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1   Introduction

This thesis will focus on how the use of direct marketing can increase customer loyalty. This case study will be made on Länsförsäkringar Kalmar Län which is a company that is active in three different areas of the service market.

1.1   Background

Marketing is today an inevitable activity to every business and its success depends heavily on its marketing ability. Other business functions such as finance, accounting, logistics and operations would not be needed if there was not any demand for the company's products or services being created through marketing. A sign of the importance of marketing today is the Chief Marketing Officer that many companies have among the Chief Executive Officer and the Chief Financial Officer (Kotler & Keller, 2009).

Marketing is a subject among others with a never ending evolution and development. The concept of Marketing emerged in the mid 1950s when the scope shifted from a make-and-sell-attitude to a more customer focused sense-and-respond attitude. In other words the businesses started to find products for their customers rather than finding customers for their products (Kotler et al., 2009). Direct marketing, Customer Relationship Management (CRM) and other relationship marketing concepts have been a topic of discussion for practitioners and academics for the later part of the 20th century and is widely claimed to be the future of marketing. Some academics have stated that the concept of relationship marketing is the biggest change in 50 years of marketing and is bringing marketing back to the pre-industrial era when the producers and consumers dealt directly with each other (Sheth & Parvatiyar, 2000).

Relationship marketing is an umbrella term with many subfields and is in general more connected with high-level strategic thinking. CRM has in contrast a stronger connection to marketing strategies over the customer lifetime and understanding the customer's needs, attitudes, life stage, profitability and lifetime value. Direct marketing is on the other hand the implementation and the tactical management of interactions with the customer (Payne, 2006). Direct marketing takes the advantage out of the fact that not all customers are alike and by customising the marketing to suit the individual customer the marketing could become more efficient. One of the benefits from a relationship marketing approach is increased customer loyalty which is the attachment a customer feels for a company's people, products and services (Churchill, 2001).

Some of the advantages of high customer loyalty are: Increased certainty, increased growth and increased profitability. A loyal customer will also increase the certainty within the business, which means that the relationship between the customer and the supplier are increasing (Diller, 1996a). Loyalty among customers has proved to be very cost efficient and is therefore requested among many companies, since customer loyalty benefits in the way that it helps the company keeping its customers.

1.2   Problem discussion

Länsförsäkringar Kalmar Län (LF) is today operating in three different markets: Property & casualty insurance, pension and banking. The main objective for such a strategy is to differentiate by offering all the services to the customer who can enjoy the benefits of having their whole personal economy at one place and not having to deal with different companies. This is an opportunity faced but also one of the biggest challenges, since it is so easy

for the customer to pick and combine products and services from different companies within these markets. According to A. Karlsson (personal communication), the marketing executive at LF: *"The most important thing for us is to build long relationships with the customer. Acquiring an insurance customer who stays for 1-2 years is not profitable, we are not at all interested in customers that move around and changes insurance provider now and then, these are completely unappealing to us…we want to build long lasting, long term relationships".*

Marketing had traditionally the purpose to create a transaction rather than a relationship (Kotler & Armstrong, 2008). Direct marketing focuses instead on long term, cost efficient marketing by establishing a relationship rather than a transaction. Acquiring a new customer can cost five to ten times more than keeping an old one and therefore companies should rather seek to establish a long term relationship with fewer customers than short term relationships with more customers. The cost of acquiring a new customer makes the total costs higher in the beginning of the relationship and due to this, the longer the relationship is, the lower is the cost associated with the specific customer (Grönroos, 2007). Loyal customers also tend to be less price sensitive and not that likely to substitute the product or service offered, due to this there is an opportunity to sell other products and services to the already satisfied customers (Grönroos, 2007). The problem faced by LF is how they should increase their customer loyalty in a way so that they can become more profitable and keep their customers for longer.

Customer loyalty is according to Oliver (1999) a deeply held commitment to rebuy or repatronise a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviour. Loyalty can be divided into three different parts: emotional commitment, attitude and behaviour (Oliver, 1999). The emotional commitment means that the customer has a positive feeling towards a specific brand and due to this there exist an emotional commitment, while the attitude part is accurate as long as the customer does not develop negative feelings about the brand. The last part of loyalty is the behavioural part. This part means that a customer will continue to purchase the product just by habit.

The best way to get loyal customers is to continuously deliver high customer satisfaction and a tool for this is direct marketing. A definition of direct marketing is: *"Marketing through various advertising media that interact directly with consumers, generally calling for the consumer to make a direct response"* (Kotler et al., 2008). If compared to one-way marketing the direct marketing is two-ways, meaning that a company communicates with the individual consumer. The outcome is to obtain a direct response by interact the customer through careful targeting. A CRM system is an important tool to collect information about the customers which is used to adjust the direct marketing. The company can then, with information gathered trough CRM systems, target the customer directly through direct marketing. The marketing can then be customised with detailed information as the company knows who the customers are and their interests.

As direct marketing takes the advantage out of the fact that not all customers are alike, marketers can benefit from this by optimising and customising the marketing in order to create value to the customer. One of the many benefits of implementing direct marketing in the marketing strategy is claimed to be the increase of customer loyalty. This perspective of direct marketing is examined in this thesis.

1.3 Purpose

The purpose of this thesis is to study Länsförsäkringar Kalmar Län and analyse how they can use direct marketing to increase customer loyalty while operating in different service markets.

1.4 Definitions

B2C..Business to Consumer

Beneficiary customer.......................................A customer that currently is in LF's beneficiary program

CRM ....Customer Relationship Management

LF ....Länsförsäkringar Kalmar Län

LF Alliance...Group name for Länsförsäkringar's 24 regional companies

LFAB..Länsförsäkringar AB, which is a subsidiary to Länsförsäkringar Kalmar Län

SKI ....Svenskt Kvalitetsindex

2 Frame of Reference

The relevant theory to this thesis is presented in two main sections: Direct marketing and Customer loyalty. The direct marketing section includes subsections with its connections to Relationship marketing and CRM. The final main section discusses the theory of customer loyalty and the importance of loyal customers.

2.1 Direct Marketing

Previously, direct marketing was something that referred to what direct marketing and direct mail companies did with name and address files. But as modern information technology made information easier to gather, these files have been expanded to massive databases with marketing information. Today companies have stored tons of information about their current customers and their potential customers in their CRM systems. This data is used in order to target the customer directly and establish and maintain a relationship while offering products or services. Large databases with customer- and market data is used in order to store this information.

The data consists of different information about the customer such as demographic information, personal characteristics, profession, age and purchase history. The customer is usually contacted directly to be offered a new product or service, this type of marketing is called direct marketing. There are a growing number of financial services companies such as banks and insurance companies that have adopted direct marketing as their main marketing strategy (Potharst, Kaymark & Piljs, 2002).

2.1.1 Direct Marketing as a Part of Relationship Marketing

Relationship marketing is often considered to be an *umbrella philosophy* with many sublevels rather than a single theory on its own. An estimation made by Dann & Dann (2001) has pointed towards nearly 50 different definitions and there will probably be more to come. As relationship marketing is such a broad area and the term *relationships* is vague, a single definition might not be practical or even needed (Gummesson, 1994). One definition by Grönroos (1994, p. 9) declares that the objectives of relationship marketing are to:

"identify and establish, maintain and enhance and, when necessary, terminate relationships with customers and other stakeholders, at a profit so that the objectives of all parties involved are met; and this is done by mutual exchange and fulfilment of promises."

This definition clarifies three parts: the existence of the relationship, the profit target for both parts and the exchange and fulfilment of promises.

Relationship marketing is often used interchangeably with CRM and customer management. Payne (2006) explains the relationship between these concepts in Figure 2-1. The model is based on interviews with senior executives at UK companies and their view on the topic. As seen in Figure 2-1, most of them associated relationship marketing with high-level strategic thinking with all key stakeholders. CRM had a stronger connection to marketing strategies over the customer lifetime and understanding the customer's needs, attitudes, life stage, profitability and lifetime value. Customer management was, on the other hand, seen as more linked with the tactical implementation of CRM and using specific tools such as campaign management or call centre activities.

Figure 2-1 Relationship marketing, CRM and customer management - a hierarchy (Payne, 2006)

Customer Management is in Figure 2-1 described as an implementation and tactical management of customer interactions. A typical interaction with a customer could be direct marketing. From this thesis perspective Figure 2-1 then gives an overview of the connection between relationship Marketing, CRM and direct marketing. The authors of this thesis interpret this as how these aspects constantly interact with each other. These interactions will be treated in this thesis to seek crucial links between them and how they can be used in order to achieve effective relationships. This will also be connected with loyalty (section 2.2) to show how this can be influenced. The hierarchy of the model outlines the core structure of this chapter.

2.1.2   The Economical Benefits of Relationship Marketing

There is often a false illusion that relationship marketing is unconcerned about profit because of its goodhearted and cooperative image. Sustainable profitability must be an ultimate goal, even for companies that adopt relationship marketing. Managing the relationship is the short term goal but in the long run profitability is important to all parts (Morgan, 2000).

Many academics claim that the primary focus and benefit of relationship marketing is the retention of the customers. This is especially important in saturated markets and a longer relationship also generates higher profits (Reichheld, 1996). Buttle (1996) points out two economic advantages that underpin relationship marketing: Firstly, existing customers are less expensive to retain than to recruit. Secondly, securing a customer's loyalty over time produces superior profits. (The benefits of customer loyalty is discussed further in section 2.2)

2.1.3   Criticism of Relationship Marketing

Marketing has always and is still a very changing field with many trends where relationship marketing has been accused of being another marketing fad. Marketers are often keen to adopt and implement a new marketing trend to later abandon it for another new and more interesting theory, when they discover that the first one did not turn out to be the saviour they wanted. There have been warnings that direct marketing could be just another short lifecycled management phenomenon and marketing has proved to be especially prone to these so called flavours of the month syndromes (Payne, Christopher & Peck, 1995).

Dholakia (2001) have described the evolution of a new marketing theory as a bandwagon effect which starts out as a clever, useful concept with practical value that is later built on by others to make it more marketable and profitable. As this process goes on, it grows bigger and there is a risk that certain aspects of the concept gets emphasised while other parts

remain unseen. Blois (1997) has claimed that the rapid development of relationship marketing has stretched the boundaries of the concept and it could then never be universally justified, it is simply not precise enough. Another problem with radical changes, such as relationship marketing, is also that there is a tendency to over-correct and over-hype a concept and the companies should instead focus on clarifying that the concept is right for the particular industry or situation (Baker, 1999).

Another criticism with relationship marketing is that the voice of the customer is often missing. There is an increasing amount of ways to gather information about the customers but a question may arise if this is what the customers really want? There is an easy way for the customer into the relationship but soon the barriers to exit have grown and the customer cannot get out. This means that in a longer perspective, customers could be kept in the relationship against their will (Barnes, 1994).

There is also a discussion whether relationship marketing really is a new concept and if not relationships always has been important to marketers. Payne (2000) has described relationship marketing as a rediscovery and a return to the pre-industrial era when producers and consumers traded and dealt directly with each other. Others claim that direct marketing is nothing more than a makeover and simply changing the sign on the departmental door from *sales* to *marketing* (Brown, 1998).

Relationship marketing has in the end brought back relationships into the mainstream of marketing and made marketers questioning the four (or seven) Ps approach and instead focused on more important factors such as the core firm and its relationships (Gummesson, 1999).

2.1.4　CRM – Customer Relationship Management

After investigated CRM one can find that it is closely related to relationship marketing. From the beginning, the marketing mix as well as the 4 Ps was created in order to make use of the demand market and to increase the individual firms' demand in the market (Payne, 2006). One can see these two above mentioned theories as to strive for sales maximization by optimizing expenses and not focusing on relationships. A CRM system is the method which builds on the relationship between firms and customers i.e. how the firm should serve their customers (Payne, 2006). One definition of CRM is:

"A management approach that enables organizations to identify, attract and increase retention of profitable customers by managing relationships with them" (Hobby, 1999, p. 28-30).

This definition shortly describes the massive concept of CRM. Payne (2006) describes CRM systems as an important tool that is applicable in most businesses. The definition does not point out the usage of IT applications to maintain relationships with important customers and suppliers. Information about key customers is kept in databases and links them together with suppliers, products and services. This procedure is done to help the company understand and identify important shareholders (internal and external) and their behaviour in order to plan and carry out sustainable marketing strategies.

2.1.5　CRM as a Growing Factor

The importance of CRM has evolved as the marketing approach has altered in focus, which can be seen in four trends (Payne, 2006): The first trend is relationship marketing and the second trend is that the customers should be seen as an asset instead of addressees and an external part of the company.

The third trend is that companies should change their view on their organisational structure and transactions. Instead of seeing the business as transactions and single sales it should instead be seen as a set of processes. This would change the individual firms' usage of their investments and could be seen as old-fashioned and especially ineffective as well as in inefficient. Customers rarely see a product as a single item; it is rather seen as a set of items and services where one expects fast and smoothly deliveries, guaranties and product support.

Forth, to increase customer involvement and collect more information about needs and behaviour firms should realise the usefulness of customer service. If a client is unsatisfied with a product they do not bother to complain, they will instead go to the competitors. By implementing a department of customer care, firms will have a chance to improve their portfolios for the future and retain customers.

In order to understand the customers and their behaviour firms need to complement their whole CRM system with IT components. Two of those are given by Payne (2006): data repository and applications. The first mentioned is used in order to analyze customers' past, current and future behaviour. The applications are used to create more value for the customers. These applications will help the customer care department to enhance the service towards the customers.

Last, the trade-off between receiving and handing on customer value is explained by Payne (2006) in three dimensions: the value for the customer, the value which the company can receive from the customer and the learning's for the company where customer lifetime value (see 2.2.3.2) will be created for the individual and for the entire segment. This means that a firm should be careful in collecting customer information, it might become expensive. The firm should also be careful when giving the customer too much value since this may cause decreasing in profit margins (Payne, 2006).

As discussed in chapter 2.1.7 direct marketing is a dialogue between a company and the individual consumer. If the consumer has a small role, which may be the issue in B2C the consumers might be divided into segments (Payne, 2006). However, it is difficult and expensive to deal with customers on the individual basis since when segments get to the point of individual customers the character of marketing modifies. According to Peppers & Rogers (1993), segments lack the core of memories, interaction and they do not complain. Peppers et al. (1993) further points out that individual consumers has all those core features which is vital in the direct marketing procedure. The procedure is to connect those features in order to establish a continuing relationship to the consumer (Peppers et al., 1993).

This relationship is possible via CRM systems as the user holds memory tracking of all relevant consumers. This will enable the user (the company) to know, at every decision making point, the individual consumers previous behaviour. If a company posses consumer data analysis the information will be a natural part of the organization and decision making will be more efficient and decreased costs (Payne 2006).

2.1.6 Criticism of CRM

The use and the implementation of CRM systems have been criticised in media. Payne (2006, p. 20) gives some examples:

- *"69 per cent of CRM projects have little impact on sales performance.*

- *70 per cent of CRM initiatives will fail over the next 18 months.*

- *60 per cent of CRM projects end in failure."*

Questions might arise why companies invest money on projects which has such a big failure rate. Companies must be aware of the risks of a CRM implementation but on the other hand seek to successfully implement the IT applications according to the organizations all parts and if this is made accurate shareholder value will increase with a high velocity.

The authors of this thesis can now state that CRM is an important business device which can be used in order to control a company's relation to individual consumers. The function of CRM varies from different users; some state it as data-driven marketing (Kutner & Cripps 1997) and some refer it to a business strategy combined with technology to effectively manage the complete customer lifecycle (Smith, 2001). The authors can further explain CRM as extremely wide. It is only up to each user to decide how much they should spend on CRM which will correspond how well they need it and how they define the business device.

2.1.7 Different Perceptions of Direct Marketing

To fully understand direct marketing the term has to be defined and demarcated. To start, an explanation of what the term direct marketing refers to is needed. As the process of direct marketing contains storing information in databases, database marketing became the term for what we today call direct marketing. However, database marketing has a strong connection to the processing of data which is only a part of the process and the correct term should then be direct marketing (Orme, 1999).

Direct marketing has grown quickly during the later part of the 20th century and is today an essential element in the marketing manager's toolbox. Despite its development, both scholars and practitioners are lacking a single definition. The concept has evolved over time and terms like directed marketing, relationship marketing, integrated, marketing permission marketing and interactive marketing are used to describe direct marketing activities (Scovotti et al., 2006). As there are numerous definitions out there, only a few will be discussed here. Kotler et al. (2004, p. 480) define direct marketing from communicative perspective:

"Direct communications with carefully targeted individual consumers to obtain an immediate response and cultivate long-lasting customer relationships"

This definition by Orme (1999, p. 3) includes the relation between direct marketing, database marketing and customer-relationship management and also differentiates direct marketing from database marketing:

"The new direct marketing is an information-driven marketing process, made possible by database technology, that enables marketers to develop, test, measure, and appropriately modify customized marketing programs and strategies"

Finally, a comprehensive analysis of different definitions was made by Scovotti et al. (2006, p. 199) and their findings are similar to the definition of Orme (1999):

"Direct marketing is a data driven interactive process of directly communicating with targeted customers or prospects using any medium to obtain a measurable response or transaction via one or multiple channels."

This definition identifies database, interactivity, direct communications, target customers, any medium, measurable responses, and one or multiple channels as key dimensions in direct marketing activities. This definition is based on a study of different academics' and practitioners' view on the definition of marketing.

2.1.8 Direct Marketing vs. Mass Marketing

In marketing there are basically two contraries when it comes to communication: Mass marketing and direct marketing. In mass marketing a single message is being distributed to all customers or potential customers through media such as print, radio or television. However, this approach will only generate a few customers and a high waste as only a small proportion will notice the marketing and even less will buy the product or service. As the competition increases, the market will get more intense and the problem of ineffective marketing worsens (Van der Putten, 1999).

Direct marketing takes the advantage out of the fact that not all customers are alike. Marketers use this by analysing customer data about attitudes, lifestyles and usage information to identify segments of the market that they can use to optimise and customise the marketing in order to create value to the customer. The connection between the customer and the firm has developed from a transaction of a product or service to a relationship (Shepard, 1999). The ultimate goal of direct marketing is to achieve cost-effective, two-way, one-to-one communication with individual prospects (Van der Putten, 1999).

2.1.9 Before Implementing Direct Marketing

A direct marketing program could be implemented in many ways. Orme (1999) points out what the company needs to know before implementing a direct marketing system. First of all, the company needs to identify its customers and prospects; this in order to know which groups they should collect information from. After doing this, the company can let CRM systems gather, modify and transform the data into workable marketing information.

Implementing such a system will not repay the costs by itself and the success of the system is dependent on how the marketers are able to use it. After collecting the information, the marketers need to analyse the information statistically in order to isolate market segments and identify individuals and their predicted behaviour in terms of responding, buying, selling, staying, leaving, and so on.

The next step is to evaluate the financial side of the information. Which groups are worth keeping, leaving, attracting and so forth. This is also depending on the marketers, a database system is good at collecting and working with data but it is up to the marketers to make the decisions and make use of the opportunities.

The last step of the process is when the company should act on the marketing opportunities that have emerged from the previous processes and establish individual relationships i.e. by customising the marketing to suit the individual customer.

Today's technology has made the gathering of the information easier, but investing in a customer database is a large investment to many companies, especially as there are no entirely readymade solutions. The system still needs to be configured and adjusted to suite the individual company's corporate culture, market position, budget and available data sources etc. (Orme, 1999).

According to Deutch & Rempala (1999) might also the implantation of such a system affect the company's organisation. In a traditional organisational structure the access to data is usually limited to personnel in an information technology, research/division support or finance department. Now, all departments must get the information they need and the demand of information usually exceeds the supply. The people must also get the right data and as the different departments does not speak the same language, complications can arise. Marketers expect the system to be very fast, easy to use and flexible while IT expects

the system to be consistent with the current structure, highly automated and not in needing significant staff training. Management, on the other hand, expects the system to be quickly implemented at a reasonable cost, effective from day one.

To sum up, implementing a direct marketing system is not an over night process but a long term investment that needs heavy preparation and configuration. It is definitely not a shortcut to marketing success but an effective instrument that involves the whole organisation.

2.1.10 The Function of Direct Marketing

Direct marketing could be used by the firm to simply know more about the customer and prospects and grade this information based on how willing the individual is to buy, able to buy and ready to buy, etc. In the end, the firm will have a more comprehensive overview of the customers that can be used to create superb value to the individual customer (Orme, 1999). Direct marketing can be used both in an offensive or defensive way, which means it can be used to attract customers but also to keep existing customers. As traditional marketing is generally about acquiring new customers, keeping existing customers is as important. According to Kotler (1992) the first line of defence for any company is its existing customers. The information in the databases is not only used to target individual customers with offers, it also helps marketers at a strategic level. When developing marketing programs, marketers have up to date information about previous efforts and can customise new programs based on these results (Orme, 1999).

When it comes to acquiring new customers and keeping existing customers an advantage with direct marketing is the ability to help marketers to reach their customers with the right product or service at the right time. The marketers can customise their direct marketing and the outcome is a more efficient and cost effective system (Orme, 1999). The information could also be used at a later stage when it is time to contact the individual, even if he or she did not buy the product or service after the first contact. Direct marketing can also be used with a third party. The company with the information can collaborate with the third party and create an offer, especially suited for its own customers. In the end all the three parts will be winners. However, the company must be careful as their own customers might be reluctant to have their information being shared with a third party (Orme, 1999).

Direct marketing is also an effective tool to accelerate a customer. Once a relationship has been established the company can use i.e. the customer service process to find out more information and more needs about the customer and then provide information about and offer new products or services as well as the use of the current services (Rempala, 1999).

Even if direct marketing focuses on both acquisition and retention, it is the later that is often hailed as the major reason to implement a direct marketing strategy. As it is five to ten times more expensive to attract a new customer than retaining an existing one, there are good reasons to focus on the customer retention (Gummesson, 1999). In the market of financial services, the dominant costs of direct marketing are related to personal selling, commission, data collection and advertising. These typical high front end costs make a typical customer profitable after one or two years and increases the motives to keep every customer (Egan, 2008). When establishing a relationship with the customer, the company is starting a learning process. It takes time to collect the information to understand the correct needs and patterns in order to develop new products or services. In the end *"Customers have their needs met with minimal effort on their part and would incur a large personal cost if they attempt to switch to and "train" another supplier"* (Rempala, 1999, p. 95). In other words, the company

"ties up" the customer by offering more and more perfectly customised services and products and as this goes by the customer loyalty increases. This can be further developed into loyalty programs and customised benefit packages.

But the relationship does not definitely end if the customer leaves the company for another supplier. *"Since some product usage cycles have a very long period and alternate suppliers can always disappoint the customer, there is a good chance that the customer will come back at some point"* (Rempala, 1999, p. 95) The company should never throw away information about a previous customer, such information could help by not starting the relationship from scratch if the customer one day returns.

2.1.11 Channels of Communication

As people tend to get surrounded by more and more information it is very important to focus on the appropriate channel to reach the customer. Different lifestyles require different communication methods (Rempala, 1999). One customer will be using different channels for different reasons. One channel could be used during the work week and another channel during weekends. In the meantime the customer will have different preferences for inbound versus outbound communication and marketing promotions versus account status information etc.

There are today numerous ways for a company to contact its customers: Telephone customer service, mail, internet, e-mail, magazines, cellular phones, account statements, bills, newsletters and statements and so on (Rempala, 1999). But the only question is not how to contact the customer but also when. And this can through some channels be determined by the customer, according to when they contact or interact with the company. A modern CRM system is a useful tool to keep record on the appropriate channel for each customer.

2.1.12 Summary

Relationship marketing is often considered to be an *umbrella philosophy* with many sublevels rather than a single theory on its own. Relationship marketing is in general more connected with high-level strategic thinking. While CRM has a stronger connection to marketing strategies over the customer lifetime and understanding the customer's needs, attitudes, life stage, profitability and lifetime value. Direct marketing is on the other hand the implementation and the tactical management of interactions with the customer (Payne, 2006).

A CRM system is the method which builds on the relationship between firms and customers i.e. how the firm should serve their customers. CRM systems are important organs that is applicable in most businesses. The description points out the usage of IT applications to maintain relationships with important customers and suppliers. Information about key customers is kept in databases and links them together with suppliers, products and services. The information gained through the CRM systems could then be used in several ways. Direct marketing takes the advantage out of the fact that not all customers are alike. Marketers use this by analysing customer data about attitudes, lifestyles and usage information to identify segments of the market that they can use to optimise and customise the marketing in order to create value to the customer. One of the many benefits of implementing direct marketing is the increase of customer loyalty.

2.2 Customer Loyalty

During the years the market has changed and so also the marketing focus, the market evolved to a new way to reach success, through happy and loyal customers (Arens, Weigold

& Arens, 2008). From a marketing perspective the current customers should always be the main focus for a company in order to generate customer loyalty, which in turn will produce superior profits (Buttle, 1996). Due to the increased importance of customer relationship and customer loyalty one can see that more and more marketers today work towards the post sale stage and focuses on a higher customer retention rate, which is one of the main benefits gained from relationship marketing discussed earlier in section 2.1.2 (Arens et al., 2008).

In order to understand how direct marketing can be used to increase customer loyalty it is of major importance to understand the concept of loyalty. To start with the fundamentals of loyalty is going to be presented in order to give the reader a good base to be able to understand the fields where loyalty is explained more in dept.

To clarify why loyalty is important to achieve the benefits of customer loyalty is explained. Loyalty is derived from a good customer relationship and to generate a good relationship it is important for the company to understand its customers. In order to do this theory concerning customer lifecycle is presented, which will point out the different life stages of a customer which are crucial to understand in order to generate customer retention and a high customer lifetime value.

2.2.1   Fundamentals of Customer Loyalty

Loyalty is the attachment a customer feels for a company's people, products and services (Churchill, 2001). Customer loyalty is perceived through positive feelings and perceptions about high satisfaction from the customer to the supplier. The positive attitude gained will in turn lead to willingness for the customer to repurchase and customer retention is reached (Diller, 1996a). To clarify the behaviour of a loyal customer one could look at the four terms of customer behaviour (Griffin, 1995):

- Makes regular purchases.

- Purchases across product and service lines.

- Refer others.

- Demonstrates immunity to the pull of the competition.

These behaviours are in turn divided into four different categories based on the degree of attachment to the products and services offered and customer purchase pattern (Griffin, 1995).

I.   No loyalty – a group of customers that never becomes loyal, characterized by always chasing the best deal. To be able to get loyal customers within this segment the company needs to accommodate its marketing strategy, in order to get loyal customers the best deal always needs to be offered by the company.

II.   Inertia loyalty – this group of customers are loyal just because they have to. There are no other competitors or options on the market and due to this the customers are forced to be loyal. This group consist of customers that are the first ones to leave when other options occur on the market.

III. Latent loyalty – this group of customers are loyal even though they do not purchase on a regular basis. This means that when they face a purchase decision they are

loyal and purchases from the company. This group of customers are not highly profitable but likely to cross purchase.

IV.   Premium loyalty – is characterized by a good customer relationship and a high degree of customer retention. This group of customers are proud of purchasing the products and services offered and their positive experiences are spread to others, this degree of loyalty is what companies are striving for.

2.2.2   Benefits of Customer Loyalty

Increased certainty, increased growth and increased profitability are three main benefits associated to customer loyalty (Diller, 1996a). A loyal customer will increase the certainty within the business, which means that the relationship between the customer and the supplier are increasing (Diller, 1996a). The improved relationship can be seen through a change toward habit based customer purchase decision, rejected competitors by customer and a higher level of tolerance is developed by the customer toward mistakes made by the supplier (Diller, 1996a). Another factor that also increases the certainty within the company is the valuable feedback that can be gained from a loyal customer, who is more willing to complain, answer questionnaires and might even work together with the supplier in order to increase the customer satisfaction (Strauss & Seidel, 1998).

Loyal customers make it easier for the company to serve their customers in a more personal way, for example the supplier is more likely to know name, address, demographics and purchase pattern of a loyal customer. This more customised focus is another factor that will generate a better customer relationship and according to this the agreements between the two parts will become more reliable. When looking at the disadvantages one can see that a close customer relationship might cause the company to get addicted to specific customers and due to this their possibilities to change with market fluctuations diminishes (Henning-Thurau & Hansen, 2000).

A further benefit that is connected to customer loyalty is growth of the company, which in turn can be divided into old customers and new customers. Existing customers can increase the company growth due to a focus on making the customer purchase only from one single producer. If the company has a large part of loyal customers these customers will refers to other and through this the company will gain new customers from already existing ones. A good word of mouth is the best advertising a company can get and also at the same time the cheapest alternative (Cornelsen & Schober, 1997). The cons connected to this kind of marketing are the negative word of mouth, something that also needs to be considered.

The last benefit that is connected with customer loyalty is increased profitability, which is mainly connected to increased revenue and decreased costs (Reichheld & Sasser, 1990). The major reason for decreasing costs is the fact that the cost of gaining new customers will decrease, due to good word of mouth. Management of the customers also have a tendency to decrease since a lot of information concerning the customers already is in the business and ordering and delivery can be made on a routine. Decreasing costs are much easier to achieve than increasing revenue. According to Diller (1996a) a loyal customer are more willing to pay a higher price but on the other hand they might also demand lower prices as a reward for their loyalty. A more common way to increase revenue from existing customers is instead cross selling, which means that more products and services are sold to the customer from the same supplier.

2.2.3 Customer Lifecycle and Customer Lifetime Value

2.2.3.1 Customer Lifecycle

In section 2.1.1 relationship market was defined, the focus in the first half of this definition refers to the importance of recognising that individual customers are at different stages depending on their degree of relationship to the supplier (Egan, 2008). Relationships are evolving over time and according to this the customer needs will change over time. New customers do not have the same need and neither the same relationship with the supplier and due to this they will behave in different ways. To be able to understand these behavioural changes the customer lifecycle is used, which is divided into five different stages depending on the customer relationship to the company (Churchill, 2001). The different stages are: prospects, first-time buyers, early repeat buyers, core customers and core defectors (Blattberg, Getz & Thomas, 2001).

According to Churchill (2001) loyal customers are important to be able to reach profitability and understanding the customers is crucial to gain customer loyalty. The customer lifecycle implies that a more developed relationship will create a more profitable customer and according to this the customer lifecycle is important to understand in order to be profitable (Egan, 2008).

The first step that a customer goes through is the prospect stage, in this stage the customer is just a potential customer and according to this just potential value. The prospect becomes a customer after they make their first purchase which will move them to the second stage, first-time buyers. This group of customers are not that valuable as assets, since this stage in the lifecycle is very insecure due to a low rate of retention.

When repeated purchase occurs the customer will move to the next step in the customer lifecycle, which is to become an early repeat buyer. After making one repeated purchase the customer is more likely to purchase again compared to the previous stage, which will increase sales per customer. When these repeated purchases becomes regular the customer moves to the fourth stage, the core customer stage. In this stage the retention and sales per customer are at the highest level. The last stage of the customer lifecycle is the stage named core defectors. In this stage the customers will open their eyes for competing suppliers and brands and due to this the customers becomes more likely to switch (Churchill, 2001).

2.2.3.2 Customer Lifetime Value

People trade over time and due to this a company should look at the lifetime value of the customer. According to this the profit gained from a customer should be derived from the customer lifetime instead of basing the profit on a short-term basis (Egan, 2008).

The customer life time value is defined as *"The value of customers' purchasing over the relationship"* (Egan, p. 291).

Banks is an example of a branch where customer lifetime value has a major importance, where attractive deals are commonly offered to young people in order to make them open new accounts. Customers on the bank market are normally loyal customers and due to this the lifetime value is an important concept to understand. If looking at the short-run the offerings used to gain new customers is very expensive, but with a lifetime value focus the benefits gained will in the long-run exceed the costs associated with obtaining the new young customers (Egan, 2008).

Customer lifetime value focuses firstly on attaining the customer and secondly on implementing retention strategies. Based on the customer lifetime value investments are made to promote retention, investments that can be used in order to increase product and service quality or to discourage the customer willingness to switch to a competitor. According to this the barriers to exit for the customers are increasing the longer the customer stays within the company (Egan, 2008).

One of the major disadvantages with customer lifetime value is the fact that the customer might not continue to purchase on the same level as before and in worst cases the customer might even leave the supplier for a competitor (Egan, 2008).

2.2.4 Customer Retention

As mentioned in 2.1.2 existing customers are less expensive to retain than to recruit new ones. According to this customer re-purchasing is an important factor that needs to be considered by the company (Gummesson, 1999). The information concerning customer re-purchasing is gathered in a field called customer retention. There are a lot of different products on the market, some of them are high valued products and due to this they are not repurchased as frequently as cheaper products. According to this the definition for customer retention is divided into two more specific definitions (Blattberg et al., 2001).

The definition of customer retention for a product with a short purchase cycle is: *"The customer continues to purchase the product or service over a specified time period"* (Blattberg et al., p. 68). On the other hand the definition concerning a product with a long purchase cycle is: *"The customer indicates the intention to purchase the product or service at the next purchase occasion"* (Blattberg et al., p. 68). Another problem that needs to be taken into consideration is the retention gained from non profitable customers, a case where the customer retention is signified by the customer behaviour (Blattberg et al., 2001).

The process of customer retention begins already in the first stage of the customer lifecycle and continues throughout the customer lifetime. The purchase and usage of the product will determine if the expectations are met or not. Meeting the expectations, degree of substitution, purchases of the product and customer service will affect the future relationship between the customer and the company (Blattberg et al., 2001).

2.2.5 Measuring Customer Loyalty

Customer loyalty needs to be earned and due to this ability to measure loyalty is important to be able to see whether their efforts are successful or not (Churchill, 2001). The customer loyalty can be measured through the quality of the transactions that are made between the supplier and the customer. In this case, things that are covered by transaction is the amount of contacts or shopping visits and the proportion of a customers' purchase placed at a specific supplier (Diller, 1996b). To clarify the loyalty measurements Churchill (2001) has divided them into three different measurements.

2.2.5.1 Measuring Customer Retention

The most common way for companies to measure loyalty is by measuring their customer retention, which is made through a retention ratio. Measuring the customer retention will imply how satisfied the customers are and also show the financial stability of the company. To be able to see the financial health the business needs to have customer information concerning the effects of an average purchase to indicate revenue and information concerning the costs of replacing a lost customer (Churchill, 2001).

2.2.5.2   Measuring Primary Behaviour

Another way to measure customer loyalty is through the primary customer behaviour, 3-D loyalty. The three dimensions of loyalty are: length (longevity), breadth (range of services) and dept (share of purchase). Where longevity is the number of years the individual actually has been a customer, which can be measured through an average or distribution (Churchill, 2001).

When a company offers a variety of products or services the breath of the relationship can be measured. This measurement shows loyalty through the amounts of products and services that the customer is purchasing from the business. Purchasing more products means that the customer is more loyal compared to a customer that purchases fewer services and goods. By implementing this measurement the company needs an information system with a focus on the customer instead of one with a product focus. (Churchill, 2001)

According to Churchill (2001) the ultimate measurement of loyalty is the customer share of purchases. This means that the measurement shows how big parts of a specific purchase that is allocated at the supplier. A bigger share of the purchase means that a customers' purchase of a specific product or service is less spread over different companies and based on this the customer is more loyal.

2.2.5.3   Measuring Secondary Behaviour

Customer support, referrals and word of mouth are examples of customer secondary behaviour that shows customer loyalty. There are two common ways to measure the secondary behaviour, one is by measuring the amounts of referrals made by a specific customer and the other one is measuring loyalty through surveys (Churchill, 2001).

Measurement of the referrals made and how recent they are will indicate on the level of loyalty from that specific customer. If referrals are commonly made the customers are classified as a more loyal customer. This does not mean that a disloyal customer is characterized by a customer that does not make referrals. A customer can be loyal without knowing a lot of people that are potential customers.

Another way that can be used to measure the loyalty are to conduct surveys, these surveys are formed in a way to show information concerning how willing the customer is to refer to others. The answers from this kind of questions will be an indicator concerning if the customer is loyal or not. In this case a loyal customer is a customer that is likely to refer others.

2.2.5.4   QSP Model

One of many economical consumer behaviour models is the QSP-model, made by Fornell (1992). The QSP-model is based on quality, satisfaction and performance; areas which in turn will consist of hidden factors, these factors will together lead to the degree of customer loyalty obtained from current customers. Customer satisfaction is an important factor to be able to reach and keep customer loyalty. The QSP-model is used in order to see the degree of customer loyalty as a depending variable of customer satisfaction. For further understanding see Figure 2-2.

The degree of customer loyalty is measured with respect to the probability that the customer will stay as a customer and the degree at which the customer wants to change their current relationship to the supplier. All the factors in the QSP-model will affect the level of customer loyalty, where image and complaints are treated in a special way. Image is something that might be clear from earlier research, which will have a direct effect on customer loyalty. Complaints on the other hand are something that is only taken into consideration under special conditions of satisfaction and dissatisfaction and it is only under these special circumstances that they will have an effect on customer loyalty.
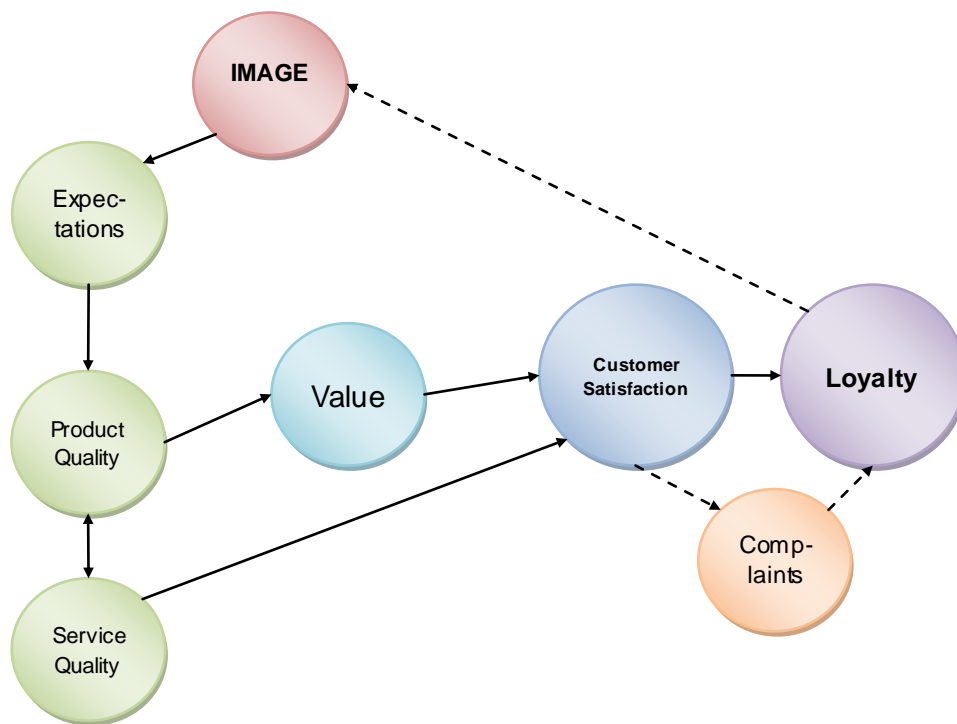
Figure 2-2 The QSP Model (SKI, 2009)

2.2.6   Summary

According to Arens et al. (2008) the market and the marketing focus have changed and the importance of happy and loyal customers has increased. Buttle (1996) states that current customers should always be in focus in order to generate customer loyalty, which in turn will lead to increased profits.

Churchill (2001) explains loyalty as the attachment a customer feels for a company's people, products and services. Customer loyalty is in turn perceived by the customer through positive feelings and perceptions about high satisfaction from the customer to the supplier. These positive feelings will in turn lead to willingness for the customer to repurchase and customer retention is reached (Diller, 1996a).

Loyalty will generate customer retention, something that is important since people trade over time and due to this a company should look at the lifetime value of the customer. According to this the profit gained from a customer should be derived from the customer lifetime instead of basing the profit on a short-term base (Egan, 2008).

In order to generate a high customer lifetime value it is important to understand the customer lifecycle, which is divided into five different steps depending on the customer relationship to the supplier. Relationships are evolving over time and according to this the customer needs will change over time (Churchill, 2001). New customers do not have the same need and neither the same relationship with the supplier and due to this they will behave in different ways.

3 Method

The authors of this thesis has made a case study on the relationship between LF and their beneficiary customers in order to create a clear picture of how they currently are using their direct marketing and how they currently are operating to increase customer loyalty. The methodological choices made by the authors are presented in this chapter.

3.1 Case Study

According to Yin (2009) a case study is an empirical study which treats a present phenomenon in its real context, where the borders between the studied phenomenon and its context/environment is not obvious and several sources of data is used.

LF is a multiple service company. With a multiple service company the authors imply a company that is using cross-selling in order to sell more than one product or service to the customer. The LF Alliance consists of 24 regional and customer owned regional branches. Together the LF Alliance is the only organisation in Europe that offers pension, non-life insurance and banking all together. There are other banks on the market that are offering insurances but this is done through collaborations with an external insurance companies. The LF Alliance is then the only organisation that actually is offering both bank and insurances (A. Cederbrink, personal communication). As the company is owned by its customers some of the profits are paid back to the customers. *"Since 1993 the LF Alliance has repaid 600 Million [SEK] to their customers"* (A. Karlsson, personal communication).

The regional companies are independent in that sense that all companies have their own contracts, conditions and their own board of directors. To clarify, this means that there exists no corporate group and that makes it hard to get a relevant general view of the company (A. Cederbrink, personal communication). As an example one can mention that a customer in Jönköping is not also a customer in Kalmar and vice versa. Some of the things that the 24 companies have in common are the brand, the marketing strategy and LFAB. (A. Cederbrink, personal communication). For this thesis it is therefore important to understand that every regional company is independent and LFAB is a subsidiary, owned by all the 24 companies. LFAB is used for mass marketing campaigns, product development and IT. The reason behind this structure is further to combine the positive aspects of a larger company with the positive aspects of a smaller company's ability to adapt to its customers (LF Webpage, 2009). LF has 11 local offices in the Kalmar region that are ruled by the head office in Kalmar. These offices do not work independently as the head office in Kalmar is governing their marketing: *"If we are using signposts we are all using the same signposts with the same message and if we are running a promotion it is in the whole region"* (A. Karlsson, personal communication).

The different departments are divided into private, companies and the agricultural sector. *"The organization is build upon the customer, not the product"* (A. Karlsson, personal communication). However, this thesis is only focusing on the private market. According to the LF's webpage (2009), the company's task is to offer total solutions based on different combinations of non-life insurance, accident and medical insurance, life assurance, pension saving plans, fund savings and various banking services. This thesis however focuses on property & casualty insurance, pension and banking which are the main areas for the company. The current market shares are: 30% within non-life insurance, 12% within life assurance and pension saving plans and 3.5% within banking.

LFAB has made an overall market strategy that the regional companies can follow. LF has one targeted group within the consumer market which is the estate owners and their families. This group is divided into three strategic segments based on age in order to customise the communication: Young (18-30), Mid age (30-59) and Senior (60+). According to this market strategy, LF's major goal is to be the natural choice to all their customers within bank and insurance and therefore loyalty is very important. LF's strategy to achieve this is to change from product orientation to a customer orientation. LF's overall strategy and situation makes LF a very suitable company to study. The choice of company in Kalmar is based on the authors' contact at this office.

A case study is particularly suitable if the actual problem includes a *how* and *why* and the problem needs to be understood more deeply and in its context (Lundahl & Skärvad, 1999). To successfully achieve this, contacts with specific persons at the chosen company is useful in order to gather details and deepen the understanding of the company. This has been repeated several times during the research.

The case of this thesis is the relationship between LF and their beneficiary customers. The focus will be on LF's mid age customer segment and those within that segment that are currently signed up for a house and home insurance and pension. These customers also build up the population of the survey. This segment and these specific customers are chosen for the reason that they are described as the *"flagship of the business"* (A. Karlsson, personal communication). The case study is a momental case study in that sense that the authors has not examined and analysed LF and their customers during a period of time but their current behaviour and attitudes. According to Lundahl et al. (1999) these types of case studies are adequate for certain kinds of purposes. As this case deals with the relationship between LF and their customers at present a momental case study is suitable and the time limits are also not allowing a study of a longer process.

The number of case studies should be decided and to conduct one single case study is according to Yin (2009) particularly appropriate if: A theory should be tested (i.e. to test different interpretations), if the case is particularly unique or if the case represents some kind of singularity or something that has not been possible to research yet. A negative effect of one single case study is that the case might not be interesting for other actors in other situations. Comparisons with other cases could also be useful to find the core problem of the actual case (Lundahl et al., 1999). In this thesis the authors have chosen to make a study on a single case as LF's product portfolio and this segment are unique and therefore a deeper study is needed to answer the question is needed. If the study was conducted on several cases, the authors would have needed more data and with the time available the choice was made to prefer a profound and decisive study.

When external researchers study a company problems may arise as the researchers lack previous knowledge or experience from the company (Holme & Solvang, 1991). In order to avoid this, the authors of this thesis gained a deeper insight into LF before conducting the study. This was done by gathering existing data as working through information on the company's website, previous studies, and marketing strategy. The authors also conducted preliminary interviews with the marketing division to prepare before the more extensive interviews.

There is a difference between statistical generalisation and analytical generalisation. A case study can never be statistically generalised in the way it can not refer to a population (statistical generalisation). But on the other hand it can be generalised in the way that it can create

theories, show patterns and use existing theories as a benchmark which the empirical findings can be compared to (analytical generalisation) (Yin, 1989).

When conducting this study both quantitative and qualitative data is needed. A further explanation of this purpose is presented in the sections 3.2.1 and 3.2.2.

3.2 Abduction

There are two main ways to explain (analyse) data: induction and deduction (Alvesson & Sköldberg, 2008). Lundahl et al. (1999) define inductive method as used when a researcher seeks to draw conclusions based on empirical findings in order to develop theories to describe an observed phenomenon. Alvesson et al. (2008) explain deduction as the reversed method, compared to induction, which uses a utilization of theories to create premises which in the end will facilitate logical conclusions

A weakness when using an inductive approach is that the empirical findings are not always representing the entire population. On the other hand, a weakness of a deductive method is that the premises which will be used to make conclusions are incorrect and do not suit the situation. (Eriksson et al., 1999). If such scenarios would come true the resulting conclusions would be incorrect and without use for LF as well as for science.

When a researcher is performing a case study in reality, the most likely approach would be abduction (Sköldberg, 1991). This approach should not be seen as a clear combination of induction and deduction but rather as an individual method which captures some parts from both of them. Induction is based on empirics while deduction is based from theories (Alvesson et al., 2008). The authors of this thesis have used methods from both induction and deduction which means that an abductive approach will be used. By using abduction, the analysis will be based on the empirical findings (induction) but still make use of the theories (deduction) (Alvesson et al., 2008). This thesis is making use of an abductive analysing method since the study is striving to find and explore patterns between customer loyalty and direct marketing with the help of both theories and empirical findings. The authors have used a case study and conducted interviews as well as constantly compare the findings with the gained pre-knowledge. This method seeks to find the underlying patterns of how direct marketing can influence consumer loyalty.

3.3 Secondary Data Collection

Secondary data is data that already has been collected but for some other purpose is known as secondary data (Saunders, Lewis & Thornhill, 2007). Before the authors gather the primary data it is important to collect the secondary data. The research that already has been done should not be part of the primary research, according to this collection of secondary data saves all parts both time and money (Ghauri & Grønhaug, 2005). The collection of secondary data makes it possible to focus more on analysing and interpreting the data instead of collecting it. Another advantage with secondary data is that it is not that time consuming to gather and at the same time it normally holds a higher quality compared to primary data (Steward & Kamins, 1993).

On the other hand there are also disadvantages with secondary data that needs to be taken into consideration. Secondary data has been collected for a purpose that might make it unsuitable in the context and due to the purpose the data might be presented in a specific way. For the secondary data to be relevant the data needs to answer the research questions (Denscombe, 1998). Another disadvantage is the risk of high costs to obtain the secondary data, which is most common when the secondary data is used for commercial purposes

(Saunders et al., 2007). Secondary data is commonly of higher quality than primary data due to the persons that are conducting the research, but this is not always the case and due to this the secondary research needs to be evaluated (Saunders et al., 2007).

The secondary data that is used in this thesis consists of research made from SKI, marketing strategy from LF and also the homepage of LF. This kind of secondary data is called documentary secondary data, which is commonly used in research projects where primary data is used as a complement and where the research is normally applied on a case study (Sauders et al., 2007).

The secondary data collected for this thesis is used in comparison to the primary data conducted, which makes it possible to see the parallels and differences between the more specific primary data and the more general secondary research (Saunders et al., 2007). The secondary data and the primary data are used simultaneously to analyse and draw a conclusion applicable on the case study on LF.

SKI stands for Svenskt Kvalitetsindex, which is a system for gathering, analysing and spreading the information concerning customer expectations, quality and achieved value from the goods and services purchased (SKI, 2009a). During 2009 Svenskt Kvalitetsindex has conducted a research over the Swedish banks, based on customer expectations, quality and achieved value. This research gives the authors an external view on the standpoint of LF compared to their competitors. The focus on this thesis is on loyalty and direct marketing, which also is the focus when comparing with their competitors in order to be able to see the results gained from LFs current efforts of gaining loyal customers.

The authors also got access to the marketing strategy of LF which together with the information gained from the homepage is used in order to get a better understanding of LF and their marketing objective.

3.4   Primary Data Collection

The primary data collected by the authors consists of interviews. When conducting this research the authors have chosen to divide the interviews into two parts, internal and external. The internal interviews concern the Marketing Executive and the Sales coordinator at LF which was held in order to gain more pre-knowledge as a complement to current secondary data. The external group, LF's customers, is considered to be the prominent primary data for the analysis of this thesis since this provides the data for answer to the purpose.

3.4.1   Qualitative Data

The qualitative research method is made in order to understand people's beliefs, behaviour, attitudes and how they interact. The findings are non-numerical, if comparing to the quantitative research method. As described, a qualitative research method gives variables in forms of words, this is found by open ended questions. These variables are often also compared and complemented with closed-ended questions to receive numerical measures (Daymon & Holloway, 2002).

In general, qualitative data is not analysable with the help of statistics, it is instead analysed with the help of computer programs and sensitive interpretation. Qualitative data is normally collected through interviews, which is individual to reach maximum depth. It can also be based on focus groups, to test products or discuss deeply a certain matter of interest. The data might also be collected by questionnaires to collect more answers but with less

dept. Such a method is however weaker since the researcher is lacking the control to get as much in depth information as possible, and the main reason to use qualitative research goes missing. Questionnaires are also not efficient as the response rate is very low, one must send out greater amounts of questionnaires in order to get a few comprehensively questionnaires (Daymond et al., 2002).

There are two main arguments for collecting qualitative data in this thesis. Firstly, the art and the wording of the purpose are more suited for a qualitative study as the analysis is made on *how* the direct marketing can be used. Secondly, the purpose itself requires a deeper study as the primary data requires definitions of concepts, longer descriptions and perceptions. In-depth interviews were needed at LF in order to explore guidelines and current work methods within the company's marketing department. This helps the authors with understanding LF's current attitude and viewpoint on marketing in general, direct marketing and customer loyalty.

3.4.2   Quantitative Data

Quantitative research is connected to the strength of multiple variables that is collected through surveys or experiments (Creswell, 2003). Quantitative studies are basically about measuring and the measurement can be used to describe or explain. When collecting quantitative data it is important to know what precision is needed from the measurement. But also what precision is possible to achieve and what precision can be afforded economically (Lundahl et al., 1999). When collecting quantitative data it is also the important to consider the validity and the reliability of the data. Eriksson et al. (1999) explains validity as the ability of measuring the data which one is supposed to measure. The authors are supposed to measure how the influence of direct marketing can increase consumer loyalty; the study should then be made to measure the influence of consumer loyalty and nothing else.

3.4.3   Data Collection through Interviews

A conversation is called an interview when two or more people are having a purposeful conversation (Saunders et al., 2007). When describing the different ways of interviewing a good starting point usually is the grade of standardisation (Lundahl et al., 1999). In interviews with high standardisation, the wording as well as the order of the questions is decided before. The wording and the order of the questions should also be the same for all interviewees. Interviews with low standardisation are more flexible as the wording and order of the questions can be chosen by the interviewer more freely. The main point is that the questions asked cover the need of information. High standardised interviews are more suitable for quantitative studies and interviews with lower standardisation are more suitable for qualitative interviews. In this thesis the authors have chosen to use a qualitative method and therefore are the use of low standardised interviews appropriate.

Interviews can also be divided into structured and unstructured interviews (Lundahl et al., 1999). When conducting a structured interview the interviewer should have a clear picture of the goal of the interview. The questions as well as the follow up questions should be worded in advance to build a systematic trail through the areas the interviewer has interest in. The structured interview should also in general be purposeful and focused on information. The unstructured interview has a widely defined purpose and the objective is wider and less focused. The purpose of the interview is to catch the interviewee's valuation of the situation, opinion and attitude as well as hard facts. Instead of using mainly information seeking questions, dialogue developing questions are used, in other words questions that stimulate the interviewee to develop its own questions and thoughts.

An interview could, according to Langlet & Wärneryd (1980) be made either a by meeting the interviewee, by phone or by mail. Some of the positive aspects of a meeting with the interviewee are that they are quick, the situation is controlled by the interviewer and visuals can me used. On the other hand are they costly, could be hard to arrange and not suited for sensitive questions. Phone interviews are the quickest, not costly to perform, generate a high response and the interviewer can ask follow up questions. Some of the negative aspects with a phone interview are that visuals can not be used, the questions must be relatively simple and the method is not suited for sensitive questions.

The interviews have been carried out in Swedish as this is the language spoken by all the interviewees. The most important issues with translating are: Which language that constitutes the direct quotes, if you can use translated words as a direct quote and how to signal that a translation is accurate and captures the subtle meanings of the original language (Rossman & Rallis, 2003). The authors have kept these questions in mind when conducting, transcribing and translating the interviews. This is especially important during the internal interviews and therefore has the interviews been recorded so a direct quote can be translated and justified afterwards.

3.4.4   Internal Interviews

The internal interviews have been conducted with the Marketing Executive and the Sales Coordinator. When carrying out interviews it is essential to find key persons in order to receive valuable information. Key persons are experts or direct stakeholders i.e. managers and employees (Lundahl et al., 1999). By interviewing direct stakeholders scientific hazards might follow. More specifically this has to do with which role the interviewer has, if it is a competitor the results risk to be biased. The hazard is in this case eliminated since the authors are students and do not have any relation to LF or their competitors, the study is also performed on only one company in the business. However, the answers might be more controlled and restricted as the interviewers are from outside the organisation. When conducting the interviews, the interviewers have therefore strived to receive as honest and frank answers as possible.

The semi structured interviews with the internal stakeholders of LF have been conducted in order to extend the current pre-knowledge. Such knowledge concerns the company and there working methods of direct marketing, loyalty and CRM. Unstructured questions are designed to start up a discussion and to receive long open answers and process questions are vague questions to stimulate the interviewee to cover more controversial topics (Lundahl et al., 1999). Depending on the length and the quality of the answers, more questions might be added during the interview, this in order to help the respondents give wide and qualitative answers. The interviews have been recorded and noted by pen and paper, in order to fully analysis the outcome. Interview questions are to be found in Appendix 2.

The first interview was held with Anna Cederbrink the Sales Coordinator at LF. The sales coordinator is the position below the Marketing Executive in the organisation. The reason for this interview was to confirm some of our secondary data, knowledge of LF and prepare ahead of the more comprehensive second interview which was held with Anders Karlsson, the Marketing Executive at LF. The main objective of the second interview was to get an in depth understanding of how LF is currently working with Customer Loyalty and Marketing today.

To gain the most out of the interviews, the authors made the choice to make a semi structured interview by phone. The choice of doing it by phone was chosen as it is the quickest

and easiest way to conduct the interviews. Doing the interviews by phone also gives the authors the benefit of asking follow up questions. As the questions asked are broadly formulated, follow up questions are essential in order to get the proper information. The problems by conducting an interview by phone stated by Langlet et al. (1980) was noticed by the authors but the positive aspects with a phone interview towered above the negative aspects. The interviews were recorded to have the ability to use quotes later on. Two persons were also typing the answers in order to make sure that the interview lead to sufficient information and the right follow up questions could be asked.

Name	Company	Position	Date	Type	Language	Length
Anna Cederbrink	LF	Sales coordinator	2009-11-09	Phone	Swedish	60 min
Anders Karlsson	LF	Marketing Executive	2009-11-19	Phone	Swedish	50 min

Figure 3-1 Table of Interviews

3.4.5　External interviews

Data collection can be carried out either by interviews or surveys but it can also be via a combination between them (Eriksson et al. 1999). The external interviews (Appendix 3) have been conducted with structured interviews with some parts of a survey based method, via telephone. This will be carried out by asking open-ended questions as well as measurable questions. This information is crucial for the study thus the design of the questions needs to be relatively short, précised and focused (Lundahl et al., 1999). By designing the questions this way the authors of this thesis has received comparable answers which in turn are easier to analyse. Lundhal et al. 1999 suggests that before conducting a survey the needed information shall be determined. The authors stated the following points before designing the questions:

- What makes the customers loyal?
- What makes the customers move in beneficiary positions?
- Current knowledge of beneficiary customer?
- Why are they located at beneficiary position 2?
- How does the relationship to LF look like?
- Knowledge about LF's current direct marketing?
- What kind of marketing is effective?

The sample size (see chapter 3.3.8) of interviewees was contacted by phone at evening due to normal working hours. The reason for conducting phone interviews instead of mail is because of the time aspect as it is normal for respondents to postpone mail activities. When conducting surveys, incitements are often used in order to increase the respond rate (Lundahl et al., 1999). The authors of this thesis have not used any incitements due to the amount of interviews which varies between 5 and 15 minutes. To encourage the customers to participate, they were informed that their participation can influence the company that is responsible for a great part of their private economy.

LF has provided interviewees from the chosen segment to suit the case which implies that there are no need to ask the respondents background questions, since this information al-

ready is gathered. The interview started with a question that presented five marketing channels, the respondents were then supposed to answer in a scale from 1 to 5 depending of their anticipation of these channels. The scale from 1 to 5 was chosen to make the respondents express their feelings in a broad scale ('really bad', 'bad', 'good' and 'really good'), there is also room to be neutral and to answer 'do not know' (Lundahl et al., 1999). The main reason for starting with this question was that if it was asked later in the interview the respondents might then have lost their interest and simply answering with a random number.

The external interviews also consisted of some closed-ended questions. The provided answers were 'Yes' or 'No'. Lundhal et al. (1999) explains that the negative part of such questions concerns inhibit of those respondents who want to express opinions. This is prohibited by letting those who answer 'Yes' to explain their reasoning. However, these closed-ended questions do fulfil the purpose of asking whether the respondents are aware of certain matters. If not, questions concerning the same subject can be left out.

The open-ended questions was formed as short and focused in order to receive comparable answers from all respondents. This form of questions is also made in order to control the interview. Compared to the internal interviews, which was unstructured, it was needed to add questions to help the respondents giving good answers (Lundahl et al., 1999). There is a need in the open-ended questions to receive in-depth answers, this have been controlled by asking the respondents whether they can "add something more" or "care to develop the answer". Such formulations are very important otherwise the interviewer-effect might occur. This is the effect when leading questions are asked, by helping the respondent with words (Seidman, 1998).

The structure of the interviews was the following: The interview started with the multiple choice questions to warm up the respondents. This was followed by more specific questions which demand careful answers. The interview then finished up with specified open-ended questions but still easy to answer. The most important questions were also put in the middle part of the interview where the focus of the respondent peaks. All questions included easy words and carefully formulated wording in order to minimize the risk of respondents not understanding or misinterpretations (Lundahl et al., 1999).

Due to the anonymous answers there is no need to send the written interviews for approval. Answers given during the interviews were noted by the interviewer and if the respondents demanded to hear the notes they were read in the end to verify that the answers corresponded. After the interviews had taken place, the interviewer has completed the notes taken with all influences received.

3.4.6   Sampling

The first thing that needs to be considered before any sampling can be done is to determine the population, which is defined as the total of all units that has one or more common features that are relevant to be able to generalize the study results (Smith et al., 2005). If the research problem is defined imprecise finding the population might be the hardest thing in the sampling process (Smith et al., 2005). In this study the population is clearly defined since the problem to investigate is how to increase the amount of loyal customers at LF. The company has today more than 100.000 customers, divided into three different groups (A. Karlsson, personal communication). The authors of this thesis has decided to focus on the customer segments named mid age and within this segment the customers that are signed up for house and home insurances are a part of this study, these customers

will make up the population of this thesis. This segment and these specific customers are chosen for the reason that they are the *"flagship of the business"* (A. Karlsson, personal communication).

Next step in the sampling method is to decide whether sampling or census was going to be used. Census means that the whole population is part of the study, while sampling implies that just a subset represents the whole population. The preferred method depends upon the size of the population and the proportion of the population that needs to be studied to obtain sufficient results (Smith et al., 20055). The population for this thesis consists of all LF customers in the Kalmar region that has house and home insurances within the segment named mid age. In total the population consists approximately of 7700 customers, due to the large population and the geographical spread sampling is used. The sampling compared to the census gives the authors of this thesis better control through better responses and higher quality of the phone survey, since people have a tendency to be more willing to share information when they know that they are representing a small part of the population (Smith et al., 2005).

To be able for us to contact the customers LF assisted us with a randomized contact list that represented our population. The randomization of the contact list gave us name and number and a geographical randomization for all customers in our population.

Based on the contact list the authors of this thesis used a randomizing tool in order to conduct probability sampling. By the use of probability sampling the authors of this thesis gains a bias-free sample that also allows measurements of sampling errors. After this process the authors of this thesis gained a sample that represented a relatively small piece of the population that represents the different subclasses and patterns for the whole population. The other sampling method that can be used is non-probability sampling, which is not going to be used in this thesis. According to Smith et al. (2005) non-probability sampling is only representative and reliable enough to be used in pilot studies and pretesting studies, where the researcher is planning further research and due to this probability sampling was used by the authors of this thesis.

There are several general methods connected to the process of probability sampling, a process that according to Smith et al. (2005) differs when the aim is to conduct telephone interviews. Sampling for telephone surveys can be divided into two broad categories: directory based and random-digit dialling. LF gave the authors of this thesis a customer directory, which is the base for the probability sampling procedure. Since the authors of this thesis investigates specific customers from a specific company and due to this it is not possible to use the random-digit dialling method. The directory based sampling was conducted through a method called selection of listings, which implies that the general simple random selection is being used to create a sample of directory lines. The negative side of this method is a high generation of unproductive telephone numbers (Smith et al., 2005).

The telephone survey was conducted at the evening during five weekdays and already after the first day a pattern could be seen. In order to see whether this pattern was correct or not the survey continued through the previously planned five days. The sample size was depending upon the customers that wanted to participate and due to this the sample size became 319, the amount of respondents 92 and a clear pattern was seen.

3.5 Validity and Reliability

Daymond et al. (2002) discusses three different aspects of validity: internal validity, generalisability and relevance. Internal validity is explained as to which extent the outcome of a study is trustworthy. It is also if the outcome is true in the sense that it reflects the purpose of the study and the reality of the individuals participating in the study. Daymond et al., (2002) continues by stating a reality check of the data with the participants, which helps the researcher draw correct conclusions.

Generalisability is also called external validity and explained by Eriksson et al. (1999) as the correlation between the study and reality. In this thesis the measurement of loyalty corresponds to reality if loyalty has been measured from the correct source. If measured from a fault source the outcome would be indicated with a low external validity. The generalisability is further explained in section 3.8.

The third and final source of validity is relevance and according to Hammersley (1998) this explains the meaning and usage of the study in the hands of the reader. The authors of this thesis are constantly seeking to solve LF's issue with maintaining and increase the customer loyalty. By solving this issue the authors strives to bring science one step further by being aware of the down pits with carrying out a qualitative study which could threat the validity of the study.

The reliability of the measurement is according to Lundahl et al. (1999) the absence of randomised errors. A measurement with good reliability is only to a little extent affected by randomised errors. The measurement should not be affected by who is making the measurement or under what circumstances the measurement is made. Something should not by chance affect the outcome of the measurement.

In this thesis the authors uses both a quantitative and a qualitative method in order to collect the data on the attitudes of LF's customers. The reasons behind this are basically that the authors want to measure what makes LF's customers loyal and what channels they prefer in order to later analyse how LF can affect the customer loyalty through direct marketing. By using multiple source of evidence in a case study the validity is strengthened (Yin, 2009). Lundahl et al. (1999) also states that if a researcher is conducting a case study, a detailed in-dept study is reached through many dimensions i.e. multiple source of evidence.

3.6 Ethics

When conducting research it is important to behave in the most ethical manner. Ethics is a broad term with many definitions. Eriksson et al., (1999) mention that ethics is based on two aspects: right and wrong norms for human beings as well as loyalty and honesty. The authors of this thesis are striving to work accordingly to society's ethics.

In order to fulfil as many of the ethical aspects the authors have asked LF whether information presented in the thesis could harm the company or the organisation in any way. During the internal interviews the respondents were asked if their names can be published and if an audio recording was aligned with them. The authors of this thesis have also signed a non-disclosure agreement stating that all information concerning LF can not be used for other purposes than this specific study.

The external interviews were conducted anonymously so that no data can be traced back to any individual respondents (further information about the internal and external interviews can be found in section 3.4.4 to 3.4.6)

3.7   Qualitative Analysis

To make the data useful, the secondary and primary data collected needs to be analyzed (Saunders, Lewis & Thornhill, 2007). Qualitative data is very diverse in nature and according to this there is no standardized way for conducting the analysis.

Marshall & Rossman (1995 p. 111) state: *"data analysis is the process of bringing order, structure and meaning to the mass of collected data"*. To create order and structure among collected data the authors have divided both secondary and primary data into various sub-groups. These sub-groups have been sorted, reduced and filtered in order to make the analysis and draw conclusions. Miles & Huberman (1994) suggest three components of data analysis:

- Data reduction

- Data display

- Conclusions drawing/verification

Data reduction is the tool to handle sentences and words appearing in interview notes, such as; focusing, simplifying, transforming, selecting and abstracting wording. Next step of the analysis is to draw conclusions with help of organizing and assembly information, *data display*. The analytical activities are explained more specifically by Ghauri et al. (2005) as a process of steps:

Categorization is the procedure of identifying clusters of data from texts and place them in categories to which phenomenon they are representing. *Abstraction* is the next step and uses all categories to make bigger clusters of data in order to show empirical indicators of interest. *Comparison* is a continuing process from start which investigates differences and similarities between abstractions and points out whether further data collection is needed. The collections of external interviews have been collected until a pattern is seen. *Dimensionalisation* is made by the researcher in order to explain the meaning of empirical variations by investigating certain properties of categories and abstracts. Most categories have properties, which might be frequency and duration. Connected to loyalty these properties represent empirical variations. The collection of data and analysis do not need to be in a specific order, by treating all data subsequently patterns and conclusions could be found, *iteration*. The last step seeks to support evidence and hypothesis by confirming criticism of empirical findings to conclusions made, which is done by referring to negative cases and this is called *refutation*

The interpretation of the suggested steps has by the authors of this thesis been as following: the *categorization*s of the raw data have been treated to locate the phenomenon loyalty and direct marketing. This has been done by labelling all passages which represent them. *Abstraction* has, in practise, been done by clustering all categories which have some relation to each other. These new larger clusters have served as empirical indicators of more general topics of interest. By using *comparison* the authors compared *abstractions* in a continuing process in order to see the sought patterns in an early stage. The step *dimensionalisation* has sought properties and the variations to explain relationships between categories and abstractions. *Iteration* has helped the authors of this thesis to make an effective analysis. Instead of analysing step by step after the data collection is done, the analysis was performed at the same time as the collection proceeded. The last and final step, *refutation*, was done by investigating customers which were proven both loyal and disloyal in order to find the underlying meaning and to validate the findings.

3.8   Generalisability

Saunders et al. (2007) states that generalisability concerns the research approach, whether the outcome can be applied on other a similar phenomenon or not, it is also linked with external validity (section 3.5). A definition of generalisability is: *"the extent to which the findings of a research study are applicable to other settings"* (Saunders et al., 2007 p. 598).

The authors of this thesis are performing a case study which implies that the phenomenon of loyalty and direct marketing at LF has been studied. Saunders et al. (2007) points out that if a researcher is performing a case study this must be taken into consideration. Even though this thesis strives to study a single phenomenon the authors claims to make the findings have high generalisability. The research approach has been abduction, which means that some parts of induction will be used and theory will be extended. An extended theory means that the findings must be applicable (Lundahl et al., 1999). Yin (2009) states that generalisability is possible on a case study, as long as it is performed analytically and not statistically. This is in line with the analytical method of this thesis. Another reason to why this thesis has high generalisability is that the sample size is relatively high, which is in line with Johns & Lee-Ross (1998) who states that a high sample results in a high generalisability.

4 Empirical Findings

The empirical findings will be presented below. The first section presents secondary data from a research made by SKI on the Swedish bank and insurance market. The following section presents the primary data collected through interviews with key personnel at LF. The final section deals with the results from the survey among LF's beneficiary customers.

4.1 Market Overview

SKI (Svenskt Kvalitetsindex) conducts studies concerning customer satisfaction, with respect to the areas of image, expectations, product quality, service quality and affordability. In order to conduct relevant research SKI has used the QSP-model.

4.1.1 The National Bank Research

During the fall of 2009 SKI has in cooperation with EDB Business Partners conducted a national bank research that covers approximately 20.000 interviews with B2B and B2C, the research was made under a period from the 18th of August to the 25th of September 2009 (SKI, 2009c). From a LF perspective the results from the research is presented below.

From the latest B2C research one can see that customer satisfaction reached a record level. According to the research high customer satisfaction is an important factor for the company to be able to reach and keep customer loyalty. LF is the bank with the highest customer loyalty, something that can be explained by a continuous increase in customer satisfaction. The same high performance can be seen when looking at the customer profile, which takes the factors of image, expectations, product quality, service quality and affordability into consideration. A graph over the different levels of customer loyalty on the market can be seen in Figure 1 in appendix 2.

The research also shows that loyal customers are in general more satisfied compared to customers that uses multiple banks. One can also see a difference in loyalty when comparing the sexes, where women have a tendency to be more loyal. When looking at ages there are no direct parallels that can be drawn, in general older customers are more satisfied compared to younger ones. The research also shows that there are regional differences on the market. Customers living in cities are more satisfied than customers on the countryside, note that LF is more successful in smaller towns and on the countryside (SKI, 2009c).

4.1.2 The National Insurance Research

During the fall of 2009 SKI has together with EDB Business Partners conducted a research covering the insurance market. The research consists of 10.000 interviews on the B2B and B2C market, the authors of this thesis presents this data from a LF perspective.

LF is one out of four major players on the insurance market, these four has been part of SKIs market research on a yearly basis since 1989. Pension and life insurance on the B2C market has been a part of the research since 1989 and during the last years the occupational insurance has also become a part of the studies. The changes in the customer satisfaction from 1989-2009 can be seen in figure 2 in appendix 2.

When looking at the market for property insurance one can see that LF has increased in customer loyalty. In general the most satisfied customers are women and the biggest difference between the two sexes is seen at LF. When looking at the ages the most satisfied customers at LF are the ones younger than 29 and older than 50 years.

The customers that used their insurances are in general satisfied with the treatment but LF is the one that shows the lowest customer satisfaction within this field. On the other hand the customers that do not need to use their insurances at LF have a higher level of customer satisfaction (SKI, 2009b).

The study conducted on the market for pension and life insurance is based on the customers that pay at least 2.000 SEK per individual insurance. The market faced an increase during 2008 but during the last year the whole market has decreased. From the research we find LF on the second place, the distance up to the first place had decreased during the last year (SKI, 2009b).

4.2   Internal interviews

4.2.1   Direct Marketing at LF

The marketing board is the highest marketing organ in the organisation at LF and creates a yearly plan for the marketing with those activities that should be done in the upcoming year. The marketing budget is currently 6 Million SEK in total of which sponsoring is around 1 Million SEK and around 2-3 Million SEK is spent on advertising (A. Karlsson, personal communication).

LFAB creates a long term market strategy which the regional companies can use. Anders Karlsson (personal communication) describes the market strategy as *"a mutual market strategy for the whole LF Alliance from where we pick the parts we want and wishes to use…a smorgasbord where you can absorb what you want…it is a gross list"*.

A. Karlsson (personal communication), the Marketing Executive at LF, describes marketing as very important to LF. He claims that:*"Prioritising the marketing is extremely important to us, the one that is not seen does not exist"* and *"We are strongly active within sponsoring sport events"*. According to him LF is focusing much of its marketing on sponsoring and is currently sponsoring everything from grass root football clubs to elite organizations.

In the market strategy a strategic change is presented as LF is moving from a product focused way of working to a customer focused way to work. This way of working should affect the whole organisation, from targeting to meeting customers and following up results. To support the customer focus on LF, a personal overview is send out to all the customers in the beginning of each year (A. Cederbrink, personal communication). This overview is showing the customers the different services and products they are signed up for. This overview is also used by LF in order to serve the customers with offers within the customers' interest. The overview makes it possible to adjust the offers according to the different segments or limit the offers to the suitable segments (A. Cederbrink, personal communication).

When it comes to direct marketing, it is not currently a priority for the organisation and LF is currently working with a plan for targeting the segments individually. There are plans to start sending news letters to the level three customers and also to give them gifts *"Sending a ice cream check in summer and something for Christmas"* (A. Karlsson, personal communication).

Also the other segments are about to be targeted in the future: *"There will be targeted activities for the level 2 customers in order to make them level 3 customers, to call them and use IT-systems"* (A. Karlsson, personal communication). The effects of the current direct marketing such as direct mail is measured in sales: *"When we make a dispatch, which we do not do very often…we are measuring the amount of singed insurances in relation to the number of mail sent out"* (A. Karlsson, personal communication).

As an example of direct marketing: This year LF sent out a magazine to all households in the region (118000 ex). The magazine contained: *"general information about the company and beneficiary customer concepts etc."* (A. Karlsson, personal communication). Another marketing channel that LF is working through is their homepage to sell more services through that channel and keeps it regularly updated.

According to A. Cederbrink (personal communication) LF is using a CRM system that is called *ETT Kund* in order to gather all necessary information about the customers. This CRM system organises all the customers into different groups according to how profitable they are as customers, groups that in turn are named after colours. The system makes it possible for LF to see all information needed for all customers individually in order to adjust offers and marketing. LF can for example in this system find information concerning customer contact information, campaigns that the customer is part of, campaigns that could be offered and what products and services the customer is signed up for. The system also contains a log feature which works as a diary over the customer, which makes it possible for LF to see how active the customer is within the company. The log function will show internal individual customer information concerning the offers made from LF, customer demand and collaboration and contact with customer service. The CRM system will in the end be a tool for LF that is used to serve their customers in a more efficient way.

According to A. Karlsson (personal communication) the CRM system within LF is used in order to: *"Mark and keep track of the beneficiary customers and we are working with starting to send news letters to the level 3 customers during the year...We have not got very far in this process but now it is in the market plan for 2010...We are collecting the e-mail addresses and are discussing what kind of customized offers we are going to have".* The CRM systems is also currently mostly used for sales in that sense that when in contact with a customer the salesperson get noticed about what the customer is missing to reach a higher level.

According to A. Cederbrink (personal communication), LF is basing their segments on beneficiary customers and the customers are divided into groups according what degree of discount they belong to, within these segments they can divide the customers into different age groups. A customer with wage account and no pension within LF will belong to one segment, according to this the different products and services that a customer is signed up for will determine what segment they belong to. This method for segmentation will make it easier for LF to adjust their offering according to what the customer really is interested in. The only time when the general segments are used is when a national campaign is used.

4.2.2   Customer Loyalty at LF

LF calls their loyal customers *beneficiary customers* and these customers are rewarded with rebates: *"The loyal customers are rewarded with a strongly rebated insurance premium"* (A. Karlsson, personal communication). But the customers are not only being rewarded with funds and rebates: *"We offer all the new house/home customers on a free inspection from Anticimex in order to check if the house has any water damages etc."* (A. Karlsson, personal communication). Currently LF is making a promotion to house/home customers that have been customers for 15

years and offering them a free re-inspection and also giving them a free layer to put under the dishwasher or a fire blanket. Other groups are also offered to participate in events sponsored by LF and selling them fire equipment etc. for a rebated price.

Anders Karlsson (personal communication) on relationships: *"The most important thing for us is to build long relationships with the customer. Acquiring an insurance customer who stays for 1-2 years is not profitable, we are not at all interested in customers that move around and changes insurance provider now and then, these are completely unappealing to us…we want to build long lasting, long term relationships, depending on how the services are being sold it takes from three to four years up to eight to ten years before the customer is profitable to us…This because we have initial starting costs.".* *"We are moving the customer from level 1 to level 2 and from level 2 to level 3 in order to increase the customer commitment, it is a consequent conscious action….it is our strategy for the future"*

Anders Karlsson (personal communication) on the high costs of acquiring a new customer: *"The house/home customer is our flagship, our most important customer group…When acquiring a house/home customer we have sales costs, inspection costs. We have many staring costs for this customer. During the first year a large part of the income from this customer is spend on administrative costs such as getting the customer into the systems and so on. In year two there are no such costs, the same in year three and so on".*

Anders (personal communication) makes a rough estimation on where the costs derive from*: "Roughly 25 % of the income is being spend on administrative costs, 70 % is spend on insurance compensation, and 5 % is reserve. So if the income from the first year is spend on administrative cost and 70 % is spend on insurance compensation, the customer is not profitable during year 2, 3, 4 and so on. But further on he will be!"*

The beneficiary customers are divided into three levels depending on how many services they have. The three levels are forming a beneficiary stairway. The stairway is used to determine the amount of discount the customer belongs to, a higher discount level is deserved according to the amounts of products and services the customer is signed up for. To reach higher in the beneficiary stairway the customer needs to sign up for more products and services. The highest level of discount is reached when the customer is signed up for the three products/services offered by LF. The beneficiary stairway will show what products and services the customer lack in order to reach a higher level of discount, according to this LF can adjust their offering to reach more loyal customers. A beneficiary customer is in this case seen as a loyal customer, the more they give the more they also get back.

The most loyal customers are on the highest position in the beneficiary stairway, which means that they receive a 21 % discount. They are offered free debit card to the whole family, free stock depot, free bank on the internet and in the phone, and no deductible if they had to use their insurance.

The second highest group is the group of customers that receives 10 % discount, instead this segment will be informed about what they will receive if they sing up for more products and services and according to this also becomes a beneficiary customer, this is done due to the fact that the goal of LF is for all their customers to become beneficiary- and loyal customers. The main goal for LF is to get loyal customers due to the fact that this group of customers is actually the most profitable group of customers. For the moment LF is planning a campaign in order to increase their amount of loyal customers. The campaign is targeting the customers that does not have pension within LF and the purpose with the campaign is to move these customers one higher level to reach the highest level.

Anders Karlsson (personal communication) explains the priority of the segments:*"The VIP customers are the level 3 customers, but there are 100 000 customers in level 1 and 2 and they are extremely important to us as they found the base in our business, these gives us the opportunity to build and expand and here is where we make the big money".* He continues: *"The level 3 customers are important but we cannot survive solely on them, we need the mass…in one sense one customer is not more important than the other".*

4.3   The Beneficiary Customer Survey

The customers' answers to the questions will be presented below. In total 92 customers participated in the study. The percentages are (if nothing else is mentioned) a percentage of all factors mentioned in the answers of that specific question.
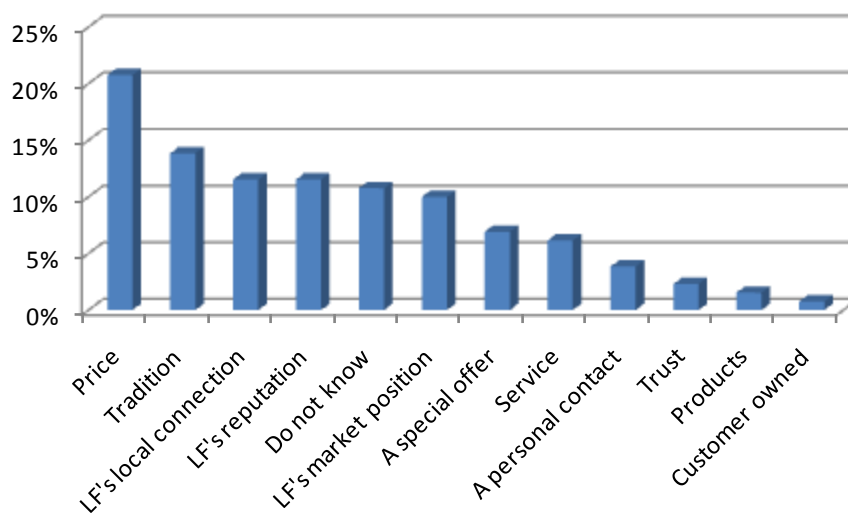

Figure 4-1 Factors that made the customers choose LF at the first time

The question on what made the customer choose LF at the first time the most important of the factors was the price (22%) and other main factors were tradition (15%) such as their parents were customers at LF, LF's local connection (12%), LF's reputation (12%), LF's position in the market (11%) and LF's excellent service (7%). Noticeable is that only 2% rated the actual product as one of the main factors.

Of the customers interviewed a clear majority of 55% had been customers more than ten years back while 11% were customers since 8-10 years ago, 16% 4-7 years ago, 9% since 3 years ago and 10% did not know.
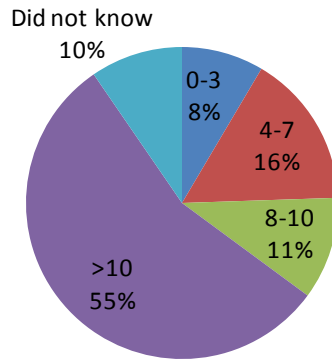
Figure 4-2 The amount of years the customers had been at LF

When asked the question on what factors that are the most important when buying bank services, pension services or property & casualty insurance, the three most important factors were price (25%), good customer service (21%) such as a personal contact at the office or skilled personnel and the terms and conditions (20%).
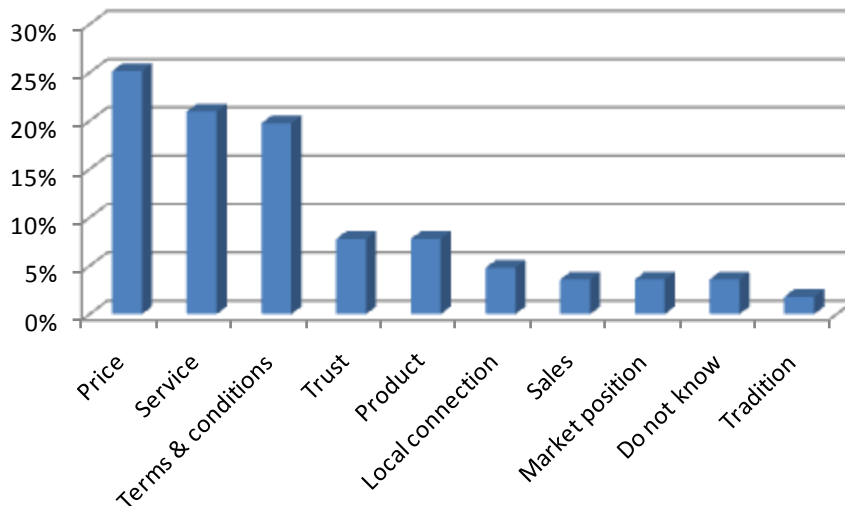

Figure 4-3 The most important factors when buying property & casualty insurance, pension and banking

A majority (55%) did not know what a beneficiary customer is. Of those (45%) who knew what a beneficiary customer is, a majority (67%) knew that it gendered some kind of rebate and 48% knew that a beneficiary customer is a customer signed up for a certain amount of products. The reader should then notice that all the customers that participated in this survey are actually level two beneficiary customers.
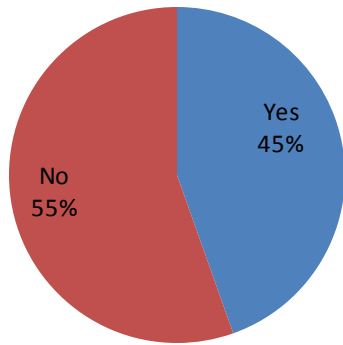
Figure 4-4 The ratio between those who knew what a beneficiary customer is and those who did not
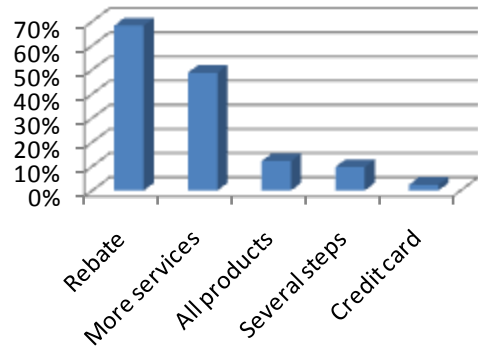
Figure 4-5 Factors that the customers used when explaining a beneficiary customers

Of those who knew what a beneficiary customer is 71% knew in what level they currently are at and 77% of these knew that they were receiving rebates because of this. 29% of the ones who knew what a beneficiary customer is did not know whether they are a beneficiary customer or not.
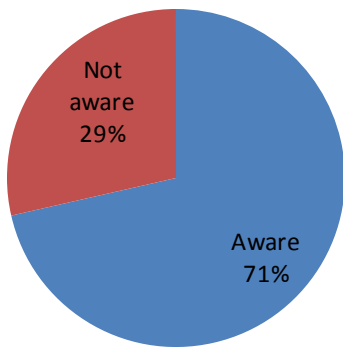

Figure 4-6 The ratio between those who were aware that they were beneficiary customers and those who were not
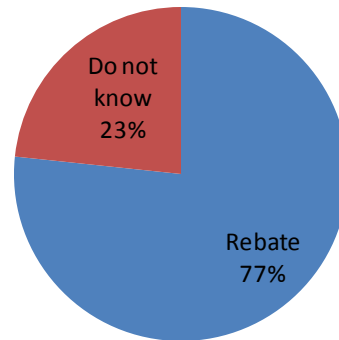
Figure 4-7 The aware customers perception on what benefits they are currently receiving

Of those who knew that they are a beneficiary customer a majority (58%) did not know how they could become a level three beneficiary customer. 28% knew that they could reach the third level by buying one more service and 15% thought that they could reach the next level if they bought all possible services.

Factors that could make the customers promote to the third level are: Improved terms & conditions (25%), an easier changing process (18%), a total solution (14%), improved communication (11%) and a special offer (11%). 18% claimed that they would never buy the products required. It should also be stressed that only 18% of the total interviewees actually knew how they could become a level three beneficiary customer.
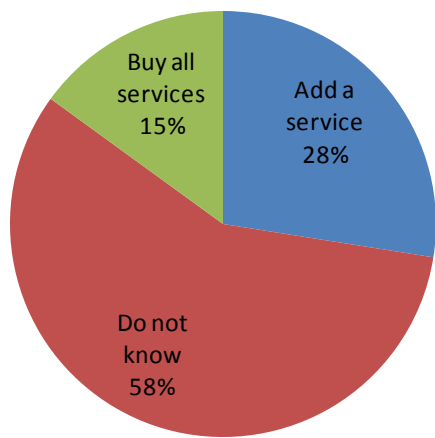
Figure 4-8 The aware customers anticipation on how they can promote to level 3
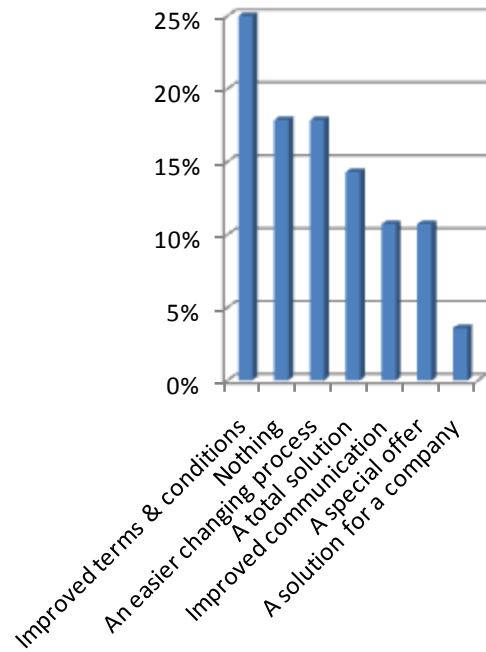
Figure 4-9 Factors that could make the aware customers promote to level 3

Out of the total interviewees 53% reckoned that a beneficiary customer should be rewarded with rebates. Other popular rewards were improved service (20%) such as an exclusive representative at the office, improved terms & conditions (15%) or special offers (5%).

Figure 4-10 What the customers reckoned that the beneficiary customer should be rewarded with

63% reads the yearly overview called "Översikten" while 37% does not read it. Something that needs to be taken into consideration is that many of those who claimed that they read it stated to only read it roughly. 72% does not know that they can get access to all possible information on LF's website.

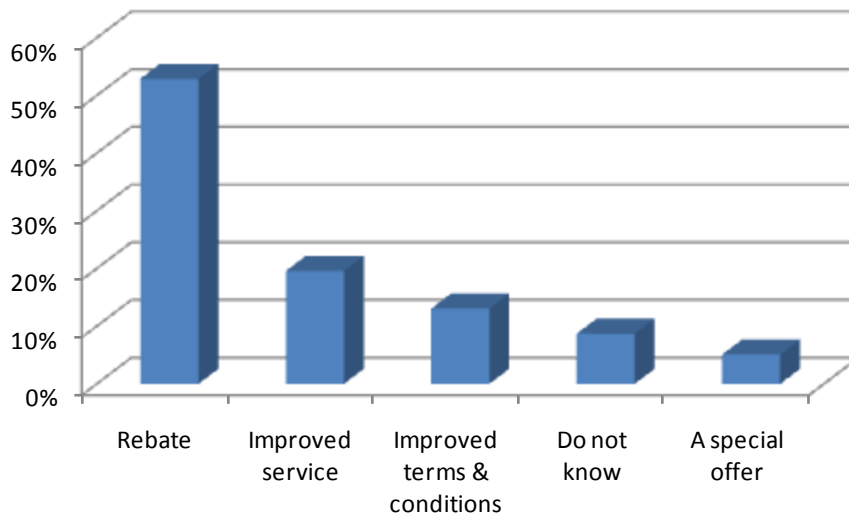The customers had an overall positive attitude towards LF. The main positives associated to LF are: Good service (51%), local connection (13%), good value (12%) and safety (8%). Only 8% could think of anything negative. And 6% were missing something at LF. 44% did not know that LF is the bank with the most satisfied customers.
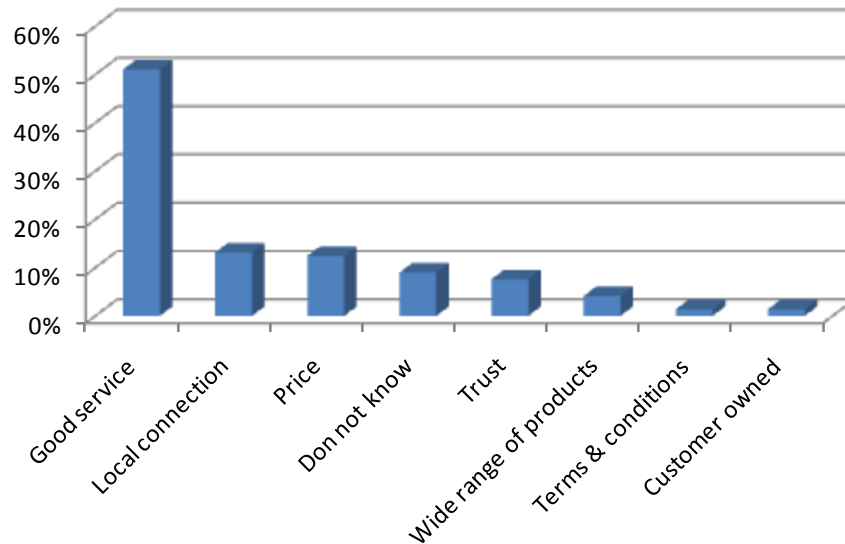
Figure 4-11 Positive factors that the customers connected with LF

The customers were asked what channels they prefer to be contacted through. The customer were instructed to answer with a number between one and five where one represents a very bad and five represents a very good perception of the channel. As seen in this Figure 4-12, the most popular channel is by mail, followed by e-mail newsletter, and through a customer magazine. The least popular channels were by SMS and by phone. On the question on what channel the customers wanted to contact LF through a clear majority (70%) of the customers prefer to contact LF by phone in first place while a minority prefers to contact them in person (9%) or by mail (7%).

Figure 4-12 The channels preferred by the customers

Figure 4-13 The channels that the customers mainly used to contact LF

5 Analysis

The analysis of this thesis is carried out in three parts. The first part analyses LF through the presented theory and the empirical findings. In the second part the findings from the beneficiary customer survey i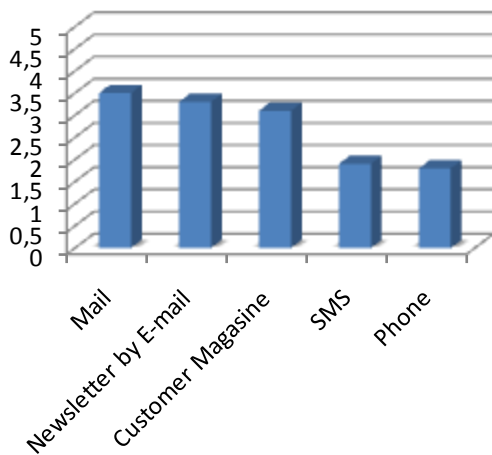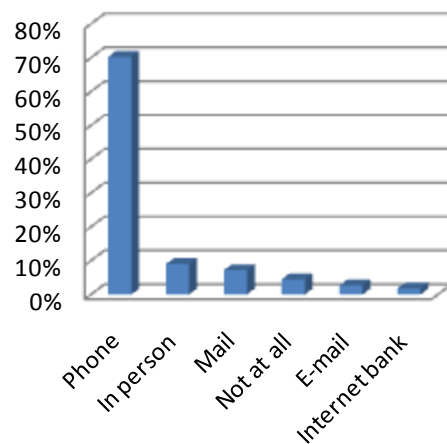s compared to the theory. Finally, the relationship between LF and their beneficiary customers is analysed and a new four step process is being presented and analysed.

5.1 A Company Perspective

5.1.1 Direct Marketing

As stated by Van der Putten (1999) mass marketing leads to a lot of waste as the mass marketing does not bring the message to all the intended recipients. Direct marketing is on the other hand a tool that can be used in order to customise the marketing, which can lead to developed customer relationships and increased customer loyalty (Orme, 1999). According to A. Karlsson: *"Prioritising the marketing is extremely important to us, the one that is not seen does not exist"* and *"We are strongly active within sponsoring sport events"*. LF is currently not focusing much on their direct marketing and instead a large part of the marketing budget is spent on mass marketing activities such as sponsoring or advertising. According to Van der Putten (1999) mass marketing is inefficient since only a small proportion will notice the marketing. As mentioned by A. Karlsson: *"The most important thing for us is to build long relationships with the customer since it takes from three to four years up to eight to ten years before the customer is profitable to us"*. If building long relationships is of such importance one can then wonder why more relationship building marketing has not been prioritised. Such relationship building marketing could be direct marketing as this tool makes it possible to customise the marketing to suit the customer. However, the authors of this thesis do not claim that relationship marketing or direct marketing can replace mass marketing in any way. Different marketing tools are used for different purposes and according to this the authors of this thesis claims that both marketing methods are needed but a good balance between the two needs to be found.

Direct marketing is currently not a priority at LF and they are currently working with a plan for targeting the segments individually (A. Karlsson, personal communication). Based on this, there are plans to implement direct marketing in LF's marketing strategy. In order to find out if a business is ready to implement a direct marketing approach one can look at four different steps created by Orme (1999).

The first step mentioned by Orme (1999) in order to implement a direct marketing approach is the importance of identifying its customers and prospects. According to A. Karlsson: *"The house/home customer is our flagship, our most important customer group"*. This gives an example of a customer group that LF has identified and targeted. When describing the beneficiary customers A. Karlsson (personal communication) stated that: *"The level 3 customers are important but we cannot survive solely on them, we need the mass…in one sense one customer is not more important than the other"*. Based on these examples, the authors of this thesis can state that LF has a good view on which their most profitable customer groups are and fulfils this step of identifying their customers and prospects.

Orme's (1999) second step is the field of modifying the data into workable marketing information and then isolating market segments which is used to identify the individual customer and their predicted behaviour. These factors are currently applied by LF in many ways as their CRM system is used to identify different segments and keeps track of when the customer has been in contact with the company. A. Karlsson (personal communication) explains the current usage of the CRM system as to: *"Mark and keep track of the benefici-*

ary customers and we are working with starting to send news letters to the level 3 customers during the year...We have not got very far in this process but now it is in the market plan for 2010...We are collecting the e-mail addresses and are discussing what kind of customized offers we are going to have". Based on this, the authors of this thesis can state that LF's CRM system is not used to its full potential since it is today not used as a tool in order to customise direct marketing, instead this is only a plan for the future. The current CRM system at LF is developed enough in order to be used as a tool for direct marketing, which should be the case when implementing a direct marketing approach.

The CRM system is today only used by some departments of the organisation. This is however far from an effective usage, by relying on the information in the CRM system customised direct marketing can be used and relationships can be strengthened, factors that according to A. Karlsson (personal communication) is the aim with an even more developed CRM system within the company. However, the trade-off between information gathering and profit margin explained by Payne (2006) might decrease customer loyalty. According to Diller (1996a) loyal customers are more likely to pay higher prices but the prices still needs to be reasonable in order to avoid decreasing the level of customer loyalty and losing customers. A company needs to keep in mind that all costs of gathering information should match the need of information and the correct price of the product.

Orme's (1999) third step before implementing a direct marketing approach is to evaluate which groups of customers that is worth keeping, leaving, attracting and so forth. A. Karlsson (personal communication) gives an example of a customer group that has been excluded from LF's strategy: *Acquiring an insurance customer who stays for 1-2 years is not profitable, we are not at all interested in customers that move around and changes insurance provider now and then, these are completely unappealing to us".* An example of a group that LF has chosen to focus on is the house/home customer. LF has hereby chosen to focus on building longer relationships with their customers and leaving short term customers out of the picture.

Orme's (1999) final step is when the company should act on the marketing opportunities that have emerged from the previous steps and to establish individual relationships i.e. by customising the marketing to suit the individual customer. According to A. Karlsson (personal communication) *"We are moving the customer from level 1 to level 2 and from level 2 to level 3 in order to increase the customer commitment, it is a consequent conscious action….it is our strategy for the future".* However, the current low amount of customers in level 3 is proving that LF still has to make efforts in moving customers towards the top of the beneficial stairway. This is also a sign that the previous marketing efforts have not had the desired effect of encouraging customers to move up the beneficiary stairway.

It seems like LF falls on this final step in the process, where the company is in the starting process of implementing a direct marketing program. However, the marketing at LF is currently not much customised to suit the targeted segments as one would expect. Due to the stated importance of increased customer relationship and customer loyalty within the company one could expect more customised marketing rather than a focus on mass marketing. This is something that needs to be developed further since direct marketing is a tool that is used in order to increase customer loyalty and to develop customer relationships, which is part of the future strategy of LF.

To sum up Orme's (1999) four steps, the authors of this thesis are claiming that LF has the resources and information needed to implement a direct marketing approach. The lack of relationship building marketing was questioned before since the importance of a long term customer relationship within LF was pointed out as the most important factor. After ana-

lysing Orme's (1999) four steps, the authors of this thesis can state that LF is a good example of a company that has the resources and are ready to implement a direct marketing approach, but they need to take the advantages out of the current market opportunities.

5.1.2 Customer Loyalty

According to Arens et al. (2008) the market focus has evolved to a point where satisfied and loyal customers are more important, the importance of this trend is something that LF has recognised. According to (personal communication) *"The most important thing for us is to build long relationships with the customer since it takes from three to four years up to eight to ten years before the customer is profitable to us"*. This shows that LF has a long term customer focus which implies that a customer lifetime focus is used rather than looking at the short term customer profit. When having a customer lifetime focus it is important to attract customers already at an early stage in the customer lifecycle and then implement retention strategies in order to generate as high customer lifetime value as possible, which can be seen as a need of customer loyalty.

To point out the importance of customer loyalty to LF one can cite A. Karlsson: *Acquiring an insurance customer who stays for 1-2 years is not profitable, we are not at all interested in customers that move around and changes insurance provider now and then, these are completely unappealing to us…we want to build long lasting, long term relationships"*. In order to be as profitable as possible one can see the need of customer loyalty within LF. The fact is that the company would not be profitable without loyal customers. *"Depending on how the services are being sold it takes from three to four years up to eight to ten years before the customer is profitable to us…This because we have initial starting costs."*. This is in line with (1996a) who claims that increased certainty, increased growth and increased profitability are three main benefits associated to customer loyalty. However, Diller (1996a) claims that profits from customer loyalty are a benefit but to LF it is currently a necessity, since they are dependent upon customer loyalty in order to cover initial costs when acquiring new customers.

The importance of increased customer loyalty is something that A. Karlsson (personal communication)points out, *"We are moving the customer from level 1 to level 2 and from level 2 to level 3 in order to increase the customer commitment, it is a consequent conscious action….it is our strategy for the future"*. Increased customer loyalty will lead to a higher level of customer commitment which will develop the relationship between the customer and the supplier. To be able to increase customer loyalty and gain a high customer lifetime value it is of major importance for the company to understand its customers. Churchill (2001) presents the customer lifecycle, which is important for a company to consider in order understand its customers better. When comparing the customer lifecycle and the beneficiary stairway within LF one can see a clear connection, since both of them builds on the relationship between the customer and the supplier. Due to this the authors of this thesis can state that LF has a good understanding of the customer lifecycle and so also their customers.

Customer retention is becoming more important due to the increased importance of customer relationship and customer loyalty (Arens et al., 2008). The process of customer retention begins already in the first stage of the customer lifecycle and continues throughout the customer lifetime. (Blattberg et al., 2001). Based on this LF needs to concentrate on implementing customer retention strategies in order to increase their customer loyalty, something that also is important since a new customer is less expensive to keep then to attract a new customer (Buttle, 1996). A. Karlsson (personal communication) points out the importance of customer retention by stating that *"LF is not interested in customers that only stay for one to two years since they are not profitable, instead LF wants to build long term relationships with*

their customers". In order to build these long term relationships LF are dependent upon customer retention and cross-selling, factors that together build up the beneficiary stairway that is used to categorise current customers. The two factors mentioned are building up the base for the beneficiary stairway and due to this the importance of these two factors are pointed out in a clear way.

Another benefit that is connected to increased customer loyalty is the decreased cost in acquiring new customers, since a large part of loyal customers will refer others (Cornelsen et al. 1997). The overall goal for LF is to move all their customers up the highest level of customer loyalty at level three in the beneficiary stairway. The negative side with this is the challenges of making loyal customers feel loyal, if all customers become level three customers all customers will be treated in the same way and according to this, new customers are needed to make their loyal customers feel loyal.

5.2   A Customer Perspective

5.2.1   Direct Marketing

The first and most frequent pattern from the survey is the lack of knowledge about the beneficiary system among the beneficiary customers. Due to this there is a demand for customised direct marketing, since all customers needs to have the accurate information needed in order to know how to make the final step and become a loyal customer at the highest level in the beneficiary stairway. The survey showed that 71% of the customers knew that they belonged to level two in the beneficiary stairway, but at the same time a majority did not know what to do in order to become beneficiary customers at level three. Due to the lack of knowledge concerning beneficiary customers one can state that becoming a loyal customer was not an active choice from the customers since they do not know what a beneficiary customer is, which could be a result from LF's mass marketing strategy. According to Van der Putten (1999) mass marketing leads to a lot of waste as the mass marketing does not bring the message to all the intended recipients.

From the lack of knowledge one can see a demand for information, which can be customised with the right information and reach the target audience through direct marketing. The survey shows that 63% of the customers actually read the yearly personal overview which is send out by LF. However a lot of the customers only read the overview roughly but this still shows a degree of interest concerning customised information.

The importance of customised direct marketing has been pointed out; in order to serve the right customers with the right information the preferred channels also needs to be considered. According to Rempala (1999) it is important to focus on the appropriate channel to reach the customer. The survey showed that the customers preferred to be contacted through mail, newsletter or by e-mail rather than receiving information by phone or by internet bank. As direct marketing is an expensive way of marketing it is important that the information is sent through the right channel to get maximum response from the customer.

5.2.2   Customer loyalty

5.2.2.1   Source of Loyalty

The empirical findings show that 45% of the customers knew what a beneficiary customer was and 53% stated that the best way to reward a beneficiary customer was through rebates. The current reward system builds on a beneficiary stairway that is used in order to determine the amount of rebate a customer belongs to, a higher discount level is received

with respect to the amounts of products and services the customer is signed up for (A. Cederbrink, personal communication). Due to this the current reward system actually builds on customer rebates, the kind of reward that the customers actually according to the survey prefer. Once again the lack of information pattern can be seen, the customers actually receive the reward that is preferred but even though the majority of the customers are unaware of the rebate they receive. Based on this the current reward system cannot be the major reason for the customers to be loyal to the company, since customer loyalty is perceived through positive feelings and perceptions about high satisfaction from the customer to the supplier (Churchill, 2001). In this case the positive feelings and customer satisfaction cannot be generated from the rebate system since the customers are unaware of this.

On the other hand the customer survey showed that the customers had an overall positive attitude towards LF and among the positive things mentioned the most frequent factor was good service. Only 8% mentioned something negative and only 6% were missing something at the company. According to this the overall perception concerning the company is positive, something that Churchill (2001) points out as an important factor connected to customer loyalty. The customer survey also showed that a majority of 55% had been in the company for more than ten years, combining this together with the overall positive feelings towards the company one can see a clear connection to customer loyalty. The overall positive feelings will create an attachment to the company, in this specific case the authors of this thesis can claim that the overall positive attitude seems to be one major reason for the received customer loyalty.

The reasons why the customers chose LF at the first time can also explain why the overall positive feeling is a major factor that causes customer loyalty. 15% of the customers mentioned tradition as the influence or reason to why they became customers at LF. Tradition in this case means that the customer has always been a customer or that their parents influenced them to be customers. This can be linked to Cornelsen & Schober (1997) which states that a large group of loyal customers will generate new customers by referring others. Being a customer due to tradition means in most cases that a non active choice has been done by the customer and the customer is likely to stay within the company as long as customer satisfaction is reached, which means that the customer is going to stay loyal as long as the positive feelings towards the company remains, which is in line with Churchill (2001).

5.2.2.2 Inertia and Latent Customer Loyalty

Previous sections has explained the fact that some level of customer loyalty exists within the company, that according to the authors seems to be derived from the overall positive feelings towards the company. In order to get a better understanding of the current customer loyalty, the four categories of Griffin (1995) is going to be used. From the conducted survey one can state that the level two customers within LF are divided into inertia loyalty and latent loyalty, both these groups are going to be explained and analysed.

Inertia loyalty is based on the fact that the customer is loyal just because they are forced to be, which can be supported by the fact that 12% of the customers mentioned that a local office and local connection was the reason why they became a customer. SKI presents in their market research that the level of customer satisfaction is in general higher in the cities compared to the countryside. SKI also states that this is not the case for LF, who are more successful on the countryside and also receives a higher level of customer satisfaction on a local level. One can see that LF's market position is very strong on a local level; according to this inertia loyalty can occur due to the fact that LF might not face any competition

which reduces the options available to the customer. The negative side with inertia loyalty is according to Griffin (1995) the fact that this group of customers is the first group to leave when other options occur on the market. However, this is in conflict with Churchill (2001) who claims that the customers will stay loyal as long as there are high customer satisfaction and positive feelings towards the company.

The other type of loyalty that is seen within LF is latent loyalty, which means that the customers are loyal even though they do not purchase on a regular basis (Griffin, 1995). The customers within this group need to purchase from LF when a purchasing decision is faced. However this customer purchase pattern is not seen from the survey and according to this one can just estimate that the customer would stay loyal and purchase from LF when a purchasing decision is faced, since the majority of the customers have been customers within the company for more than ten years.

5.3 The Relationship between LF and Their Beneficiary Customers

The authors of this thesis can state that the beneficiary customers within level two at LF are this by coincidence through an inactive choice and only 18% of the customers participating in the survey knew how they could become a level three beneficiary customer, where the highest level of customer loyalty is reached. Both these factors implies a lack of knowledge among the customers within LF, something that creates a problem for LF since their strategy for the future is to move customers from level 1 to level 2 and from level 2 to level 3 in order to increase customer commitment and customer loyalty (A. Karlsson, personal communication).

According to Orme (1999) direct marketing is a tool that is used to develop customer relationships and increase customer loyalty. The authors of this thesis states that LF needs to implement a direct marketing approach in order to fulfil the future strategy of the company. To achieve this, the "Know-Understand-Inform-Earn cycle" is used; a model that consists of four dependent steps that together explains how direct marketing can increase customer loyalty, if used properly. The four steps and the model are presented below:

5.3.1 Know Your Customer

According to Rempala (1999) the company starts a learning process when attracting a new customer and in order to be able to affect the customer, the company needs relevant information about the customer. According to Hobby (1999), CRM is a useful tool to identify, attract and increase customer retention of profitable customers by managing relationships with them. A company must also be aware that a CRM system might affect the cooperation within the organisation, i.e. in line with Deutch & Rempala's (1999) explanation about effects of such an implementation.

In this case study there is a clear pattern that shows how a lack of knowledge among LF's customers has blocked them from moving up the beneficiary stairway. Among the customers with some knowledge there is a small part of customers that know how to get to the highest level of customer loyalty, while the other customers only have general knowledge about beneficial customers. It is therefore necessary for the company to find out more about their current customer by gathering information through CRM systems. LF is currently not using their CRM systems to inform their customers but instead mostly to support sales. LF has today a well functioning CRM system; but this could also be used in order to gather information and support relationship building activities such as direct market-

ing. LF also has a clear picture of which customer groups to collect information from and this is an important factor to succeed with their direct marketing.

If LF had known more about their customers, LF would have known what kept the customers away from moving up the beneficial stairway. Therefore, the first step in this model is to make sure that the company knows its customer and is gathering the relevant data needed.

Know your customer

•(Gather relevant data)

Figure 5-1 The first step of the process

5.3.2   Understand Your Customer

The importance of understanding your customer is stated by Grönroos (1994, p. 9) who claims that relationship marketing is: *"...done by mutual exchange and fulfilment of promises"* and such an exchange can only be achieved if the company understands its customer. In order to understand the customers, the company needs to interpret the information gathered during step one. Then they can identify the customer's needs, which can be satisfied through customised direct marketing.

In this case, the survey reveals that many customers have none or little knowledge about the beneficiary system at LF. 45% of the customers knew what a beneficiary customer was and 29% of the ones who knew what a beneficiary customer is did not know whether they are a beneficiary customer or not. This reflects the poor state of the current communication between LF and their customers. The customers need to be informed about the concept of beneficiary customers, the rewards and the beneficiary stairway. Without this information it is not possible for the customers to make an active choice concerning the level of customer loyalty. To be able to increase customer loyalty and gain a high customer lifetime value it is of major importance for the company to understand its customers.

Therefore, the second step in this model is to make sure that the company interprets the gathered data in order to understand the customer.

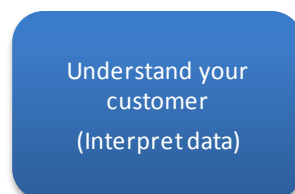**Understand your customer**

(Interpret data)

Figure 5-2 The second step of the process

5.3.3   Inform Your Customer

The third step includes why the direct marketing should be customised in order to gain customer loyalty. According to Scovotti et al. (2006) the company should, when using direct marketing, communicate directly with the targeted customers. Orme (1999) adds that marketers can customise their direct marketing and the outcome is a more efficient and cost effective system. The right information also needs to be delivered through the cus-

tomer's preferred channel at the right time (Rempala, 1999). The ultimate goal of direct marketing is to achieve cost-effective, two-way, one-to-one communication with individual prospects (Van der Putten, 1999). But if the previous steps are not handled properly and the wrong information is collected or misinterpreted, the process could fail at this stage.
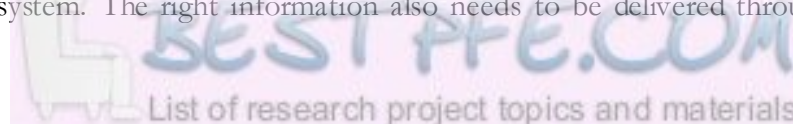
In LF's case, the majority of the customers had been in the company for more than ten years, which shows some degree of loyalty. But the majority of the customers were not aware about the current reward system and due to this the customer loyalty seems to instead be derived from the positive feelings from the customers towards the company. This shows that the customers are to some degree loyal but there is also a lack of knowledge. As LF did not know the current knowledge level among the customers, the marketing is not especially customised to suit them. LF's main objective is to move current customers to a higher level in the beneficiary stairway but there are only a few customers that actually know how to reach the highest level of the beneficiary stairway. To effectively increase the customer loyalty it is important to communicate with the customers effectively.

Therefore, the company needs to make use of the collected and interpreted data to customise the direct marketing in order to suit the customer.

Inform your customer
(Customise the direct marketing)

Figure 5-3 The third step of the process

5.3.4 Earn Your Customer's Loyalty

According to Churchill (2001) customer loyalty is something that needs to be earned. A tool that is being used in order to affect the customer relationship and customer loyalty is direct marketing Orme (1999). The previous three steps in this model have explained how a company should work with direct marketing, when treated properly these steps will together increase the customer loyalty. Increased customer loyalty will in turn lead to a change in the relationship between the customer and the supplier, which makes the model start all over from the beginning again.

This model shows that customer loyalty needs to be earned, since the fourth step is dependent upon the previous steps. If previous steps are not treated in a proper manner the fourth step in the model will not be reached and as a consequence of this the customer loyalty will remain unchanged. The company need to work through the first three steps in order to reach the forth step, where they will receive customer loyalty earned from the work done in previous steps.

Therefore, the fourth step in the process is that the company should earn their customer's loyalty, which is a change of the customer's behaviour.

Figure 5-4 The fourth step of the process

5.3.5 A Continuous Cycle

Rempala (1999) describes a relationship as a learning procedure as the company continuously needs to learn more about the customer. If the four step process is repeated the company can tie up the customer by satisfying the customer's needs repeatedly and the customer loyalty will increase steadily during time. The connection between the customer and the firm has also developed from a transaction of a product or service to a relationship (Shepard, 1999).

These theories lay ground for placing the four different steps in a cycle, which can be seen in Figure 5-5. The cycle that is jointed together by the fact that the whole process is in the end changing the behaviour of the customer and when the customer's behaviour changes there is a need of starting the process all over again as new information on the customer is required. If new information would not be gathered, the company has not enough information to understand the customer when customising the direct marketing and the process will fail. In other words, there is a continuous need of gathering and interpreting information during the process of using direct marketing.

Figure 5-5 The process as a continuous cycle

6 Conclusion

The purpose of this thesis is to study Länsförsäkringar Kalmar Län and analyse how they can use direct marketing to increase customer loyalty while operating in different service markets. The concluding findings of this thesis are presented below.

The authors of this thesis can state that direct marketing is an efficient tool to increase customer loyalty. Direct marketing is a relationship building tool and a developed relationship between the customer and company will in turn lead to increased customer loyalty.

In order to prove this a four step model has been created. Before explaining the model it should be stressed that every step needs to be performed thoroughly to increase the customer loyalty. The model is a cycle that is divided into four steps: Know your customer, understand your customer, inform your customer and earn your customer's loyalty.

The first step is named *Know your customer* and implies that the company should gather relevant data about their targeted customers. This step lays the ground of the upcoming steps as direct marketing is based on information. Therefore, this step is a natural start when having a direct marketing strategy. If the data collection is not made properly there will be a problem when trying to understand the customer which leads us into the next step.

The second step is named *Understand your customer* and involves the company to interpret the data that was gathered during the first step, in order to identify the customer. In this step the company needs to draw conclusions from the gathered data and understand the customer's current situation and needs. When serving the customer's needs, customer satisfaction is achieved which is closely related to customer loyalty. It is of importance to understand the customer before the execution of the direct marketing which is the next step.

The third step is named *Inform your customer* and is the implementation of the direct marketing. In this step the company uses the interpreted information to customise the direct marketing in order to suit the customer. The direct marketing should not only be customised to suit the customer but also to suit the company's intentions, which in this case is increasing customer loyalty.

The fourth and final step is *Earn your customer's loyalty* and this step differs from the previous steps as it is not an action from the company. This step should instead be seen as the result from the direct marketing that was created during the previous steps. This step is where the customer's behaviour changes as the customer becomes more loyal. As the customer's behaviour changes, the company needs to start the process all over again from step one.

A profound use of this model when customising direct marketing will increase the customer loyalty.

Figure 6-1 Increasing customer loyalty through direct marketing

7 Discussion

The discussion section is divided into three sections. Firstly, is a discussion where the thesis' academic contributions are presented. Secondly, is a discussion on the practical use of the findings of this thesis. At last, is a section where areas suitable for further investigation are presented.

7.1 Contribution

This thesis has contributed to science since it has created a model and a process of how direct marketing can be used to increase customer loyalty. Even though the model derives from this particular study the authors believe that the model and the process can be applied to increase customer loyalty in other markets as well. However, the importance of the steps in the process is based on the findings of this study and could need to be adjusted in order to suit other markets.

7.2 Practical Use

The customers at LF are today dived into three different categories in the beneficiary stairway; these different levels will in turn show the different degrees of customer loyalty. The overall goal for the organisation is for all customers to become level three customers and so also reach the highest level of loyalty. Analysing how LF can increase loyalty among customers is relevant as customer loyalty is the most important factor to LF today (A. Karlsson, personal communication).

Today the "flagship" of customers is the house and home customers. As LF is focusing on building long relationships with their customers, these customers are important to keep. Therefore it is of interest to apply the findings of this thesis on how LF could promote these customers in the beneficiary stairway. Direct marketing is an efficient tool to increase customer loyalty and LF's direct marketing could therefore be customised in order to push the customers up the beneficiary stairway.

The four step process could be used by LF in order to secure the implementation of their direct marketing strategy. They need to start knowing their customers by gathering information about their current knowledge levels. By collecting data of preferred information channels and factors of movement (between levels) with respect to demographics, this issue can be solved. LF should therefore gather more information in order to get a clear picture on what different customer groups of this segment request to promote to the third level.

When interpreting the information, patterns among these groups will be discovered, the direct marketing can then be customised to suit these specific customer groups. The CRM system can be developed as tool to customise the direct marketing. These findings together with a more specific segmentation will be an appropriate recipe how to reach the customers more effective and give them the right kind of information in the right kind of channel.

LF then needs to customise their direct marketing in order to suit the customer groups. An example: During the interviews the authors got the impression that LF's customers regarded good service and LF's local connection as very positive. Other customers regarded the lack of a local office as something negative. What LF could do then is that the customers that are living in areas with a local office receive information through their preferred

channel about what the customer is missing to get promoted to the third level and that the offered services can be discussed at their particular office. LF will then get the most out of this positive aspect and can use it to increase the loyalty.

Another way of customisation might be a rethink of the use of a reward system solely offering customers discount. According to Orme (1999) the information stored in the databases could be used on a strategic level and then for developing customer loyalty programs. Based on the results from the survey the current rewards that the customer will gathered if moving up the stairway is not enough to suit everyone. In order to fully customise the marketing there could be different incentives for the top beneficiary customers to choose from, if rebate can suit one customer another customer might i.e. want some free insurances. According to Orme (1999) the information about the customers could also be used together with a third part to create an offer especially suited for the targeted customers. LF could then create offers with associates or other branches in the company than the private market in order to create customised incentives for the targeted customers.

At last LF will have changed the behaviour and attitude among their customers. When the behaviour and attitudes changes LF will need to start gathering new information on the customers in order to suit their new position.

7.3   Further Investigations

Further investigations can be made on *what* the customer's needs and want to become more loyal. This thesis has examined the topic more briefly and a more deep research on what the different clusters of LF's segments want is needed.

As this thesis deals with increasing customer loyalty another topic that could be researched is how LF could work to keep the customers in the third level and how this group should be treated. That topic would deal with how a company should work with maintaining customer loyalty among their customers.

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Appendix 1

Questions for interview with Anna Cederbrink, Sales Coordinator:

Reason for interview: Find out what they are doing with direct marketing at the moment in order to prepare for our later interviews with the marketing executives.

1. Kan du berätta lite om hur pass individuella de olika länskontoren är, framförallt när det gäller marknadsföring? *(Could you explain how independent the regional offices are, especially when it comes to marketing?)*

2. Hur arbetar ni för tillfället med marknadsföring i allmänhet? *(How are you currently working with marketing in general?)*

3. Hur arbetar ni för tillfället med direkt marknadsföring och anpassad marknadsföring? *(How are you currently working with direct marketing and customized marketing?)*

4. Hur arbetar ni för tillfället med CRM system? *(How are you currently working with CRM systems?)*

5. Vad för information samlar ni om era kunder? *(What kind of information do you store about the customers?)*

6. Hur pass anpassad är marknadsföringen mellan de olika segmenten? *(How customised is the marketing between the different segments?)*

7. Vad är er uppfattning av en lojal kund och förmånskund? *(What is your perception of a loyal customer?)*

8. Hur arbetar ni för tillfället för att få lojala kunder och helkunder? *(How are you currently working to achieve loyal customers and complete customers?)*

9. Hur belönar ni lojala kunder och helkunder? *(How do you reward loyal customers and complete customers?)*

Questions for interview with Anders Karlsson, Marketing Executive:

Reason for interview:

1. Kan du berätta om din uppgift i organisationen, framför allt när det gäller marknadsföring? *(Could you explain your mission in the organisation and in the marketing department?)*

2. Kan du berätta lite om hur pass individuella de olika länskontoren är, framförallt när det gäller marknadsföring? *(Could you explain how independent the regional offices are, especially when it comes to marketing?)*

3. Hur arbetar ni med marknadsföring i allmänhet? *(How are you working with marketing in general?)*

4. Kan du berätta mer om strategin från kundorientering istället för produktorientering? *(Could you tell me more about the strategy customer orientation instead of product orientation?)*

5. Hur arbetar ni strategiskt med direkt marknadsföring och anpassad marknadsföring? *(How are you strategically working with direct marketing and customized marketing?)*

6. Vilken roll/prioritet har direkt marknadsföring i LF? *(Which role does direct marketing has for LF?)*

7. Hur stor budget har ni till marknadsföring respektive direkt marknadsföring? *(How big is your marketing budget and budget for direct marketing?)*

8. Hur arbetar ni med direkt marknadsföring för att på ett positivt påverka lojaliteten hos kunderna? *(How are you working with direct marketing to influence customer loyalty?)*

9. Hur mäter ni resultatet av en direkt marknadsföringskampanj? *(How are the results of marketing campaigns measured?)*

10. Är det någon speciell form av marknadsföring som har varit mer framgångsrik under åren? *(Is there any certain kind of marketing that has been especially successful during the years?)*

11. Vilken plats har CRM systemen i er strategi? *(What position has the CRM systems in your strategy?)*

12. Hur använder ni er av CRM system som hjälpmedel vid direkt marknadsföring? *(How are you using CRM systems for direct marketing?)*

13. Kan du förklara lite närmre hur ni segmenterar era kunder samt hur ni utnyttjar denna segmentering? *(Could you explain your segmentation and how you elaborate with it?)*

14. Vilket segment är ert viktigaste idag? I framtiden? *(Which segment is today the most important? In the future?)*

15. Hur arbetar ni för tillfället för att få lojala kunder och förmånskunder? *(How are you currently working to achieve loyal customers and complete customers?)*

16. Vad är er uppfattning av en lojal kund och förmånskund? *(What is your perception of a loyal customer?)*

17. Vilken roll har kundlojalitet i er strategi? *(What role does customer loyalty have in your strategy?)*

18. Hur jobbar ni med att utveckla kundengagemanget? *(How are you working to develop customer commitment?)*

External interviews

Nu kommer jag att läsa upp ett antal olika sätt som Länsförsäkringar kan kommunicera med sina kunder. Jag skulle vilja veta dina åsikter om dessa sätt genom att ni säger en siffra mellan 1 − 5. Där 1 är väldigt dåligt till 5 som är mycket bra.

Vad anser ni om att få information via SMS/MMS?

| 1 | 2 | 3 | 4 | 5 | Vet ej |

Väldigt dåligt   Mycket bra

Via post?

| 1 | 2 | 3 | 4 | 5 | Vet ej |

Väldigt dåligt   Mycket bra

Nyhetsbrev via E-post?

| 1 | 2 | 3 | 4 | 5 | Vet ej |

Väldigt dåligt   Mycket bra

Via telefon?

| 1 | 2 | 3 | 4 | 5 | Vet ej |

Väldigt dåligt   Mycket bra

Via kundtidning?

| 1 | 2 | 3 | 4 | 5 | Vet ej |

Väldigt dåligt   Mycket bra

Via internetbank?

| 1 | 2 | 3 | 4 | 5 | Vet ej |

Väldigt dåligt   Mycket bra

19. Vad fick er att välja Länsförsäkringar från första början?

20. Hur länge har ni varit kund hos Länsförsäkringar?

21. På vilket sätt har ni vanligen kontakt med Länsförsäkringar?

22. Länsförsäkringar kan erbjuda bank, pension och sakförsäkring. Vad är avgörande för dig när du ska köpa en av dessa tjänster?

23. Hos Länsförsäkringar kan man vara förmånskund i tre nivåer. Vet ni vad det innebär att vara förmånskund hos Länsförsäkringar? Om ja, vill du förklara vad det innebär?

24. Om ja, vet du om du är förmånskund och i så fall vilka förmåner du har i ditt hushåll?

25. Om ja, vet du hur du kan bli förmånskund på högsta nivå?

26. Vad skulle få dig att bli förmånskund på högsta nivå?

27. Hur tycker du att en förmånskund ska belönas?

28. Läser ni det årliga utskicket, kallat översikten, som ni får från Länsförsäkringar?

29. Känner du till att du kan få all information via Länsförsäkringars internetbank när du vill?

30. Vad tycker du är positivt med Länsförsäkringar?

31. Är det något ni tycker är negativt med Länsförsäkringar och i så fall vad?

32. Är det något du saknar hos Länsförsäkringar och i så fall vad?

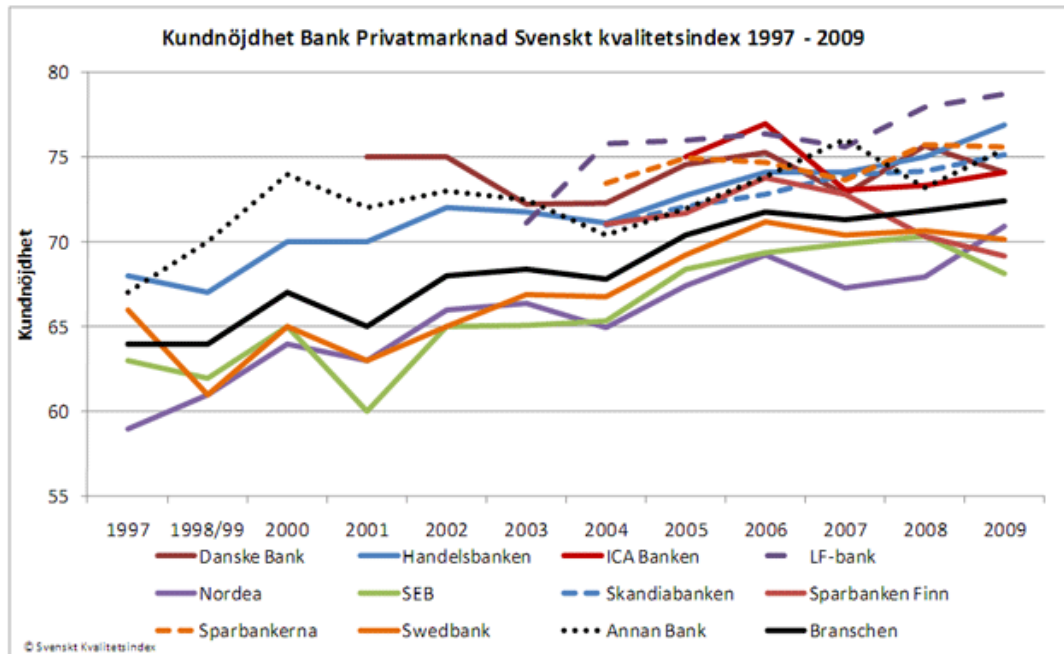33. Känner ni till att Länsförsäkringar är banken med flest nöjda kunder?

Appendix 2

Kundnöjdhet Bank Privatmarknad Svenskt kvalitetsindex 1997 - 2009

Figure 7-1 Customer satisfaction 1989-2009 (SKI National Insurance Research, 2009)

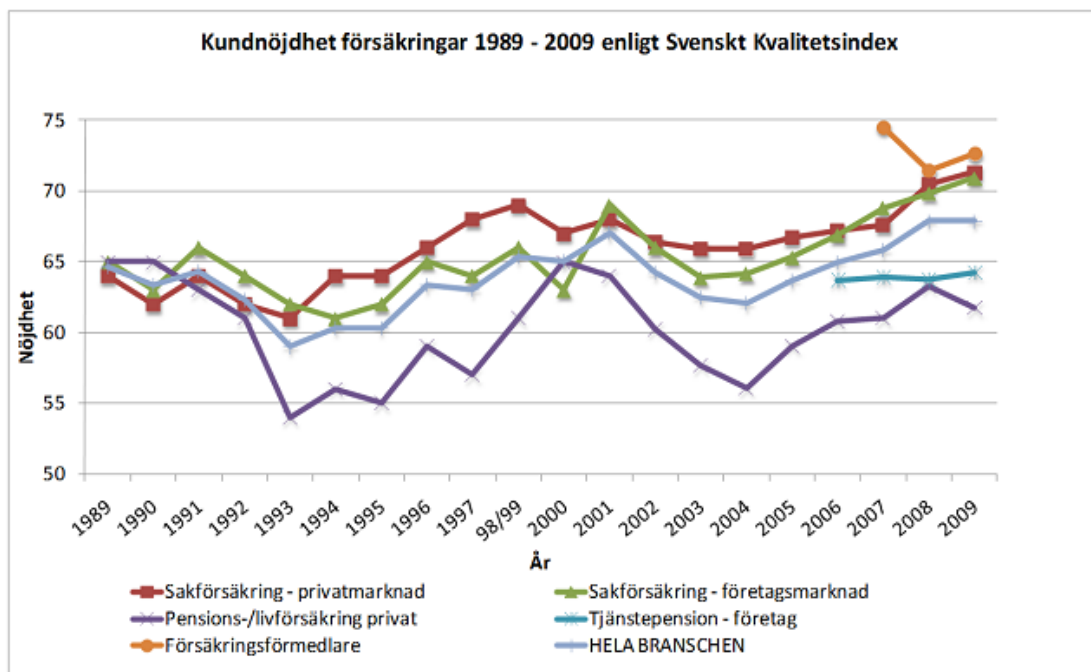**Kundnöjdhet försäkringar 1989 - 2009 enligt Svenskt Kvalitetsindex**

Figure 7-2 Customer satisfaction on the bank market 1997-2009 (SKI National Bank Research, 2009)