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The Creation of Customer Loyalty

- A Qualitative Research of the Bank Sector

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Abstract

The purpose of this dissertation is to find out which parameters service companies are using in order to create customer satisfaction and customer loyalty. Theories that we have chosen to consider deal with relationship marketing, service quality, different types of loyalty, customer value, customer loyalty, customer satisfaction, loyalty programs, customer clubs, monetary benefits and social bonds. From parts of these theories we have created a model that we claim show how companies in the service sector create satisfied and loyal customers. To test our model in reality we conducted a case study with three companies in the bank sector. After the case study we refined our model so it better reflects reality. Our findings are that the parameter called social bonds has a significant importance for the companies we have studied. Monetary benefits and loyalty programs are other factors that the companies use to create satisfied and loyal customers. None of the companies we have studied use customer clubs as a parameter to create satisfied and loyal customers. More research has to be done and some suggestions for this will be given.

Preface

This dissertation was written during the autumn of 2003 and is a part of a Bachelor's degree in International Business at Kristianstad Business School.

Firstly, we would like to give thanks to our interviewees who have let us interview them personally, Lars Frank at Färs & Frosta Sparbank, Mikael Rubin at Handelsbanken and Lars Persson at Skånes Provinsbank.

Secondly, Christer Ekelund for guidance throughout this dissertation.

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1 Introduction

In this chapter the reader will find information about the background, problem discussion, purpose, delimitations and an outline of this dissertation.

1.1 Background

During the past thirty years the economic conditions have been changing due to economic stagnation, higher inflation and increased unemployment. Many markets have settled into maturity. It could be said that the actor who nowadays dominates the market is the customer because focus has moved from the seller to the customer. The trend from transaction marketing towards relationship marketing has been significant in recent years (Kotler et al, 1996). The main point of transaction marketing has been to focus continually on single sale, short time-scale, to limit the customer commitment and to put little emphasis on customer service¹.

If a comparison is made to relationship marketing where focus is on aspects such as customer retention, long time-scale, high customer service, high customer commitment and high customer contact, the conclusion that a more intensive competition has forced the companies to take care of and develop existing customer relations might be drawn.

Today companies are more focused on customer retention. According to Kotler et al (1996) it takes five times as much effort, time and money to attract a new customer than it does keeping an existing customer. Long-term relationships with customers are more profitable due to six reasons:

1

<http://www.shu.ac.uk/schools/sbf/teaching/cd/Dreamweaver/Lecturehandouts/Retaillectures19992000/Lecture5CustomerServiceinRetailing/sld002.htm>

- “The cost of acquiring new customers can be substantial. A higher customer retention rate implies that fewer customers need to be acquired and these can be acquired more cheaply”.
- “Established customers tend to buy more”.
- “Regular customers place frequent, consistent orders and, therefore, usually cost less to serve”.
- “Satisfied customers often refer new customers to the supplier at virtually no cost”.
- “Satisfied customers are often willing to pay premium prices for a supplier they know and trust”.
- “Retaining customers makes market entry or share gain difficult for competitors”.

All of the six quotations above have been taken from an Internet source².

1.2 Problem Discussion

In an environment with increasing competition, more and more literature brings up the fact that companies have started using loyalty programs and customer clubs. The purpose of programs and clubs is to communicate and to create added value (Butscher, 2002). Therefore our assumption is that the companies have started realising the importance of taking care of their customers.

2

<http://www.shu.ac.uk/schools/sbf/teaching/cd/Dreamweaver/Lecturehandouts/Retaillectures19992000/Lecture5CustomerServiceinRetailing/sld008.htm>

Expectations of relations between the satisfied customers and other variables are the most important reasons for the increased interest in the companies to make their customers satisfied. For example, it is expected that a satisfied customer will come back to the same company next time a purchase is on his mind. One might assume that a satisfied customer tells his friends and colleagues about the advantages of his supplier, so called positive word to mouth. In that way, the satisfied customer is a part of the marketing and this will probably lower the company's marketing costs (Söderlund, 2001).

The reasons why customers are being less loyal today are that they have more different styles, variations, products, services and accessories to choose from. The customers have access to information in abundance, for example service information and all the available information on the Internet. Today the customers are also more aware and they have higher expectations. The abundance of information encourages customers to make comparisons between companies and the lowest prices (Schriver, 1997).

From this discussion we ask the following questions:

- In what way do service companies create customer loyalty in the bank sector?
- Can we see any difference in the creation of loyalty between a native and a foreign owned bank?
- Is customer satisfaction a factor that leads to customer loyalty?
- Are loyalty programs and customer clubs used in general to create customer loyalty?
- Are monetary benefits and social bonds used in general to create customer loyalty?
- Are there other factors that affect customer loyalty in a company in the bank sector?

1.3 Purpose

Our purpose with this dissertation is to find out how banks keep existing customers by creating customer loyalty.

1.4 Delimitations

We have chosen to delimit our dissertation to the bank sector since it is a typical service sector. There are small obstacles to changing supplier and therefore it becomes important with customer loyalty. We have only interviewed three banks in the chosen sector (in the south of Sweden) because we did not have enough time to interview more companies in the line of business. We limited us to look only at how banks create loyalty for company customers and not for private customers, because we believe that banks put more effort in keeping company customers than private ones. If the bank loses a company customer it will, compared to a private customer, generate a higher loss for the bank.

1.5 Outline

Before we continue we want to present the outline of our dissertation.

Chapter 2: In this chapter we describe our choice of method and after that a short description of the research process and three case studies follow. Then we describe the collection of data. Finally we look at the reliability and validity of our dissertation.

Chapter 3: In this chapter there is a discussion about theories concerning customer loyalty and services. These theories are the basis of our model. Firstly, there is a discussion about Relationship Marketing, Service Quality and Customer Value. Secondly, there is a presentation of different types of

customer loyalty. Finally, different theories about Loyalty Clubs and Programs are presented and discussed.

Chapter 4: In this chapter our model is presented. We have built the model on the theories which are presented in chapter three. The model has four parameters which we claim will lead to satisfied and loyal customers.

Chapter 5: Here we present our case studies. Three banks are introduced and the main points from the interviews that have been brought up are demonstrated.

Chapter 6: In this chapter we analyse the data we have found in our case studies. Firstly, we compare the data with our model. Secondly, we present other findings in our case studies. Each bank is analysed with the help of our model and a summary is presented at the end.

Chapter 7: Here we present our conclusions as a summary of the analysis. Our purpose with this dissertation is to see how service companies in the bank sector create customer loyalty. After the analysis we refined our original model to one that we now believe is more suitable for the bank sector.

Chapter 8: Here we present some suggestions for further research. Our suggestions are based on what we have found out from the analysis.

2 Method

In this chapter we describe our choice of method and after that a short description of the research process and three case studies follow. Then we describe the collection of data. Finally, we look at the reliability, validity and critics of our method.

2.1 Research Philosophy

Positivism, interpretivism and realism are three different research philosophies that are mentioned in the literature we have studied.

According to Saunders et al (2003), the characteristic of positivism is that the researchers adopt the philosophical stance of the natural scientist. The researchers work with an observable social reality and the end product of such a research can be law-like generalisation. The researchers assume the role of an objective analyst. There will be an emphasis on a highly structured methodology to facilitate replication and on quantifiable observations that lend themselves to statistical analysis.

“The researcher is independent of and neither affects nor is affected by the subject of the research” (Sighted in Saunders et al, 2003, page 84: Remeyi, Williams, Money and Swartz 1998).

The characteristic of interpretivism is that the researchers argue that rich insights into our complex world are lost if complexity is reduced entirely to a series of law-like generalisations. Businesses take place in a complex environment and it is difficult to generalise. The researchers claim that the ability to generalise is not important and that the details of different situations are needed to understand reality. There is no objective reality, only a subjective reality where it is important to understand the motives, actions and intentions of the participants.

The characteristic of realism is that “it is based on the belief that reality exists and that it is independent of human thoughts and beliefs” (Saunders et al, 2003, page 85). There are also large-scale social forces that affect peoples’ perception. Realism share the same aspects with positivism, for example the view of an external objective nature but in a social context (Saunders et al, 2003).

This dissertation is based on the belief that reality exists and we are aware of the large-scale social forces that affect the customers. This is why a realistic philosophy is chosen for the research.

2.2 Research Approach

There are two main research methods to use when approaching a research and they are called induction and deduction. Induction means starting the research from reality, then building up a theory based on the data collected from reality. Deduction means starting with already existing theories and from these formulate hypotheses, and then test these hypotheses in reality (Saunders et al, 2003). Our approach is deductive since we began to study already existing theories within the appropriate area. From the theories we built a model and after that we tested the model and our assumptions in reality.

2.3 Quantitative/ Qualitative Approach

The next step is to consider whether to use a quantitative or a qualitative approach. The quantitative approach is based on statistical and numerical measurements. A qualitative approach is often based on understanding rather than measuring. We have chosen to use a qualitative approach in our research. Due to this we have conducted personal interviews and the data collected from these interviews have been hard to quantify. We also wanted

to expand and deepen our understanding of the researched area whereby a qualitative approach was more suitable (Saunders et al, 2003).

2.4 The Research Process

In the research process we describe what we have done in order to complete this dissertation. The following figure shows the development over the time of our dissertation.

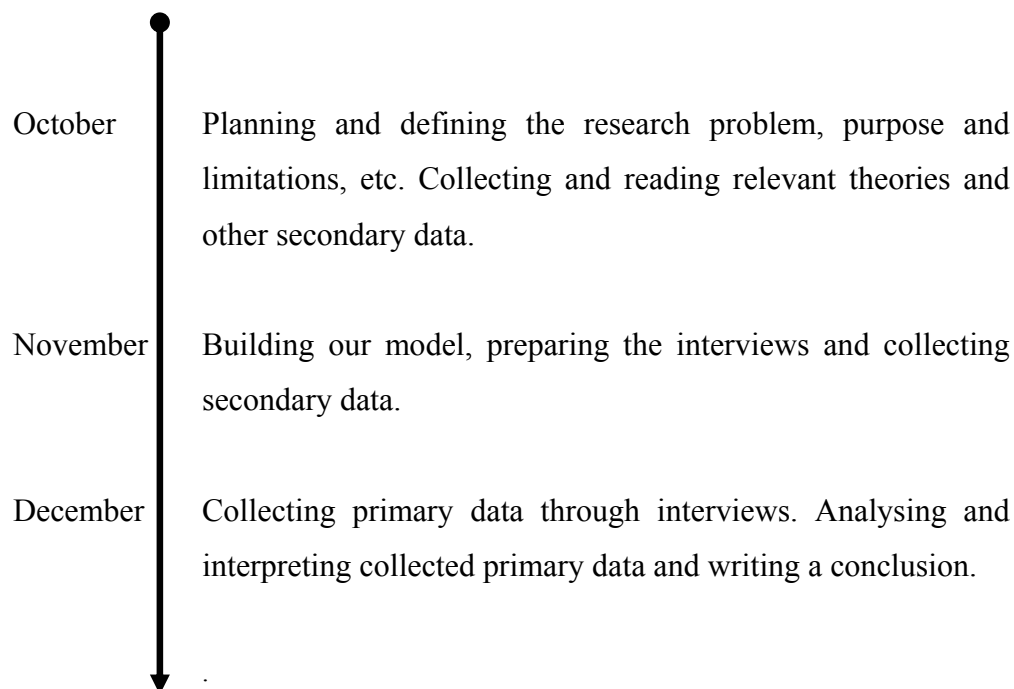


Figure 1. The Research Process

2.5 Case Studies

Banks have a central role in the creation of the national economy. Most of the services the banks offer facilitate the exchange of products and services between the producers and consumers which will lead to higher wealth for the citizens.

Historically speaking bank activities in Sweden have been regulated in a strict way in order to control the deposit, rate of interest and so on in a good way. In recent years there has been a shift towards guaranteeing individual safety for customers. The deregulation has also involved new actors on the market and they have contributed to a development in products and cost pressure.

The tendency towards having larger banks that grow even larger and having fewer unions reflects the bank market. Another tendency is that more new banks enter the Swedish market, partly through the foreign owned banks and partly through the niche banks. From a competitive perspective, but also from a consumer perspective, it is meaningful to differ between big banks, for example Nordbanken, Handelsbanken and FöreningsSparbanken, detached savings banks, for example Färs & Frosta Sparbank and Varbergs Sparbank. Examples of niche banks are IKANO Banken and SkandiaBanken. Finally a group of foreign banks have started entering the Swedish market, for example Den Danske Bank. From the customers' point of view, it is difficult to see which bank offers the best services and products, and it is also difficult to estimate what to pay for the different bank services³.

We think it would be interesting to see how a large bank, a detached savings bank and a foreign owned bank create customer loyalty on a more competitive market. In order to find out how banks create this customer loyalty, we have chosen to conduct case studies. The case studies have been conducted with the help of interviews with three persons at three companies. The three companies are in one line of business within the service sector. We have chosen to look at the bank line of business because it is interesting. By choosing this sector, it will expand our knowledge and understanding of customer loyalty. We have chosen personal interviews with the largest detached savings bank in Sweden, with one of the big commercial banks in Sweden and with one commercial bank in Sweden with a foreign ownership. We have chosen these banks because we believe that together they will reflect on the bank sector. The reason for choosing a foreign owned bank is to see if a foreign ownership

³ http://www.konkurrensverket.se/bestall/pdf/rap_bank.pdf

affects the way of creating customer loyalty. The time limit and the time of year (Christmas) have forced us to look at only three companies in the bank line of business.

2.6 Collection of Data

There are two different kinds of data; collection of secondary data and collection of primary data. Secondary data is already collected material that has been summarised and documented by other researchers. Primary data is information that has not been collected and summarised, it has to be collected by the researchers themselves (Saunders et al, 2003).

2.6.1 Secondary Data

In order to get hold of secondary data about theories concerning consumer behaviour, customer loyalty, service management and relationship marketing books, articles, databases and the Internet have been used. The library at Kristianstad University has been a central spot for collecting secondary data but other libraries in Lund, Kristianstad and Helsingborg have been visited. Literature from other libraries in Sweden has also been borrowed through the libraries mentioned above.

2.6.2 Primary Data

The primary data in this dissertation mainly comes from the conducted interviews. The personal interviews were made at the beginning of December in order to find out in what way banks try to create customer loyalty. For information about the interviews see appendix (appendix A). The questionnaire was e-mailed to the respondents a few days before the interviews actually took place. A number of relevant questions were asked in

connection with the research problem (see appendix B). To reduce misunderstandings, the interviews were made in Swedish and then translated to English.

There are different types of interviews. Researchers can use a more or less structured way of interviewing. We have used a mix between a structured and a semi-structured way when we asked our questions to our respondents. Our main questions were asked in the same order, since we wanted the interviews to be as similar as possible. After each question we had unstructured resulting questions, because we wanted to get relevant information and deeper understanding of the different measures the banks use to keep their customers and create customer loyalty.

To reduce the risk of missing information, one person asked the questions and the others wrote down the answers. Another precaution was taping the interviews. If something was not perfectly clear when the interviewed material was analysed, we had the possibility of placing e-mails and phone calls (Saunders et al, 2003).

2.7 Validity and Reliability

When researchers research they must take the two concepts of validity and reliability into consideration. A research must have high validity, meaning that a research must measure what it is suppose to measure. The reliability must also be high, meaning that a research has to be done in a reliable way. There is a relation between these two concepts, and therefore researchers must take both concepts into consideration and they cannot focus only on one of them (Saunders et al, 2003).

2.7.1 Validity

Validity means having control of the credibility. There are two main types of validity, internal and external. The internal validity signifies the degree of credibility, and means that the questions in the interview should be asked in line with the purpose of the dissertation. External validity means that the research is conducted only on the appointed group of respondents. External validity also involves how applicable the conclusions of the research are on a general level⁴.

2.7.1.1 Internal Validity

Our model (see chapter four) is based on the theories (see chapter three) and these theories are used to explain the variables in the model.

Face validity: This term is part of the internal validity and is used to measure the immediate impression of the research. This is a subjective impression, people can give their opinions on the research, they can say if the research is meaningful³.

The face validity of this dissertation is that we want to study in what way banks try to create customer loyalty. The results can later be compared with how the customers perceive the measures of the banks. From the research we hope to find what factors are important for banks in general in order to keep customers and make them loyal. We tested our model in reality, and to get higher validity and receive relevant and detailed information we used personal interviews. When interviews are used there is a chance that the interviewers will influence the respondents with their own values. We were aware of this fact and did not try to influence the people we interviewed.

⁴ <http://writing.cobstate.edu/>

During interviews, certain facts can be omitted by the interviewee because of the integrity of the company. We tried to get higher validity by interviewing people who are working within the research area. To increase the validity further, we based our interview questions on our model. The tutor looked through the questions before the interviews and contributed with comments and guidance. When using interviews it is also possible to ask resulting questions and by this receive more relevant information. We tried to increase the validity by minimising the time pressure. When we called the respondents for the first time we explained how long the interviews would last, approximately one hour. By using personal interviews we had the opportunity to improvise, discuss and explain the questions during the interview. This reduced the risk of having misunderstandings. Our basic questions were e-mailed to the respondents a couple of days before the interviews took place. The respondents in each company could have given us excessively positive answers because they want their company to appear in the best possible way, but we were aware of this since it could have affected the validity in a negative way.

2.7.1.2 External Validity

We believe that this research will show how most banks try to create customer loyalty. Through our interviews we hope to find out how banks see customer loyalty and how they try to create it. Even if the banks use different measures when creating customer loyalty, we will see what factors the banks find important. These factors should be relevant to banks in general. We interviewed banks to provide services for most customers. These banks have offices in large areas of Sweden and also outside Sweden. We chose one savings bank that represents most of the smaller banks, one commercial bank that represents most of the larger banks and one foreign owned bank to represent foreign owned banks. We chose not to interview any niche

banks because we do not believe they represent banks in general as they are specialise in small areas of the market⁵.

2.7.2 Reliability

Reliability means that a research is done in a reliable way. Two different researches with the same aim and with the same methods will show the same result if no changes are made to the population (Svenning, 1997). To get higher reliability, the authors were present during the interviews. A tape recorder was used as an aid because we did not want to miss any relevant information. In case of a technical problem, we also took notes during the interviews. Directly after the interviews, while we still had a good picture in our heads, we listened to the tape and summarised the material. To avoid influencing the interviewee, we tried to be as neutral as possible and let the interviewee speak freely. The same questions were given to all the respondents. To strengthen the reliability, we constructed two questionnaires. One that was e-mailed to the respondents in advance (see appendix B), and one more detailed one for ourselves with additional questions and examples. We wanted the respondents to speak openly and not be influenced by our alternatives and examples. When analysing the result from the interviews we tried to be as objective as possible (Saunders et al, 2003).

2.8 Criticism of Methodology

We could have chosen another type of research method our dissertation but with our purpose we do not think it would have been for the better.

It can be difficult to generalise from few case studies. By investigating different lines of business in the service sector and having a bigger population, it might have been possible to generalise. If our purpose had been to see how

⁵ <http://writing.cobstate.edu/>

customer loyalty is created in service companies, a study of the customers' perspective would have been more interesting. It could have been done both through the customers' and the suppliers' perspective. Then coherence between how the suppliers act and how the customers perceive these actions could have been measured.

Companies can choose to leave out information which is confidential. If the researchers protect the interviewee and the companies by giving them the right to be completely anonymous, it is possible that the researchers will get information which has higher quality. In this dissertation, there has been no problem with confidential information. The companies were very open-minded with figures, methods and strategies. All of the banks turned down the possibility of being anonymous.

3 Theory

In this chapter there will be a discussion about theories concerning customer loyalty and services. These theories will be the basis of our model. Firstly, there is a discussion about Relationship Marketing, Service Quality and Customer Value. Secondly, there is a presentation of different types of Customer Loyalty. Finally, different theories about Loyalty Programs and Customer Clubs are presented and discussed.

3.1 Introduction

In this chapter we have referred to authors who are frequently mentioned in the relationship marketing area. Blomqvist et al, (1993, 2000) discuss relationship marketing and Grönroos (2002) discusses service quality. Feurst (1999) discusses different types of loyalty and Butscher (2000) ends with a discussion about loyalty programs and customer clubs.

3.2 Relationship Marketing

During the past 15 years, relationship marketing has become a strong and common concept in marketing literature, but relationship marketing is not a new thing. In the beginning of the business epoch, customer relationships were an important concept for companies and entrepreneurs (Blomqvist et al, 2000).

“Relationship Marketing can be defined as; consciously work to establish, develop and liquidate relations with customers and other interested parties, in a way which creates mutual value and competitiveness” (Blomqvist et al, 2000, page 23).

According to Blomqvist et al (2000) relationship marketing can be divided into three levels. Each level shows in what way companies try to develop higher customer loyalty.

Table 1. The three levels of relationship marketing (Blomqvist et al 2000, page 29).

Level	Bonds	Degree of adaptation	Marketing element	Differential potential
First	Monetary	Low	Price	Low
Second	Monetary and Social	Medium	Personal communication	Medium
Third	Monetary, Social and Structural	Medium / High	Delivery	High

The first level is the monetary level. On this level, companies are using the price to get higher customer loyalty, for example retailers reward loyal customers with bonuses, special prices or other monetary benefits. The disadvantage of this level is that it rarely results in long-term competitiveness. The price is too easy for competitors to imitate, and it is difficult to differentiate.

The second level is the social level. On this level the companies are also using the price but they combine the price with other factors that can establish social bonds with the customers. For example when companies organise dinners, golf tournaments or lectures for their customers. The customers are no longer anonymous, since the companies satisfy special needs and wishes in a personal way. On this level, it is also possible to establish higher trust in the relation and by this achieve a deeper value in the relation. This is difficult to achieve with only monetary benefits.

The third level is the structural level. On this level the companies also include besides price and social bonds, structural bonds in the relation with the customers. This means that the companies offer the customers products that are specially designed for their needs. For example, special equipment

that can help customers take care of orders. This is common in industrial marketing. The purpose of relationship marketing is to achieve a continuing profitability by adding a higher value in the relation to the customer (Blomqvist et al, 2000).

3.3 Service Quality

“Service quality is not a separate discipline from services marketing; service quality is the central part of services marketing” (Sighted in Blomqvist et al, (1993), page 49; Berry and Parasurman).

The quality of a service or of a product is what the customer perceives it to be (Grönroos, 2002). Very often the technical measures of a service are seen as important when measuring quality. In reality, the customers have a much wider spectra of what quality is, customers often see other aspects as more important than the technical. According to Grönroos (1991), companies have to define their quality in the same way as their customers define it, or the companies might act in a wrong way.

According to Grönroos (2002), service quality consists of two parts; expected and perceived service. The perceived quality has two dimensions, one technical and one functional. The technical dimension is what the customers get, for example when bank customers take out a mortgage or buy stock shares through the bank, or when unsatisfied customers get complaints handled. The customers can often measure this dimension because it consists of a technical solution to a problem. The functional dimension is how the customer gets the service mediated or handled. For example, how do the personnel behave when they meet their customers? How available is the bank office when the customers want to run their bank errands?

Grönroos (2002) claims that the companies’ image and profile work as a filter for the customers’ perceived quality. If customers are treated badly but

perceive the company as good from the beginning, bad treatment will not affect the customers. Bad treatment will affect customers more if they dislike the company from the beginning. If companies mistreat their customers several times, their image will be stained and every new mistake will be perceived harder.

Blomqvist et al (2000) base their statements about quality on Grönroos's view of the subject. They say that a good perceived customer quality, correspond to the expectations of customers. If customers have unrealistic high expectations, the quality will be perceived as bad, even if it objectively is seen as good. The customer perceived quality is not entirely determined by the expected and perceived quality, but more by the difference between the customers' expectations and experiences. The quality affects the customer perceived value, which is the strongest factor that affects the relation between the customer and the company. (Blomqvist et al, 2000)

3.4 Customer Value

Customer value is the heart of relationship marketing. What customers fundamentally want is value. "Customer value is the difference between the values the customer gains from owning and using a product or service and the cost to obtaining the product or service" (Kotler, et al, 1996, page 11).

The products and services are important, but they are not necessarily the main reasons when choosing supplier. The relation is important for customers' total experienced value. If the company has close relations to the customers, it is likely that they move their focus from evaluating separate products and special offers to evaluating the entire relation. The value is depending on how well the relation is working. If the relation is working well and the customers receive a high value, they will become loyal customers. Companies with a close relation to their customers have an advantage towards their competitors, since it is difficult for competitors to imitate their

relationships. Therefore, relationship marketing should be attractive for companies to use (Blomqvist et al, 2000).

3.5 Customer Satisfaction

In the 1990s, customer satisfaction had a significant impact on management thinking. In fact, the realisation that understanding, meeting and anticipating the needs of customers was probably the most important source of sustained and competitive advantage for a company that had a decisive effect on the setting of corporate priorities and practices (Vilares et al, 2001).

A broad definition of customer satisfaction is “that it is an emotional response to the use of a product or a service: and it is also a complex human process, which involves cognitive and affective process, as well as other psychological and physiological influences” (Chu, 2002, page 285).

Kotler et al (1996) say that customer satisfaction depends on a product’s or a service’s perceived performance in delivering value relative to the buyer’s expectations. If the performance of the product or service does not correspond to the customer’s expectations, the buyer is dissatisfied. If performance matches expectations, the buyer is satisfied. If the performance exceeds expectations, the buyer is pleased. “Customer satisfaction is customers’ overall evaluation of the purchase and consumption experience with a product, service or provider” (Johnsson and Gustafsson, 2000, page 50).

Achieving customer satisfaction is the primary goal for most service companies today. Customer satisfaction is explicitly linked to the success of companies in hotels, banks, tourism and other similar line of businesses (Chu, 2002). But recent surveys from the University of Michigan Business School show that customers feel disrespected and mistreated by airlines, banks, hotels and retailers. The service sector of the economy is growing in

size but shrinking in quality. Maybe there is a decline in the level of respect given to customers and their experiences (Reis et al, 2003).

There are many variables that influence customer satisfaction. It could be variables like quality, delivery speed, delivery dependability, costs, flexibility, competitive capabilities, product mix and customer service. Companies must take the variables into consideration when they want to satisfy their customers. (Sighted in Zhang et al, 2003, page 179; White, 1996).

Satisfied customers make repurchases, and they tell others about their good experiences with products and services. The key is to match customer expectations with company performance. “Customer satisfaction is closely linked to quality” (Kotler, et al, 1996, page 12).

The interest in measuring customer satisfaction is reflected in the ability to help build up customer loyalty, enhance favourable word-of-mouth and improve the market share and profitability of the company (Chu, 2002).

3.6 Customer Loyalty

Most scientists agree that customer loyalty is important. Customer loyalty is defined as; “a customer which over time engage one company to satisfy entirely, or a significant part, of her needs by using the company’s products or services” (Blomqvist et al, 2000 page 103). Customer loyalty means that the customer is loyal to the company and only turns to a competitor in exceptional cases. For example, when customers are loyal to a specific hotel chain but the hotel chain does not have a hotel in the area where customers are. Customer loyalty is not a permanent thing. If the customer value decreases to such a level that it becomes obvious to customers that offers from competitors are better, customers will engage in the others instead. Customer loyalty is more important for certain companies. For example, a

souvenir shop does not make big efforts in making customers loyal. Repurchase is important for the survival of other companies.

According to Blomqvist et al (2000) there are two fundamental ways in how to put more effort in customer loyalty:

- With the right marketing, it is possible to build up a loyal base of customers with a high frequency of purchases. With a loyal base of customers, the company can reach a stable market share which consists of loyal customers who are easier to defend from competitors.
- Researches show that it costs five times more for a company to reach a new customer instead of trying to keep an existing customer. Losing a customer means a decrease in the income while the cost of keeping an existing customer often is limited.

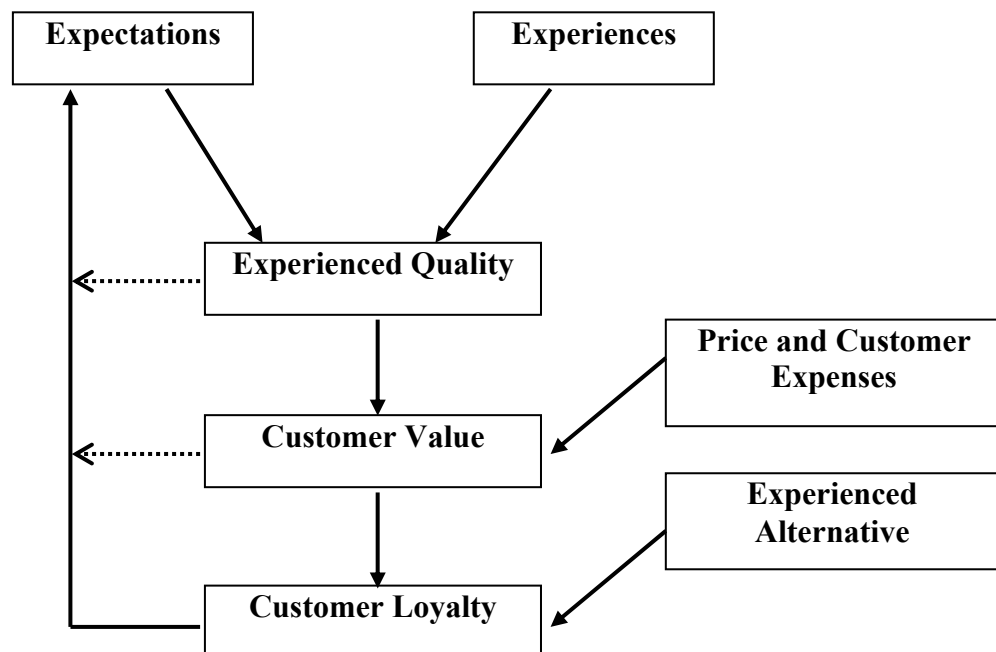


Figure 2. The link between Quality – Customer Value – Customer Loyalty (Blomqvist et al, 2000, page 48).

3.7 Different Types of Customer Loyalty

Feurst (1999) divides customer loyalty into four different types. He tries to categorise the concept of loyalty on the basis of the force that provides the loyal behaviour. The categories are graded by how strong the loyalty is. Customers are more engaged in the offer when the grade of loyalty is high and thereby customers are harder for competitors to get. The grades go from enforcement from the outside to inner commitment. The first two grades are easier to create if set in relationship with the other two, but at the same time these customers are easier for competitors to steal. The first grade is:

Forced Loyalty. Obstacles categorise this grade. These can be, lack of time, lack of alternatives, or that it is laborious or expensive to change supplier. An example could be that you choose a bank close to you geographically, even if there are better alternatives.

Bought Loyalty. This is consciously chosen loyalty. It is based on some sort of bonus that customers receive in money or discount, if they are loyal. An example could be that the customers are loyal because when they buy five of something they get the sixth for free.

Practical Loyalty a, Habit. This is unconscious loyalty. The customers' choices are based on routines. Customers always use one supplier and will continue to do so without thinking about it. If they change, they will choose within an evoked set of suppliers. For example when customers use the same hairdresser all their lives.

Practical Loyalty b, Convenience. Customers are aware of their loyalty to the easier way of doing things that the offer supplies. For example, customers use the Öresundsbron when they want to go to Copenhagen, because it is easy using the "brobiz".

Engaged Loyalty Quality. Customers are aware of their loyalty to the functionality of the service or product. The customers have certain demands on quality that the supplier provides.

Engaged Loyalty Commitment. The customers are aware of their loyalty to a symbolic value, or status and social values and inner awards. They get a

certain feeling when using the service or product. A common example in literature is Harley Davidsson Motor cycles.

Söderlund (2001) divides loyal customers into two main groups, loyal customers and strongly loyal customers. Within the loyal group there are satisfied and unsatisfied customers. The satisfied customers do not have to be loyal but there is a correlation between satisfied customers and loyal customers. There are unsatisfied customers who are loyal. The combination of unsatisfied customers and high loyalty is sometimes called false loyalty. The overall reason for this combination is factors that are obstacles for the customer to choose supplier These factors are called switching costs, or switching barriers.

Based on the assumption that a satisfied customer is a loyal customer, Söderlund (2001) argues that high level needs seem to have the largest potential to create strong loyalty. He talks about factors that seem to create strong loyalty. An example could be high level needs, or values. These can be freedom, a meaningful life, happiness, and other feelings. Söderlund (2001) also mentions Harley Davidsson as an example.

3.8 Loyalty Programs and Customer Clubs

Blomqvist et al (1993) page 141, give a definition of customer clubs: “A customer club is a formalised association of customers which meets certain criteria that have been set up by the company, which performs some kind of achievement for its membership and as a reward for that receive benefits that are only available for the members of the club”

Most customer clubs belong to the following two categories. The first category is the one that principally offers extra service, for example a hotel that offers a faster check-in and a free newspaper in the room. The second category is the one that principally offers a quantity discount. For example a

store that has a regular customer program where a discount calculated as a percentage based on their yearly purchases is offered to the members (Blomqvist et al, 1993).

“In both categories it is all about creating incentives for customers to stay with the companies and at the same time increase the degree of exploitation” (Sighted in Blomqvist et al, 1993, page 142; Berry, 1983).

There are few customer clubs that entirely belong to the first or the second category. Most customer clubs are using a combination of extra service and monetary benefits, in most cases a quantity discount. New members are usually attracted by the monetary benefits that they receive. This is a dangerous method in the long run, since the companies do not reach any lasting competitive advantages and it is far too easy for the competitors to follow that pattern (Blomqvist et al, 1993).

According to Blomqvist et al (1993), these five following points appear to be common in most customer clubs:

- They should not have any connection or annual charge.
- They demand that the customers fill in an application with personal information so a list of customers can be created.
- The customers get a membership card when they join the club. If the customers want the benefits, the card has to be shown when purchasing.
- The benefits are only offered to the members as special offers. Other customers will not be a part of the special offers.
- Principally the benefits are of a monetary character.

Customer clubs improve companies' possibilities, building up profitable relations with an attractive group of customers. The customer clubs give companies individual information, a better customer dialogue and therefore an improvement in the service offer (Blomqvist et al, 1993).

Today customer clubs and customer programs are common. (Blomqvist et al, 1993; Feurst, 1999). According to Feurst (1999), a loyalty program has been designed to build up economic and emotional barriers to prevent the customers from changing their supplier of origin. There are two significant aspects which point out why loyalty programs are used. One is to increase sales revenues by raising purchase/usage levels, and/or increasing the range of products bought from the supplier. The second aspect is more defensive. By building a closer relation between the brand and the customer, companies hope to maintain the current customer base. Blomqvist et al (1993) say that the most important advantage of loyalty programs is the dialogue that leads to better information about the customers.

The customer who considers joining a club weighs his input against his output. For example the input includes a membership fee, obligations and costs for benefits, and the output might include benefits, financial advantages and a better customer treatment. As can be understood, the balance between input and output is an important issue. Therefore it is important that the benefits have a high value. Higher value makes it more interesting to be a part of the club. In order to have a high value, the benefits must meet certain expectations and have certain exclusiveness for the customers. Another aspect is the perceived value. The value must be high for the company and especially for the customer. If customers perceive the benefit differently than what the company expects them to, there might be a lower value of the benefit than expected. To reduce the misunderstandings, the company must find what the customers really want. Customers' opinions are what matters. The program will only work if it offers benefits that the customers like (Butscher, 2000).

4 Model

In this chapter our model is presented. We have built the model on the theories presented in chapter three. The model has four parameters, which we argue lead to satisfied and loyal customers.

4.1 Introduction to our Model

Our model (see figure 4 on page 31) is based upon the theories that are explained in the theory chapter. All of the theories about building loyalty are based on some kind of customer satisfaction. According to the authors and scientists, customer satisfaction is the most significant factor when creating customer loyalty. When customers are enough satisfied, they will become loyal and make their next purchase from the same company. We want to explain how companies in the bank sector create customer satisfaction for existing customers which leads to customer loyalty. We argue that customer satisfaction is created through four parameters, *Loyalty Programs*, *Customer Clubs*, *Monetary Benefits* and *Social Bonds*.

4.2 Loyalty Programs

We believe that banks use loyalty programs. Today it is usual with loyalty programs (Blomqvist et al, 1993; Feurst, 1999). Loyalty programs are conscious measures in order to keep the customers within the company. The program is managed through different acts and measures that are an outspoken strategy in the company. We agree with Feurst's (1999) view on loyalty programs, a loyalty program has been designed to build up economic and emotional barriers to prevent the customers from changing their supplier of origin.

4.3 Customer Clubs

One of the parameters that we argue create customer satisfaction in our model is customer clubs. Today it is usual with customer clubs (Blomqvist et al, 1993; Feurst 1999). It is common that service companies use this loyalty factor (Butscher 2002). We think that the bank sector is not an exception. Customer clubs are formalised associations. To join and enjoy the benefits of the club, the customers often have to fulfil certain criteria or perform certain acts. For example, customers have all their mortgages in a bank or customers need a certain amount of money to join a club.

4.4 Monetary Benefits

As you have read in the theory chapter under relationship marketing where Blomqvist et al (2000) divide relationship marketing into three levels, the first level is monetary. This is where companies use the price to get higher customer loyalty (see the theory chapter, page 17). Feurst (1999) writes about monetary benefits when he divides loyalty into four parts. The first and the second part are the ones which include monetary benefits and he calls them forced and bought loyalty. In forced loyalty he talks about obstacles for changing supplier, for example it costs too much to change supplier or there are time obstacles. In bought loyalty Feurst (1999) talks about monetary benefits such as bonuses.

With monetary benefits, we mean the difference between the customers' input and output in money, or what the customers get for the price they pay. This includes benefits such as bonuses, special price offers and other types of monetary benefits.

4.5 Social Bonds

As explained in the theory chapter under relationship marketing where Blomqvist et al (2000) divides relationship marketing into three levels, the second level is the social level. On this level they combine the price with other factors that can establish social bonds with the customer and create trust in the relationship. The last part Feurst (1999) mentions, is the “engaged loyalty, commitment”. According to him this part is the strongest one. He writes about the fact that customers are conscious of their loyalty to a symbolic value, status, social values and inner awards (see theory part, page 23-24).

The meaning of social bonds is how close customers are to the company socially. We believe that companies in the bank sector are trying to create and strengthen the social bonds with their customers. As Blomqvist et al (1993) writes, examples of actions that companies do to strengthen their social bonds can be invitations to special dinners, golf tournaments, lectures, study visits, etc. We agree with Blomqvist et al (1993) but we also think that when creating customer satisfaction, another important aspect of social bonds are the personal bonds between customers and the personnel.

4.6 Customer Satisfaction

Customer satisfaction depends on a product's or a service's perceived performance in delivering value relative to the buyer's expectations. Customer satisfaction can be defined as “a customer's overall evaluation of the purchase and consumption experience with a product, service or provider” (Johnsson and Gustafsson, 2000, page 50). If the performance of the products and services do not correspond to the customer's expectations, the buyer is dissatisfied. If the performance exceeds expectations, the buyer is pleased. Satisfied customers make repurchases, and they tell others about their good experiences with the products and services, so-called positive

word to mouth. The key is to match customer expectations with company performance (Kotler et al, 1996).

The relation is important to the customers' total experienced value. If the relation is good, customers can instead of just evaluate and focus on the service itself, look at the whole relation. If the relation is working well, customer satisfaction will increase. In this way a relationship will be much harder for competitors to copy (Blomqvist et al, 2000).

Satisfied customers will probably use the companies' services again and they will probably develop bonds of loyalty to the company as long as they receive satisfying values (Söderlund, 2001). Therefore, we think that satisfaction is the most important factor when creating customer loyalty.

4.7 Customer Loyalty

We believe that companies try to create customer loyalty from existing customers through a high customer satisfaction. Another thought from our side is that satisfied customers are created through loyalty programs, customer clubs, monetary benefits and social bonds. Customer loyalty is defined as "a customer which over the time engage one company to satisfy entirely, or a significant part, of her needs by using the company's products or services" (Blomqvist et al, 2000 page 103).

4.8 Summary of our Model

To summarise our model, banks build up customer satisfaction through the parameters loyalty programs, customer clubs, monetary benefits and social bonds. Customer satisfaction leads to customer loyalty. The satisfaction is an important factor; it has a decisive role when creating loyal customers. If the customers are satisfied, they will become loyal to the company. The model

describes how customer loyalty is created from existing customers. Our intention is not to discuss anything about how to get hold of new customers because it is not possible to get any loyalty from potential customers.

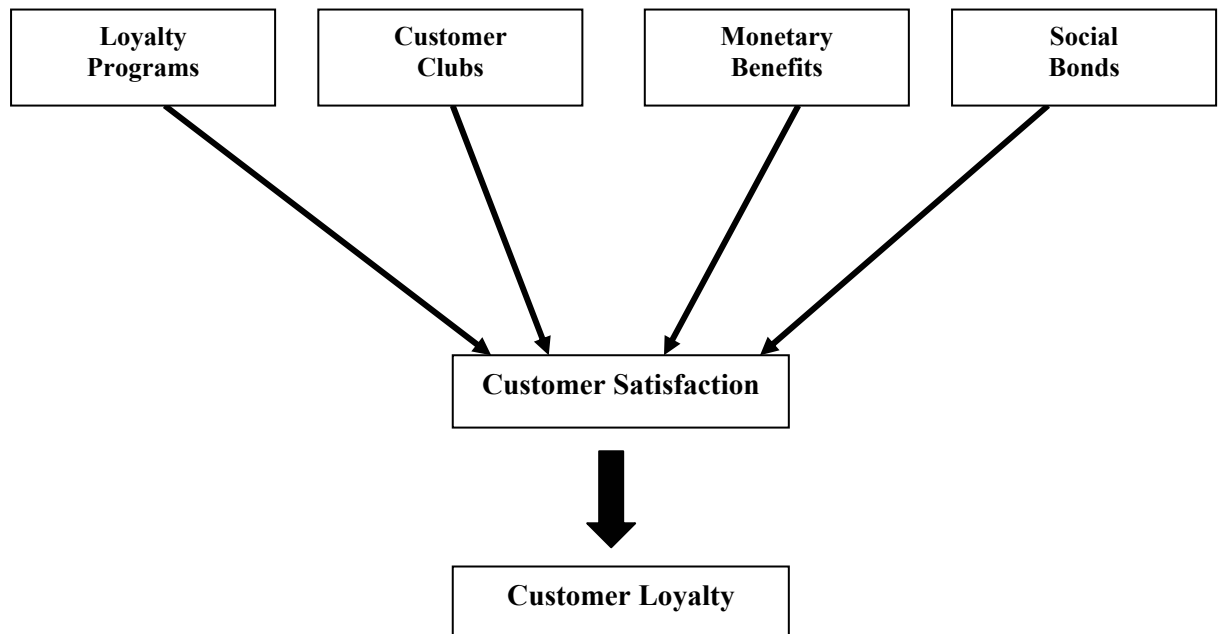


Figure 4. The Loyalty Creation Model

4.9 Criticism of the model

There are differences between the parameters. Monetary benefits and especially social bonds cover a wide range of spectra while loyalty programs and customer clubs are more formalised.

Value and quality were not taken into consideration as separate parameters since we claim that a satisfying value gives customer satisfaction, and quality is reflected in monetary benefits.

5 Case Studies

In this chapter we present our case studies. Three banks will be introduced and the main points from the interviews that have been brought up will be presented.

5.1 Case Study - Färs & Frosta Sparbank

Färs Härads Sparbank AB was founded in 1839 at Övedskloster, and nine years later Frosta Härads Sparbank was founded at Fulltofta Slott. In 1989 both banks entered a union and the new bank was named Färs & Frosta Sparbank.

At Färs & Frosta Sparbank we interviewed Mr Lars Franck who is the marketing and information manager. The interview took place in Hörby at the head office in Mr Franck's office. The bank is owned by the company Föreningsparbanken (30%) and by the savings bank foundation Färs & Frosta. The bank's Vision is "The only bank you need". The bank thinks that it has offers for every customer. Today the bank is active in an area in the middle of Scania. The bank has 18 offices and 230 employees. The company has 135 000 private customers and 10 000 company customers. The bank has an amount of all together deposits of Skr27 billion, which makes it the largest detached bank in Sweden.

The bank positions itself as being very local and traditional in relation compared to other banks. Trust and tradition is important, but the bank still wants development. Each bank manager has the responsibility of looking after one set of customers, either company or private customers. The personnel are called either advisors or bank sellers. The bank does not want to work with smaller day to day transactions, it wants to work with advising its customers.

5.1.1 Loyalty Programs & Customer Clubs

Färs & Frosta Sparbank AB does not have a outspoken loyalty program. When the bank arranges VIP meetings and other activities it only look at which customers were invited the last time, and next time they invite others. The only kind of solid structure is that the advisors meet the company customers at least once a year.

The bank has not got any customer clubs, because there is a problem of deciding who should join the club and who should not. The bank has the same problem with monetary benefits. Who is entitled and who is not?

They are looking at introducing loyalty programs and clubs. Mr Franck talks about a card that would give the customers benefits or discounts on different activities. These would be the activities that the bank sponsors today but the benefit would come directly to the customer and that would strengthen the bonds further. Creating a customer club is troublesome because the club has to be fair to all its customers.

5.1.2 Monetary Benefits & Social bonds

The price and quality of the bank's offers are important, but if the rate differs a little from that of another bank it should not make any difference because Färs & Frosta Sparbank can give customers so much more. Special offers or monetary benefits seem to be right in time, but you have to find a good and fair way of handling these benefits.

The bank has divided the customers into different groups. The more money the bank makes out of the customers, the more advising and personal help they will give. There are nine groups within the private customers, and three groups within the company sector. The companies are divided depending on the size of the company and on their transactions.

The company tries to visit the company customers once a year. The customers want to see what the company does and how it is getting on. The company owner also wants to show his company in order to create a better understanding between the company and its customers.

The bank also tries to create and strengthen the relationships through the personnel when they are not at work. If the personnel meet up in town, the personal relationships are strengthened and trust is built. They try to get the personnel to join associations in the community in order for contacts and relations to grow stronger.

5.1.3 Opinions of the parameters

Mr Franck wants to rank the parameters in our model in the following way: 1. Social Bonds, 2. Monetary Benefits, 3. Loyalty Programs and 4. Customer Clubs. He thinks that the most important things are relations, the so-called social bonds. Mr Franck mentions that a parameter that could be added to our model is “building networks”.

5.1.4 Customer Satisfaction

When the bank does different actions, it is also trying to create satisfaction. Every second year, the bank does research on how it is perceived by the customers and the personnel. This is a way of measuring satisfaction. The company wants the customers to be satisfied, and it thinks it is important. Most important is the relation, if you have a good relation you can solve unpleasant situations and problems in a positive way. The relation between people is important since relations are hard to break and they are believed to create customer satisfaction. Mr Franck also believes that the relation is easier to break with the help of the new media that is being used today. At the same time he believes that media can help the continuing relation with people who are far away from their offices.

The bank uses company advisors for their company customers. To strengthen the relationships to companies, the advisors should call the customers at least once every year. These calls should be initiated by the bank. What Mr Franck also finds important is that the bank should visit the company customers at their companies once a year so the bank gets a better view of the customers. This is to strengthen the relationship and to form an opinion of the customers' business.

The relation with the company customers is especially important and networks are created among the customers. Mr Franck says that it is important to get the company customers to know each other, and to make them have business together. The bank wants to found close networks within the area and this can make the bank work as a hub in the network. To do this, the bank organises different activities, for example VIP meetings and field trips. Each year Färs & Frosta Sparbank calls about 40 000 new and old customers and offers them advising.

5.1.5 Customer Loyalty

The bank thinks it is important with customer loyalty and tries to make the customer get the feeling of loyalty towards the bank by arranging different types of activities. The paper "Bonus" is sent out to all customers as they get their statement of account. In "Bonus", the bank tells its customers what is going on, when it comes to different events in the bank. There are also tips on how the customers can get a more efficient economy. Each office handles its own activities for its customers. They arrange field trips, theme nights, openings of new offices and other happenings, for example inviting children to football matches. They want to make the customers feel that they are customers in the right bank. Another way of creating loyalty is when the owners get dividends. The dividends go back to different associations in the form of sponsorship. During the last 3 years, 12 million has been given in contributions to the community and these are also spoken of in "Bonus". All

this should strengthen the ties with the customers when they see that they get something back from the bank.

5.2 Case Study - Handelsbanken

Handelsbanken was founded in 1871. Today Handelsbanken is strong on the Swedish market with more than 450 offices. The bank is one of the four biggest commercial banks in Sweden. During the last 15 years, Handelsbanken has been expanding its banking operations into the other Nordic countries, and in recent years also in Great Britain. The bank is also represented all over the world where other big companies are represented. Handelsbanken is a universal bank, which aims to cover all services from investment banking to private consumer banking. Handelsbanken's main idea is to have a good relation and quality responsibility to its customers. The overall objective is to have a higher return on equity than the other listed Nordic banks. At Handelsbanken we interviewed Mr Mikael Rubin, the bank manager of the office in Kristianstad. Mr Rubin said that what differs Handelsbanken from other banks is that the bank is characterised by being a strong decentralised organisation. Each office has a responsibility towards its geographical area and towards its customers, and each office has its own field of activity. This means that all decision making is close to the customers. The basic concept is that the organisation and the work methods should be based on the responsibility of the offices for individual customers. The central unit does not take responsibility for the local offices, it should only work as a complement to the local offices.

5.2.1 Loyalty Programs & Customer Clubs

When we present our model to Mr Rubin, he says that loyalty programs and customer clubs do not exist in Handelsbanken. The loyalty should be that the bank understands the needs of its customers, Handelsbanken wants customers on a long-term basis and has a universal range of offers.

5.2.2 Social Bonds & Monetary Benefits

Mr Rubin explains that social bonds represent 98 percent of customer satisfaction, and monetary bonds only take up a small part. Again he mentions personal contact as important and that role belongs to the personal advisor. Golf tournaments and dinners are arranged and if Handelsbanken has to offer dinner to a certain customer twice a week, it is arranged. When the personal adviser meets his customers, he explains that he and the bank want to create a long-term relationship.

Mr Rubin also explains that different companies have different arrangements regarding interest rates and so on. These monetary benefits are conducted on a local level, not from the central unit.

5.2.3 Opinions about the parameters

When we ask Mr Rubin to make a ranking order of the parameters in our model he says that social bonds is the most important one when creating satisfied customers because this will lead to loyal customers. Monetary benefits come second. The other two parameters; customer clubs and loyalty programs, do not exist in Handelsbanken. Although he says that these two parameters, if they had existed, would not have been ranked as highly as social bonds and monetary benefits.

Mr Rubin says that “personal competence” could be added as a new parameter in the model. Handelsbanken often does as the customers want; the office presents a solution built upon what customers want, and then makes the solution in a professional way. He points out that focus is on the advisers’ competence in combination with the bank office. Handelsbanken uses a positive word-of-mouth to reach out with information about their services. When doing that, they put great emphasis on making their existing customers satisfied and the rumour about this spreads. Another aspect Mr Rubin mentions is the

importance of being seen in the community, people often talk about the bank when they see representatives on for example their sons soccer practise and different kind of associations.

5.2.4 Customer Satisfaction

Mr Rubin declares that customer satisfaction involves having customers getting in contact with the bank, and that customers are offered services adapted to their needs. The most important thing is not the price, but that the customers have the feeling of paying the right price for the services that have been offered. Added value and a more professional solution to what the customers want, is a way of reducing the price discussion. Handelsbanken arranges customer meetings for companies and people with the same interests, and they are invited to discussions or lectures. There is no special model for these kind of activities as each office arranges the meetings. The co-workers have their own way of acting and Mr Rubin says that it is important that the co-workers visit companies to see their business. Customers feel more appreciated when the bank personnel are familiar with what type of business the customers are working. He also says that it is important that the bank recognises its customers when they enter the bank as this strengthens the social bonds even more.

5.2.5 Customer Loyalty

According to Mr Rubin, customer loyalty is a long-term relationship with the bank office. Creating and sustaining long-term relationship is one of Handelsbankens' ambitions and it is written in the internal rules. Mr Rubin says that his bank does not want any customers whose purpose is to earn fast money. The bank can consider a loss in a short-term relationship with a customer, then build up a long-term

relationship and strengthen the relationship even more. The long-term relationship is built upon personal contact.

Mr Rubin explains that the bank has to be competitive with the price, but this should not essentially be the reason for customers moving their affairs to Handelsbanken. Customers should see good quality, qualified co-workers along with personal causes as the main reasons when choosing Handelsbanken. With the help of qualified co-workers who work on the basis of customer responsibility, the bank builds customer loyalty through personal relations. Mr Rubin believes that customer responsibility means having personal meetings with customers, for example offer them new products, change something old or change their savings. He also explains that companies have their own person within the bank with whom they are in contact. Two companies do not get the same advice and arrangements, they are instead adapted to each company. Mr Rubin sees the personal meetings as important for the bank and the customer despite the fact that approximately 96 percent of the transactions take place over the Internet.

5.3 Case Study - Skånes Provinsbank

Skånes Provinsbank is a part of Den Danske Bank concern. Since the mid 1990s, Den Danske Bank has been building a network of detached province banks all over Sweden. Den Danske Bank wanted to grow in the whole of the country. The bank is now located in Sweden with twelve different local brand names, from Skånes Provinsbank in the south to Sundsvallsbanken in the north of Sweden. Den Danske Bank has grown enormously in Sweden during the past years and the bank has also doubled its market shares during this period.

Most banks in the world see the Swedish market as one market. But instead Den Danske Bank sees the Swedish market as a world of markets, where every marketplace has its own conditions and business opportunities. Instead of building a traditional organisation with decision making at the top of the hierarchy, Den Danske Bank has built a network of local province banks that are independent business units. The Bank has 1 200 employees in Sweden and 17 000 in the whole concern which makes it the second largest bank in Scandinavia. Skånes Provinsbank is a fairly small bank in Sweden with the aim of having more personal relations with the customers by working closer to them. The office in Kristianstad was founded in 1998 and at this office the concept of relation comes first and the concept of transaction comes second.

At Skånes Provinsbank we interviewed Mr Lars Persson who is the bank manager at the office in Kristianstad. Mr Persson interprets our model as having four parameters which should lead to customer satisfaction. Customer satisfaction then leads to customer loyalty.

5.3.1 Loyalty Programs & Customer Clubs

Mr Persson says that loyalty programs are important activities when creating loyal customers. The bank has a customer care program, a program that makes an extra something for the customers. The purpose with this program

is to achieve a closer dialogue with the customers and the bank wants to get to know the customers and their businesses. The program also wants to establish connections between the differed customers in the bank.

He also claims that customer clubs are not really suitable for the bank and therefore his bank does not have any. The reason for this is that customers are different and it is difficult to create a club that suits everybody.

5.3.2 Monetary Benefits & Social Bonds

Mr Persson says that the bank is using monetary benefits but it is not the most important parameter because banks are offering the same services to almost the same price. When the service quality and the price are the same, there are other aspects that the customers find more important such as social bonds.

He says that social bonds are extremely important. It is important that the bank is communicating with the local market. To achieve this the bank has hired local personnel who have knowledge of the local market and the local population. Employees who have this knowledge can tie private connections with the customers. For example, when employees take their sons to their football practise, close relations become very important.

5.3.3 Opinions of the Parameters

Mr Persson explains that social bonds and loyalty programs are the most important parameters when a bank wants to satisfy its customers, a satisfied customer is a loyal customer. Monetary benefits also play a part in creating a process of satisfaction, but it is not as important as the other two mentioned above. According to the bank, customer clubs are hard to adjust to, but if other banks start building customer clubs, Skånes Provinsbank might follow

the trend. Skånes Provinsbank has not planned on having customer clubs within a near future.

He ranks our four parameters as; firstly social bonds, secondly loyalty programs, thirdly monetary benefits and finally customer clubs. Mr Persson has not got any parameters of his own that he wants to add to our model. He thinks that social bonds cover the most significant aspects when creating loyal customers.

5.3.4 Customer Satisfaction

Mr Persson defines customer satisfaction as the value received by being customer in the bank. The bank wants the customers to feel important and this is done by giving the customer a personal adviser or access to customer service. If the turnover is over 0,5 million SEK, companies get a personal adviser and if it is under 0,5 million SEK they get access to customer service. He says that it is not easy to make the customers feel important. As the organisation gets older and the numbers of customers increase, it becomes more difficult to take care of the customers. Mr Persson says customer care is something the bank must work with on a continuing basis. The bank uses personal connection to influence specific groups of similar companies. By this they are working up each group of companies separately instead of trying to reach all companies in the same way. He explains that this is a much more effective and better way of penetrating companies and with this strategy it is possible for the bank to adapt to each group of companies. The bank also mediates connections between foreign bank offices in the concern and between local companies. The bank does this when local companies have economical flows to countries where the bank has foreign offices. The bank works with outreach work which means systematically seeking out companies with the purpose of giving them help and support. Mr Persson sees a connection between customer satisfaction and customer loyalty. Customers who receive positive values and feel they are important assets to the bank, create loyal bonds with the bank. These bonds are then strengthen

by social bonds that have been developed by the relation between the bank and its customers.

5.3.5 Customer Loyalty

Mr Persson defines customer loyalty as having satisfied customers. The bank is trying to accomplish this by offering the customers the right services at once with high quality and the right price. He points at the importance of believing and having the courage to invest in their customers' ideas. It is important that customers feel that their bank believes in them and this is a contributing factor to loyal customers. Therefore it is significant to act in this way from the beginning. It is also important to take care of the customers in the right way, a good customer care gives a serious impression. Mr Persson argues that the bank and the customers should have the right dialogue from the beginning.

Skånes Provinsbank creates customer loyalty by using different activities. They are using activities such as personal advising, company golf, different theme trips, study visits and lectures. Something that is consistent to all activities is that the activities are performed with a low amount of customers. The bank believes that an activity with a small number of present customers create a deeper relation between the bank and the customers. For example, the relation between the bank and the customers becomes deeper when the bank arranges five small customer meetings rather than two big meetings.

5.4 Summary of Case Studies

In this chapter we have presented main points from our case studies. The case studies have been conducted with the help of personal interviews with three banks, Färs & Frosta Sparbank, Handelsbanken and Skånes Provinsbank.

Skånes Provinsbank has an outspoken loyalty program and Färs & Frosta Sparbank are looking at introduce loyalty programs. Loyalty programs do not exist in Handelbanken.

None of the three banks have any customer clubs. Because create customer clubs are not really suitable for the bank and it is difficult to build a fair club. All the banks think that monetary benefits are an important factor to create satisfied customers but it is not the most important factor. Banks are offering services with almost the same quality to the same price and this makes it difficult to differentiate. All three banks think that social bonds is the most important factor to create satisfied and loyal customers. All banks say that it is important to create deep and close relations with its customers, because a close relation is difficult for competitors to imitate.

By using different actions like loyalty programs, monetary benefits and social bonds, the banks try to satisfy its customers. Satisfied customers are very important because a satisfied customer make repurchases and it strengthens the relation between the bank and its customers. Satisfied customers are loyal customers. All banks want to have loyal customers, which leads to long-term relationships. The banks are trying to achieve this by using different factors to satisfy their customers.

6 Analysis

In this chapter we analyse the data we have found in our case studies. Firstly, we will compare the data with our model. Secondly, we will present other findings in our case studies. Each bank will be analysed through our model and at the end a summary will be presented.

6.1 Loyalty Programs

We define loyalty programs in our model as being conscious measures of economic and emotional barriers to keep customers. Färs & Frosta Sparbank does not have an outspoken loyalty program, but the bank says that loyalty programs might be a possibility in the future. The bank mentions some similarities to loyalty programs, for example bank representatives who visit customers once or twice a year. According to us they do not have a loyalty program, since they are not using conscious measures to keep customers within the company. The similarity between loyalty programs, according to our definition, is that the bank visits their customers on a regular basis. The main objective is to build a closer relation.

Loyalty programs do not exist in Handelsbanken. The bank does not believe in them since they are built on certain criteria in order to become a member. All customers should be treated in the same way and they should have access to the same good service. The personal advisors have their own responsibility when it comes to visiting their customers. We do not see any similarity with our definition of loyalty programs.

Skånes Provinsbank uses loyalty programs. The bank uses important activities to create loyal customers. A customer care program has been worked out and the purpose with the program is to achieve a closer dialogue with the customers. The bank wants to know its customers and their way of doing business. They also want to establish a connection between the two

parts. We think that the bank has a loyalty program, which is in accordance with our definition.

6.1.1 Summary

Skånes Provinsbank was the only bank that had a loyalty program according to our definition. The other two banks had some similarities to a loyalty program, but they did not have any conscious measures or an outspoken program. Färs & Frosta Sparbank sees the possibility of introducing a loyalty program in the future, while Handelsbanken does not see this parameter as an alternative for creating customer loyalty. Here we have seen a difference between the banks.

6.2 Customer Clubs

We also believe that customer clubs is a parameter which creates customer satisfaction. With customer clubs we mean clubs that are formalised associations for the customers. To join and enjoy the benefits of the club, customers often have to fulfil certain criteria.

Färs & Frosta Sparbank does not have customer clubs. The bank thinks that there might be problems when some customers are allowed to join the club and others are not. A customer club could strengthen the bonds with the customers if the club is fair to all of its customers.

Customer clubs do not exist in Handelsbanken because the bank wants to treat all customers in the same way.

Within Skånes Provinsbank, customer clubs do not exist either. The reason for not having any is that all customers have different needs and therefore it is difficult to create a customer club.

6.2.1 Summary

None of the three banks have customer clubs at the moment. All of the banks see problems with having customer clubs concerning how to build clubs that can satisfy every single customer. We believed that customer clubs were one of the parameters that banks used when creating satisfaction among their customers, but we have realised through the case studies that this is not the fact. Customer clubs may be common in other service sectors but they do not really fit the bank sector because of the difficulties in creating a fair club for the customers.

6.3 Monetary Benefits

The next parameter in our model is monetary benefits, which we claim is an important parameter for the creation of customer satisfaction. With monetary benefits we mean the input contra the output in money including factors such as price, quality, bonuses and special price offers.

Färs & Frosta Sparbank says that monetary benefits is a minor parameter in the creation of customer satisfaction, but the parameter does exist. The bank offers its customers high quality services at the right price. The bank does not use bonuses or similar benefits since it can be difficult to develop a good and fair system in order to handle the benefits. If the bank manages to develop a fair system, it may use bonuses and similar benefits in the future. When the bank was asked to rank our four parameters, monetary benefits was ranked at second place.

Handelsbanken also says that the parameter monetary benefits is a minor one when the bank is trying to satisfy its customers. The bank is giving certain monetary benefits to some companies, but these benefits are decided locally and can be benefits such as lower interest rate and they do not have any bonuses. According to the bank, the concept of monetary benefits does not

lead to long-term relations. When the bank was asked to rank our four parameters, monetary benefits was ranked at second place.

Skånes Provinsbank says that they are using monetary benefits, but the benefits are not as important as social bonds. The bank does not use monetary benefits such as bonuses, instead they emphasise the importance of offering services with good quality at the right price. When the bank was asked to rank our four parameters, monetary benefits was ranked at third place.

6.3.1 Summary

All three banks say that monetary benefits is a parameter which they use in order to create customer satisfaction, but the banks also say that monetary benefits play a minor part in the process. Social bonds are more important and used to a greater extent. All of the banks are offering services with high quality at the right price. Because of this we think that monetary benefits do not have so much effect on customer satisfaction as we believed from the beginning. We also believe that price and quality are difficult to differentiate for the banks. When there are no differences in the price and quality, the banks have to use other parameters to create customer satisfaction. Another reason is that many monetary benefits are difficult to accomplish, because it is hard to construct a fair system that handles benefits such as bonuses. We thought that monetary benefits would be a significant factor in our model, but the result from our case studies showed a different picture of the bank sector.

6.4 Social bonds

Social bonds is an important parameter in our model. When we were building our model we predicted that these bonds were important when creating satisfied and loyal customers. Many theories, discussed in chapter three, emphasise the importance of social bonds. In the bank sector, companies use price in combination with other factors to establish social bonds, for example

when companies organise dinners, golf tournaments or lectures for their customers. By having representatives from the bank on these activities customers can talk about matters concerning business and at the same time enjoy a dinner. Every bank we have interviewed points out the importance of social bonds as a contributing parameter to satisfied and loyal customers.

Färs & Frosta Sparbank believe in social bonds and think that this parameter is the most important one. The bank does visits once a year to see how and what type of business their customers are in. Customers welcome the bank and proudly present their business. A better understanding is created and the relation between the bank and customer are strengthened. The bank also has representatives in different associations in the community. By doing this, one can say that the personnel try to strengthen the bonds when they are not at work.

Handelsbanken emphasises the nearness to customers, which is what makes customers loyal. The bank is characterised by a decentralised organisation and the decision-making is on a local level. By being on a local level you can adapt to customers in a certain area, since customers have different needs. With increased nearness, it is possible to create long-term relationships. We see similarities of long-term relationships with social bonds as a contributing factor to customer satisfaction.

Skånes Provinsbank say that social bonds is the most important parameter in our model. The bank emphasises the importance of communication and that the bank personnel have knowledge of the local market and population. This bank, like the other ones, tries to be representative in the community, for example, when the personnel visit their sons' soccer practise.

6.4.1 Summary

All banks rank social bonds as the number one parameter in our model. When we were constructing the model, our belief was that this factor had a large significance for the creation of customer satisfaction. We have seen that all banks use measures like visiting the customer companies, field trips, VIP meetings and other similar activities. Social bonds is, without any doubt, the parameter that the investigated banks see as the most important.

6.5 Other Parameters

Two other parameters have been identified in the case studies. Färs & Frosta Sparbank mentioned “building networks” and Handelsbanken mentioned “personal competence”, as new parameters. Skånes Provinsbank did not have any parameter to add.

6.6 Customer Satisfaction

In our model we believe that companies try to create customer satisfaction through four parameters. We believe that customer satisfaction should be an important factor when creating customer loyalty. This is how the three banks generally perceive satisfaction:

Färs & Frosta Sparbank tries to create satisfaction through the relations and through two of the parameters in the model. In the relation they try to solve problems in a good way.

Handelsbanken says that customer satisfaction is customers getting in contact with the bank, and that they are offered adapted services. The most important thing is not the price, but it is the feeling of paying the right price for the services that they are offered. Added value and giving a professional solution to what the customers want, is a way of reducing the price discussion.

Skånes Provinsbank defines customer satisfaction as the value received by being a customer in the bank. The bank wants the customers to feel important, this is done by giving them a personal adviser or access to customer service. Customers that receive positive values and feel like important assets to the bank, create loyal bonds with the bank. The loyal bonds are strengthened by the social bonds, which are developed by the relation between the bank and their customers.

Färs & Frosta Sparbank thinks it is important that the bank visits the company customers once a year to get a better view of their customers. This is to strengthen the relationship and forming an opinion of the customers' way of doing business.

Handelsbanken acts similar to Färs & Frosta Sparbank when visiting companies to see their business. The bank puts great emphasis on recognising their customers when they enter the bank, customers feel more appreciated when the bank personnel are familiar with what type of business the customers are working in. We believe that by doing this, the bank strengthens the personal contact even more.

According to Skånes Provinsbank, social bonds and loyalty programs are the most important parameters when a bank wants to satisfy its customers. The interviewee claims that a satisfied customer is a loyal customer.

6.6.1 Summary

Firstly, all three banks think that satisfaction is important. At least one of the banks does research on how the bank is perceived both internally by the personnel and externally by the customers. Two of the banks think that satisfaction is the value which is created for the customer. In the creation of customer satisfaction all of the banks rank social bonds as the strongest parameter. Färs & Frosta Sparbank and Handelsbanken rank monetary benefits as the second most important parameter, while Skånes Provinsbank

ranks loyalty programs as the second most important parameter. Skånes Provinsbank ranks monetary benefits as the most important parameter, while Färs & Frosta Sparbank and Handelsbanken rank loyalty programs as the third parameter. None of the investigated banks use customer clubs in the creation of customer satisfaction.

6.7 Customer Loyalty

According to our model, four parameters and one factor create customer loyalty. Customer satisfaction is created when combining the four parameters Loyalty Programs, Customer Clubs, Social Bonds and Monetary Benefits. Our belief was that together they would lead to customer satisfaction and then to customer loyalty. As we have found out, customer clubs is not a parameter that is of significance in the bank sector. The parameter social bonds is a parameter of much greater importance than we understood from the literature.

Färs & Frosta Sparbank wants customers to get the special feeling that this is the right bank for them or this bank gives them the right service in a satisfying way. The paper Bonus is sent out to every customer when they get their statement of account. In Bonus the bank tells its customers what is going on and gives examples of different events happening in the bank. There are also tips on how the customers can get a more efficient economy and we argue that is a good way of making customers satisfied, since they do not have to go to the bank to be updated. Each office handles its activities for its customers and can adapt in a local way. This is a good way of building customer loyalty, the banks see the adaptation on a local area/level as important. The banks arrange field trips, theme nights, and other happenings, for example inviting children to football matches, and these type of activities will strengthen the relation between banks and customers even more. Having representatives from the bank join the community, we believe it will lead to an increasing customer loyalty. Another aspect that should be mentioned is the dividends to the community which we think is a good thing since customers can see that they get something back from the bank.

Handelsbanken defines customer loyalty as a long-term relationship with the bank office. The bank puts a lot of trust in existing customers and a positive word to mouth is spread. By treating old customers in a good way, we believe this attracts new customers.

The bank can consider a loss in a short-term, to build up a long-term relationship. The long-term relationship is built on personal contact. Here we can see how the bank tries to create a long-term relationship which demands some grade of loyalty. We claim that this way of handling customers fits in with the social bonds and leads to customer loyalty in our model.

As Handelsbanken says, customers should see good quality and qualified co-workers along with personal causes as the main reasons for choosing the bank. We think that with the help of qualified co-workers who are working on the basis of customer responsibility, customer loyalty is built with the help of personal relations. The bank claims that customer responsibility means personal meetings with customers, for example offering them new products, change something old or change their savings. Here we can see a combination of monetary benefits and social bonds, which we think corresponds to our model. We see these personal meetings as important for the bank and the customer despite the fact that approximately 96 percent of the transactions take place over the Internet.

Skånes Provinsbank defines customer loyalty as having satisfied customers. The bank is trying to accomplish this by offering customers' services with high quality worth the price. Here is a correlation with monetary benefits as the price and quality are important for the customers' input and output.

The bank puts great efforts in satisfying customers and wants to create the feeling of having the bank believing in its customers. In similarity to the bank that puts great efforts in satisfying its customers, customer satisfaction creates customer loyalty in our model. The bank emphasises the importance of having a good customer dialogue from the beginning which we believe gives a serious impression.

Skånes Provinsbank is creating customer loyalty by arranging different activities. They are using activities such as personal advising, company golf, different theme trips, study visits and lectures. Something that is consistent in all activities is that the activities are performed with a small number of

customers. We agree with the bank when they say that an activity with a small number of customers create a deeper relation between the bank and the customers.

6.8 Summary of Analysis

To sum up our analysis, we can say that customer clubs is not a parameter that fits the bank sector in general due to the difficulties in creating a fair club for the customers.

Loyalty programs is a parameter that differs the banks from each other. Skånes Provinsbank was the only bank with an outspoken loyalty program. We cannot draw any general conclusions about this since we only interviewed one bank with a foreign ownership. Otherwise we did not find any other dissimilarities between the investigated banks.

The importance of social bonds was clear and much greater than we predicted when we were creating our model. All three banks see social bonds as the most important parameter when creating customer loyalty.

As we found out, our model was not significant to the bank sector in general. We refined our model so it would better fit in the bank sector, see figure 5 on page 56, and we changed the parameters so they could reflect the creation of customer loyalty. The sizes of the parameters show an indication of how significant the banks think that the parameters are.

The refined Model

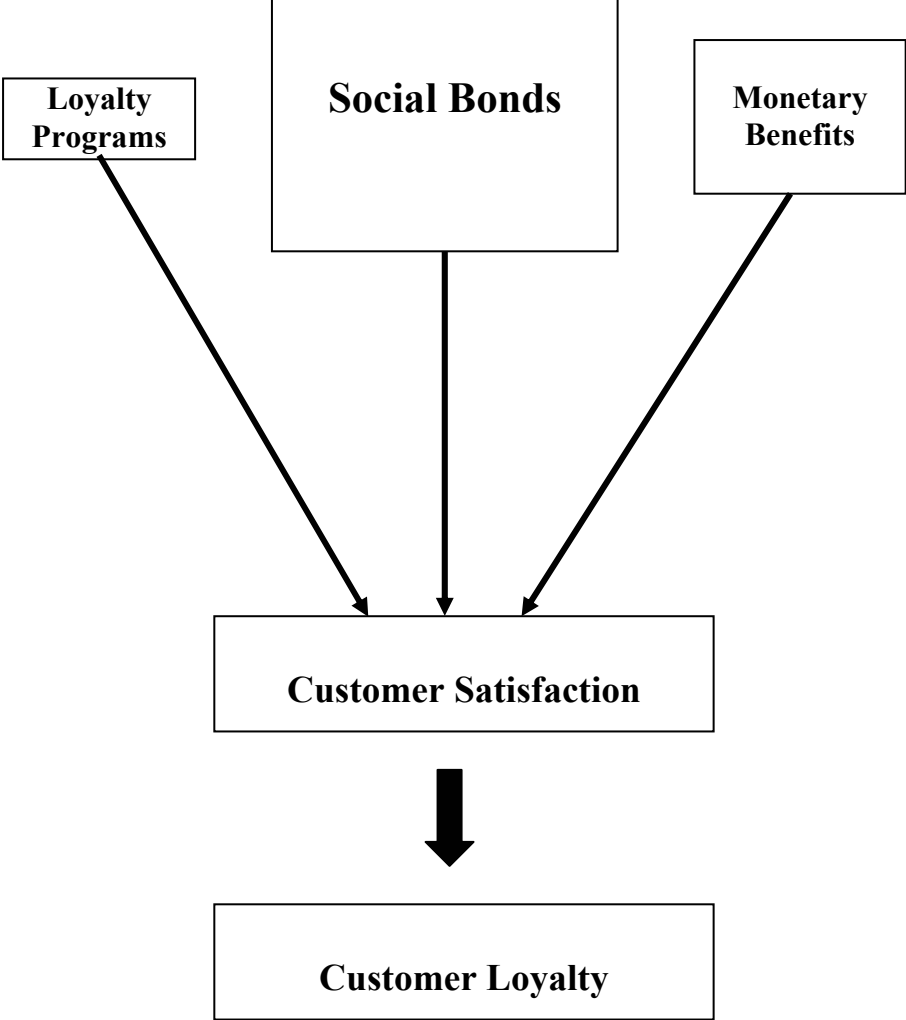


Figure 5. The Loyalty Creation Model (refined)

7 Conclusion

Here we present our conclusions as a summary of the analysis. Our purpose with this dissertation was to see how service companies in the bank sector create customer loyalty. After the analysis we refined our original model to what we now believe is a more suitable one for the bank sector.

We are aware of the fact that we cannot draw any general conclusions from this study in the service company sector, but we claim that we can say something about the bank sector in general.

What we found out in our study was that the three banks agreed on customer loyalty being very important in the bank sector. Certain parameters affect customer loyalty more than others. In the creation of loyalty, the most important parameter was social bonds including, among other things, personnel. In order for a bank to survive it is important to have a strong competitive personnel since many banks offer services that are quite similar. The three banks say that monetary benefits is a parameter they use, but the banks also say that monetary benefits play a minor part in the process. We believe that this is due to differences in the price and quality that are difficult to differentiate for the banks. Skånes Provinsbank was the only bank that had a loyalty program according to our definition. The other two banks had some similarities to a loyalty program, but they did not have conscious measures or an outspoken program. Otherwise we did not find any dissimilarities between the foreign owned bank and the others. None of the three banks use customer clubs in their creation of customer loyalty. All of the banks see problems with customer clubs concerning how to build clubs that satisfy all customers.

Due to the fact that customer clubs was not a parameter in the creation of customer loyalty in the bank sector, we do not include customer clubs in our refined model (see figure 5 on page 56).

We claim that our dissertation provides a structured model that shows how loyalty is created by certain parameters in the bank line of business.

We argue that our dissertation can be a platform for a new research dealing with how customers perceive banks when creating customer loyalty.

Three banks agree with us when we say that customer satisfaction leads to customer loyalty. The banks see the parameters in our model, except customer clubs, as significant for creating satisfied and loyal customers. We have not found any reasons strong enough to add a new parameter to our model for creating customer loyalty although “building networks” and “personal competence” were mentioned. We argue that further research has to be done to see if these two parameters should be included in the model.

8 Suggestions for Further Research

Here we will present some suggestions for further research. Our suggestions are based on what we have found out from the analysis.

Since we have created a new model with three parameters, a suggestion for further research might be to study one parameter more deeply, for example study how social bonds affect customer loyalty in service companies.

Since we conducted our research in the bank sector, a suggestion for further research might be to try our model in another type of service sector. An example could be in the cleaning line of business since these companies work entirely with services.

We ask ourselves if customers perceive companies' measures for customer loyalty in the same way. It would be interesting to investigate customer loyalty in service companies from the customers' perspective.

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Personal interviews:

Franck, Lars, Marketing and Information Manager, Färs & Frosta Sparbank, Hörby. (11th December 2003)

Persson, Lars, Bank Manager, Skånes Provinsbank, Kristianstad. (18th December 2003)

Rubin, Mikael, Bank Manager, Handelsbanken, Kristianstad. (15th December 2003)

Appendix A

The **first** interview was at:

Färs & Frosta Sparbank

Gamla torg 1, 24221 Hörby

Phone: 0451-17300

Interviewee: Mr Lars Franck, Market/ Information Manager

Date of interview: 11 December 2003

The **Second** interview was at:

Handelsbanken

V Storgatan 44, Box 123, 291 22 Kristianstad

Phone: 044-185100

Interviewee: Mr Mikael Rubin, Bank Manager

Date of interview: 15 December 2003

The **Third** interview was at:

Skånes Provinsbank

V Storgatan 62, Box 236, 291 31 Kristianstad

Phone: 044-282500

Interviewee: Mr Lars Persson, Bank Manager

Date of interview: 18 December 2003

Appendix B

Interview Questions

1. Give us general information about the bank, for example:
 - historical background
 - organisation
 - main ideas, business concept
 - differences between your bank and other banks
2. What is customer loyalty according to you and the bank?
3. How does your bank create customer loyalty?
4. What is customer satisfaction according to you and the bank?
5. How does the bank create satisfaction among existing company customers?
6. Explain how the bank sees the concept of customer satisfaction as a contributing factor to customer loyalty?

The following questions are based on our model.

7. How do you interpret our model?
8. Is the bank using any of our parameters?
9. In what way do you think the parameters you mentioned affect customer satisfaction?

10. In what way do you think the parameters you mentioned affect customer loyalty?
11. How do you rank the parameters in our model?
12. Name other parameters apart from those already mentioned above that you think would fit in the model?