

## **IMPACT OF THE CO-BRANDING ON CUSTOMERS' LOYALTY IN STOCKMANN LTD**

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### **—Abstract —**

The theoretical background of the Research Paper deals with the general information about co-branding and its role in entrepreneurship, customers' loyalty issues and development tendencies of credit card segment in co-branding.

The practical background of the Research Paper is connected with Department store „Stockmann” and the way how this enterprise creates the competitive advantage – co-branding product - “Stockmann MasterCard”.

The main reason for choosing this theme is that nowadays' situation in world economic and determining factor for survival of enterprise is ability to create and introduce innovative and untraditional solutions in marketing, customer relations management and strengthening of customers.

**The goal of the Research Paper** was to study the creating process of the co-branding in Stockmann by using the theoretical knowledge of marketing as well as the analysis of customer's attitude and employees' contribution towards Stockmann MasterCard Project and its impact to customers attitude and loyalty to the enterprise.

**As the Research Method** the author has chosen the analysis of the theoretical literature, study and analysis of the documents and conducting the quantitative study “Survey about Stockmann MasterCard impact on customers' loyalty” using questionnaire method as well as the generalization and analysis of the empiric data.

The following **hypothesis** was set for developing of the Research Paper: Co-branding creating is a very efficient method of maintaining customer's interest and loyalty to the enterprise and increasing the amount of purchases done by Loyal Customers.

### **Objectives of the Research Paper:**

1. Generalization of the information about the co-branding using publications on the internet, newspaper articles and available scientific literature on this subject.
2. Study and analysis of unpublished Stockmann documentation for collection of the necessary information.
3. Conduction of the survey about the Stockman co-branding product- Stockmann MasterCard's impact on customer's loyalty to enterprise Stockmann, in period from 10.03.2011 till 10.04.2011.

**Abbreviations:** LC – Loyal Customer; SMC - Stockmann MasterCard, D/s department store.

**Key Words:** *Department store "Stockmann"1, Customers loyalty2, Brand, co-branding3, Stockmann MasterCard4.*

**JEL Classification:** M31 - Marketing

## **1. INTRODUCTION**

### **1.1. Role of co-branding in building loyalty program**

The beginning of the term "customers loyalty" is found in the times when there were no big supermarkets or department stores, but owners of small shops worked there as sales assistants and their key to success was individual attitude to customer. Individual attitude to the customer is one of the basic values in nowadays loyalty programmes as well.

The first loyalty programmes and cards were created in the 20-th century in the USA during the period between the 1st and 2nd world wars. They were quite primitive and basically oriented on discount offers, which is not the best way how to promote loyalty. As the result of discount wars profit of enterprises decreased and appeared the threat of insolvency.

During 70ties of the 20th century several airlines and hotel chains started a new success story of loyalty programmes which was based on collecting bonuses according to the amount of used services. Later the biggest stores and credit institutions joined this concept and the first co-branding products appeared.

**The primary goals of the Loyalty programme** are strengthening the enterprise's position by rising profitability, increasing profit and market share. Mostly these are the long term goals which require customers data base, developing communicative aspect, attraction of new customers and promoting of activities in

other areas which deal with market research, marketing of products and services, working out new offers.

**The secondary goals of the Loyalty program** – improving the image of product, brand or enterprise; improve attendance figures of a certain trading place by organising sales, promotional or advertising activities in terms of the Loyalty program; stimulating consumers to use the product more often, making them to remember about this product; solving problems of the program participants; to promote lasting communication with society thanks to regular reporting about the loyalty program and means of information; providing additional support to customers which is not included in regular service offer ( it relates to sales persons working with high technology products who need training to provide technical support); maintaining of trade network (if producer is the initiator of the program) by organising special presentations and helping to conduct local advertising campaigns.

On the basis of successful loyalty program are concrete aims which an enterprise wants to reach when introducing the program. The result depends from reaching these aims.

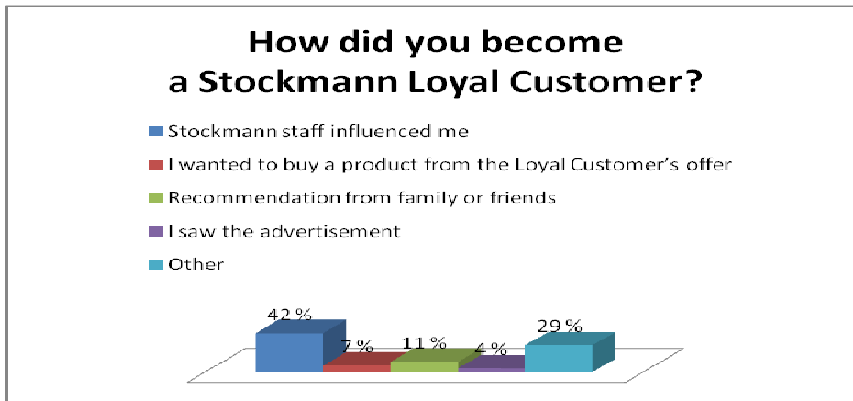
Co-branding or double branding means using two already known brands in one product. This strategy is already used in several fields of entrepreneurship-starting from car manufacturing, high technologies to banking area and food sector. Many popular companies use this marketing strategy in order to attract new customers, improve brand recognizability, strengthen customers loyalty or get any individual advantage offered by this cooperation. Very often companies start using co-branding strategy at the moment when they realize that the traditional marketing methods have exhausted their potential and do not make any difference and advantages in the context of other products.

Co-branding credit card segment has the most rapid development comparing with the regular card development results. The biggest specific weight of the co-branding credit cards is recorded exactly in the retail sector. Using of co-branding gives advantages to all involved sides: bank, partner enterprise and customer.

## **2. Research on Stockman co-branding product impact on customer's loyalty**

To verify the success of Stockmann MasterCard project in strengthening customers loyalty and other project goals, the author conducted a quantitative research, asking customers to express their opinion on questions referring to customer's loyalty and Stockmann MasterCard project. Questionnaire was sent

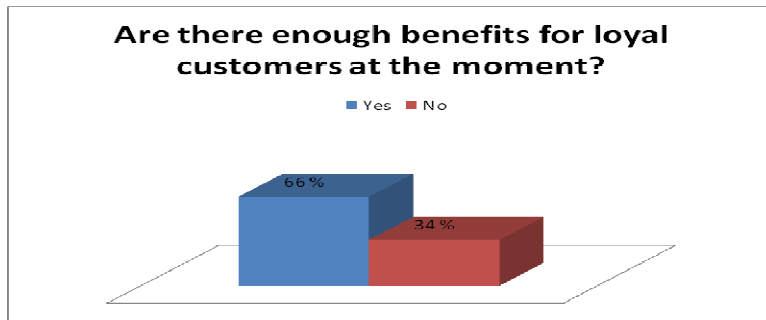
out electronically to 10 000 Stockmann's Loyal Customers. Overall, questionnaire was accomplished by 849 respondents, of whom 311 were men, women turned out to be more active - 638 responses. The average age of respondents is 29 years, the average income ranges from 600 to 1000 LVL. Interpretation of the data on customer shopping habits, depending on the membership of a particular loyalty program, it is obvious that customers are increasingly do shopping in companies with loyalty programs they are involved.



**Picture 1. The incentive to join the loyalty program (drawn by author using research data)**

This result demonstrates that the company's staff plays a very important role in building customer's loyalty and frequent loyalty program as such. Nearly half of all participants of survey have decided to join a Stockmann loyalty program thanks to employee contribution.

Studying customer's response to the permanent 10% discount introduction in the frequent loyalty program, as expected, the customer's response has been very positive. Customer Loyalty Program is currently offering discounts only to certain goods and 10% discount on all goods only for the first day – when joining the loyalty program. The results indicate that if a permanent discount was implemented, the total amount of purchases experience would grow significantly. These results will be also discussed in Stockmann MasterCard product development offer.



**Picture 2. Satisfaction with the offered benefits (drawn by author using research data)**

Respondents replied surprisingly positively to the question whether there are enough benefits for the loyal customers. 66% of respondents believe that there are enough benefits for the loyal customers. Taking into account the theory on the unlimited human needs and limited resources as well as the fact that customers always want more, it is safe to say that Stockmann has a very well thought-out concept on the loyal customer benefits and a successful customer relationship management.

When analyzing the overall customer opinion on loyalty, most important components come in the foreground: regular purchases and satisfaction with the offered range of goods. Few people have marked the readiness to make a purchase for a higher price from the chosen company. This might be due to fact that customers simply don't want to admit that shopping in Stockmann they express readiness to pay a little more. For the price difference they gain the added value of the company expressed in a high standard service, trust in the quality of their purchase and accommodating solutions in case of special situations regarding quality as well as other benefits for Stockmann customers.

The Stockmann MasterCard credit card holders make up only a part of all the respondents – 15%. 26% of respondents would like to receive the credit card and are likely to fulfil this wish in the future. 24% of respondents do not consider this credit card desirable. This opinion communicates resistance to the product. From the author's viewpoint, it can be explained with the fact that these customers are not interested in the product and with the country's present unstable situation in which customers avoid products connected with crediting. It is possible that a part of the customers have wished to receive similar credit products in the past and have been denied of the possibility due to their existing credit obligations or bad financial situations. This type of negative experience works as a barrier between the Stockmann MasterCard and the potential holder. The company should

intensify informing the customers about the credit policy in terms of the Stockmann MasterCard credit card, the possibility of receiving the credit card in exchange for a minimal deposit and the possibilities of spending and maintaining records of their money while using the Stockmann MasterCard free of charge.

Asked about the reasons for choosing not to receive the Stockmann MasterCard credit card, respondents name avoiding new credit obligations and that this is not the best time to participate in such activities as the main reasons. These two reasons complement each other because it is well known that the present situation in Latvia is not favourable enough. Thus, the main reason is the serious credit obligations for people. At the same time, it is pleasing to see that the possible answer *I do not see benefit in this product* is the least often marked (4% of respondents). 15% of respondents already have Stockmann MasterCard. All answers considered and keeping in mind that the latest economic predictions and indicators are optimistic, it can be concluded that the future of this product looks bright. If the company plays its cards well in expanding the product and supplements the Stockmann MasterCard benefit range to differentiate it from the Loyal Customer card, the product might become extremely popular even during the exiting recession.

As the main reasons for using the Stockmann MasterCard, respondents name discount offers in Stockmann and the possibility to receive discount on two hours in the parking lot. With the Loyal Customer card the discount is available only for one hour. In the author's opinion, the respondents' appreciation of offers from the company's collaboration partners is very adequate – only 5% of respondents see it as a great benefit. There are few collaborating partners, indeed, and their offered discounts and benefits are quite insignificant; in addition, a part of these discounts does not refer to the territory of Latvia. From the answers for this question, it becomes clear that Stockmann should set a goal: reaching balance between the value of the offered benefits in the customers' eyes. This goal can be reached by perfecting the offer of collaborating partners, improving the possibilities and conditions of using the credit card as a payment card and, most importantly, popularizing the benefits of the card, not the card itself.

Considering the changes in the customer purchase volume and the total amount, 86% of respondents say that the purchase volume has not changed since receiving the Stockmann MasterCard. 14% of respondents admit that the purchase volume has increased which is a positive tendency proved by the POS system results on customer activity. After receiving the Stockmann MasterCard, customers spend in average 11% more money than before. It is hard to judge the sincerity of

respondents' answers to this question. The author considers that the customers whose purchase volume has increased after receiving the card might constitute more than 14% because it may be difficult to admit to oneself that clothing and other small purchases are bought on credit.

The greatest part of respondents (64%) believe that the company has shown concern for its customers by creating the Stockmann MasterCard. This means that the most customers express their appreciation of the product. It is also a good way of boosting the customers' interest in the company. 36% of respondents believe that the company is trying to gain more for its own benefit. Surely, the company gains from the existence of the product, but the company cares for its customers at the same time. This negative opinion can be overruled by trying to find out about the customers' true needs and by creating offers that clearly bring forward the benefits of being a holder of the Stockmann MasterCard.

26% of respondents admit that they feel brought closer to the company by using the Stockmann MasterCard and they confirm their loyalty to the company. Most of the respondents (57%) believe that the target to reach when becoming a holder of the Stockmann MasterCard is the offered discounts and extra benefits. There are customers who do not feel any change made by similar projects. The positive side here is that 83% of respondents see use in this product. The negative side is that most customers do not find an emotional bond with the company and concentrate on the material use only.

Analysing customer's attitude towards Latvian Nordea branch reflects the fact that customers have a positive attitude towards the bank and customers show the confidence to bank. This means that Stockmann was right choosing a co-branding partner. The success of Stockmann MasterCard project very much depended on choice of bank, because success from co-branding comes from positive association related to the partner's brand. Nordea Bank differs from the other major banks - it has maintained the loyalty of customers despite the crisis in the country and thus strengthened its position in Latvia.

In general on public attitudes towards the company after the introduction of Stockmann MasterCard product, it is possible to experience a positive trend, because none of the respondents has demonstrated a down grade in attitude towards Stockmann, 35% of respondents claimed that the opinion about Stockmann has even improved. These indicators allow to take a deep breath, as the moment for development of such a project, was not the most appropriate. The project was launched simultaneously with the beginning of the crisis in Latvia, when the people attitude to banks and loans was very negative, even today many

people feel frustrated about irresponsible behaviour of the banks, allowing to build up the big real estate bubble and offering very available loans. By implementing this project, Stockmann was under very high risk of losing their customers and losing confidence and a strong corporate image in society, but it did not happen, and there are features which evidence the success of the project and fulfillment of one of its main goals: to make customers see the extra added value, helps to maintain customer loyalty to company and shows society that potential of Stockmann loyalty program is not exhausted and the company still has new benefits to offer.

### 3. CONCLUSION

The main factor approving the significance and valuability of this Research Work is the **Hypothesis**: Co-branding creation is the efficient method of maintaining customers' interest and loyalty to the enterprise and increasing the amount of Loyal Customers purchases which is proved by the concrete facts, evaluation of customer's attitude by conducting the quantitative study and working out a project for successful development of Stockmann MasterCard co-branding product

- Co-branding credit card segment has the most rapid development comparing to regular credit development results. Co-branding cards have overcome regular credit card in parameters: amount 2%; transactions 3%; accounts 4%; cards 4%.
- The biggest specific weight of co-branding credit cards is recorded exactly in the retail sector, which is 59% of total co-branding card's market.
- Practising co-branding creates advantages for all of the involved sides: the bank, the partner enterprise and the customer. **Company's benefits from co-branding** - stronger customer's loyalty, stronger brand recognition, increased sales, data for sales analysis, constant communication with customers, competitive advantage, potential revenue sources. **Bank's benefits from co-branding** – lower development and marketing costs for the card, increase in volume and turnover of cards, revenue growth, lower level of fraud. **Consumer's benefits from co-branding** - discounts, coupons, special events, pleasant feelings, greater benefits than from regular cards, reward for loyalty.
- Participants of the Loyal customers' Programme visit the Department store quite often, a certain part of them do shopping there even every day. In order to reduce the number of those customers who come for shopping only during the Crazy days new offers should be introduced. In general customers are satisfied with the work of this enterprise and come to do daily shopping particularly in Stockmann.



- On the foundation of Stockmann success there is not one particular advantage. Customers see the unified complex of advantages as the basis of the competitiveness. The three main benefits are: monthly discount offer; one hour car parking benefit and excellent service.
- The majority of the loyal customers, 66% of respondents, are satisfied with the possibilities offered in the Loyalty program and suppose them to be sufficient. Taking into consideration the theory of person's unlimited needs and limited resources it is reasonable to conclude that Stockmann really has considered loyal customers advantage concept and successful customers relationship management.
- Stockmann co-branding card is well known and recognizable product in society, it is approved by the study, where 76% of respondents say that they are informed about this product.
- The choice not to get Stockmann MasterCard should be explained not only with the fact that a client is not interested in that, but with the current unstable situation in the country where customers avoid the products which are connected with creditation. It's possible that a certain part of customers wanted to get this kind of credit products, but they were rejected because of already existing credit commitment or difficult finance situation. This negative experience create the barrier between Stockmann MasterCard and it's potential owner.
- The main advantages of using Stockmann MasterCard is the wide discount offer, it was approved by 33% of respondents un possibility to get discount for to hours in the parking place, approved by 29% of respondents.
- The weakest advantage offered by co-branding card is connected with offers from the collaboration partners, there is not a big number of partners, and offers do not cover all main entrepreneurship fields of services.
- To customers mind there is no balance between value of advantages in the Stockmann MasterCard offer. Benefits offered by the co-branding card make a small diference from benefits of regular loyal customer's card, there is only one visible difference – two hours car parking benefit.
- Since getting Stockmann MasterCard customers spend in average 11% more than before (data from POS system). Only 14% of surveyed customers admits this fact, there are two explanations: part of custumers do not even notice this fact; the second part of customers is not willing to admit that clothes and other products they have purchased using a loan.

- The majority of customers suppose that creating Stockmann MasterCard the enterprise has demonstrated its care for the customers, 66% of respondents confirm this fact, it means that strategy of development of loyalty program by implementing a co-branding card appears to be correct.
- More than of the half of the surveyed customers think that using Stockmann MasterCard they feel closer and more loyal to the enterprise, and this is positively evaluated in context of Stockmann brand, as the loyal customer's amount is a basic component for a long term entrepreneurship.
- To customers (67% respondents) think that Nordea bank has the image of reliable bank, this means that Stockmann did not fail in choosing the partner in developing the Co-branding Project.

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