading the application can try the various deals and assess what choices to take.
- **Foursquare**: technically not an APP loyalty but can be used to engage, interact and build relationships with customers and gather information to set up promotional campaigns and personalized marketing and ad hoc. Can rely on a community of +50 million users.
- **rewardJunkie**: useful for those who frequent the restaurants, cafes, bars and pubs looking for promotions and proposals related to loyalty. An APP used to ask for discounts, prizes and various rewards.
- **Front Flip**: one of the trendiest APP Loyalty, integrated with social and allows feedback and individual actions of the customers / users about promotions that are sent to them. They can for example share

[85] Loyalty360.org
[86] The source of information about the apps is the official sites of these ones.

them with friends. The collected data can be analyzed with tools analyses ad hoc.

- **GetOne Rewards**: a startup seeking funds for future developments.
- **LevelUp**: an application that works with the logic of the game, but applied to real life consumer engaged in shopping. With its iOS or Android device the consumer can read QR codes of the products selected or desired to unlock any discounts or promotions to them and mania associated with their loyalty or frequency on the tip of sale.
- **Perka**: designed to reward and act on transactions in place. Consumers receive prizes and discounts customized, shops and outlets collect customer data for future campaigns and promotions. Available in iOS and Android but also acts in SMS mode so as to involve the owners of simple mobile phones. The service has a cost of $ 35 per month.
- **RewardLoop**: it can be used in stores and can be integrated with almost all cash machines in use. Relies on special printers to generate QR codes coupon format to be used later. The printed symbols can be used to add points to their 'loyalty card digital'. Still in beta but available at a cost of $ 40 a month to which must be added the cost of the printer, the setup and configuration.
- **SpotOn**: A loyalty program that has not betrayed the old plastic loyalty cards and is now also an APP for iOS and Android. Consumers register their business by reading QR codes and creating digital records in their Mobile APP. The service costs $ 60 a month.

These are maybe the most popular “loyalty APP” on market but we can specify our research, basing on APP dedicated to micro-retailers:

- **Key Ring**: useful for small and medium companies looking to attract new customers and create traffic in their stores. Manages ad hoc campaigns, sending messages, feedback and marketing strategies for retention.

- **Punchcard**: allows you to collect points through the games. points are not established mathematically. The app recognizes the shop and makes you choose how to use the points won.
- **Buzztable**: designed for restaurants. Serves to maximize the time that the guest is sitting in the room. the customer has its own list of preferences and on the basis of this app allows you to choose the best orders.
- **Stampme**: is an aggregator of loyalty cards.
- **Shopkick**: allows you to collect "kick" by scanning the barcode of the product. It is open at the entrance of the store, the app recognizes the shop and noted how "kick" to get on the various products and how you can take advantage of the "kick" already available.
- **ERPLY**: created for points at the time of payment by pos.
- **Front Flip**: A social application for instant promotions and personalized, with analytical tools and marketing services defaults.
- **Biznessapps**: allows the store owner to build a custom app for their business.
- **Spendgo**: an application that gives points based on the more a consumer buys. The consumer can decide whether to use the points accumulated during the purchase. An APP for small companies with analytical tools, guaranteed in terms of security and fraud prevention.
- **OpenTable**: designed for patrons of restaurants. Activation takes place online. The points are accumulated by making reservations via the APP and their mobile device.
- **FiveStars**: similar to Belly offers a free guide to the loyalty by offering tools for implementation of promotional campaigns and analytical.

- **Groupon**: the famous app centered on customer satisfaction and retention initiatives implemented with the proposition of awards and gifts different according to the level of customer loyalty.
- **Linkables**: an accreditation system for points and prizes directly connected to the PayPal account and credit cards.
- **ReZoop**: proposes to small and medium-sized companies a platform to communicate with their loyal customers or retain.
- **Quomai**: focused on dialogue with the customer in order to build and nurture loyalty.
- **Marqeta**: free application with costs that depend on individual performance.
- **Swipely**: rich analytical tools useful for custom programs.
- **Skypop**: integrated into cloud computing and particularly useful for events implemented to create opportunities to meet with customers.
- **Spring**: useful platform for people who want to achieve very specific goals of business or implement targeted campaigns and promotions related to specific and customized.
- **SpotOnWay**: is a loyalty program highly geo-localized. The app indicates on the map the nearest shops based on your preferences. After purchase, a tablet scans the app and load points on the account. points are can be spent only in the store which supplied them.

3.4. EMPIRICAL FRAME AND RESULTS

Also in this field to determine changes and innovations is the economic crisis. It forces companies to focus on its loyal customers, recognizing them as the main asset in which to invest to secure revenue and profit in times of lean and increasing global competition. Acquiring new customers is more expensive and also risky. Better to focus on loyal customers and rewarding them is welcomed with discounts, promotions, gifts, courtesy of various types and cultivating the relationship. The tools in support of these strategies are loyalty programs, already widely exploited and now entered with a part of purchasing the vast majority of consumers, even Italian.

New technologies have changed things for companies with loyalty programs established and successful. New technologies have made obsolete quickly traditional instruments such as loyalty cards linked to programs of accumulation of points for purchases or later use. The pervasiveness of devices and digital solutions has changed the competitive landscape. Companies that had focused on loyalty programs such as supermarkets, big brands and companies engaged in the B2B market have had to innovate to ensure customer loyalty and to retain new ones. Innovation is also coming from technology startups and new players that have exploited new technologies to introduce new tools and digital solutions and furniture.

The first solution sought was the implementation of the mobile APP linked to loyalty programs. The APP are easy to use for the identification of the client, for its profiling, to monitor its activities and movements, to accompany him at various stages of decision-making and behavioral buy but also to subsequently analyze data and information and implement campaigns and initiatives to hoc.

Other solutions have been received from operators like Groupon that have focused on sales between private and group and have invested immediately on the loyalty of their customers in order to increase the volume and value of sales. Loyalty, even in this case, pass on the knowledge of the preferences of consumers / users and the ability to provide their proposals, awards, promotions targeted and personalized.

Plastic loyalty cards, APP for loyalty, loyalty programs related to services like Goupon are just some of the tools available today for companies to facilitate the relationship with the customer and capture his loyalty. The novelty of these technological times, digital and mobile convergence is taking place between these tools and other solutions. These include the creation and proposition of coupons (some related to QR codes) in digital form, virtual platforms that can be used by companies to reward the behaviors of their loyal customers (regular purchase of such products or frequent visits in the stores or in store online), digital portfolios (the Google wallet for example) which allow the customer to take with you in a digital form of instruments of payment, loyalty, coupons, etc., services arrange them through subscriptions and subscriptions that require payments in advance but result in greater savings and benefits.

The convergence that results not only technological and level instruments but also of approach and strategy. All driven by new mobile technologies and digital services and are able to offer useful features in each of the phases that connect a customer to a seller or store, the decision-making phase, to the purchase, the feedback on the product and the prize for the loyalty manifested.

This convergence is designed to encourage the big players and the big brands but can also benefit small and medium enterprises. It is important that they are able to take advantage of technologies and business models designed to cultivate customer relations from the perspective of fidelity and loyalty. Anyone can now have detailed information about its customers. Anyone can take advantage of new technologies to implement APP or ad hoc tools to analyze the data, classify and categorize their customers and implement marketing programs and ad hoc commercial. Exactly how to do very well companies like Google, Amazon and PayPal, as well as Carrefour, Esselunga and Wal-Mart. Who will not invest in this area will come from the market or will eventually find themselves confined to niche markets with a few loyal customers, not enough to ensure the survival or success in an increasingly competitive and global why more and more technologically Mobile.

3.5. CASE STUDY: SPOTONWAY APP

Local small to medium-sized businesses have difficulties to turn new customers into regulars. Today they are using coupon sites getting only occasional shoppers that are very price sensitive; when they use classic fidelity program they have low customization options and lack the technology to analyze data and get insights for their business

SpotOnWay team started with a prototype tested in Southern Italy, in Foggia, called "Wukumpra". Wukumpra was a platform for online offers and showed immediately metrics very positive. During the training phase of the Wind Business Factor Competition, the team has changed the business model and the naming. SpotOnWay presented itself as an innovative marketing portal that allowed merchants to promote through local advertising. It allowed users to access personalized offers and geolocated and buy discounted products paying directly within the stores. Also an innovative system of loyalty and gamification differentiated them from traditional couponing platforms. After being selected for the Investor Meeting of November 18, SpotOnWay won the 2nd round of the WBF Startup Competition 2013[87].

In December 2013, the startup has been selected by LUISS EnLabs for acceleration program reserved to innovative companies. The newly formed company has received funding from LVenture Group, holding venture capital listed on the Italian Stock Exchange[88].

During the period of acceleration in LUISS EnLabs, the startup has again refocused its business. Today, SpotOnway is a universal digital loyalty program with real-time data and analysis about customers. It works with small to

[87] Windbusinessfactor.it
[88] Startupmagazine.it

medium-sized businesses to create a customer unique loyalty program and give their members the ability to have one card or app they can use at all of our participating locations. It places a customer facing iPad mini at the POS[89] of the business to interact with consumers and make the in-store experience more digital.

The startup closed a €215K seed round at the end of July 2014. Next round targeted by the end of January 2015: €350K to sustain rapid penetration of the Rome and Milan market. The funding received will lead to the signing of a capital increase through which the team SpotOnWay continues its journey by focusing on three main objectives: as already said, to penetrate massive markets of Rome and Milan, support local merchants to increase their business and continue to invest in human capital[90].

Paky Russo, CEO and co-founder, said during an interview that their mission "is turn the spotlight on small retailers overshadowed by the GDO and large shopping centers (...). The target of the startups is all commercial activities belonging to different product categories: from catering to leisure, beauty & wellness shopping and more"[91].

About the team, it is formed by seven members:

- **Paky Russo, CEO**: Experience as International Business Developer with Rocket Internet GMBH. In this role, Paky was the Head of SMM Thailand as one of the starting members of Lazada; he is experienced in all aspects of Venture Building.
- **Romolo Romeo, COO**: Serial entrepreneur with experiences in different industries. International Business Developer with strong capabilities in wood industry. Founder of S.I.B.I. Sarl in Ivory Coast; Founder of S.I.C.M.E. Sa in Equatorial Guinea.

[89] Point of sale
[90] Startupitalia.it
[91] Dario d'Elia, "spotonway dà i superpoteri di marketing ai piccoli negozianti", January 2015

- **Alessandro Ranaldi, CFO**: Experience in consulting as business analyst (A.T. Kearney, Ernst & Young) and corporate (Procter & Gamble) as financial analyst. Master in Corporate Finance (LUISS Business School); MSc + BSc in management engineering (University of Rome "Sapienza"); Visiting student at Copenhagen Business School (MBA exchange program) and Universidad Carlos III De Madrid (European Exchange program).
- **Francesco Palladino, CBO**: Italian-based Creative Director with over 15 years experience across UK, US and other European and international markets. Hands-on creative, specialising in digital design and UX interfaces.
- **Luca Tamburo, CTO**: IT developer for a project into ICAR-CNR Institute; five years as web developer with python, html5, css3, jquery, bootstrap and Google Maps API; four years as developer with NoSQL databases (MongoDB). Bachelor degree in Computer Science.
- **Vincenzo Striano, CDO**: Bachelor degree in Computer Science IT; developer for a research project about nuclear plans (NIC); experiences in software engineering and data warehouse; knowledge about db SQL and NoSQL(Mongodb), python, java, php.
- **Marco Miralto, CISO**: Marco Miralto was born in 1980 and approached computing and networking at the time of BBS. Passionate about computing, electronics and computer music. Obtained a bachelor degree in Computer Science with a final work about real-time Linux Kernels and media streaming.

SpotOnWay helps SMBs[92] keep customers in a virtual loyalty loop so to spur brand advocacy and ultimately sales.

To achieve this aim, SpotOnWay provides merchants with an easy-to-customize digital universal loyalty program and easy-to-read real time data

[92] Small to medium-sized businesses

and analysis about customers. The program is "Universal" because with the SpotOnWay loyalty card (and with iPhone and Android app) a shopper can manage the rewards associated to all the affiliated merchants. However, the program is one-to-one (e.g.: points cumulated with a specific merchant can only be used for its rewards).

The local business Italian market has a high potential. The target merchants of SpotOnWay are SMBs in the following market segments:

- Food & Beverage (e.g.: cafè, bar, sandwich shop, pizzeria)
- Wellness & Beauty (e.g.: hair care, nail salon/beauty, day spa)
- Retail (e.g.: pharmacies, pet shop, fashion, perfume and cosmetic shop)

SMBs are not SpotOnWay's only target. Larger chains operating on a franchise model are consistently looking for easy ways to help store owners effectively build up customer loyalty. In fact, the Served Available Market[93] counts 430k merchants and the Total Available Market is about 750k businesses[94].

To identify the SpotOnWay's target partner we can use two attributes: category purchase frequency; and local competition degree.

The new program works in a simple and easy: the small and medium enterprises may affiliate to SpotOnWay and immediately offer their customers the ability to earn loyalty points with every visit that allow to obtain special premiums or discounts. With SpotOnway, each operator can build its loyalty program and create customized marketing campaigns:

1. SpotOnWay provide merchants with an iPad mini to be placed next to the cash register;

[93] How many can I reach with my sales channel.
[94] Istat, internal estimation

2. Shoppers enter the store, buy the product/service, scan the QR code of the SpotOnWay card/app and earn points;

3. Shoppers come back to get rewards depending on their cumulated points; (customer engagement)

4. Merchants can check program efficacy and understand customer behaviors in order to implement ad-hoc marketing solutions. (BI analysis)

Merchants have a full stack of tools to promote their business maintaining full control. Through SpotOnWay platform they access valuable services:

- Digital Fidelity program giving high flexibility at changing and customizing reward whenever merchant wants;
- Business Intelligence statistics to check program efficacy and understand customer behaviors in order to implement ad-hoc marketing solutions. There are two main levels of detail of information:
  1. High level: numbers of new/returning users; number of visits per day/week/month; top redeemed rewards, top customers; customer's age and gender breakdown; customers ZIP code breakdown.
  2. Low level: email of each customer; downloaded rewards per customer; number of visit per customer; cumulated points per customer.
- Geolocation service on the webapp and apps (iOS and Android) that represents a showcase and enable discovery for the merchant store.
- Highly targeted Direct Email Marketing. Merchants can create ad-hoc email with exclusive promotions for their customers.

This startup was built according to the best practices in USA that have been demonstrating strong traction. The companies of reference are shown and described in this table:

	Bellycard	Five Stars	Spoton
Headquarter	Chicago	San Francisco, CA	San Rafael, CA
Launch date	2011	2011	2012
Raised capital	$25Mln	$42,7Mln	$5Mln
Some Investors	Andreessen Horowitz, Cisco, 7-ventures, Lightbank	Y Combinator, Menlo Ventures	Founders themselves
Merchants	5.000+	5.000+	5.000+
Valuation	$100+ Mln (estimated)	$100+ Mln (estimated)	NA

[95]

About the competitive landscape, SpotOnWay achieve a high merchant value because of:

- Effective and simple to use technology with an affordable price for the SMBs segment
- Reward customization to build the program according to the customers that generate value and possibility to dynamically manage the rewards whenever merchant wants
- Data analysis to program effectiveness and customers that are really valuable
- Highly targeted DEM to send exclusive marketing initiatives thanks to the pieces of information provided by the SpotOnWay platform.

The SpotOnWay technology has been completely developed in-house by the IT team (with strong mobile integration). This allows to be flexible and fast at implementing future value added services and react to customers feedbacks.

The startup created barriers to entry very important:

[95] Spotonway, Investment proposal, 2015

- Their tool is able to track customer behavior and data about consumers over time. Changing the program means to restart from scratch.
- High number of users using the mobile app and webapp. It represents a showcase for the merchant.
- Relationships they create with merchants in assisting them with the loyalty program and flexibility to reduce price (since they will have recovered the hardware costs) to foster renewal and lower the churn rate.

In the end, the startup has a clear Go-to-Market strategy:

- Local Sales force. Going forward, they will tend to use dedicated software (i.e. clear slide) to convert and assist merchants remotely (as Belly does in USA) so to reduce FTEs[96]. It is really important that sales force not only establishes, but maintains relationship with clients (i.e. provides clients with consulting based on an understanding of the customer's current/future needs);
- Word of mouth ("me too" attitude) driven by network effect;
- Facebook Ads + blog and social networks for partner engagement and education;
- Merchant is the main marketing channel for customer acquisition (very quick first-time registration, just email inserting, through the tablet at the merchant cash register).

The SpotOnWay Go-to-Market strategy has been demonstrating strong traction. Their first iPad was set up at their affiliated merchants on October 9th, 2014. The following stats are from October 9th, 2014 to January 16th, 2015:

- Total affiliated merchants = 33
- Total users = 3700+ (with no marketing spending)

[96] Full-time equivalent

- Total check-ins = 8000+
- Category breakdown: 82% Food & Beverage, 12% Retail, 6% Health & Beauty and services.

3.6. CUSTOMER SATISFACTION AND STORE LOYALTY

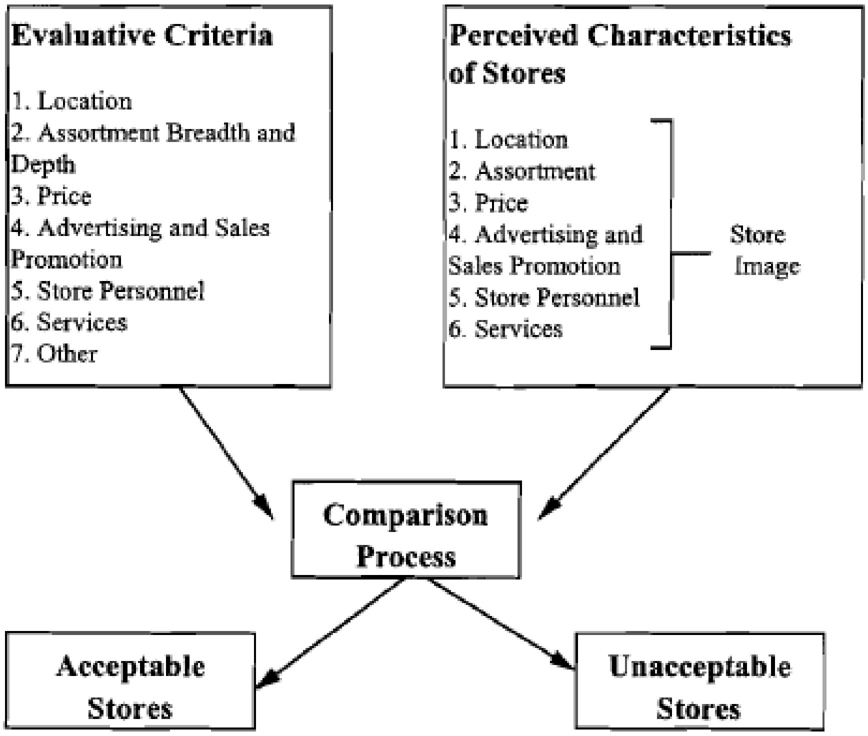
The objectives of commercial marketing are related to the maximization of investment in the retail market, and what you search through the rationalization of spending in the intermediate market; planning the activities of production, customer and channel, it will manage the vertical relationships in an optimized manner, creating synergies, avoiding waste and trying to satisfy customer and consumer.

Another way to increase revenue is related to increased brand loyalty through the store loyalty, we can define "evaluation and trust on the brand or the store (market, supermarket, shopping center)." The commercial marketing has strengthened store loyalty of the customer from a behavioral point of view, increasing the repurchase rate of the products at the same store, and cognitive, reinforcing the image and loyalty that the consumer has the same sign.

The objective of commercial marketing is to increase the level of store loyalty of customers. It is possible generating higher spending and lower incidence of competition, aiming to improve infrastructure and support, economic benefits and offer variety to ensure higher altitudes and higher frequency of purchase.

In literature, loyalty is the explanation for which consumers choose a shop or service in particular. However, the question of why customers have chosen some stores than others was also thoroughly studied outside the context of store loyalty.

A good summary of the drivers that move the choice of a store is the model of Engel dated 1995. In the model, customers use a set of evaluation criteria as the basis for their choice shop. The overall perception of a shop is often called the image of the store. The other element that often affects is the location. The third point concerns the loyalty programs of which we have plenty the Treaty and that, therefore, are only mentioned.



[97]

The attractiveness of a store is a determinant key of the choices of shop by consumers, at least for some consumers. The dividing line is often the causality. If the consumer prefers to search the store he likes it or not. There is also a problem with the way we analyze these relationships. As usually happens, we have a perspective or shop units and do not consider all the choices. What we overlook is primarily emotional. Consumer attitudes and unconscious preferences affect much the choice of the store even if it depends on the store itself. That is, although some consumers may buy in a store they like, it is not clear if they look within, because they have a strong

[97] The store choice process as a function of salient variables. Engel, Blackwell and Miniard, 1995.

preference for this store, or if they consider it as good as many others but it is more convenient.

As shown in the model of Engel, store location is sometimes included in the concept of image sales. As an independent variable, store location is one of the variables that has received much attention in research on store choice, and is often seen as the most, or one of the most important determinants of the choice of the store.

The location is an important criterion for the choice of consumers shop. The store location serves as a sort of control variable: the customers are led to choose between the stores more easily reached. When a customer is not satisfied with a nearby shop because it is not convenient, he will try another store slightly further but cheaper. The mechanism continues up to reach a compromise between comfort and convenience. It remains very difficult to establish a relationship to find the right compromise. The hardships arise because consumers choose this compromise so subjective. Furthermore, an important factor to consider is that consumers vary in their sensitivity distance that would be interpreted. Finally, this compromise is less when it comes to the type of purchases. For some products, it becomes necessary to reach a store farther and less convenient than what we chose.

Finally, a good loyalty program can facilitate the choice. The nearby store can become even more convenient thanks to the clever use of loyalty programs. The customer appreciates the quality of the report, which also translates into convenience purchase, more than other drivers.

CONCLUSION

The emphasis on the maintenance over time of profitable relationships with customers has influenced the way in which companies now organize their marketing activities, facilitating the emergence of what is referred to as "relationship marketing".

It is no coincidence that the American Marketing Association in 2004 wanted to include the need to manage relationships among the main activities of marketing. For relationship marketing can be understood: "the complex of activities, processes and marketing tools, designed to create, strengthen and develop lasting relationships and profitable customer and other partners, able to increase the value and the total generated".

Relationship marketing has evolved gradually over the years, also in line with the strategic needs of corporate.

In particular, it has gone from almost indiscriminately offers targeted to the mass of customers, in situations where, thanks to the potential of interactive technologies, customized proposals are marketed on a large scale (in this case we speak of mass customization).

The conditions that have encouraged relationship marketing are definitely three:

1. Characteristics of the offer. Referring to the classic distinction between goods and services, typically service companies are more likely to interact, even physically at places of sale / consumption, with the customer and even to know the registry where it is necessary to enter into a supply contract (consider, for example, telephone services, insurance, public utilities, hotel services, sports, etc.);
2. Number of customers. It is evident that the number of customers, coupled with the complexity of the product / service, could be an

obstacle to the development of the "philosophy" relational. Doubtless, when a company interacts, through a wide network of brokers, with a large number of customers, may find it more difficult to process information and to arrive at valid indicators of synthesis;

3. Competitive intensity and market dynamics. When a market is showing signs and trends of development, it is common that companies will project to acquire new customers and to practice a marketing of conquest; on the contrary, when the market reaches a stage of maturity even decline, marketing strategies are aimed to consolidate the existing, and then the focus of activity moves to a relationship marketing.

Beyond the intensity of adoption of relational practices, companies that manage to prolong the relationship with its customers profitable are also those with the highest growth rates of overall profitability. As early as the 90s, it has been shown, by analyzing the average income per customer, that the overall profitability of a company increases almost exponentially with increasing duration of the relationship it has with its customers.

Manage the customer is the imperative of marketing management in mature markets. The conquest of new market space can only be to the detriment of competitors and therefore proves very ephemeral, risky and expensive. The methods and techniques of government of these very important business assets are numerous and are based, today, on the extraordinary advances in digital technology. The success of the programs report also allows the marketer to accurately measure the effectiveness of marketing programs, with clear benefit to the entire management of the market. The company is competitive, today, if it is a company that sees the first sale only as the beginning of a relationship oriented to the long term.

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