Impact of the Internet on Customer Loyalty in Swedish Banks

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The banking services have been dynamic during the last decade due to the advent of the Internet in banking sector. One of the most vital challenges of the Internet as a service delivery channel is providing and maintaining service quality. Service quality is an input of customer trust which becomes satisfaction and lead to loyalty as an output. Customer loyalty is a concern of any organizations as well as banking sectors. The purpose of this research was to gain better understanding of the impact of the Internet on customer loyalty in Swedish banks. Four research questions have been formulated to achieve the purpose. Based on detailed literature review, a frame of reference was developed which helped to answer research questions and guide to data collection. A qualitative research approach was used to get better understanding of this issue. Empirical data were collected through semi-structured in depth interview with two bank managers with the research questions and the frame of reference. Finally, in the last chapter findings and conclusions were drawn by answering research questions. In the research it was found that all the banks interviewed seem to have the same description, motivation and an underlining objective of customer loyalty and the Internet has affected from two different directions which are made up of both positive and negatives sides on customer loyalty creation by theses banks. The Internet has become more powerful media of providing bank services. Banks use the Internet as a new distribution channel for their products and services. The Internet facilitates home banking services which is becoming more popular in recent time. Another most important finding of this study, from both banks, is service quality which form an integral part of loyalty creation.
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Chapter 1: Introduction

This chapter of the thesis will provide the reader with an insight to the research area. First, a brief discussion of the background will be presented that will be followed by the problem discussion. The problem discussion ends with the overall purpose of the study and specific research questions. The background of this research starts with customer loyalty and presents the antecedents of this concept, such as service quality, customer trust and customer satisfaction. Afterward, Impact of the Internet on customer loyalty in Swedish banks will be looked at and find out the ways banks handle it.

1.1 Background

The Banking services have undergone many changes during the past decade with the advent of the Internet in the banking sector. According to Liljander and Strandvik (1995) bank loyalty as the biased behavioural response expressed overtime, by some decision –making unit with respect to one bank out of a set of banks, which is a psychological (decision making and evaluative) processes resulting in brand commitment.

According to Gremler and Brown (1996), p. 173, customer loyalty has been defined as the “degree to which a customer exhibit repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises”. The above definition signifies loyalty as an action and how the customer is committed towards a product or service, which includes emotional attachment, identification and involvement (Allen and Meyer, 1990). Gremler and Brown (1996) further lamented that loyal customers have a high rate to spread positive word-of-mouth about the company and even go on to purchase more service from the company and that they have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time (Dick and Basu, 1994).

Customer loyalty in service industries has received attention in both marketing and management theory and practice. As customer loyalty may act as a barrier to customer's switching behaviour it has an impact on the development of a sustainable competitive edge (Gremler and Brown, 1996).

Loyalty is seen to be difficult to define and measure. The problem lies in identifying whether loyalty is an attitudinal or behavioural measure. McGoldrick and Andre (1997) argues that the term loyalty is been used loosely and includes affection, fidelity or commitment. For this reason, customer satisfaction is been used as a measure of loyalty because it has been assumed that satisfaction affects buying intentions in a positive way. Reichheld (1994) finds that despite being satisfied or very satisfied many customers still defect. Such behaviour may be explained by the impact of other variables such as choice, convenience, price, and income. He said that this suggests two things; first, attitudinal measures of satisfaction are poor predictors or measures of behaviour, and second, it casts some doubt on the concept of 100 per cent loyalty.

In measuring behavioural loyalty, Dick and Basu (1994) were of the view that there are certain factors which influence repeat purchase. Behavioural measures are insufficient to explain how and why brand loyalty is developed and/or modified. High repeat purchase may reflect situational constraints, such as brands stocked by retailers, whereas low repeat purchase may simply indicate different usage situations, variety seeking, or lack of brand preference within a buying unit (ibid.).
From the above, it is questionable in the way behavioural measurement of loyalty will be in the long term strategies of a company and so therefore it will be wrong to really use this measurement as a yardstick to either explain or define loyalty.

Assael (1992) is of the view that the very term loyalty implies commitment rather than just repetitive behaviour, which suggests that there is a need for a cognitive as well as a behavioural view.

Gremler and Brown (1996) argued that satisfaction and service quality are prerequisites for customer loyalty. Satisfaction is said to be one of the main outcomes of marketing activities. Satisfaction is defined as an emotional post-consumption response that may occur as the result of comparing expected and actual performance, or it can be an outcome that occurs without comparing expectations (Oliver referred to in Gummerus et al., 2004). Furthermore, he argued that the relationship between service satisfaction and loyalty is non-linear; this means that in case satisfaction increases, customer loyalty also increases.

1.1.1 Service Quality, Customer Trust and Customer Satisfaction

Service quality has been found to have a profound input on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Parasuraman et al., referred to in Caruana, 2002).

According Caruana (2002), service quality is split up into two terms, first the technical quality, which refers to what is delivered to the customer and functional quality, which concerns the end result of the process which was transferred to the customer. Furthermore, service quality concern two aspects, psychological and behavioural, which include the accessibility to the provider, the way service providers perform their tasks, the content of their sayings and the way service is done. The perception of service quality is based on the customer’s assessment of three dimensions of service encounters, which are the customer-employee interaction, the service environment, and the service outcome (ibid.).

Quality service has a positive effect on the bottom-line performance of a firm and thereby on the competitive advantages that could be gained from an improvement in the quality of service offering, so that the perceived service exceeds the service level desired by customers (Caruana, 2002; Chumpitaz, 2004).

Customer trust is considered as another important antecedent of loyalty (Reichheld et al., 2000). A commonly used definition of trust is that of Moorman et al. (1992), who define it as the willingness to rely on an exchange partner in whom one has confidence. Trust has been defined as the degree of confidence or certainty the customer has in exchange options (Zeithaml and Bitner, 2000). E-trust will therefore be defined as the degree of confidence customers have in online exchanges, or in the online exchange channel (Reichheld et al., 2000).

It should be explicitly recognized that there are different types of trust, and a distinction needs to be made between a person’s disposition, or propensity to trust, system-based trust and interpersonal trust (Grabner-Kraüter and Kalusha, 2003). Dispositional trust plays a particularly important role in the interaction between unfamiliar actors (Bigley and Pearce, 1998) and is therefore essential for
the initial use of electronic retailers (Grabner-Kräuter and Kalusha, 2003), as well as for purchases of goods and services that score high on credence and experience qualities. System-based trust equals e-trust and deals with customers’ trust in purchasing or searching for goods/service information online. Since interpersonal relationships do not describe the interaction between customers and e-tailers well, we prefer the term “e-tailer trust” to describe trust of customers in specific online merchants (ibid.).

Customer satisfaction is another antecedent of customer loyalty. In the highly competitive business world of today, customer satisfaction can be seen as the substantial of success, as customer satisfaction can lead to customer retention and therefore to profitability for an organization (Jamal and Kamal, 2002; Egan, 2004). Oliver referred to in Jamal et al., (2002) describe customer satisfaction generally as the full meeting of one’s expectations. Furthermore, Jamal and Kamal (2002) describes customer satisfaction as a feeling or attitude of a customer towards a product or service after it has been used. Egan (2004) puts the definitions of several authors together and describes customer satisfaction as a psychological process of evaluating perceived performance outcomes based on predetermined expectations.

Lin (2003) defines customer satisfaction as the outcome of a cognitive and affective evaluation of the comparison between expected and actually perceived performance, which is based on how customers appraise delivery of goods or services. A perceived performance, which is less than the expected, leads to an unsatisfied customer. Perceived performance that exceeds expectations, on the other hand, leads to a satisfied customer. The expectations of a customer are built from past buying experience, advice from friends and counterparts, marketers’ and competitors’ information and promises (Kotler referred to in Lin, 2003).

1.1.2 Customer Loyalty Objectives

The development of customer loyalty is one of the most important issues organization face today. Creating loyal customers has become more and more important. This is due to the fact that competition is increasing, as never before, which has a great impact on many companies. To deal with this high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with these customers (Gremler and Brown, 1996). Creating satisfied and loyal customers is a critical matter for many corporations survival (Gould, 1995).

Organizations’ goal with creating customer loyalty is mainly to increase their profits, since loyal customers have direct value on a company’s profitability. Several other benefits can be derived from loyal customers. Seen from the organizational perspective, loyal customers lead to increased revenues for the organization, result in predictable sales and profit streams, and these customers are also more likely to purchase additional goods and services (Gremler and Brown, 1999). To precisely assess the value of customer loyalty, there is the need to look beyond the direct value it has on the organization. That is to say beyond the direct revenue streams and add in the overall benefits related with it. For instance, loyal customers are also more likely to talk about the brand and recommend it to their friends and relatives, which will generate new businesses (ibid.).
1.1.3 Customer Loyalty Programs

Customer Loyalty Programs have developed remarkably in the era of customer retention in recent years. This is due to recent advances in information technology. They have been considered by many organizations and many of them have adapted customer loyalty programs. Customer loyalty programs have also been willingly embraced by customers; this is due to the benefits associated with it (O'Malley, 1998). Gilbert referred to in O'Malley (1998) states that the basic idea of a loyalty schemes is to reward customers’ repeat purchasing and encourage loyalty by providing targets at which various benefits can be achieved. Reichheld and Sasser (1990) evaluate how profitability is affected by customer retention and come to the conclusion that as a customer’s relationship with the company lengthens, profits rise. And not just a little. Companies can boost profits by almost 100 per cent by retaining just 5 per cent more of their customers (ibid.).

Moreover, seen from a customer perspective, loyalty schemes can be a way to decrease price sensitivity, increase brand loyalty, reduce the willingness to consider alternative brands, encourage word-of-mouth support and endorsement, attract a larger group of customers and increase the amount product bought (Uncle et al., 2003).

Customer loyalty programs are assumed to create value for the customer and it is due to this value that customer loyalty programs promote loyalty. On the other hand, the degree to which customer loyalty programs offer value to customers is uncertain, mostly because customers are not equal and value will represent different things to different people and will also be different in different context (O'Malley, 1998). In order to make the value of customer loyalty programs work properly and succeed, an organization needs to understand the needs and desires of their customers. The value an organization delivers to its customers needs to be competitive in five dimensions. Seen from a customer perspective, the dimensions are cash value (as a percentage of the proportion spend), aspiration value (how much does this reward motivate a customer), relevance (the extent to which the reward are achieved), and convenience (ease of participation of the scheme), choice (the variety of rewards offered) (O'Brien and Jones, 1995).

Even though that a small number of schemes today offer all dimensions of value it is obvious that companies who want to play the rewards game should be sure that their value measures up to customers' alternatives (O'Brien and Jones, 1995). This is most significant when customer loyalty programs are mainly used as a differentiation (ibid.).

Due to the popularity and benefits derived from customer loyalty programs many corporations have adapted these schemes. Customer loyalty programs can and do build customer loyalty and corporations now realize how important loyalty is for their profitability. One of the main reasons of creating loyalty programs is to increase revenues, which can be done by either increasing purchase and usage levels and also by increasing the range of products bought. However, there are other reasons for creating loyalty programs including: to generate information, to reward loyal customers, to manipulate consumer behavior and as a defensive measure toward competitors (O'Malley, 1998).

Getting information about customers, who they are and their purchasing behavior is a very important input for an organization. This information will contribute to a better understanding of the customer and corporations can use this knowledge to improve targeting, creating offers and shift
merchandise. Furthermore, this knowledge can also be employed to reward loyal customers and also to motivate customers to try new products, manipulate consumer behavior (ibid.)

1.1.4 Overview of Swedish Banks

Swedish banks are the biggest player in Swedish financial market comprising 42% of Swedish financial market. Swedish financial market is governed by two major authorities the Swedish central bank (Riksbank) and Finansinspektionen under various financing laws by Swedish parliament (Svenska Bankföreningen, 2005).

Swedish banking sector consist of 4 types of banks mainly, Swedish commercial banks, foreign banks, saving banks and co-operative banks. All the banks in Sweden are member of Swedish bankers association (bankföreningen, 2005). There are 126 banks operating in Sweden of which four banking groups are major players in the Swedish market namely Nordea, Skandinaviska Enskilda Banken (SEB), Svenska Handelsbanken (SHB), FöreningsSparbanken (Swedbank) (Finansinspektionen, 2004).

These four banking groups account for 80% of deposits market and 70% of the credit market approximately (bankföreningen, 2005). These four groups are not homogeneous group as they differ in terms of client-type, pricing of services and distribution channel but due to similar type of business the competition between them is keen (bankföreningen, 2005). FöreningsSparbanken have most branch offices i.e. 490 followed by Svenska Handelsbanken 450 branch offices, Nordea 250 branch offices and SEB 200 branch offices. In recent years the focus of branch offices shifted to provide advisory services and selling complex financial products and services (bankföreningen, 2005). Swedish banks also serve their customers in co-operation with other participants in society like Swedish cashier service (Svenska Kassaservice), Supermarkets and Gas stations (bankföreningen, 2005).

Most of the payments are made through banks or Credit card companies except minor cash payments. Accounts with Swedish banks accommodate the salary deposit, ATM withdrawals, plastic money transactions and automatic transfers to payees. To facilitate this Swedish banks provide extensive ATM network about 2800 outlets nation-wide, giro system, payment through the Internet like utility bills and account to account transfer without using cheques (bankföreningen, 2005). In 1990 total plastic money transaction were 55 million and cheques drawn on banks were 107 million and in 2004 the total plastic money transactions were 883 million and cheques payments were less than a million which clearly projects the trend (ibid.).

1.1.5 The Internet

The Internet is considered biggest evolution after the introduction of currency in the business world because all other developments whatsoever didn't have that much effect on the business world (Reichheld et al., 2000). Those who are following the hype of the internet and going online often forget that golden rules of business like loyalty still apply, a loyal customer is more profitable than recruiting new customers, the cost to recruit new e-customer will take three years of relationship to cover (Reichheld et al., 2000).
Loyal customers tend to buy more from company, less likely to leave due to price, relatively inexpensive to retain and bring in more customers so loyal customers are central focus for effective and profitable management of business (Reichheld, 1994) Loyal customers are crucial for the business survival specially over the Internet (Reichheld and Schefter, 2000).

The Internet offers 24x7x365 opening to business, lower costs, efficiency gains, extended market reach, quick adjustment to market change and improved customer service for suppliers and convenience, more information, fewer hassles, low procurement cost, streamlined processes, private shopping and instant transaction for customers (Kotler, 2000; Skyrme, 2001). The Internet offers very interactive market space which have distinct characteristics of shared, real-time, global, two-way and open which offered increased understanding of customers, their needs and responses (Arnott and Bridgewater, 2002). 15.2% people of world population using the Internet by November 21, 2005 with a growth rate of 169.5% (internetworldstats.com). Though the penetration of the Internet is not much in the world overall but countries considered technological advance are way ahead of other countries. The Internet usage in European Union is 49.3% with a growth rate of 143.5% (internetworldstats.com). The growth rates suggest the potential usage of the Internet likely to be arising in near future (ibid.).

Opportunities provided by the Internet seem to be very powerful and interesting to the business world with efficiency effectiveness to business with global reach. The Internet is offering low cost customer centered, communicative ways of doing business. The interactive potential of the Internet is more likely to be realized by the service firms, by targeting the segment of one, but not yet utilized by service firms (ibid). While doing business online the success is still dependent on the golden rules of business such as need to act strategically to pursuit the loyal and profitable customers (Reichheld et al., 2000)

According to the Internet world stats website (internetworldstats.com) updated on 31 November, 2005 Sweden have 6,800,000 the Internet users out of 9,043,990 total population which makes penetration rate 75.2% with a usage growth of 68%. Sweden stands on 4th position in the world in terms of the Internet penetration rate. Sweden had over 751,000 DSL broad band subscribers (ibid.).

According to Statistiska centralbyrån 2004 figures 40% Swedes of 16 to 74 ages used the Internet banking. Swedish Bankers Association (Svenska Bankföreningen) claimed that by the end of 2004 Swedish banks had more than 5.3 million Internet banking customers out of 9 million total populations. If we account for the Internet banking users who are using more than one bank, the Internet banking customers range from 40 to 45 % of total population (ibid.).

Internet banking will lower the costs significantly specially saving operational costs (Milind, 1999). Competitive pressure will also compel banks to adopt this channel like software and telecom companies will enter in online banking market (Hagel and Eisenmann referred to in Milind, 1999). Internet banking provides competitive advantage by considerably reduce cost and raise need satisfaction of consumer by providing the enhanced interaction, data mining and customization (Bradley and Stewart, 2003).

As a primary mean of communication the Internet is likely to affect the bank-customer relationship and viable alternative or supplementary distribution channels for banks (Mols, 1999). The Internet
is new distribution channel for banks enabling banks to offer variety of home banking services like money management, e.g., up to date balances on deposit and loan accounts, funds transfer between accounts and better communication without visiting, and Payments, e.g., utility bill payment (Mols, 1999; Sathye, 1999).

After introduction of Internet banking bank can segment the customers in computer literate and computer illiterate while computer literate customers are increasing and computer illiterate consumers are decreasing (Mols, 1999). The banks do not have much choice in adopting new technologies; and that joining the bandwagon with to IT innovation is a strategic necessity, rather than a move to implement advantageous competitive choices. A bank would isolate itself if it were to refrain from joining an ATM network (Penning referred to in Yakhlef, 2001).

1.2 Problem Discussion

Loyal and returning customers are vital to firms. It is often argued that satisfied customers are more likely to return and eventually form emotional ties with the company. It is, however, increasingly difficult for online companies to satisfy and bond their customers, who are demanding ever better information and services, and showing less and less tolerance for malfunctioning Web sites (Reichheld et al., 2000).

Customer loyalty is considered important because of its positive effects on long-term profitability of a company (Ribbick et al., 2004). According to Reichheld et al., (2002) the high cost of acquiring new e-customers can lead to unprofitable customer relationship for up to three years. As a consequence, it is critical for online companies to create customer loyalty base, as well as monitor the profitability of each segment (Reinartz and kumar, 2002). However, few companies seem to succeed in creating customer e-loyalty and little is also known about the mechanism of generating customer loyalty on the Internet (Ribbick et al., 2004). Several factors such as quality of product or service, satisfaction, and trust have been attributed to customer loyalty.

Customer satisfaction is an indicator of company’s past, current and future performance and there is ample evidence for its positive effect on loyalty in traditional services. Satisfying customer needs by delivering superior service quality is claimed to be equally as important online as it is offline (Reichheld et al., 2000; Zeithaml et al., 2002).

Satisfaction has a stronger impact on loyalty online than offline, possibly due to the low costs of searching for alternative providers (Wolfinbarger and Gilly, 2001). Satisfaction has been defined as a cumulative, attitude-like judgment that is based on customers’ past experiences. It is connected to varying emotional and cognitive states that influence customers’ future behaviour towards the company. Customers’ affective responses to online services, such as their enjoyment, excitement and pleasure in using the service, are important to overall customer satisfaction (ibid.).

Loyalty is seen from two main viewpoints. The first is seen as more often build on hard dimensions such as value for money, convenience, reliability, safety and functionality, and these are the prime drivers for product or service choice (Egan, 2004). Egan (2004) suggested that a customer’s positive experiences with product or service may enhance a type of temporal loyalty, it is essential to remember that ‘money talks' and everyone has a price. The other alternative was proposed by Dick and Basu (1994). They said that more intangible factors such as emotions and satisfaction are
seen to affect the attitude in a decisive way. These viewpoints suggest that customer loyalty is viewed principally as a result of the bond between an individual's relative attitude and repeat patronage, again mediated by social norms and situational influences or experience. Egan (2004) noted that customer loyalty is not always based on positive attitude, and long term relationships do not necessarily require positive commitment from customers. The distinction is important because it challenges the idea that customer satisfaction (the attitude) leads to long lasting relationships (the behavioural).

As stated earlier, it is more prudent for a company to retain its existing customers than attracting new customers due to the amount of cost involved in recruiting new customers coupled with new technological advancement in the business sector. The cost associated with recruiting new customers and technological advancement makes it imperative to really understand how the Internet leads to building a strong customer loyalty for the company. (Reichheld et al., 2000).

The discussions above leads to the purpose and research questions stated for this thesis.

1.2.1 Purpose and Research Questions

Based on the problem discussion above, the purpose of the thesis is to gain a better understanding of the impact of the Internet on customer loyalty in Swedish Banks. This purpose will be reached by finding answers to the following research questions:

**RQ1:** How can customer loyalty be described?

**RQ2:** How can the objectives of pursuing customer loyalty programs be described and how have those objectives been affected with the advent of the Internet?

**RQ3:** How can the activities in order to create loyal customers be described and how does the Internet affect these activities?

**RQ4:** How can the Internet be used to support activities in creating loyal customers?

1.3 Outline of the Thesis

This thesis is divided in seven chapters, namely the Introduction and Background, Theoretical Review, Frame of Reference, Methodology, Data Presentation, Data Analysis and Conclusion and Implication. Chapter one gave an introduction and background to the research topic, research purpose and questions were also outlined there. Second chapter is made up of the various theories underpinning this research topic and which results in the conceptual frame of reference in chapter three. Fourth chapter deals with the methodological choices for the study and issues concerning the validity and reliability. Chapter five presents the empirical data from the Interview conducted. Chapter six discusses the analysis of the data presented. This is in the form of within case-analysis and cross-case analysis. Chapter seven is the conclusion of the thesis and its implications for management and further research. See (page 9) outline of the thesis in Figure 1.
FIGURE 1: Outline of the Thesis
Chapter 2: Theoretical Review

In this chapter earlier studies connected to the problem area and more specifically to the research questions, will be discussed. First, previous studies related to the first research question, definition of customer loyalty with its antecedents, such as service quality, customer trust and customer satisfaction, will be presented. Then, literature regarding the second research question dealing with objectives of loyalty programs will be brought up. This will be followed by presenting with relevant theories of research question three, impact of the Internet on loyalty programme. Finally, previous work connected to the fourth research question concerning the Internet as a support to loyalty creation will be presented in order to give a clear idea about the research area.

2.1 Customer Loyalty

Oliver (1997) defined customer loyalty as a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause a switching behaviour.

According to Dick and Basu referred to in Egan (2001), loyalty is a state of mind, such is, its perceived importance that it has claimed that customer loyalty is emerging as the marketplace currency for the 21st century and that it represents an important basis for developing sustainable competitive advantage. He said loyalty is a much used and abused term. Although it is widely utilised, most authors fail to define what they mean by the term, resulting in a lack of consistency in the marketing literature. The frequent assumption is that loyalty translates into unspecified number of repeat purchases from the same supplier over a specified period (Egan, 2004).

There is a positive relationship between customer loyalty and profitability. Increase in profit from loyalty is as a result of reduced marketing costs, increased sales and reduced operational costs. However loyal customers are less likely to switch because of price and they make more purchases than similar non-loyal customers (Reichheld and Sasser, 1990).

According to Egan (2004), there are two main schools of thought concerning loyalty and these are seen in terms of behavioural and attitudinal. He claims that the behavioural is usually based on the number of purchases and monitoring the frequency of such purchases and any brand switching. The attitudinal is also seen in terms of incorporating consumer preferences and disposition towards brand to determine the level of loyalty. Ahluwali et al., (1999) have shown that attitudinally-loyal customers are much less susceptible to negative information about the brand than non-loyal customers. They also mentioned that where loyalty to a brand is increased, the revenue-stream from loyal customers becomes more predictable and can become considerable over time. Kahn et al., (1988) defined behavioral loyalty mainly with reference to the pattern of past purchases with only secondary regard to underlying consumer motivations or commitment to the brand.

According to Neal referred to in Egan (2004), customer loyalty is defined as the proportion of time a consumer chooses the same product or service in a category compared with his or her total number of purchases in the category, assuming that acceptable competitive product or service are conveniently available. He said that one problem of relying on the behavioural definition is that
there may be other reasons for repeat patronage other than loyalty which include lack of choices, low income, habit, and convenience (ibid.).

According to Egan (2004), loyalty is defined as the biased (i.e. non-random) behavioural response (i.e. re-visit), expressed over time by some decision making unit with respect to one (supplier) out of a set of (suppliers), which is a function of psychological (decision making and evaluative) processes resulting in brand commitment.

Gremler and Brown (1996) see customer loyalty as the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises. This definition incorporates action loyalty and commitment to repurchase with affective commitment, i.e. emotional attachment, identification, and involvement (Allen and Meyer, 1990). Gremler and Brown (1999) said loyal customers are more likely to spread positive word-of-mouth, buy additional services and accept premium prices. Dick and Basu (1994) also said that loyal customers are important since it is believed that they are less motivated to search for alternatives even in the midst of dissatisfaction.

**Ladder of Customer Loyalty**

This model depicts the different relationship stages that a customer has with a product or service of an organization. It is said that in order for an organization to make a better targeting of individual customers, they need to understand at what stage their customer are in the loyalty ladder (John Egan, 2004).

As customers starts to climb the ladder they become more loyal and their value to business will enhance. Converting a prospect to a partner, a corporation needs to give their customers a very good service and provide incentives for repeat business. They need also to get close to customers and anticipate their needs (ibid.). See ladder of customer loyalty in Figure 2.

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**FIGURE 2: Ladder of Customer Loyalty**

**SOURCE:** From Egan, 2004, p. 65.
2.1.1 Antecedents of Customer Loyalty

The significance of service quality as an antecedent of customer trust and customer satisfaction and finally customer loyalty has been widely recognized (Zeithaml et al., 2002). In the following chapter, the terms service quality, customer trust and customer satisfaction as antecedents of customer loyalty will be discussed and set the way to use them for the research and within this research area.

2.1.2 Service Quality

Service quality can be defined as the difference between customers' expectations for service performance prior to the service encounter and their perceptions of the service received (Asubonteng et al., 1996). Gefan (2002) defined Service quality as the subjective comparison that customers make between the quality of the service that they want to receive and what they actually get. Service quality is determined by the differences between customer's expectations of services provider's performance and their evaluation of the services they received (Parasuraman et al., 1988).

Service quality has been found to have a profound input on customer satisfaction and loyalty as a whole and is defined as the result of the comparison that customers make between their expectations about a service and their perception of the way the service has been performed (Caruana, 2002).

Practitioners and researchers regard as service quality as a subject of considerable interest in recent years (Parasuraman et al., 1985). An important reason for the interest in service quality by practitioners results from the belief that this has a beneficial effect on bottom-line performance for the firm. However, practitioners often tend to use the terms service quality and customer satisfaction interchangeably. Among academics the satisfaction construct is recognized as being distinct and has developed along fairly independent lines from service quality (Oliver, 1980). Most experts agree that customer satisfaction is a short-term, transaction specific measure, whereas Service quality is an attitude formed by a long-term, overall evaluation of a performance (Hoffman and Bateson, 1997).

Cronin and Taylor (1992) mentioned that satisfaction is an antecedent of service quality; service quality takes place before, and leads to overall customer satisfaction. Service quality appears to be only one of the service factors contributing to customers' satisfaction judgments (ibid.). Parasuraman et al., (1988) have tried to identify key determinants by which a customer assesses service quality and consequently results in satisfaction or not. Jayawardhana and Foley (2000) suggested that service quality feature in Internet banking web sites are critical to enhance customer satisfaction. In Internet banking unlimited access to variety of financial transaction and quality levels of bank products are becoming a key driving force in attracting new customers and enhancing customer satisfaction (Mols, 2000).

Lassar et al., (2000) examined the effects of service quality on customer satisfaction in private banking by using two well-known measures, the SERVQUAL and the technical/functional quality. Empirically they compared and contrasted these two measures and find out their effects on
satisfaction. They mentioned customer satisfaction is a multidimensional construct, and it will be differentially impacted by the various components of service quality. Result of their study suggested that functional quality is not only more important that once thought, but also more complexes. In contrast to the other quality dimensions, the functional dimension influenced significantly each of the satisfaction measure (ibid.).

Online customers still demand many services available through traditional channels even if they choose pure Internet-based suppliers with basic customer services (Yang and Fang, 2004). Several studies have been conducted to identify traditional service quality dimensions that contribute most significantly to relevant quality assessments in the traditional service environment. Identification of the determinants of service quality is necessary in order to be able to specify measure, control and improve customer perceived service quality (Johnston, 1997).

Through the study of focus groups Parasuraman et al., (1985) identified ten determinant of service quality which are tangibles, reliability, responsiveness, communication, access, competence, courtesy, credibility, security, understanding / knowledge of customer. These ten dimensions were purified and developed five dimensions, such as, tangibles, reliability, responsiveness, assurance and empathy to measure service quality, SERVQUAL (Parasuraman et al., 1988). Tangibles refer to physical facilities, equipment, and appearance of personnel. Reliability means ability to perform the promised service dependably and accurately. Responsiveness means willingness to help customers and provide prompt service. Assurance indicates knowledge and courtesy of employees and their ability to inspire trust confidence. Empathy refers to caring, individualized attention the firm provides its customers (ibid.).

Six criteria of perceived good service quality were mentioned by Grönroos (1994), such as, professionalism and skills, attitudes and behavior; accessibility and flexibility, reliability and trustworthiness, recovery, reputation and credibility. Johnston (1997) provides eighteen service quality dimensions - Attentiveness/helpfulness, Responsiveness, Care, Availability, Reliability, Integrity, Friendliness, Courtesy, Communication, Competence, Functionality, Commitment, Access, Flexibility, Aesthetics, Cleanliness/tidiness, Comfort and Security.

Grönroos (1994) identified ten determinant of service quality from interviews of focus group. Consumers' comments in these interviews about service expectations, priorities and experiences match with one of these ten categories. These are - reliability, responsiveness, competence, access, courtesy, communication, credibility, security, understanding and tangibles (ibid.).

Service reliability involves consistency of performance and dependability. It means that the firm should honor its promises. Especially it should assure accuracy in billing, keeping records correctly, performing the service at the designated time. Responsiveness concerns the willingness or readiness of employees to provide service. It involves timeliness of services that means-mailing a transaction slip immediately, calling the customer back quickly and giving prompt service. Competence means possession of the required skills and knowledge to perform the services. It involves knowledge and skill of the contact personnel, knowledge and skill of operational support personnel, research capability of the organization. Access involves approach, ability and ease of contact. It means, the service is easily accessible by telephone, waiting time to receive service is not extensive, hours of operation are convenient and location of service facility is convenient. Courtesy involves politeness, respect, consideration, and friendliness of contact personnel. It
includes - consideration for the consumer's property, clean and neat appearance of public contact personnel (ibid.).

Communication means keeping customers informed in language they can understand. It also means listening to customers. It may mean that the company has to introduce its language for different consumers- increasing the level of sophistication with a well - educated customer and speaking simply and plainly with a novice. It means, explaining the service itself, explaining how much the service will cost, and assuring the customer that a problem will be handled. Credibility involves trustworthiness, believability, honesty; it involves having the customer's best interests at heart. Contributing to credibility is company name, company reputation, personal characteristics of the contact personnel, and the degree of hard sell involved in interaction with the customer. Security is the freedom from danger, risk or doubt. It involves physical safety, financial security and confidentiality. Understanding the customer means making the effort to understand the customer's need. It includes learning the customers' specific requirements, providing individualized attention, recognizing the regular customer. Tangibles includes the physical evidence of the service, physical facilities, appearance of personnel, tools or equipment used to provide the service, physical representations of the service, such as a plastic credit card or bank statement, other customers in the service facilities (ibid.).

Service quality can be extinguished in an online setting to electronic service quality. Electronic service quality has been defined earlier as the extent to which a Web site facilitates efficient and effective shopping, purchasing, and delivery (Gummerus et al., 2004).

Web sites are seen for informational, promotional or supporting purposes. According to that e-service quality could be defined as the consumer's evaluation of process and outcome quality of the interaction with a service provider's electronic channels. The various dimensions of online service quality remain quite unexplored (Gummerus et al., 2004).

Gummerus et al. (2004) develop four dimensions that come out to be important to all online services: (1) The quality of the user interface (2) Responsiveness (3) Need fulfilment (4) Security. See proposed model, illustrating antecedents of e-satisfaction and loyalty in Figure 3.

![Proposed Model, Illustrating Antecedents of E-satisfaction and Loyalty](image)

**SOURCE:** From Gummerus et al., 2004, p. 179.

If those four dimensions are fulfilled, then the customer trusts the online service or company, which can lead to satisfaction and finally customer loyalty.
While e-service quality dimensions are occasionally considered to be causing e-loyalty directly (Srinivasan et al., 2002), a majority of studies view them as antecedents of e-satisfaction (Szymanski and Hise, 2000; Van Riel et al., 2004), i.e. satisfaction is conceptualized as a mediator of the relationship between quality and loyalty (Caruana, 2002). As yet, there is no consensus on the exact nature or number of quality dimensions that customers consider when evaluating e-services (Srinivasan et al., 2002; Wolfinbarger and Gilly, 2003; Yang et al., 2003; Zeithaml et al., 2000, 2002). For the present study, five commonly used e-quality dimensions were chosen:

(1) Ease of use  
(2) Web site design  
(3) Customization  
(4) Responsiveness and  
(5) Assurance

These dimensions will be briefly discussed. Ease of use is an essential element of consumer usage of computer technologies (Davis, 1989; Morris and Turner, 2001; Venkatesh, 2000; Venkatesh and Davis, 2000), and is of particular importance for new users (Gefen and Straub, 2000). Ease of use is a determinant of service quality (Dabholkar, 1996) and is decisive for customer satisfaction, since it enhances the efficiency of using the service (Xue and Harker, 2002). In an e-tailing context, ease of use includes aspects such as functionality, accessibility of information, ease of ordering and navigation (Reibstein, 2002). Besides being easy to use, the company’s site should be pleasing to the eye (ibid.).

Thus, another quality dimension directly related to the user interface is web site design (Wolfinbarger and Gilly, 2003; Zeithaml et al., 2000), or e-scape (Van Riel et al., 2004). An often-cited benefit of online technologies is that the web site can be personalized to the user’s needs, although this may be a challenging task, because of the lack of a human touch (Rust and Kannan, 2002). E-tailers should strive to customize their services to users’ individual needs (Srinivasan et al., 2002), e.g. based on past purchases and other information provided by customers.

Loyal customers can be a valuable source for service improvements (Wikström, 1996a, b), but companies often ignore such information (Finkelstein, 2003). As in a traditional service context, customers expect quick feedback on requests and when they suggest improvements. Though responsiveness in general has a positive influence on e-satisfaction, it should be noted that it may impact quality perceptions negatively if customers feel that they are bombarded with company e-mails (Zeithaml et al., 2000).

The fifth quality dimension is assurance, i.e. the customer’s perceived security and privacy when using the e-tailer’s services. Security and privacy are of serious concern to e-service customers (Rust and Kannan, 2002). Security concerns the risk of third parties obtaining critical information about the customer (e.g. access to credit card or bank account details), whereas privacy relates to the concern about the potential misuse of personal information by marketers (Milne and Rohm, 2000). Privacy exists when customers can restrict the use of personal information. However, many customers are not aware of what information e-tailers collect, or where to look for opt-in or opt-out options. Milne and Rohm (2000), for example, found that less than half of surveyed direct mail responders knew how to remove their name from the mailing list. Moreover, regulations differ between countries, and, for example, whereas opt-in is required within the European Union, opt-out
is a legal option in the USA. Customers who use the global Internet are unlikely to be familiar with the regulations that apply to each web site and, therefore, have to place their trust in the integrity of the e-tailer. E-tail customers are also found to exhibit less privacy concerns than non-Internet users, though concerns are also higher among older persons (Graeff and Hamon, 2002). Concerns over lack of privacy may help to explain why Wollinbarger and Gilly (2003) found no effect of security/privacy on satisfaction, loyalty intentions, and attitude towards the web site, and only a small negative effect on overall web site quality. Although e-tailers’ privacy policies are ranked low in importance in relation to other elements, they will become of utmost importance when violated. All five dimensions are expected to impact on customers’ satisfaction with the e-tailer: E-quality directly and positively influences e-satisfaction (Reibstein, 2002).

The SERVQUAL scales (Parasuraman et al., 1991) can evidently not be applied as such to e-services, but dimensions that closely resemble them can be constructed. However, additional dimensions may be needed to fully capture the construct of e-service quality (Zeithaml et al., 2002). Kaynama and Black (2000) and Zeithaml et al., (2000) have recently proposed a number of e-quality dimensions.

E-SERVQUAL has developed by Zeithaml et al., (2000) for measuring e-service quality. Through the focus group interview they have identified seven dimensions of online service quality, such as, efficiency, reliability, fulfillment, privacy, responsiveness, compensation and contact. They identified four dimensions - efficiency, reliability, fulfillment and privacy which form the core e-SERVQUAL scale that is used to measure the customer’s perceptions of service quality delivered by online retailers (ibid.).

Efficiency refers to the ability of the customers to get to the website, find their desire product and information associated with it, and check out with minimal effort. Fulfillment incorporates accuracy of service promises, having product in stock, and delivering the product in the promised time. Reliability is associated with the technical functioning of the site, particularly the extent to which it is available and functioning properly. The privacy dimension includes assurance that shopping behavior data are not shared and that credit card information is secure (Zethaml et al., 2002).

Zethaml et al., (2002) also found that three dimensions become salient only when the online customers have questions or run into problem. These dimensions are responsiveness, compensation and contact. Responsiveness measures the ability of e-tailers to provide appropriate information to customers when a problem occurs, have mechanisms for handling returns, and provide online guarantees. Compensation is the dimension that involves receiving money back and returning shipping and handling costs. The contact dimensions of the recovery e-SERVQUAL scale point to the need of customers to be able to speak to a live customer service agent online or through the phone. It means requiring seamless multiple channel capabilities on the part of e-tailers (ibid.).

Kaynama and Black (2000) subjectively evaluated the online services of 23 travel agencies to adapt the SERVQUAL dimensions to e-services, and seven dimensions derived from SERVQUAL, such as, responsiveness, content and purpose (derived from reliability), accessibility, navigation, design and presentation (all derived from tangibles), background (assurance), and personalization and customization (derived from empathy).
Fifteen dimensions of online service quality were proposed by Madu and Madu (2002) which are performance, features, structure, aesthetics, reliability, storage capacity, serviceability, security and system integrity, trust, responsiveness, product/service differentiation and customization, web store policies, reputation, assurance and empathy. Wolfinbarger and Gilly (2003) have found four online retailing service quality dimensions through focus group interviews and an online survey. These are web site design, reliability, privacy/security and customer service. They found that reliability and fulfillment are the most important issues of customer satisfaction (ibid.).

Online service quality dimensions were identified by Yang and Fang (2004) and they also showed the relationship between dimensions and satisfaction. These are reliability, responsiveness, ease of use, competence. Yang and Fang (2004) have uncovered six prominent factors to evaluate e-tailer’s service quality, such as, reliability, access, ease of use, personalization, security and credibility. Liu and Arnett (2000) identified measurement of web site success in the context of electronic commerce. These are quick responsiveness, assurance, reliability, empathy, and follow-up service. First, quality of information consists of relevant, accuracy, timely, customized and complete information presentation. Second important factor is the service includes quick response, assurance, empathy, and follow-up. Third, system use includes security, correct transaction, customers control on transaction, order-tracking facilities and privacy (ibid.).

Yang and Fang (2004) identified five online service quality dimensions and several items within these dimensions are critical for customers to evaluate service quality and satisfaction. The first important attribute is prompt order execution and confirmation which requires adequate system capacity as well as staff support. The second important aspect is accuracy of the online trading system, including accurate order fulfillment, accurate record keeping. The third important aspect is the accessibility of the web site. The fourth important aspect is e-mail response, besides traditional communication means, such as phone call, online customers are particularly longing for prompt response to their inquiries and prompt confirmation through e-mail. Finally, transaction security and personal information privacy are major concerns for online customers (ibid.).

Access and responsiveness of the website are the key indicators of service quality which are delivered through the web. Access should be operationalized as the provision of a hot-link e-mail address and telephone number of customer service agents. Responsiveness could be measured by the promptness of the e-tailer responded to e-mails (Zeithaml, 2002).

Six dimensions of consumer perceptions of service quality were identified and measured by Yang et al., (2001), which are ease of use, content on the website, accuracy of content, timeliness of response, aesthetics, and privacy. Ease of use means user friendliness, loading/transaction speed, search capability, and easy navigation. Content on the website, particularly information should match the needs of customer. Aesthetics means attractiveness or beauty of the site and sensibility of catalog pictures (ibid.).

Five service quality dimensions identified by Parasuraman et al., (1988) can be applied in e-commerce by replacing tangibility with the user interface. Responsiveness could refer to the speed of the company’s response to the customers, reliability could relate to timely delivery of ordered goods, accurate in formation and correct links. Assurance could be interpreted as the safety of online transactions and the policy for using personal information by the company, while empathy
could refer to the degree of customization of communications based on customers' personal needs (ibid.).

Wang and Huarng (2002) identified nine e-service qualities through content analysis of online customer comments in their research that affect customer satisfaction. These are general feedback on the website design, competitive price of the product, merchandise availability, merchandise condition, on-time delivery, merchandise return policy, customer support, e-mail confirmation on customer order, promotion activities. Lociacono et al., (2000) established a scale called WEBQUAL with twelve dimensions: informational fit to task, interaction, trust, response time, design, intuitiveness, visual appeal, innovativeness, flow, integrated communication, business processes and substitutability.

Joseph et al., (1999) investigated the influence of technology, such as the ATM, telephone, and the Internet, on the delivery of banking service. Their study identified six underlying dimensions of electronic banking service quality: convenience / accuracy, feedback / complaint management; efficiency; queue management; accessibility; and customization. Latimore et al., (2000) mentioned in their study 87 percent of Internet banking customers want to use variety of financial transaction including paying their bills electronically and automatically, viewing their monthly bank statements and purchasing stocks and insurance.

It was found that banking service product quality plays an important role in order to determining customer's perceptions of the overall banking services, (Jun and Cai, 2001). They identified ten dimensions in Internet banking service quality. These dimensions are reliability, responsiveness, competence, courtesy, credibility, access, communication, understanding the customer, collaboration and continuous improvement. Two dimensions, collaboration and continuous improvement are found as new dimensions for Internet banking. The remaining eight dimensions were previously identified by Parasuraman et al., (1985). Reliability refers correct service, keep service promise, accurate records and keep promise as advertised. Responsiveness refers prompt service - quickly solve problems, convenient service. Competence means ability to solve problems, knowledge to answer questions, courtesy includes address complains friendly and consistently (ibid.).

Credibility means confidence in the bank’s service good reputation. Access includes availability for help, ATM access, phone access, e-mail access, account access even from abroad. Communication means clear answer, informing customer important information, availability of status of transactions. Understanding of customer means personal attention. Collaboration includes external collaboration and internal collaboration. Continuous improvement includes continuous improvement on online systems, continuous improvement on banking products, continuous improvement on customer services (Jun and Cai, 2001).

Several businesses have developed their own methodologies to measure service quality provided by online retailers. BizRate.com’s, Los Angeles-based shopping search site on the Web, scale is the most widely cited scale in popular literature. The BizRate scale has 10 dimensions: ease of ordering, product selection, product information, price, website performance, on-time delivery, product representation, customer support, privacy policies, and shipping and handling (Zeithaml et al., 2002).
To help companies improve their Internet application performance over time, Gomez provide a series of indexes measuring similar business processes across multiple organizations. Gomez.com provides an alternative evaluation system and the categories which are, Ease of use, Efficient access to information, Customer confidence, Reliability, On-site resources, Relationship services, Overall cost. Ease of use means functionality of the web site, consistency of design and navigation, smoothness of interactions. Efficient access to information indicates signifying back-end integration of data. Customer confidence means promptness and accuracy of e-mail response, privacy policies, guarantees, breadth and depth of customer service options, including channels of interactions. Reliability means loading times and security. On-site resources mean availability of online response to requests, detailed information on each product line and availability of the products. Relationship services include online help, recommendations, personalization of information, customer information to facilitate future interactions, incentive programs. Overall cost means total cost of ownership of typical offering baskets, added fees for shipping and handling, minimum balances and interest rates for financial services companies (ibid.).

CIO.com Cyber Behavior center had conducted a survey to measure the quality of service provided by e-tailers on the web. These surveys identified some problems that occur during placing order and after placing order. These problems arise because of inability to contact online customer service representative during placing order, and after placing order (ibid.).

Finally, the quality elements of the e-service are expected to affect e-trust directly (Grönroos et al., 2000), because they represent trust cues that convey the trustworthiness of the site and the system to customers (Corritore et al., 2003). In a review of studies on online trust, Grabner-Kräuter and Kalusha (2003) even interpret e-quality determinants as trust, i.e. trusting beliefs, and intentions to repurchase as trusting intentions.

Furthermore, Corritore et al., (2003) call web sites objects of trust and suggest that navigational architecture and design elements have a direct effect on trust. A qualitative study by Davis et al., (2000) on e-tail brands also demonstrates the importance of e-tailer trust, such as think of brands, trust in terms of quality and if there is no trust, it will not allow the service to continue. Although these studies are not on e-trust, e-quality can be expected to have a positive effect also trust in the online medium. Therefore, in analogy with the arguments used to underpin the relationship between satisfaction and e-trust, it is expected that the confidence customers have in online exchanges will be positively affected by the quality of their online experiences: e-quality directly and positively influences e-trust (ibid.).

2.1.3 Customer Trust

Trust is proposed as another important antecedent of loyalty (Reichheld et al., 2000). The trust concept has been studied in a number of disciplines, and various definitions have been proposed (Lewicki et al., 1998). Trust is consistently related to the vulnerability of the trustor (Bigley and Pearce, 1998), because without vulnerability of the trustor upon the trustee, trust becomes irrelevant. In business studies, trust has been found to be important for building and maintaining long-term relationships (Geyskens et al., 1996). A commonly used definition of trust is that of Moorman et al., (1992), who define it as the willingness to rely on an exchange partner in whom one has confidence. Trust has been defined as the degree of confidence or certainty the customer has in exchange options (Zeithaml and Bitner, 2000). E-trust will therefore be defined as the
degree of confidence customers have in online exchanges, or in the online exchange channel (Reichheld et al., 2000).

Electronic exchanges are believed to present numerous risks to customers (Grabner-Kräuter and Kalusha, 2003), while trust appears to be especially important for creating loyalty when the perceived level of risk is high (Anderson and Srinivasan, 2003). Purchasing online is considered risky, since customers lack direct contact with the company, i.e. through sales personnel or the physical store (Reichheld and Schefter, 2000), and have to hand over sensitive information, such as credit card numbers, in order to complete the transaction. The absence of interpersonal interaction also suggests that online trust is mainly cognitive, i.e. based on customers’ judgments of the reliability and capabilities of the merchant or the exchange channel, and not affective trust, i.e. founded on a bond among individuals (McAllister, 1995).

It should be explicitly recognized that there are different types of trust, and a distinction needs to be made between a person’s disposition, or propensity to trust, system-based trust and interpersonal trust (Grabner-Kräuter and Kalusha, 2003). Dispositional trust plays a particularly important role in the interaction between unfamiliar actors (Bigley and Pearce, 1998) and is therefore essential for the initial use of electronic retailers (Grabner-Kräuter and Kalusha, 2003), as well as for purchases of goods and services that score high on credence and experience qualities. System-based trust equals e-trust and deals with customers’ trust in purchasing or searching for goods/service information online. Since interpersonal relationships do not describe the interaction between customers and e-tailers well, the term e-tailer trust was preferred to describe trust of customers in specific online merchants (ibid.).

There is some evidence supporting a positive relationship between e-tailer trust and e-loyalty, in term of increased spending (Gefen, 2000), and intentions to purchase (Pavlou, 2003) or repurchase (Pan et al., 2002). Lack of trust is frequently cited as a reason for not purchasing from online merchants (Lee and Turban, 2001). In analogy with findings from traditional loyalty research, positive word of mouth (Dick and Basu, 1994; Garbarino and Johnson, 1999; Gremler and Brown, 1999) can also be expected to result from trust. However, a lack of e-trust – or trust in the electronic exchange – cannot be influenced directly by online merchants, who can only influence their own e-tailer trust (Garbarino and Johnson, 1999).

Merchant trust is the most studied form of trust in online exchanges, whereas system-based trust has largely been neglected (Grabner-Kräuter and Kalusha, 2003). E-trust is expected to affect customers' willingness to purchase online (Reichheld and Schefter, 2000), but empirical evidence is lacking. A study by Kim and Prabhakar (2000) found that e-trust had a significant effect on the usage of Internet banking, whereas trust in the bank itself had no effect. Therefore, with respect to the effect of e-trust on customer loyalty, it can be expected that e-trust directly and positively affects e-loyalty (ibid.).

Customer satisfaction is closely related to interpersonal trust (Geyskens et al., 1996) and is considered an antecedent of trust (Garbarino and Johnson, 1999; Selnes, 1998). A positive effect of satisfaction on trust can be expected in the online environment as well. Customers’ satisfactory experiences with a specific e-tailer are expected to increase their willingness to make more online purchases from that e-tailer (loyalty), as well as their trust in the online medium as such (system-based trust). Satisfaction with a specific application of the system (the e-tailer) will increase
confidence in the system as a whole. It is therefore expected that e-satisfaction directly and positively affects e-trust (Pavlou, 2003).

2.1.4 Customer Satisfaction

Customer satisfaction, as stated before, is another important antecedent of customer loyalty. The concepts of satisfaction have typically been defined as a post choice evaluative judgment concerning a specific purchase decision. Satisfaction is an attitude or evaluation that is formed by the customer comparing their pre-purchase expectation of what they would receive from the product to their subjective perceptions of the performance they actually did receive (Oliver, 1980).

Several authors have defined satisfaction in a different way. Kotler (2000) defined satisfaction as a person's feelings of pleasure or disappointment resulting from comparing product's perceived performance (or outcome) in relation to his or her expectations. Yi (1990) defined customer satisfaction as a collective outcome of perception, evaluation and psychological reactions to the consumption experience with a product/service. According to Hunt (1991) satisfaction is a function of consumer's belief that he or she was treated fairly.

In the highly competitive business world of today, customer satisfaction can be seen as the substantial of success, as customer satisfaction can lead to customer retention and therefore to profitability for an organization (Jamal and Kamal, 2002; Egan, 2004). Oliver referred to in Jamal et al., (2002) describes customer satisfaction generally as the full meeting of one's expectations. Furthermore, Jamal and Kamal (2002) describes customer satisfaction as a feeling or attitude of a customer towards a product or service after it has been used. Egan (2004) puts the definitions of several authors together and describes customer satisfaction as a psychological process of evaluating perceived performance outcomes based on predetermined expectations.

Lin (2003) defines customer satisfaction as the outcome of a cognitive and affective evaluation of the comparison between expected and actually perceived performance, which is based on how customers appraise delivery of goods or services. A perceived performance, which is less than the expected, leads to an unsatisfied customer. Perceived performance that exceeds expectations, on the other hand, leads to a satisfied customer. The expectations of a customer are built from past buying experience, advice from friends and counterparts, marketers' and competitors' information and promises (Kotler referred to in Lin, 2003).

McGoldrick and Andre (1997) argues that the term loyalty is been used loosely and includes affection, fidelity or commitment. For this reason, customer satisfaction is been used as a measure of loyalty because it has been assumed that satisfaction affects buying intentions in a positive way. Loyalty is seen to be difficult to define and measure. The problem lies in identifying whether loyalty is an attitudinal or behavioural measure (ibid.).

According to Gummerus et al., (2004), customer satisfaction is positively related to loyalty in traditional services and a criterion of a company's past, current and future performance. In the online context, satisfaction has a stronger impact on loyalty than offline, as searching for alternative providers offline is more cost intensive (ibid.).
Parker and Mathews (2001) mentioned two principal interpretations of satisfaction as a process and as an outcome. The value-percept theory views satisfaction as an emotional response triggered by a cognitive evaluation process. In other words, it is the comparison of the "object" to ones value rather than an expectation. Customers want a meeting between their values (needs and wants) and the object of their evaluation (ibid.).

There is a general agreement that satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product perceived performance (or outcome) in relation to his or her expectations. Based on this review, customer satisfaction is defined as the result of a cognitive and affective evaluation, where some comparison standard is compared to the actually perceived performance. If the perceived performance is less than expected, customers will be dissatisfied. On the other hand, if the perceived performance exceeds expectations, customer will be satisfied (Kotler, 2000).

Many different scales have been considered to measure customer satisfaction. Three main scales, which play a significant role in determining customer choices, are customer need, customer value and customer cost (Danahler and Haddrell, 1996). According to Maslow (1943), motivation theories state that people are driven by the desire to satisfy their need. Satisfaction can be viewed as the end-point in the motivational process.

According to Solomon (1999), needs can be differentiated along two dimensions, utilitarian (a desire to achieve some functional or practical benefit) and hedonic (an experiential need, involving emotional responses or fantasies). The satisfaction of utilitarian needs implies that customer will emphasise the objective or tangible attributes of products, such as eating many vegetable for nutritional reasons. Hedonic needs are psychic needs. Psychic needs are not important for customer survival or even maintenance of what might be termed basic life standards. Instead, they originate in dimensions of the mind often characterized as feelings, emotions or human needs. In other words, hedonic needs (psychic needs) are subjective and experimental. Customers might rely on a product or service to meet their needs for excitement, fantasy, or self-fulfilment. In addition, some other important needs that are relevant to customer behaviour/satisfaction include needs for achievements, needs for affiliation, needs for power and needs for uniqueness according to Solomon (1999).

One way of achieving customer satisfaction is through understanding customer value, as perceived value is considered an important contributor to customer satisfaction (Woodruff, 1997). Value is considered to be an important constituent of customer satisfaction. In shopping, a value is often held dear to many customers' hearts. A person's set of values plays a very important role in consumption activities-many products and services are purchased because people believe these products will help to attain a value-related goal (Solomon, 1999). Values affect customers in determining evaluation criteria. Value can be defined as principles or standards of an individual, group, organisation or society as whole (Kenny, 1994).

Customer satisfaction or dissatisfaction results from experiencing a service quality encounter and comparing and comparing that encounter with what was expected (Oliver, 1980). What must be taken into account is the customer's need for quality improvements and his willingness to pay for it. Lin (2003) suggests that value is benefits/price (customer cost) based and links value creation. Based on Best's customer analysis, value creation and customer satisfaction model, cost can be
understood as a rather essential aspect in the discussion of customers’ evaluation of services as well as values and needs. Monroe (1990) also points out that buyer tend to be more sensitive to a loss than a gain. A reduction in customer perceived costs may be a real contribution of providing the total value to the customer (ibid.).

Ho and Wu (1999) identified five antecedents of customer satisfaction to be appropriate for online shopping on the Internet. These are logistical support, technical characteristics, information characteristics, home page presentation and product characteristics. They explained Logistical support means quick response to customers’ needs, providing communication channels (i.e. email or fax) quickly delivering goods for customers and providing after services. Technological factors indicate modern computer and network facilities and well-structured information systems. Information factors means reliable output information and secure transaction. Homepage presentation includes ease to use interface and detail information of goods. Product characteristics indicate variety of goods and lower prices for goods (ibid.).

DeLeon and McLean (2003) introduced Information System model which can be adapted to measure challenges of the new e-commerce world. They mentioned that within the e-commerce context, the primary system users are customers or suppliers rather than internal users. Customers and suppliers use the system to make buying or selling decisions and execute business transactions. These electronic decisions and transactions will then impact individual user, organizations, industries and even national economies. This communication and commerce process fits nicely into model and six dimensions provided by DeLeon and McLean (2003). Their model describes system quality, information quality, service quality singularly and jointly affect both Use and user satisfaction. Additionally the amount of use can affect the degree of user satisfaction positively or negatively (ibid.).

System Quality in the Internet environment measures the desire characteristics of an e-commerce system. System qualities that are valued by users of an e-commerce system are usability, availability, adaptability and response time (e.g. download time). Information quality in the web content should be personalized, complete, relevant, easy to understand and secure that will be easy for the customers to initiate transactions via the Internet and return to site on a regular basis. Service quality means the overall support delivered by the service provider, applies regardless of whether this support is delivered by the information system department, a new organizational unit, or outsourced to an Internet service provider (ISP). Its importance is most likely greater than previously since the users are now customers and poor user support will translate into lost customers and lost sales (ibid.).

Usage means everything from a visit to a web site, to navigation within the site, to information retrieval, to execution of a transaction. User satisfaction remains an important means of measuring customers’ opinions of e-commerce system and should cover the entire customer experience cycle from information retrieval through purchase, payment, receipt and service. Net Benefits are the most important success measure as they capture the balance of positive and negative impacts of the e-commerce on the customers, suppliers, employees, organizations, markets, industries, economics and even societies. Net benefits success measures are most important, but that cannot be analyzed and understood without system quality, information quality and service quality measurements (ibid.).
E-commerce systems and content require additional constructs that are not captured by the traditional system quality and information quality measurements. User satisfaction is replaced with customers' e-commerce satisfaction. Two additional factors – trust and service are needed to capture the transactional and customer support components of e-commerce systems and understand the relationship between use and customer e-commerce satisfaction (Molla and Licker, 2001).

Based on the nature of Web site development for online shopping McKinney et al., (2002) consider that Web-customer satisfaction has two distinctive sources-satisfaction with the quality of a web site's information content and satisfaction with the web site's system performance in delivering information. Web-customers' satisfaction with a website's information quality (IQ) and System quality (SQ) is in turn affected by their prior expectations, possible discrepancies (e.g. disconfirmation) between such expectancy disconfirmation paradigm, which has been the popular approach for measuring customer satisfaction in marketing. They developed a measurement instrument for web-customer satisfaction with the information search phase of online shopping. In their study they specified information and system quality as the determinants of satisfaction and measure expectation disconfirmation at each specific dimension of these determinants (ibid.).

Based on this paradigm, customer satisfaction has three main antecedents: expectation, disconfirmation, and perceived performance. When applied to web-customer satisfaction, web-information quality satisfaction has three antecedents: information quality expectation, information quality disconfirmation, and information quality-perceived performance. Similarly, web-system quality satisfaction has three antecedents: System quality expectation, system quality disconfirmation, and system quality perceived performance (McKinney et al., 2002).

McKinney et al., (2002) identified four system quality (SQ) dimensions 1. Access 2. Usability 3. Navigation 4. Interactivity. Access refers to the speed of access and the availability of the web site at all times and subscales for access are responsive, load quickly. Usability concerned with the extent to which the website is visually appealing, consistent, fun and easy to use and subscales for usability are simple layout, easy to use, well organized, visual attractively, fun and clear design. Navigation evaluates the link to needed information and subscales for navigation are adequate links, clear description for links, easy to locate, easy to go back and forth and a few clicks. Interactivity evaluates the search engine and the personal design i.e. the shopping cart feature, of the web site. Subscales for interactivity are customized product, search engine, create list of items, change list of items, finding related items. Web information quality means the customers' perception of the quality of information presented on a web site and web system quality means the customer's perception of a web site's performance in information retrieval and delivery (ibid.).

2.2 Objectives of Customer Loyalty Programs and Affects of Loyalty Programs with the Advent of the Internet

The development of customer loyalty is one of the most important issues organization face today. Creating loyal customers has become more and more important. This is due to the fact that competition is increasing, as never before, which has a great impact on many companies. To deal with this high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with these customers (Gremler and Brown, 1996). Gould (1995) mentioned that creating satisfied and loyal customer is one of the most focal
objectives of loyalty programs. It was argued that creating satisfied and loyal customers is a critical
matter for many corporations survival (ibid.).

In the past decades many firms have (re)adopted a customer focus – often through a formal
program of customer relationship management (CRM) (Uncle et al., 2003). Recent advances in
information technology have provided the tools for marketing managers to create a new generation
of CRM tactics. One such tactics that thousands of firms have considered, and which may have
adopted, is to establish a customer loyalty program. Typically these programs offer financial and
relationship rewards to customers, and in some instances benefits also accrue to third-parties such
as charities (ibid.).

Loyalty programs are schemes offering delayed, accumulating economic benefits to consumers
who buy the brand. Usually this takes the form of points that can be exchanged for gifts, free
products, or aspirational rewards such as air miles. Airline frequent-flier programs have been a
prototype for many of the schemes. Affinity programs are a specific type of loyalty program. They
are designed to enhance the emotional bond between customer and brand. Mechanisms are set
up to enhance two-way communication in order for the customer to get to know the brand (or
company that stands behind it) better, and for the company to learn more about the customer. No
direct economic benefit is offered to the customer. Examples include telephone help lines, club
memberships, alumni associations, newsletters, Web site ‘chat’ groups, etc. hybrids also exist.
For instance, where the focus is on enhancing the emotional bond between customer and brand,
and a third party (e.g. a charity) receives a financial benefit. Or, the establishment of a club where
consumers pay for membership, in return for access to special events and offers (Uncle et al.,
2003).

O’Malley (1998) states that the basic idea of a loyalty schemes is to reward customers’ repeat
purchasing and encourage loyalty by providing targets at which various benefits can be achieved.
Reichheld and Sasser (1990) evaluate how profitability is affected by customer retention and come
to the conclusion that as a customer’s relationship with the company lengthens, profits rise. And
not just a little. Companies can boost profits by almost 100 per cent by retaining just 5 per cent
more of their customers (ibid.).

Organizations’ goal with creating customer loyalty is mainly to increase their profits, since loyal
customers have direct value on a company’s profitability. Several other benefits can be derived
from loyal customers. Seen from the organizational perspective, loyal customers lead to increased
revenues for the organization, result in predictable sales and profit streams, and these customers
are also more likely to purchase additional goods and services (Gremler and Brown, 1999). To
precisely assess the value of customer loyalty, there is the need to look beyond the direct value it
has on the organization. That is to say beyond the direct revenue streams and add in the overall
benefits related with it. For instance, loyal customers are also more likely to talk about the brand
and recommend it to their friends and relatives, which will generate new businesses (ibid.).

Uncle et al., (2003) states that loyalty programs can increase the brand loyalty through a decrease
in price sensitivity and decrease in customers desire to consider other brand alternatives. It is
shown that customer loyalty program generate in higher profits since loyal customer buy more
frequently and buy more products. This is a highly significant factor for companies since most
companies are profit seeking. Loyalty programs can also encourage a positive word of mouth,
attract more customers and increase the number of purchase (ibid.). According to Yi and Jeon (2003) loyalty programs are profitable because the cost of serving existing customers is less than attracting new ones. The author further states that the loyal customers are less price sensitive and usually spend more money with the company (ibid.).

Uncle et al. (2003) states two aims of customer loyalty programs, the first is to increase sales revenues through increasing purchase/usage levels, and/or increasing the range of products bought from the supplier. The second aim is to build closer bond between the brand and the existing customers to maintain the existing customer base. They also mentioned many peripheral goals of loyalty programs – such as furthering cross-selling, creating databases, aiding trade relations, assisting brand PR, establishing alliances, etc. (ibid.).

If individual customers are focused, loyalty programs can be seen as vehicles to increase single-brand loyalty, decrease price sensitivity, induce greater consumer resistance to counter offers or counter arguments (from advertising or sales-people), dampen the desire to consider alternative brands, encourage word-of-mouth support and endorsement, attract a larger pool of customers, and/or increase the amount of products bought (ibid.). It has been found that members of the loyalty program of a financial services company were generally less sensitive than other customers to perceptions of lower service quality from their company and any price disadvantage relative to competitors (Bolton referred to in Uncle et al., 2003).

Many loyalty programs have been identified as the scope for cross selling, in an attempt to increase share-of-wallet, rather than market share. Loyalty-program members are encouraged to buy products they would not normally have bought from that provider. In essence, the loyalty program is seen as a brand extension aid (Uncle et al., 2003).

According to O'Malley (1998) loyalty programs are developed to reward loyal customer, generate information about the customers and manipulate their behaviour. Yi and Jeon (2003) sates that loyalty programs are usually introduced to build customers loyalty through a reward scheme. The goal of loyalty programs is to establish a high level of customer retention by providing satisfaction and value to certain customers. Theses programs can also increase brand loyalty by creating switching costs and profits by avoiding price competitions. The customers' value perception is a necessary condition for the developing of brand loyalty through programs. The loyalty programs has to be perceived as valuable for the customer as well as convenient and generate in cash value to be bale to entice the customers into the program. (ibid)

Dowling and Uncles (1997) describe a psychological benefit of belonging to a program and the accumulation of points. The authors found that the accumulated points and being qualified for a reward could be regarded as psychological rewards in loyalty programs. Yi and Jeon (2003) states that this value perception might also be related to the different types of rewards, customers prefer luxuries as rewards and value them more than necessity rewards.

There is an assumption that loyalty programs provide benefits which represent ‘value’ to customers, and it is because of this that loyalty programs can encourage loyalty. However, the extent to which loyalty programs offer ‘value’ to consumers is also questionable, particularly because value will represent different things to different people, and will be different in different context (O'Malley, 1998). O'Malley (1998) identified five elements which determine the value of a
loyalty program. These includes cash value (how much the rewards represents as a proportion of spend); choice of redemption options (the range of rewards offered); aspirational value (how much the customer wants the rewards); relevance (the extent to which rewards are achievable); and convenience (easy of participation in the program) (ibid.).

O'Malley (1998) mentioned that loyalty programs are developed for a variety of reasons including to reward loyal customer, to generate information, to manipulate consumer behaviour, and as a defensive measure to combat a competing programme. Uncles (1994) mentioned that most retailers’ loyalty programs aim is to reward repeat purchases. This is achieved through a combination of discounts and other ‘rewards’. Consumers are motivated to participate in such programs because, fundamentally, most people like to get something for nothing (ibid.). This argument is supported by Evans et al., (1997) who claimed participants in a group agreed that, if a customer already patronise a particular store, then it makes sense to join the program.

Stone referred to in O’Malley (1998) described customer information as a secret weapon. He explained that generating customer information as a key to success in business. Generating customer information includes to know who the best customers are, what they buy, and how often (ibid.). Manipulate consumer behaviour is one of the fundamental aims of most loyalty programs within a sophisticated system, where incentives and coupons can be individually targeted, in order to encourage customers to try new products or brands; increase multi-pack purchases; pay premium prices, and/or use the brand for increasingly diverse services (O'Malley, 1998).

Loyalty programs should be developed as a defensive measure to combat a competing program. One problem has been identified with loyalty programs as a defensive move is that organisations are often unclear about what exactly the scheme is intended to achieve. As a result reward programs are widely misunderstood and often misapplied (O’Malley, 1998).

Khalifa and Liu (2002) discussed that the Internet based services are believed to be superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel because of their convenience, integrity, relatively low cost and high degree of customization/personalisation among other advantages. The rapid development of information and communication technologies during the 1990s has enabled companies to introduce more and more high tech services. Internet banking and other completely new services which are considered as loyalty programs ‘add value’ to existing products by substituting or complementing personal interactions with service staff by means of technological solutions (Jun and Cai, 2001). Taking into account these developments, it is evident that service researchers need to pay more attention to consumer evaluation of technology based services (Parasuraman and Grewal, 2000).

Most organisations operate loyalty programs in addition to, not instead of, other marketing activities. Loyalty programs should clearly be viewed in terms of a long-term strategic investment, rather than in terms of short-term tactical manoeuvres. Organisations have bought into loyalty programs because they have accepted the economics of customer retentions. That is, managers have accepted that customers are more profitable; loyal customers cost less to serve; loyal customers are less price-sensitive and; loyal customers generate positive word of mouth (O’Malley, 1998).
Indeed, loyalty programs are increasingly attracting criticism, including: that they are little more than sophisticated sales promotions; that loyalty is exhibited to the program not the brand; that data collection is over-emphasised; and that subsequently the costs may outweigh advantages. Marketers need to clarify the objectives of their loyalty programs. They need to determine the relative importance of data collection, rewarding loyal customers, manipulating behaviour, erecting switching costs, and shifting merchandise, etc. In particular, they must assess the extent to which their program(s) can, and do, influence sustainable loyalty (ibid.).

2.3 Activities to Create Loyal Customers and Affects of Advent of the Internet on Customer Loyalty Activities

O’Malley (1998) argued that promoting reward/incentives to loyal customers as the basic activities of a loyalty schemes to encourage loyalty and to achieve various benefits. Parasuraman et al., (1988) identified determinants of service quality such as tangibility, reliability, responsiveness, communication, assurance, competence, courtesy, credibility, security, understanding/knowledge of customer. Tangibles refer to physical facilities, equipment, and appearance of personnel. Reliability means ability to perform the promised service dependably and accurately. Assurance indicates knowledge and courtesy of employees and their ability to inspire trust confidence. Empathy refers to caring, individualized attention the firm provides its customers. Responsiveness concerns the willingness or readiness of employees to provide service. It involves timeliness of services that means-mailing a transaction slip immediately, calling the customer back quickly and giving prompt service. Competence means possession of the required skills and knowledge to perform the services. It involves knowledge and skill of the contact personnel, knowledge and skill of operational support personnel, research capability of the organization. They argued that these skills can be improved by providing up to date training over time. It was argued by them that trained staffs create values and Human Resources base is paramount in achieving objectives (ibid.).

Yakhlef (2001) has assumed that the Internet is to be taken as a means of transforming organizations’ core business. He also mentioned that fundamental organizational and strategic changes will result from the Internet and organizations are already feeling the effects today. The first and immediate effect is a reduction in the number of branches and employees; since online customers do more and more of employees’ administrative work. The Internet is a way to change brand name; to move away from a “traditional-bound institution, to an innovative and dynamic form of organizing, which capitalizes on technology, a brand name, information about its customers and new ideas (ibid.).

Business firms seem to adopt the Internet because they regard it first and foremost as a means for marketing, reducing transaction costs, and achieving a higher degree of customer-orientation. Through close relationships with customers, firm can learn about the customers’ habits, needs and taste. On the basis of that customer knowledge base, it is possible for firms to target their customers more precisely, customize and personalize their offerings to them (ibid.).

Paul (1996) has argued the advent of the Internet has prompted a plethora of studies, which propose that it will result in a “marketing revolution”. Whether this revolution will take place depends largely on whether the Internet has an impact on the creation of sustainable marketing advantages. The Internet might have this impact if the potential to the Internet with customer allows marketers to replicate the “one-to-one”, personal selling relationships that previously existed only in
markets that had small numbers of buyers (e.g. business-to-business). The “interactive potential” of
the Internet has sparked interest in the feasibility of targeting a “segment of one”. If such one-to-
one interaction is possible then it may allow marketers to build strong, sustainable relationships
with their customers and enhance brand loyalty (ibid.).

The Internet has opened up a “marketspace” that has a number of distinctive characteristics. The
market space is: shared; real-time; global; and open. Marketers can now engage customers, on a
global scale in real-time, two way interactions. This type of interaction favours increased
understanding of customers and adaptation of the marketing offers to their specific need and
wants. The value of interaction can clearly be seen in many firms that are creating online
communities and enhancing customer identification with the brand (Peattie and Peters, 1997).

Quelch and Klein (1996) suggested that, although the Internet start-ups transact with customer,
existing firms use the Internet for one-way communication, in other words as an on-line brochure.
Dutta and segev (1999) go further suggesting that companies have a long way to go to exploit the
potential of the Internet. They divide the Internet activity into three stages:

1. Publishing corporate information:
2. Conduction electronic commerce; and

The Internet creates the potential to interact with customers on a global scale. This interaction may,
in turn, allow marketers to target their customers on a one-to-one basis and to build brand loyal
relationships. Thus interaction with customers via the Internet should improve marketing
performance (Dutta and Segev, 1999).

There are two different views with respect to the impact of firm size on use of the Internet. One
suggested outcome is that small firms, in particular, will benefit from the Internet because it
reduces the importance of scale of economies (Quelch and Klein, 1996). They argued that if we
accept the counter-argument that large firms are likely to be inflexible and bound by bureaucracy
while smaller firms are more meritocratic and entrepreneurial, then speed of adoption and the
resultant learning curve should lead to greater level of sophistication in the Internet usage by the
smaller companies. Based on these argument it was identified that small firms will make more
sophisticated use of the Internet than the large firms. It is also identified that large organizations
with high levels of resources make the most sophisticated use of the Internet (ibid.).

Kerzkowski et al., (1996) mentioned one primary characteristic of the Internet is its ability to
replicate and transfer information extremely cheaply (compared to other modes of transfer). As
such, any product that has a highly intangible, information content is highly suited to a Web
delivery environment. In their matrix that examines suitability for digital media, they ranked
services such as financial services, insurance, banking travel service, etc. highest on both the
dimensions of “fit with interactive media” and the “potential for relationship building” (ibid.).

Today’s world of intra-, inter-, and extra-nets, the adoption of the technology is important for all
firms. From a marketing perspective, research suggests that high service content, intangible and
information-based products benefit most from sophisticated Internet usage (Berthon et al., 1999).
According to Quelch and Klein (1996) the benefits of the Internet for internationalization lie in
several areas and the Internet is proposed as a means of lowering the cost of internationalization. Simplified order processing and lower marketing costs – achieving visibility and promoting the corporate image will cost less using the Internet rather than other media (Sterne, 1995). Accordingly, the Internet reduces the resources needed to operate or to expand internationally (ibid.).

Dutta and Segev (1999) classified marketing activities on the Internet. From his classification it is seen how and which activities are impacted by advent of the Internet. They mentioned the Internet marketing functions are: Customer relations - feedback from customer, online customer service, customer identification, customer communities, communication to customers. Product – online product catalogue, Value added information on products, online help in choosing product, product customization, customer participation in product design. Price - price information is available online, metered pricing, dynamic customization, customer participation in pricing. Place - online order of products, real –time processing of orders, online payment, involvement of other partners, and online distribution of products. Promotion - online promotions, customized promotions, links with other firms, customer participation, online advertising (ibid.).

Traditionally, service encounters have been characterised as low tech, high face-to-face contact. However, advances in technology have changed the way many services are now delivered with particular emphasis being placed on self-service options and in the provision of enhanced service support. The focus of much of this change has been with a view to improving performance by increasing the quality and productivity of the services. It is also widely acknowledge that the Internet will allow an increasing range of customer services to be developed and distributed, and small business are likely to benefit especially as they potentially have equal access to consumers (Drennan and McColl-Kenndy, 2003).

Customer loyalty in service industries has received attention in both marketing and management theory and practice. As customer loyalty may act as a barrier to customer’s switching behaviour it has an impact on the development of a sustainable competitive edge (Gremler and Brown, 1996). The Internet offers 24x7x365 opening to business, lower costs, efficiency gains, extended market reach, quick adjustment to market change and improved customer service for suppliers and convenience, more information, fewer hassles, low procurement cost, streamlined processes, private shopping and instant transaction for customers. The Internet has facilitate customers to chose provider from a wide range, switching cost is less and competitors are just a click away (Kotler, 2000).

Internet banking will lower the costs significantly specially saving operational costs (Milind, 1999). Competitive pressure will also compel banks to adopt this channel like software and telecom companies will enter in online banking market (Hagel and Eisenmann referred to in Milind, 1999). Bradley and Stewart (2003) also argued that Internet banking provides competitive advantage by considerably reduce cost and raise need satisfaction of consumer by providing the enhanced interaction, data mining and customization.

It is, however, increasingly difficult for online companies to satisfy and bond their customers, who are demanding ever better information and services, and showing less and less tolerance for malfunctioning Web sites (Reichheld et al., 2000).
Customer loyalty is considered important because of its positive effects on long-term profitability of a company (Ribbick et al., 2004). According to Reichheld et al., (2002) the high cost of acquiring new e-customers can lead to unprofitable customer relationship for up to three years. As a consequence, it is critical for online companies to create customer loyalty base, as well as monitor the profitability of each segment (Reinartz and Kumar, 2002). However, few companies seem to succeed in creating customer e-loyalty and little is also known about the mechanism of generating customer loyalty on the Internet (Ribbick et al., 2004).

It is argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction. Electronic technology offers greater customization and flexibility in that it can adapt and adjust the service options according to customer needs and wants, and therefore provide greater levels of service. Whereas, traditional methods have been unable to provide these customizations and flexibilities (Bitner et al., 1990). Furthermore, in the Internet based services customers can create their own service packages allowing them maximum customization, and they can have the advantage of real-time answers to their questions in the time that suits them (Drennan, 2003). It is also possible for organizations to track customer search and purchase behavior on the Internet, which in turn can be used to further customize offerings and potentially improve performance. All this would suggest that appropriate use of the Internet by organizations should have a direct positive effect on performance (Hodkinson et al., 2000).

It has been argued that information technology can revitalize customer service by moving a firm and its products closer to the customer and evoking the intimacy of earlier eras. Indeed, with the Internet, a firm can gain access to a customer’s home or workplace, and this increases the potential for a one-to-one relationship. Small firms particularly are reputed to have the ability to respond quickly to customers’ changing needs in view of their perceived flexibility which can be further enhanced by information technology (Levy and Powel, 1998).

Drennan (2003) mentioned that the Internet has impacted significantly in service sector. Within this sector, large organizations such as banks, insurance providers and government organizations are prominent buyers of IT and tend to be involved in the initial design, financing and diffusion of the technology. Drennan (2003) argued that small firms that are linked to these large institutions, either in their role as intermediaries or as part of an industry, may find that they must embrace technological change in order to survive within the value chain. Those who no longer add value will have little choice but to leave the industry (Ibid.).

It was argued that to be competitive, firms will need to offer specialized services. The Internet provides a range of ways to assist firms to increase their performance and profits. Although firms may opt to implement different the Internet strategies, all have opportunities to use the Internet to improve their access to information, build and maintain their customer base, and increase benefits for their customers (Drennan, 2003). The Internet can be used as a tool for customer service, particularly in terms of enhancing customer satisfaction and building business revenues. For instance, strategies such as web-based finders that allow customers or clients to locate products or services near to their home, feedback mechanisms and opt-in email all assist in increasing customer satisfaction (Ibid.).
Mols (1999) described the Internet as a prime means of communication, and assumed it affects banks’ relationships with their customers. On this count, the Internet is seen as a viable alternative or supplementary distribution channel (ibid.). Yakhlef (2001) compared the Internet’s advantages to the traditional bricks-and-mortar branch infrastructure, and suggested that the changes this time are more significant, and radically different from previous ones. He also argued that the Internet is not just another marketing channel or it is not just another advertising medium or it is not just a way to speed up transactions. The Internet is a foundation for a new industrial order (ibid.). The Internet posed to dramatically change the distribution channel structure of retail banks and to shake banking’s medieval foundations (Yakhlef, 2001).

Yakhlef (2001) have found several reasons from a study of online retail banks why banks have opted for the Internet. The reasons are: to protect or enhance the organisation’s reputation for innovation, to provide added value to customers, to attract new customers, to meet demand from current customers, to imitate competitors launching services online, to develop mass customized services, etc. (ibid.).

Moutinho et al., (1997) mentioned that bank branches not only will shrink and lose ground in favour of Internet banking but also and most importantly, the functions of branches will undergo a fundamental, qualitative change. Yakhlef (2001) argued that bank branches are neither doomed nor obsolete. He mentioned branches will remain the main mode of delivery of financial services. This view is consistent with a view of banks as principally involved in the financial services business whose main mode of delivery and processing is the branch and whose customers are those who come to its branches. The role of the Internet is to facilitate the flow of information between the banks and its customers, and to enable customers to conduct cost-efficient financial transactions. In this context, no great changes are anticipated in the role and image of branches, except the closing down of some of them, given that more and more customers use online banking. Those banks which see the Internet as a complement to, or a substitute for the traditional distribution channels, have achieved better communication with customers, better interactivity, witnessed a decrease in transaction processing, and solidified their ties with their customers remotely, resulting in a diminished significance of branches and subsequent reduction in their number (ibid.).

2.4 The Internet as a Support to Activities in Creating Loyal Customers

Eastin (2002) presented a model that demonstrates the adaptation of four e-commerce activities currently available to the Internet users: 1. Online shopping 2. Online banking 3. Online investment and 4. Electronic payment for the Internet service (i.e. access to exclusive sites). Author also explained six attributes common to the model, these are- perceived convenience and financial benefits, risk, previous use of the telephone for a similar purpose, self-efficacy, and the Internet use and all six attributes will predict the combine adoption of online shopping, banking, investing and the Internet services (ibid.).

In a competitive market place understanding customer’s needs become an important factor. As a result companies have moved from a product-centric to a customer’s centric position. Satisfaction is also of great interest to practitioners because of its important effect on customer retention (Peterson et al., 1997). Retention is a major challenge particularly in the Internet-based services, as customers can easily switch from one service provider to another at low cost (Khalifa and Liu,
2003), considering the high costs of acquiring new customers and the apparently high customer satisfaction (Van Riel et al., 2001).

Consumer satisfaction is the major issue for the businesses that are operating in Electronic Commerce (EC) system. Good customer service quality is the main factor that will determine, in the future, whether the businesses will survive or fail. Maintaining effective customer service helps to build and maintain customer relationships that is the key success in ecommerce (Sing, 2002). In order to satisfy customer’s needs, many companies need to set up websites that provide quality information and services to customers. Better service quality typically can help to get higher market share and better returns (Slu and Mou, 2003). It is desirable for online service providers to uncover what attributes consumers utilize in their assessment of overall service quality and satisfaction and which attributes are more important (Yang and Fng, 2004).

The Internet based services are believed to be superior to those delivered through the regular channels because of their convenience, interactivity, relatively low cost and high degree of customization/personalization among other advantages. There is very little understanding, however, of the factors that affect customer satisfactions with the Internet based services (Khalifa and Liu, 2003).

The rapid development of information and communication technologies during the 1990s has enabled companies to introduce more and more high tech services. We can think of Internet banking and other completely new services that add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions (Jun and Cai, 2001). Taking in to account theses developments, it is evident that service researchers need to pay more attention to consumer evaluation of technology based services (Parasuraman and Grewal, 2000).

Recently, many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day. This Internet banking, compared to traditional banking, heavily involves nonhuman interactions between customers and online bank information systems (Jun and Cai, 2001). Promoting quick response, just in time deliveries of services in electronic marketplaces improve information sharing between the bank and its customers. Instead of banks controlling the relationship with the customers, today customers have more control of their banking needs via interaction with website (Awad, 2000).

Mols (1999) argues that the introduction and customers acceptance of the Internet based home banking may bring a dramatic change in the way retail banks build and maintain close relationships with their customers, since customer expectations and perceptions of the Internet services will change overtime. Due to rapid technological change and market competition service quality becomes an increasingly important issue. Therefore, understanding service quality issues within the new delivery channel become very important to satisfy the customer (Broderick and Vachirapompuk, 2002).

As a primary mean of communication the Internet is likely to affect the bank-customer relationship and viable alternative or supplementary distribution channels for banks (Mols, 1999). The Internet is new distribution channel for banks enabling banks to offer variety of home banking services like money management, e.g. up to date balances on deposit and loan accounts, funds transfer
between accounts and better communication without visiting, and Payments, e.g. utility bill payment (Mols, 1999).

After introduction of Internet banking bank can segment the customers in computer literate and computer illiterate while computer literate customers are increasing and computer illiterate consumers are decreasing (Mols, 1999).

It is important that the banks provide customers with high quality services to survive in the highly competitive Internet banking industry (Mefford, 1993). For this, bankers first need to understand the attributes that customers use to judge service quality and monitor and enhance the service performance. There are numerous studies that identified the key services quality dimensions in the traditional banking environment, but relatively little literature has investigated service quality attributes in the Internet banking industry and the relation with customer satisfaction (Jun and Cai, 2001). More research is needed to determine the dimension of e-service quality and these studies also need to be conducted for different types of e-services (Zeithaml et al., 2000).

One of the key challenges of the Internet as a service delivery channel is how service firm can manage service quality (Broderick and Vachirapornpuk, 2002). They presented service quality model (see Figure 4) of Internet banking based on insights gained from existing knowledge and understanding of the characteristics of the service formed. This model focusing on the quality perception process and it draws on many of the service quality elements that identified by the previous study.

![Elements Determining Service Quality](image-url)

**FIGURE 4:** Preliminary Model of Perceived Service Quality in Internet Banking

**SOURCE:** From Broderick and Vachirapornpuk, 2002, p.328
The model showed that in the context of the Internet banking, five key elements are treated as central influences on perceived quality showed indicating by arrow. These are:

1. Customer expectations of the service
2. The image and reputation of the service organization
3. Aspects of the service setting
4. The actual service encounter and
5. Customer's participation.

All these elements affect perceived service quality in Internet banking.
Chapter 3: Frame of Reference

This chapter will provide the conceptual frame of reference based on literature review. The issues that are going to be studied will be explained here. First the conceptualisation will be presented and then the emerged frame of reference developed from the research questions will be shown.

3.1 Conceptualisation

The purpose of a conceptualisation is to explain either graphically or in narrative form, the main things that are going to be studied (Miles and Huberman, 1994). This helps the researcher to define who and what will or will not be studied and this may precede the formulation of research questions (Ibid). In order to collect data and answer the research questions, a conceptualisation of the literature review will be presented here.

Theories that are connected to research questions will be listed. The various relationship components those are relevant to the first research question, how can customer loyalty be described? are been considered and they include, service quality, customer trust and satisfaction, as antecedents of customer loyalty. This will be followed by theories for the second research question, how can the objectives of pursuing customer loyalty programs be described and how have those objectives been affected with the advent of the Internet? This ill be followed by theories connected to the third research question, how can the activities in order to create loyal customers be described and how does the Internet affect these activities? And finally theories that relate to fourth research question, How can the Internet be used to support activities in creating loyal customers? will be presented.

The following authors have been selected due to that they all brought up important issues that are relevant for the data collection.

3.1.1 RQ1: How can Customer Loyalty be Described?

Egan (2004) defined customer loyalty as the proportion of time a consumer chooses the same product or service in a category compared with his or her total number of purchases in the category, assuming that acceptable competitive product or service are conveniently available. Oliver (1997) defined customer loyalty as a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, thereby causing repetitive same brand or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause a switching behaviour.

Egan (2004) described two main schools of thought concerning loyalty and these are seen in terms of behavioural and attitudinal. Ahluwali et al., (1999) have shown that attitudinally-loyal customers are much less susceptible to negative information about the brand than non-loyal customers. He also mentioned that where loyalty to a brand is increased, the revenue-stream from loyal customers becomes more predictable and can become considerable over time. Kahn et al.. (1988) defined behavioral loyalty mainly with reference to the pattern of past purchases with only secondary regard to underlying consumer motivations or commitment to the brand.
Gremler and Brown (1996) see customer loyalty as the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises. This definition incorporates action loyalty and commitment to repurchase with affective commitment, i.e. emotional attachment, identification, and involvement (Allen and Meyer, 1990). Gremler and Brown (1999) said loyal customers are more likely to spread positive word-of-mouth, buy additional services and accept premium prices. McGoldrick and Andre (1997) argues that the term loyalty is been used loosely and includes affection, fidelity or commitment. For this reason, customer satisfaction is been used as a measure of loyalty because it has been assumed that satisfaction affects buying intentions in a positive way.

Theories of antecedents of loyalty such as service quality, customer trust and customer satisfaction have been gathered from the following authors. Gummerus et al., (2004) defined service quality as the extent to which a Web site facilitates efficient and effective shopping, purchasing, and delivery. Moorman et al., (1992) defined customer trust as the willingness to rely on an exchange partner in whom one has confidence. Trust has been defined as the degree of confidence or certainty the customer has in exchange options (Zeithaml and Bitner, 2000). E-trust will therefore be defined as the degree of confidence customers have in online exchanges, or in the online exchange channel (Reichheld et al., 2000). Lin (2003) described customer satisfaction as the outcome of a cognitive and affective evaluation of the comparison between expected and actually perceived performance, which is based on how customers appraise delivery of goods or services.

The selected theories are important in order to be able to answer the first research question, for that service quality, customer trust and customer satisfaction was listed as the antecedents of customer loyalty.

3.1.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

The objectives of customer loyalty programs lead to activities concerning customer loyalty programs and therefore, the selected theories from chapter 2.2 are important to be able to answer this question. The selected theories are listed below:

- Creating satisfied and loyal customers (Gould, 1995)
- Profitability by customer retention (Reicheld and Sasser, 1990)
- Long term relationship with its customers (Gremler and Brown, 1996)
- Give rewards or incentives to customers repeat purchasing, loyal customers of the bank (Gilbert referred to in O’Malley,1998)
- Attract and satisfy customers to purchase additional goods and services (Gremler and Brown, 1996)
- Help less loyal customers of the bank to become more loyal (Reicheld and Sasser, 1990)
- Increase the brand loyalty through a decrease in price sensitivity (Uncle et al., 2003)
- Encourage a positive word of mouth, attract more customers and increase the number of purchase (Uncle et al., 2003)
- Generate information about customers (O’Malley, 1998)
- Provide value to customers (O’Malley, 1998)
In order to study, how have those objectives been affected with the advent of the Internet, the following theories have been selected:

- The Internet based services are superior to achieve cost effective objectives from loyalty programs (Khalifa and Liu, 2002).
- E-services add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions (Jun and Cai, 2001).
- Service researchers need to pay more attention to consumer evaluation of technology based services (Parasuraman and Grewal, 2000).

**3.1.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?**

The following theories are selected to answer, how the activities in order to create loyal customers can be described.

(a) Human resources base is paramount in achieving objectives (Parasuraman et al., 1988).
(b) Staff training Creating values through trained staff (Parasuraman et al., 1988).
(c) Staff-customer relationship (Mols, 1999).
(d) Provide quality services (Bitner et al., 1990).
(e) Promote reward/incentives to loyal customers (Gilbert referred to in O’Malley, 1998).

The following theories will be looked at in order to be able to answer how the Internet affects the activities of customer loyalty. The advent of the Internet created new possibilities, but also new problems. The theories related to problems and possibilities are listed in the following:

**Problems:**
- High cost of acquiring new e-customer (Reichheld et al, 2002).
- Low switching cost to other competitors (Kotler, 2000).
- Difficult for online companies to satisfy and bond their customers (Reichheld et al., 2000).
- Critical for online companies to create customer loyalty base (Reinartz and kumar, 2002).
- Less face-to-face interactions between the firms and its customers (Dabholkar referred to in Drennan and McColl-Kenndy, 2003).

**Possibilities:**
- The Internet is a means of transforming organizations' core business (Yakhlef, 2001).
- Advent of the Internet results in marketing revolution (Paul, 1996).
- The Internet allows marketers to build strong, sustainable relationships with their customers and enhance brand loyalty (ibid.).
- Cheap or low cost in service delivery (Kerzkowski et al., 1996)
- Marketing activities on the Internet (Dutta and Segev, 1999)
- Less pressure on the employees since customers does everything by themselves without the involvement of the employees (Bitner et al., 1990).
- Easy to communicate or advertise on the website (Drennan, 2003).
The Internet changes the distribution channel structure of retail banks (Nehmzow referred to in Yakhlef, 2001).
Quick and continuous access to information, increased comfort and time savings (Levy and Powel, 1998).

3.1.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

The following theories are selected to answer this question and data collection:

- Understanding customer needs (Peterson et al., 1997).
- Higher revenues (Slu and Mou, 2003).
- Higher customer retention (Khalifa and Liu, 2003).
- Maintain customer relationship (Sing, 2002).
- Expanded market share (Slu and Mou, 2003).
- Substituting or complementing personal interactions with service staff (Jun and Cai, 2001).
- As a new distribution channel (ibid.).
- Home banking services (Mols, 1999).
- Improved information sharing (Awad, 2000).
- Provide high quality services (Mefford, 1993).
- Segmentation of customers (Mols, 1999).
3.2 Emerged Frame of Reference

The following emerged frame of reference has been drawn from the conceptualization of literature review related to research questions.

![Diagram]

**FIGURE 5:** Frame of Reference Emerged from the Conceptualization

This emerged frame of reference is a scope of narrow down literature review and shows the connections in this research area in a graphic way. This illustrates that the traditional way of creating customer loyalty is affected because of the advent of the Internet. The affects of the Internet on customer loyalty creation have outcome the new objectives, which brings new problems, but also new possibilities. Those new problems and possibilities result in new activities of loyalty creation. And the Internet is used to support those new activities in creating loyal customers.
Chapter 4: Methodology

This chapter will present detailed idea about how the research had been conducted. This includes the purpose of the research, research approach, research strategy, sample selection methods, data collection methods and data analysis methods. At the end of this chapter validity and reliability issues will be discussed to follow the quality standards of the research.

4.1 Research Purpose

Several ways could be followed to carry out research. Most types of research can be classified on the basis of researcher concerns about the problem before starting the investigation. According to Yin (1994), there are three classifications of research available when dealing with a research problem: exploratory, descriptive, or explanatory.

**Exploratory** research is designed to allow an investigator to just “look around” with respect to some phenomenon, with the aim being to develop suggestive ideas. The purpose is to gather as much information as possible concerning a specific problem. Exploratory research is often used when a problem is not well known, or the available knowledge is not absolute. The technique that is best suited for information gathering when performing an exploratory research is interviews (Yin, 1994).

**Descriptive** research describes various phenomenon connected to individuals, situations, or events that occur. The purpose might be to develop empirical generalizations. Once such generalizations begins to appear, they are worth explaining, which leads to theory development (Ibid). Moreover, descriptive research is often used when a problem is well structured and there is no intention to investigate cause/effect relations. Descriptive research is recommended when you search data, often secondary, in order to describe a few aspects of a clearly structured problem (ibid.).

**Explanatory** research objective is to develop precise theory that can be used to explain the empirical generalizations. Based on this, the researcher formulates hypotheses that are tested empirically (Ibid). According to Yin (1994) the study is explanatory when the focus is on cause-effect relationships, explaining what causes produced what effects. Explanatory research approach should be used when it is necessary to show that one variable causes or determines the value of the other variables. A high level of flexibility characterizes an exploratory case study and it is suitable when a problem is difficult to demarcate. This kind of research is also appropriate when it does not exist a clear apprehension about what model that should be used and what qualities and relations that is important (ibid.).

The research purpose and research questions of this thesis indicate that this study is primarily exploratory and descriptive. This study is descriptive since it was intended to describe the area of research and try to begin to explore the collected data in order to find out the differences and similarities.

4.2 Research Approach

There are different types of approaches for conducting a research. Here chosen approach of this study will be presented.
Denzin and Lincoln (1994) mentioned two types of approaches available for researchers and these are qualitative and quantitative approach. Selectivity and distance to the object of research characterize a quantitative approach whereas a qualitative approach is characterized by nearness to the object of research. Both approaches have their strengths and weaknesses and neither one of the approaches can be held better than the other one. The best research method to use for a study depends on that study’s research purpose and the accompanying research questions (Yin, 1994).

4.2.1 Quantitative Approach

Quantitative research typically has a logical and linear structure; in which hypothesis take the form of expectations about likely causal links between the constituent concepts identified in the hypotheses. Thus, the determination of the causal links specified by the hypotheses will result in the acceptance, or rejection of the theoretical proposition. Hence, quantitative research places emphasis on methodology, procedure and statistical measures of validity (Denzin and Lincoln, 1994).

Quantitative research methods also rely on the measurement and analysis of statistical data, to determine relationships between one set of data to another. The measurement of these variables may produce quantifiable conclusions. Bryman (1993) identifies a number of preoccupations in using quantitative research methods and argues those who subscribe to this objective stance tend to adopt concepts such as generalization, replication, and individualism. Furthermore, quantitative research is considered to be an exercise in “post-decision rationalization” (ibid.).

Gable (1994) considers quantitative research to be relatively weak when used with the objective of discovery and during data collection. This is because once the research is underway, there is little an investigator can do upon realizing that a crucial item has been omitted from the questionnaire, or discovering that a question is ambiguous, or is being misinterpreted. Gable (1994) therefore suggests that the researcher should have a good idea of the answers sought before starting the survey. Hence, traditional quantitative survey research would appear to serve as a methodology of verification rather than discovery.

4.2.2 Qualitative Approach

Qualitative researchers on the other hand consider that it is not possible to assign meaning to a phenomenon (or behavioral) without describing the context and understanding the position of the people who affect, or are affected by the phenomenon. Consequently, a qualitative research is interested in bringing meaning and understanding phenomenon (Bryman, 1993). However, qualitative research is not concerned with the measurement and quantification of the phenomenon but acquiring an understanding the natural setting of the phenomenon through observation. Hence, direct and in-depth knowledge of a research setting is necessary to achieve contextual understanding. As a result, qualitative research methods are associated with “face-to-face” contact with people in the research setting, together with verbal data and observations. Qualitative data can also be collected in a number of forms such as the collection of evidence through interviews, which may be recorded and later transcribed. Another source where data can be sourced from is through field notes, which describe observed events (ibid.).
Bryman (1993) argued that qualitative research is an approach that studies the social world, and seeks to describe and analyze the culture and behavior of humans and their groups, from the point of view of those being studied. Such approaches are based on issues such as commitment to viewing actions and values from the perspective of the people being studied; providing a detailed description of the social setting they investigate; understanding events and their behavior in their context; viewing social life as a process rather than a static, i.e. longitudinal; avoiding the imposition of inappropriate “frames of reference” on the subjects being studied; the use of a relatively flexible research approach; an appreciation of the impact of biases on the research findings; and the formulation and testing of theories in tandem with data collection (ibid.).

Bryman (1993) also identified a number of issues regarding the use of qualitative research approaches. Firstly, the inability of the researcher to interpret events from the subject's point of view is questioned without biases. Thus, a multi method approach to data gathering can address this issue to a certain degree. Secondly, the relationship between theory and research can be weak, as qualitative research approaches are criticized for not instilling theoretical elements. However, to overcome this scenario the researcher must show how they are studying the case of a larger phenomenon. Finally, the extent to which qualitative research can be generalised beyond the confines of a particular case is questioned, i.e. limited external validity. Researchers can address this issue through demonstrating that the study was conducted within a structured methodology, which is guided by theoretical concepts and models and the use of a number of data gathering methods and processes (ibid.).

From the above discussions, qualitative research approach is found to be more appropriate for this study. Generalization is not the purpose of the study but rather a qualitative research is conducted to gain a deeper and detail understanding of regarding issue.

4.3 Research Strategy

Research strategy will be a general plan of how researcher will go about answering the research questions that has been set by researchers. It will contain clear objectives, derived from research questions specify the sources from which researcher intend to collect data and consider the constraints that researchers will inevitably have such as access to data, time, location and money, ethical issues (Saunders, 2000).

Yin (1994) identified five research strategies in social science based on three conditions (1) form of research questions (2) requires control over behavioral events and (3) focus on contemporary events. The strategies are – experiments, surveys, archival analysis, histories and case studies. Most important condition for selecting research strategy is to identify the type of research question being asked. If the researcher needs to know the “how” question, the better strategy will be doing history or a case study (ibid.).

Since questions in this study are based on “How”, case study is found to be a more appropriate approach in order to gain a better understanding of the research area. Case study is more appropriate for qualitative study (Yin, 1994).
4.3.1 Case Study

Case study involves when researcher wish to gain a rich understanding of the context of the research. More specifically, Yin (1994) defined a case study as an empirical inquiry that investigates a contemporary phenomenon within it's real-life context, especially when the boundaries between phenomenon and context are not clearly evident. This definition helps to understand case studies and distinguish them from the other research strategies (Yin, 1994).

When selecting single or multiple-case studies, Yin (1994) explained that the single-case study makes an in-depth investigation regarding a single entity, such as an organization or individual. However, by conducting multiple-case studies with two or more entities, analytic conclusions arising from two or more cases will be more powerful than those coming from single case (Yin, 1994). Therefore, multiple-case studies have been performed in this study. Using multiple-case studies, the findings could be more vigorous and powerful by analyzing and comparing the results among different cases. Furthermore, this also gives the opportunity to better understand the findings and detect similarities and differences among the cases.

4.4 Sample Selection

The need of sampling arises when it become impracticable for researchers to survey the entire population. If researcher needs the results quickly from the data collected sampling process is the best alternative. Sampling is important if budget and time constraints prevent surveying the entire population. Sampling saves time, an important consideration when researchers have tight deadlines. The organization of data collection is more manageable as fewer people are involved. Using sampling enables a higher overall accuracy. The smaller number of cases for which researchers need to collect data means that more time can be spent designing and piloting the means of collecting this data. Collecting data from fewer cases also means that researchers can collect more information that is more detailed (Saunders et al., 2000).

Multiple-case samplings have been used for this thesis, because multiple-case could add confidence to findings. By looking at a range of similar and contrasting cases, it could understand the case finding, grounding it by specifying how and where and, possible, why it carries on as it does (Yin, 1994). In this study all Swedish banks are the total population and commercial banks are the sample from which two banks have been chosen as case studies; they are SEB (Skandianviska Enskilda Banken) and FörningsSparbanken AB. These banks are chosen based on the four research questions. They are located in the same city, Luleå, and it was convenient, took less time to conduct research. The choice was, furthermore, based on sample should have experience of Internet Banking for at least three years. These two banks were categorized as commercial banks and they are similar in nature, selling same products and services. And also it was found that all of them have strong and developed the Internet based services.

4.5 Data Collection Methods

Yin (1994) is of the view that there are six sources of evidence useful in case study namely documentation, archival records, interviews, direct observation, and physical artefacts. Each source has its strength and weaknesses. He says interview is one of the most significant sources
of case study. He further clarifies that positive aspects with the interview are that it is “targeted” because it concentrates directly on the case study topic. It is also “insightful” because it gives perceived causal conclusions. These positive aspects discussed by Yin (ibid.) are the reasons for why the interview was chosen as a method of collecting data.

Two interviewees were selected to get diverse understanding of the topic. In addition the names of two respondents were anonymous so that they could provide more detailed information and talk freely about their Internet banking experiences. For this reason their position has been used in the study. The interviews were conducted of focused nature based on interview guide (see APPENDIX A and B) and conducted them in a conversational manner. Respondents talked freely with the interview guide as a base. The interview with SEB was conducted approximately 45 minutes. Another interview with FöreningsSparbanken was conducted also approximately 45 minutes. First, it was figured out the right person to interview with then appointment was scheduled for interview. The interview topic was provided to interviewee but not the details of research questions.

These interviews were conducted using open ended and close-ended questions. Yin (1989) argued that the probe questions about research issues must be prepared in case, interview does not raise them in the first, unstructured parts of the interview.

Face to face interviews had been feasible in this framework of the study since all the Banks interviewed are located in Luleå and are closely located in the same vicinity. The interviews were conducted face to face and tape recorder was not used to record the proceeding.

4.6 Data Analysis

The ultimate goal of analyzing data is to treat the evidence fairly, to produce compelling analytical conclusions and to rule out alternative interpretations. Data analysis involves turning a series of recorded observations into descriptive statements (Yin, 1994). There are two general analytical strategies from which researchers can choose to analyze data for case study. One of the strategies is to relying on theoretical propositions and another one is developing a case description.

Relying on theoretical propositions is the most common strategy. The result of it is the collection of data based on research questions. The findings of the study will then be compared with the results/findings from previous studies. Developing a case description is another strategy, but is less favorable and it should only be used when little previous research has been done. Many researches have been conducted within the area of this research and therefore the analytical strategy of this thesis relies on theoretical propositions. (Yin, 1994).

According to Miles and Huberman (1994), data analysis consists of three concurrent flows of activities. These are data reduction, data display, and conclusion drawing and verification. Data reduction should not be considered to be separate from analysis, but a part of it. Data reduction stage of the analysis helps the researcher to make the data sharpen, sorted, focused, discarded, and organized in order to be able to draw and verify conclusion (ibid.). Data analysis of this thesis is based on these three steps.
The within-case analysis and the cross-case analysis have been used as mentioned by Yin (1994). The data was first reduced through a within-case analysis where each case was compared with the frame of reference. Further, the data was reduced by being displayed through a cross-case analysis where the cases were compared with one another. Finally, conclusions from these analyses were drawn based on the patterns of similarities and differences, which were discovered in the data reduction and data display.

4.7 Validity and Reliability

In order to reducing the possibilities of getting the answer wrong, attention need to be paid on reliability and validity (Saunders et al., 2000).

4.7.1 Validity

Validity is concerned with whether the findings are really about what they appear to be about (Saunders et al., 2000). Validity defined as the extent to which data collection method or methods accurately measure what they were intent to measure (Saunders et al., 2000). Yin (1994) mentioned that no single source has a complete advantage over others. The different sources are highly complementary, and a good case study should use as many sources as possible. The validity of scientific study increases by using various sources of evidence (ibid.).

Numbers of different steps were taken to ensure the validity of the study:
- Data was collected by in-depth interviews with the open-ended questions
- Data was collected from the reliable sources, from high official of banks who are in charge of internet banking
- Checklist presented by (Saunders et al., 2000) was followed for designing interview guide
- Interview questions were made based on literature review and frame of reference to ensure validity of the result
- Interview guide were tested by at lest four persons
- No major event has been happened related to topic investigated throughout the time of data collection and conclusion drawing of this thesis.

4.7.2 Reliability

According to Saunders et al., (2000) reliability refers to the degree to which data collection method or methods will yield consistent findings, similar observations would be made or conclusions reached by other researchers or there is transparency in how sense was made from the raw data.

Reliability can be ased by the following three questions (Easterby-Smith et al., 2002, p.53):
1. Will the measures yield the same results on other occasions?
2. Will similar observation be related by other observers?
3. Is there transparency in how sense was made from the raw data?

Numbers of different steps were taken to ensure the reliability of the study:
- Two interviewers were present during the whole interview process
• Notes were taken by two interviewers during the conversation. After finishing the interview cross check has been done with the written scripts by two interviewers to get the correct data
• The same type of questions were asked during interviews in order to increase the reliability
• Since the generalization is not the purpose of the study, multiple cases have been used to increase the degree to which the findings can be the same. It might be possible to get the same result on the findings to a larger number of similar cases
• The theories that have been selected for the study were clearly described and research questions have been formulated based on the previous theory. Data has been collected based on the frame of reference that was drawn from the discussed theories. The objective is to make sure that if another investigator will follow the same procedures and used the same case study objects, the same conclusions would be made.
Chapter 5: Data Presentation

This chapter presents the data collected from the interviews and documents on two selected case studies. The companies are SEB and FöreningsSparbanken, located in Luleå, Sweden. All the companies are banks and they basically offer the same products. The data presentation follows the frame of reference and the interview guide used during the personal interview conducted with these Banks.

5.1 Case 1: SEB AB

The SEB Group is a North European financial banking group for companies, institutions and private individuals, with 670 branch offices around Sweden, Germany, the Baltic States, Poland and the Ukraine. SEB has more than 5 million customers, of who close to 2 million use the Internet services. The Group is represented in some 20 countries around the world and has a staff of about 18,000.

SEB was formed in 1972 through a merger between Stockholm’s Enskilda Bank (established 1856) and Skandinaviska Enskilda Banken (established 1864). Important reasons for the merger were to strengthen the bank's position among corporate clients and to meet competition from major international banks. Over the years, SEB has developed into a leading North European financial banking group and it will celebrate its 150th anniversary in 2006.

In the mid-1990s SEB undertook several strategic steps towards the vision of becoming a leading North European bank, based on long-term customer relations, competence and e-technology. SEB’s traditional strong position among corporate customers and affluent individuals was broadened through acquisitions within life insurance and asset management operations, as well as new home market acquisitions in Germany and Eastern Europe. The investment in three Baltic banks and a partly-owned bank in Poland was a means of meeting increased client activities in these countries. In the year 2004, SEB had ten home markets in Northern Europe and more than 50 per cent of its customers and employees are outside of Sweden.

The interview was conducted with branch office manager, SEB, Luleå, Sweden. Duration of the interview was approximately 45 minutes on December 08, 2005. (See Appendix: A).

5.1.1 RQ1: How can Customer Loyalty be Described?

The branch office manager of SEB, Luleå defined and explained customer loyalty as the frequency in which a customer purchases a product or service from the bank and when the customer shows a positive attitude towards the company’s product or service and resorts only to the use of product or service from SEB. The manager further stated that the level of commitment that the customer shows in the purchase of the product or service depicts how loyal the customer is to the bank. The manager said the commitments could be in the form of how these customers associate themselves with the bank and the emotional attachment to the product or service. The branch office manager further described customer loyalty as the way in which a customer will not switch to other banks even when the customer is dissatisfied or when the product or service does not meet the expectation of the customers. Also, the branch office manager classified a customer as a loyal...
customer when the customer tends to spread the goodwill of the bank to other potential customers who then become customers of the bank.

The branch office manager described customer loyalty as both behavioural and attitudinal. However, it’s very difficult from her part to really distinguish between the behavioural and attitudinal patterns, but the manager is of the view that the bank sees its customers as loyal customers both from the behavioural and attitudinal point of view.

The branch office manager further stated that, the provision of service quality to their customers leads to the customers becoming satisfied with the bank and hence the customer automatically becomes a loyal customer to the bank. The manager also said that the bank associates satisfaction to loyalty in a way that satisfaction leads to loyalty. This means that when a customer is satisfied with the products or service of the bank, the customer then becomes loyal and the bank therefore classifies that customer as loyal towards the bank.

5.1.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

SEB as a corporate entity has some objectives that it wants to achieve by introducing of the loyalty programs for their customers. From the interview conducted with the branch office manager of SEB, following objectives were outlined for pursuing the customer loyalty programs:

- Customer retention
- Gather customer information
- As a competitive advantage over rivals
- Long term relationship with its customers
- Promote goodwill of the bank
- Give rewards or incentives to these loyal customers of the bank
- Acquire new and potential customers to the bank
- Help less loyal customers of the bank to become more loyal
- Satisfy dissatisfied customers to remain loyal to the bank
- Consolidate and expand the customer base of the bank

The branch office manager further mentioned that objectives of the bank loyalty programs have been affected by the advent of the Internet. The manager said the Internet helped bank to achieve cost effective objectives, e-services added values to existing products in many ways. The manager also mentioned that customer evaluation of technology based services is very positive.

5.1.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?

During the interview the branch office manager said that their human resource base is paramount in achieving customer loyalty objectives outlined above. They give a thorough training to their employees to provide product quality and service to customers to satisfy their needs and want so as to remain loyal to the bank. The manager is of the view that the type of relationship that an employee develops with a customer will go a long way to help the bank achieve those objectives.
The branch office manager mentioned providing quality services on a regular basis are one of the remarkable activities of loyal customer creation. Promote reward/incentives to loyal customers is another activity the manager mentioned.

The boom of the Internet in the 1990s caused banks like SEB and other companies to embrace the idea of introducing the Internet facility in the day-to-day operations of their business. SEB adopted the Internet facility in 1995 when it started with its Internet banking as a compliment to the traditional banking methodologies. With the introduction of this facility, the whole concept or activities of its loyalty program affected since it brought both negative and positive effects on their customer loyalty programs.

From the interview conducted, the branch office manager gave some of the problems that the bank faces as:

- Less face-to-face interactions between the SEB and its customers
- Low switching cost to other competitors
- Very difficult to measure the satisfaction level of its customers since before the introduction of the Internet, satisfaction was measured on weekly basis where customers are made to respond to a set of questions anytime they come to the bank. However, with the introduction of the Internet, it has become increasingly difficult for the bank to contact these customers in a face-to-face setting. This problem is solved by assigning an external market research company. This company interviews SEB customers over the phone and a weekly report is handed in.

The new possibilities or advantages that the Internet has given to the bank the manager mentioned includes:

- Fast delivery of services to customers and most services available online
- Cheap or low cost in service delivery
- Less pressure on the employees of the bank since these Internet banking customers does everything by themselves without the involvement of the employees.
- Easy to communicate or advertise on the website of the bank
- Ability to provide more information for all customers without necessarily contacting all the customers at a go.
- Quick and continuous access to information
- Internet banking as a compliment to the traditional banking methodologies
- Increased comfort and time savings

5.1.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

From the interview conducted, SEB uses the Internet facility as an aid in creating customer loyalty. The branch office manager said that the introduction of the Internet has brought fundamental changes in the way customer loyalty is created. The manager is of the view that service quality is a critical issue for the SEB since all banks provide undifferentiated products to their customers.
The manager conceded that the banks that provide quality service have an edge over other competitors because improvement of service quality results in:

- Higher revenues
- Higher customer retention
- Expanded market share
- Improved information sharing
- Bank's reputation
- Attract new customers

The manager mentioned that SEB uses the Internet as an aid:

- To understand customer needs
- Maintain customer relationship
- Substituting or complementing personal interactions with service staff
- As a new distribution channel
- Home banking services
- Provide high quality services
- Segmentation of customers

Providing service quality and products to customers is essential for success and survival in today's competitive banking environment the manager mentioned.

The branch office manager also said that there have not been many changes in the way loyalty is created by the bank with the introduction of the Internet. The most changes that have taken place are the improvements on the quality of services and products that they give to their customers and these improvements have resulted in more customers being loyal to the SEB.

Also, the Internet has resulted in the lack of face-to-face interaction between the SEB and its customers, thereby making it very difficult to measure satisfaction level.

5.2 Case 2: FöreningsSparbanken AB

FöreningsSparbanken AB is a public limited liability company that conducts banking business pursuant to a charter granted by the Swedish government. The bank is under the supervision of Finansinspektionen (the Swedish Financial Supervisory Authority).

FöreningsSparbanken was founded in 1997, by the merger of Föreningsbanken and Sparbanken Sverige. The bank's composite history dates all the way back to 1820, when Sweden's first savings bank was founded, in Gothenburg, on a European model. The savings bank idea rapidly took hold in Sweden, with a peak of 498 savings banks in 1928. After that, the savings banks began merging to become stronger. At the time that Sparbanken Sverige was formed, in 1992, nearly 90 savings banks chose to continue being independent banks and to collaborate with Sparbanken Sverige instead.

Föreningsbanken had its origins in farming cooperative credit societies whose purpose was to
satisfy Swedish agriculture’s growing need of capital. Sweden’s first farming cooperative credit society was founded in 1915 in Västerhaninge outside Stockholm. In 1992, Sweden’s cooperative banks were restructured and merged into one banking corporation. Just before that, there had been over 350 local cooperative banks here. When FöreningsSparbanken was formed in 1997, the independent savings banks, in most instances, acquired Föreningsbanken’s branches and business in the local community.

The interview was conducted with the Manager, the Internet banking and customer service, FöreningsSparbanken, Luleå, Sweden. Duration of the interview was approximately 50 minutes on December 09, 2005. (See Appendix: B).

5.2.1 RQ1: How can Customer Loyalty be Described?

The manager defined customer loyalty as the rate at which a customer makes a purchase of the products or service of the bank or the rate at which a customer makes a repeat purchase of the services and products of the bank. The manager further lamented that the level of commitment that a customer shows towards a product or service of the bank signifies how committed that customer is to the bank. This commitment the manager said is seen where there is other competitive products or service from other banks and the customer does not switch even when that customer is dissatisfied about certain aspect of the offerings of the bank.

The manager further grouped customer loyalty as both attitudinal and behavioural. The manager said attitudinal is where the customer shows a strong attitude towards that product. That is where the customer prefers the services of the bank than any other banks. On the behavioural, the manager is of the view that the rate of purchase determine the behavioural pattern of that customer and hence, the customer exhibiting behavioural traits of customer loyalty.

5.2.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

There are certain paramount objectives that the bank wants to achieve in relation to the customer loyalty program that they are pursuing. From the interview conducted, the manager outlined some of the main objectives why the bank is pursuing those programs. These include:

- Increase the banks customer base
- Customer retention
- Customer satisfaction
- Increase the profitability of the bank
- Be able to gather customer information for customized products and services
- Increase market share of the bank
- Ability to attract new customers
- Promote their customer relationship management (CRM)
- Reward loyal customers
- Increase the confidence base of its customers
The manager further mentioned that objectives of the bank loyalty programs have been affected for the advent of the Internet. The manager said the Internet facilitated bank to achieve cost effective objectives, e-services added values to existing products. The manager also mentioned that customer evaluation of technology based services is positive.

5.2.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?

The manager mentioned the Human Resources as an essential factor bank takes a critical look at. The manager said capable employees in place that handle different customers with regards to peculiar needs and wants, because different classes of customers exist. Different temperaments of staffs therefore need to segment staffs according to the nature of various categories of customers. This strategy helps bank to achieve maximum loyalty level. The manager also mentioned that bank maintain long term staff-customer relationship. All aspect of the bank operations are done by integrating the Internet the manager added.

The advent of the Internet has had an enormous impact of how banks in Sweden create loyalty. This is seen from both the positive and negative side. The manager said that FöreningsSparbanken is one of the few banks in the country that adopted the internet. The manager also mentioned that this bank is one of the pioneers in Internet banking activities and hence they have used the Internet in creating customer loyalty since the introduction of the Internet in the bank. The manager mentioned some problems and possibilities with the adoption of Internet banking which are:

Problems:

- Difficult to interact with dissatisfied customers
- Ability to determine less loyal customers becomes increasingly difficult for the bank
- Less face-to-face interactions with customers
- Measuring of the satisfaction level of customers becomes difficult to do
- It's becoming increasingly difficult to know which customers of the bank are switching to other banks.

Possibilities:

- Easy access to customer information for data mining
- Efficiency in service delivery
- Improved service quality
- Time maximization
- Ability to serve a large pool of customers at the same time
- Less costly to the bank
- Personalization of services
- All banking operations can be done through Internet Banking
- Answers of most FAQ are on the site
- Quick feedback
5.2.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

FöreningsSparbanken has been using the Internet in facilitating its loyalty creation programs. This they do by integrating the Internet in all aspects of the banks operations, the manager said. These include service delivery, customer care, provision of quality and affordable products, services, etc. With regards to the quality of service that the bank provides, the manager consented to the fact that service quality is an integral component in customer loyalty creation. The type of service quality that the bank provides to its customers tends to influence their commitment to the bank. The manager also said that the adoption of the Internet in its day to day operations of the bank has resulted in:

- Understanding customer needs
- Increase profitability and revenue
- Increase service quality
- Made strong the customer base
- Maintain customer relationship
- As a new distribution channel
- High customer retention
- High satisfaction level due to the efficiency and effectiveness of the bank
- Home banking services
Chapter 6: Analysis

In this chapter, as mentioned in the methodology, within case and the cross case analysis will be presented. At first, within case analysis of two cases will be presented, in which each of the two cases will be compared with theories. Secondly, a cross case analysis will be executed to compare and analyze the two cases together to find the similarities and differences.

6.1 Within Case Analysis: SEB AB

In this first section, the empirical data collected from SEB and presented in chapter five will be analyzed and compared with the previous researches in chapter two. The analysis will be presented in the order of the research questions.

6.1.1 RQ1: How can Customer Loyalty be Described?

According to the branch office manager of SEB, customer loyalty was said to be the frequency at which a customer makes a purchase of a product or service from a particular bank and the positive attitude associated with that product or service. This empirical data is supported by the theory of Gremler and Brown (1996) who defined customer loyalty as the degree to which a customer exhibit repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises. The above definition signifies loyalty as an action and how committed the customer is towards a product or service which includes emotional attachment, identification and involvement.

Also, customer loyalty according to the branch office manager’s description is when the customer tends to spread the goodwill of the bank to other potential customers who then become customers of the bank. This statement is supported by theory of Gremler and Brown (1996) and Dick and Basu (1994) who mentioned that loyal customers have a high rate to spread positive word-of-mouth about the company and even go on to purchase more service from the company.

Branch office manager stated loyalty is the level of commitment to the product or service and how a customer will not switch to another competitor even in the face of dissatisfaction with that product or service or when the service or product does not meet the expectation of the customer. The above data is supported by the theory of Dick and Basu (1994) who mentioned loyal customers have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time.

Behavioural and attitudinal traits were identified as the two main dimensions of customer loyalty. According to the branch office manager, the behavioural has to do with the customers purchasing the bank product or service for a long period of time and that the bank is the only organization that the customer deals with. The attitudinal also has to do with where a customer recommends the product or service of the bank to other potential customers. This means that when a customer of the SEB recommend the bank to other customers who then become customers of the bank in the near future. From the literature review in chapter two, Egan (2004) mentioned that the dimensions of customer loyalty are attitudinal and behavioural. According to Kahn et al. (1988), the behavioural is more concerned with the customers’ repeat purchases of a service or product over a long period of time and this indicates that the customer has a preferred brand or service. Also, Ahluwali et al.
(1999) explained attitudinal loyalty as the intentions that a customer has to purchase and recommend a product or service, which goes on to further indicate that the customer is loyal to the brand or service.

Service quality is said by the branch office manager to be the main antecedent to loyalty. They are of the view that when the bank provides service quality to its customers, the customers then become satisfied which leads to customers being loyal to the bank. This means that the bank sees the provision of service quality to its customers as the main antecedent to loyalty. This further stresses the point by McGoldrick and Andre (1997) that customer satisfaction is been used as a measure of loyalty because it has been assumed that satisfaction affects buying intentions in a positive way. Gremler and Brown (1997) also argued that satisfaction and service quality are perquisites for customer loyalty.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 1: Summary of the Comparison of Empirical Data and Theory about Definition of Customer Loyalty**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of time a consumer chooses the same product or service</td>
<td>Customer loyalty was said to be the frequency at which a customer makes a purchase of a product or service from a particular bank and the positive attitude associated with that product or service.</td>
<td>Gremler and Brown (1996) defined customer loyalty as the degree to which a customer exhibit repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.</td>
</tr>
<tr>
<td>In term of Behavioural</td>
<td>According to the bank, the behavioural has to do with the customers purchasing the Banks product or service for a long period of time and the bank is the only organization the customer deals with.</td>
<td>According to Kahn et al. (1988), the behavioural is more concerned with the customers' repeat purchases of a service or product over a long period of time and this indicates that the customer has a preferred brand or service.</td>
</tr>
<tr>
<td>In term of Attitudinal.</td>
<td>The attitudinal also has to do with where a customer recommends the product or service of the bank to other potential customers.</td>
<td>Ahluwali et al. (1999) explained attitudinal loyalty as the intentions that a customer has to purchase and recommend a product or service, which goes on to further indicate that the customer is loyal to the brand or service.</td>
</tr>
<tr>
<td>Exhibits commitment to repeat purchasing behaviour</td>
<td>The level of commitment to the product or service and how a customer will not switch to another competitor even in the face of dissatisfaction with that product or service or when the service or product does not meet the expectation of the customer.</td>
<td>Dick and Basu (1994) argued loyal customers have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time.</td>
</tr>
</tbody>
</table>
Positive word-of-mouth
Customer loyalty according to the bank's description is when the customer tends to spread the goodwill of the bank to other potential customers who then become customers of the bank.
Gremler and Brown (1996) and Dick and Basu (1994) mentioned loyal customers have a high rate to spread positive word-of-mouth about the company and even go on to purchase more service from the company.

Service quality
Service quality is said by the bank to be the main antecedent to loyalty
Gremler and Brown (1996) argued that satisfaction and service quality are prequisites for customer loyalty.

6.1.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

Banks pursuing customer loyalty have objectives at the end of the day to achieve. But how to achieve these objectives are hard to come by these days due to the homogenous nature of the products or services that the Banks produces to its clients. There are some basic objectives why these banks pursue customer loyalty programs. Some objectives of loyalty programs were mentioned by the branch office manager which matches with the objectives described by Gould (1995). Gould (1995) said creating satisfied and loyal customers is a critical matter for an organization's survival. The most common objectives mentioned by the branch office manager sets to the following literature:

According to the branch office manager, customer retention is one of the most influential objectives of pursuing customer loyalty programs. This objective was mentioned by Reichheld and Sasser (1990) who explained how profitability is affected by customer retention and came to the conclusion that as a customer's relationship with the company lengthens, profits rise and companies can boost profits by almost 100 per cent by retaining just 5 per cent more of their customers.

Branch office manager mentioned that gather customer information is another objective of loyalty programs. This empirical data is supported by O'Malley (1998) who discussed loyalty programs are developed to reward loyal customer, generate information about the customers and manipulate their behaviour.

Loyalty program is as a competitive advantage over rivals, mentioned by branch office manager. Gould (1995) discussed this regards in theory which. He discussed that creating satisfied and loyal customer is one of the most focal objectives of loyalty programs. It was argued that creating satisfied and loyal customers is a critical matter for many corporations survival (ibid.).

Long term relationship with customers is the objective of bank's loyalty programs. In theory Gremler and Brown (1996) discussed about long term customer-business relationship. Gremler and Brown (1996) argued that to deal with high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with customers.

Promoting goodwill of the bank is another objective and this objective is supported by the theory of Uncle et al., (2003) who mentioned loyalty programs encourage a positive word of mouth, attract more customers and increase the number of purchase.
According to the branch office manager, giving rewards or incentives to loyal customers through loyalty programs is an objective of the bank. Gilbert referred to in O'Malley (1998) discussed that the basic idea of a loyalty schemes is to reward customers' repeat purchasing and encourage loyalty by providing targets at which various benefits can be achieved. Here, theory support empirical data collected from the bank.

Acquire new and potential customer to the bank is an objective of loyalty programs mentioned by the branch office manager. This data matches with theory what Uncles et al., (2003) discussed. They mentioned the aim of loyalty programs which is to build closer bond between the brand and the existing customers.

According to branch office manager, promoting bank-customer relationship management (CRM), is another objective of loyalty programs. In theory, Uncles et al., (2003) mentioned goals of loyalty programs – such as aiding trade relations, assisting brand PR, establishing alliances, to maintain the existing customer base etc. In this regards, empirical data is supported by theory.

In theory, Reichheld and Sasser (1990) discussed about customer retention. They argued that profitability is affected by customer retention and customer retention could be achieved by loyalty programs. Customer retention is to retain customers by maintaining relationship and by creating extra values that leads less loyalty to more loyalty. The branch office manager mentioned that the loyalty programs help less loyal customers to become more loyal to the bank. This statement is supported by Reichheld and Sasser (1990) theory.

According to the branch office manager, objective of loyalty programs is to satisfy dissatisfied customers to remain loyal to the bank. Theory provided by O'Malley (1998) supports above empirical data. O'Malley (1998) mentioned that loyalty programs provide benefits which represent value to customers, and it is because of this that loyalty programs can encourage loyalty.

SEB’s objective of loyalty programs is to consolidate and expand the customer base of the bank. The following theories support this empirical data. O'Brien and Jones referred to in O'Malley (1998) identified five elements which determine the value of a loyalty program. These five elements can create values to consolidate and expand the customer base, elements includes: cash value (how much the rewards represents as a proportion of spend); choice of redemption options (the range of rewards offered); aspirational value (how much the customer wants the rewards); relevance (the extent to which rewards are achievable); and convenience (easy of participation in the program).

The following table (see page 59)is drawn from above discussion which shows a summary of the comparison of empirical data and theory.
### TABLE 2: Summary of the Comparison of Empirical Data and Theory about Objectives of Customer Loyalty Programs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating satisfied and loyal customers</td>
<td>Loyalty program is as a competitive advantage over rivals</td>
<td>Gould (1995) mentioned creating satisfied and loyal customer the most focal objectives of loyalty programs, and argued that creating satisfied and loyal customers is a critical matter for many corporations survival</td>
</tr>
<tr>
<td>Profitability by customer retention</td>
<td>Customer retention is one of the most influential objectives of pursuing customer loyalty programs</td>
<td>Reichheld and Sasser (1990) explained how profitability is affected by customer retention</td>
</tr>
<tr>
<td>Long term relationship</td>
<td>Long term relationship with customers is the objective of bank’s loyalty programs</td>
<td>Gremler and Brown (1996) argued that to deal with high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with customers</td>
</tr>
<tr>
<td>Give rewards or incentives</td>
<td>Giving rewards or incentives to loyal customers through loyalty programs is an objective</td>
<td>Gilbert referred to in O’Malley (1998) discussed that the basic idea of a loyalty schemes is to reward customers’ repeat purchasing and encourage loyalty by providing targets at which various benefits can be achieved</td>
</tr>
<tr>
<td>Acquire new and potential customer</td>
<td>Acquire new and potential customer to the bank is an objective of loyalty programs</td>
<td>Uncles et al., (2003) mentioned the aim of loyalty programs which is to build closer bond between the brand and the existing customers</td>
</tr>
<tr>
<td>Help less loyal customers</td>
<td>The loyalty programs help less loyal customers to become more loyal to the bank</td>
<td>Reichheld and Sasser (1990) discussed about customer retention which means retain customers by creating extra values that leads less loyalty to more loyalty</td>
</tr>
<tr>
<td>Encourage a positive word of mouth</td>
<td>Promoting goodwill of the bank is another objectives</td>
<td>Uncles et al., (2003) mentioned loyalty programs encourage a positive word of mouth, attract more customers and increase the number of purchase</td>
</tr>
<tr>
<td>Generate information about customers</td>
<td>Gather customer information is an objective of loyalty programs</td>
<td>O’Malley (1998) discussed loyalty programs are developed to generate information about the customers and manipulate their behaviour</td>
</tr>
<tr>
<td>Provide value to customers</td>
<td>Objective of loyalty programs is to satisfy dissatisfied customers to remain loyal to the bank</td>
<td>O’Malley (1998) mentioned that loyalty programs provide benefits which represent value to customers, and it is because of this that loyalty programs can encourage loyalty</td>
</tr>
<tr>
<td>Consolidate and expand the customer base of the bank</td>
<td>Bank’s objective of loyalty programs is to consolidate and expand the customer base</td>
<td>O’Brien and Jones referred to in O’Malley (1998) identified five elements which determine the value of a loyalty program. These elements can create values to consolidate and expand the customer base. Elements are: cash value, choice of redemption options, aspirational value, relevance, and convenience</td>
</tr>
</tbody>
</table>
The branch office manager mentioned that objectives of the bank loyalty programs have been affected for the advent of the Internet. She said the Internet helped bank to achieve cost effective objectives. This statement match with literature by Khalifa and Liu, (2002) who discussed that the Internet based services are believed to be superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel because of their convenience, integrity, relatively low cost and high degree of customization/personalisation among other advantages.

The manager also mentioned that E-services added values to existing products in many ways. This statement is supported by Jun and Cai (2001) who discussed Internet banking and other completely new services which are considered as loyalty programs 'add value' to existing products by substituting or complementing personal interactions with service staff by means of technological solutions.

Customer evaluation of technology based services was mentioned as very positive by the manager. Parasuraman and Grewal (2000) argued service researchers need to pay more attention to consumer evaluation of technology based services because of it’s dynamism characteristics.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 3: Summary of the Comparison of Empirical Data and Theory about the Affect of the Internet on Objectives of Customer Loyalty Programs**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost effectiveness</td>
<td>The Internet helped bank to achieve cost effective objectives</td>
<td>Khalifa and Liu, (2002) discussed that the Internet based services are superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel because of their convenience, integrity, relatively low cost and high degree of customization/personalisation among other advantages</td>
</tr>
<tr>
<td>Addition of values</td>
<td>E-services added values to existing products in many ways</td>
<td>Jun and Cai (2001) discussed Internet banking and other completely new services which are considered as loyalty programs ‘add value’ to existing products by substituting or complementing personal interactions with service staff by means of technological solutions</td>
</tr>
<tr>
<td>Consumer evaluation</td>
<td>Customer evaluation of technology based services are very positive</td>
<td>Parasuraman and Grewal (2000) argued service researchers need to pay more attention to consumer evaluation of technology based services because of its dynamism characteristics.</td>
</tr>
</tbody>
</table>
6.1.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?

During the interview the branch office manager said that SEB’s human resources base is paramount in achieving customer loyalty objectives. Bank give a thorough training to it’s employees to provide product quality and service to customers to satisfy their needs and want so as to remain loyal to the SEB. These statements are supported by the literature of Parasuraman et al., (1988) who identified service quality determinants and argued that skills of personnel can be improved by providing up to date training over time, trained staffs create values and Human Resources base is vital in achieving objectives.

She is of the view that the type of relationship that an employee develops with a customer will go a long way to help the bank achieve those objectives. This match with what Mols (1999) described the Internet as a prime means of communication, and assumed it affects banks’ relationships with their customers.

She mentioned providing quality services on a regular basis are the remarkable activities of loyal customer creation. This statement match with Bitner et al., (1990) literature where they argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction. Electronic technology offers greater customization and flexibility in that it can adapt and adjust the service options according to customer needs and wants, and therefore provide greater levels of service.

Promote reward/incentives to loyal customers is another activity of loyalty creation she mentioned. This goes to Gilbert referred to in O’Malley (1998) argued promoting reward/incentives to loyal customers as the basic activities of a loyalty schemes to encourage loyalty and to achieve various benefits.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 4: Summary of the Comparison of Empirical Data and Theory about the Activities to Create Loyal Customers**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff training</td>
<td>Bank give a thorough training to it’s employees</td>
<td>Parasuraman et al., (1988) argued that skills of personnel can be improved by providing up to date training over time, trained staffs create values and Human Resources base is vital in achieving objectives</td>
</tr>
<tr>
<td>Staff-customer relationship</td>
<td>Relationship between employees and customers help the bank to achieve objectives</td>
<td>Mols (1999) described the Internet as a prime means of communication, and assumed it affects banks’ relationships with their customers</td>
</tr>
<tr>
<td>Provide quality services</td>
<td>providing quality services on a regular basis are the remarkable activities of loyal customer creation</td>
<td>Bitner et al., (1990) argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction</td>
</tr>
<tr>
<td>Promote reward / incentives</td>
<td>Promote reward/incentives to loyal customers is another activity of loyalty creation</td>
<td>Gilbert referred to in O’Malley (1998) argued promoting reward/incentives to loyal customers as the basic activities of a loyalty schemes to encourage loyalty and to achieve various benefits</td>
</tr>
</tbody>
</table>
The advent of the Internet has had an effect on customer loyalty towards SEB. According to branch office manager the affects can be seen from both directions, that is both positive and negative impact on the customer loyalty of the bank. Some of the negative affects of the Internet on the customer loyalty of SEB have been discussed in the following according to the interview and literature.

According to the branch office manager, negative affect of advent of the Internet is less face-to-face interactions between the bank and its customers. This statement is supported by the theory of Dabholkar referred to in Drennan and McColl-Kenndy (2003) who compared traditional services vs. the Internet based high tech services and concluded high tech services as high performance but less face-to-face interactions between the firms and its customers in the literature.

The branch office manager mentioned difficulties in measuring satisfaction level of customers since it cannot be measured on a regular basis as was in the case before the advent of the Internet. In the literature, Reichheld et al., (2000) argued that it has become difficult for online companies to satisfy and bond their customers, who are demanding ever better information and services, and showing less and less tolerance for malfunctioning Web sites. Here, theory supports empirical data.

The branch office manager identified the cost of switching has become low. This statement is supported by Kotler (2000), in literature, he mentioned the Internet has facilitated customers to choose provider from a wide range, switching cost is less and competitors are just a click away.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 5: Summary of the Comparison of Empirical Data and Theory about negative Affect of the Internet in Customer Loyalty Creation Activities**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low switching cost to other competitors</td>
<td>The cost of switching has become low</td>
<td>Kotler (2000) mentioned the Internet has facilitated customers to choose provider from a wide range, switching cost is less and competitors are just a click away</td>
</tr>
<tr>
<td>Difficult for online companies to satisfy and bond their customers</td>
<td>Difficulties in measuring satisfaction level of customers</td>
<td>Reichheld et al., (2000) argued it difficult for online companies to satisfy and bond their customers, who are demanding ever better information and services, and showing less and less tolerance for malfunctioning Web sites</td>
</tr>
<tr>
<td>Less face-to-face interactions</td>
<td>Advent of the Internet effected less face-to-face interactions between bank and customers</td>
<td>Dabholkar referred to in Drennan and McColl-Kenndy (2003) mentioned less face-to-face interactions between firms and customers</td>
</tr>
</tbody>
</table>
The Internet has not only brought the negative affects on the banks customer loyalty programs but also has had a strong positive impact on the way customer loyalty is created. Some of these include:

Branch office manager has mentioned that the Internet facilitated fast delivery of services to customers and most services are available online. This statement support what Yakhlef (2001) argued in chapter two. Yakhlef (2001) discussed the Internet as a means of transforming organizations' core business.

Branch office manager mentioned Internet banking as a compliment to the traditional banking methodologies. This statement is supported by the theory of Nehmzow referred to in Yakhlef (2001) who mentioned the Internet changes the distribution channel structure of retail banks.

According to branch office manager the Internet raised the ability to provide more information to all customers without necessarily contacting all the customers at a go. Paul (1996) discussed the advent of the Internet results in marketing revolution. Marketing revolution means improvement or radical changes in all marketing tactics and strategies. Communication strategies have been changed radically because of the advent of the Internet. In this case empirical data collected from bank is supported by theory.

Branch office manager identified the Internet as a cheap/low cost media in service delivery. In literature, Kerzkowski et al., (1996) discussed about cheap or low cost in service delivery which is the effect of invention of the Internet. This theory support the data collected from SEB.

According to the branch office manager there has also been less pressure on the employees of the bank thereby making it possible for them to focus on dissatisfied customers and helping the less loyal customers to become more loyal to the bank. This statement matches with what Bitner et al., (1990) mentioned. Bitner et al., (1990) discussed about less pressure on the employees since customers does everything by themselves without the involvement of the employees.

Branch office manager mentioned that the Internet has facilitated quick and continuous access to information. This data is supported by Levy and Powel (1998). In the literature, Levy and Powel (1998) mentioned the Internet has brought up quick and continuous access to information, has increased comfort and time savings.

According to the branch office manager, the Internet has made it easy to communicate, online help support, advertise on bank website. These empirical data is supported by Drennan (2003) who discussed that the Internet has aided it easy to communicate or advertise on the website.

The following table (see page 64) is drawn from above discussion which shows a summary of the comparison of empirical data and theory.
TABLE 6: Summary of the Comparison of Empirical Data and Theory about the positive Affect of the Internet on Customer Loyalty Creation Activities

Possibilities:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Internet is a means of transforming</td>
<td>The Internet facilitated fast delivery of services to</td>
<td>Yakhlef (2001) discussed the Internet as a means of transforming</td>
</tr>
<tr>
<td>organizations' core business</td>
<td>customers and most services are available online</td>
<td>organizations' core business</td>
</tr>
<tr>
<td>Advent of the Internet results in marketing</td>
<td>The Internet raised the ability to provide more information</td>
<td>Paul (1996) discussed the advent of the Internet results in marketing</td>
</tr>
<tr>
<td>revolution</td>
<td>to all customers</td>
<td>revolution</td>
</tr>
<tr>
<td>Cheap or low cost in service delivery</td>
<td>The Internet as a cheap/low cost media in service delivery</td>
<td>Kerzkowski et al., (1996) discussed about cheap or low cost in service</td>
</tr>
<tr>
<td>Less pressure on the employees</td>
<td>Less pressure on the employees of the bank</td>
<td>pressure on the employees since customers does everything by themselves without the involvement of the employees</td>
</tr>
<tr>
<td>Easy to communicate or advertise on the</td>
<td>The Internet has made it easy to communicate, online help</td>
<td>Drennan (2003) discussed that the Internet has aided it easy to</td>
</tr>
<tr>
<td>website</td>
<td>support, advertise on bank website</td>
<td>communicate or advertise on the website</td>
</tr>
<tr>
<td>The Internet affect the distribution</td>
<td>The Internet banking as a compliment to the traditional</td>
<td>Nehmzow referred to in Yakhlef (2001) mentioned the Internet changes</td>
</tr>
<tr>
<td>channel structure</td>
<td>banking methodologies</td>
<td>the distribution channel structure of retail banks</td>
</tr>
<tr>
<td>Quick and continuous access to information,</td>
<td>The Internet has facilitated quick and continuous access</td>
<td>Levy and Powel (1998) mentioned the Internet has brought up quick and</td>
</tr>
<tr>
<td>increased comfort and time savings</td>
<td>to information</td>
<td>continuous access to information, has increased comfort and time</td>
</tr>
</tbody>
</table>

6.1.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

The branch office manager mentioned that SEB uses the Internet as an aid to understand customer needs. This is supported by Peterson et al., (1997) who identified that understanding customers needs an important factor in a competitive market place.

According to the branch office manager, the Internet is used to maintain customer relationship. This statement is supported by Sing (2002) who has mentioned that maintaining effective customer relationship is the key success in e-commerce.

The branch office manager mentioned that the Internet is substituting or complementing personal interactions with service staffs. Jun and Cai, (2001) argued that Internet banking and other completely new services add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions. Here, empirical data was supported by the theory.
Branch office manager discussed the Internet as a new distribution channel. In the literature, Jun and Cai (2001) mentioned that many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day. This Internet banking, compared to traditional banking, heavily involves non-human interactions between customers and online bank information systems. These theories support the empirical data.

The branch office manager mentioned that the Internet is being used as a media of home banking services. This statement is supported by the following theory. Mols (1999) discussed the Internet is a new distribution channel for banks enabling banks to offer variety of home banking services like money management, e.g. up to date balances on deposit and loan accounts, funds transfer between accounts and better communication without visiting, and payments, e.g. utility bill payment.

Branch office manager mentioned that the Internet is used to provide high quality services. In the literature, Mefford (1993) argued that providing customers with high quality services is important to survive in the highly competitive Internet banking industry. This theory supports the above empirical data.

The branch office manager mentioned the Internet help bank for segmentation of customers, i.e., the Internet users and non Internet users. Mols (1999) mentioned that after introduction of the Internet banking, bank can segment the customers in the basis of computer literate customer and computer illiterate customer while computer literate customers are increasing and computer illiterate consumers are decreasing.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 7: Summary of the Comparison of Empirical Data and Theory about the Use of the Internet as Support Activities in Creating Loyal Customers**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of SEB</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding customer needs</td>
<td>The Internet as an aid to understand customer needs</td>
<td>Peterson et al., (1997) identified that understanding customers needs an important factor in a competitive market place</td>
</tr>
<tr>
<td>Maintain customer relationship</td>
<td>The Internet is used to maintain customer relationship</td>
<td>Sing (2002) has mentioned that maintaining effective customer relationship is the key success in e-commerce</td>
</tr>
<tr>
<td>Substituting or complementing personal interactions with service staff</td>
<td>The Internet is substituting or complementing personal interactions with service staff</td>
<td>Jun and Cai, (2001) argued that the Internet banking and other completely new services add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions</td>
</tr>
<tr>
<td>As a new distribution channel</td>
<td>The Internet as a new distribution channel</td>
<td>Jun and Cai (2001) mentioned that many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day</td>
</tr>
<tr>
<td>Home banking services</td>
<td>The Internet is being used as a media of home banking services</td>
<td>Mols (1999) discussed the Internet is a new distribution channel for banks enabling banks to offer variety of home banking services</td>
</tr>
</tbody>
</table>
6.2 Within Case Analysis: FöreningsSparbanken AB

In the following section, the empirical data collected from FöreningsSparbanken and presented in chapter five will be analyzed and compared with the previous researches in chapter two. The analysis will be presented in the order of the research questions.

6.2.1 RQ1: How can Customer Loyalty be Described?

According to the manager, customer loyalty is described as the rate at which a customer makes a purchase of the products or service of the bank or the rate at which a customer makes a repeat purchase of the services and products of the bank. This same believe is expressed by Gremler and Brown (1996), where they describe customer loyalty as the degree to which a customer exhibits repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.

The manager also described loyalty as the level of commitment that a customer shows towards a product or service of the bank signifies how committed that customer is to the bank. This commitment is seen where there is other competitive products or service from other banks and the customer does not switch even when that customer is dissatisfied about certain aspects of the offerings of the bank. This description of customer loyalty from the perspective of the bank support the theory by Dick and Basu (1994) who argued that loyal customers have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time.

Attitudinal and behavioural traits were also identified by the manager as the two dimensions of customer loyalty. Manager described attitudinal is where the customer shows a strong attitude towards that product. That is where the customer prefers the services of the FöreningsSparbanken than any other banks. This attitudinal loyalty description of bank is supported by Ahluwali et al., (1999) who explained attitudinal loyalty as the intentions that a customer has to purchase and recommend a product or service, which goes on to further indicate that the customer is loyal to the brand or service.

The manager mentioned behavioural is also the rate of purchase which determine the behavioural pattern of that customer and hence, the customer exhibiting behavioural traits of customer loyalty. This statement is supported by Kahn et al., (1988). According to Kahn et al., (1988), the behavioural is more concerned with the customers’ repeat purchases of a service or product over a long period of time and this indicates that the customer has a preferred brand or service.
The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 8: Summary of the Comparison of Empirical Data and Theory about Definition of Customer Loyalty**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of time a consumer chooses the same product or service</td>
<td>Customer loyalty is described as the rate at which a customer makes a purchase of the products or service of the bank or the rate at which a customer makes a repeat purchase of the services and products of the bank.</td>
<td>Gremier and Brown (1996) defined customer loyalty as the degree to which a customer exhibit repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.</td>
</tr>
<tr>
<td>In term of Behavioural</td>
<td>Behavioural is also the rate of purchase which determine the behavioural pattern of that customer and hence, the customer exhibiting behavioural traits of customer loyalty</td>
<td>Kahn et al., (1988) described the behavioural is more concerned with the customers' repeat purchases of a service or product over a long period of time and this indicates that the customer has a preferred brand or service</td>
</tr>
<tr>
<td>In term of Attitudinal.</td>
<td>Attitudinal is where the customer shows a strong attitude towards that product</td>
<td>Ahluwali et al., (1999) explained attitudinal loyalty as the intentions that a customer has to purchase and recommend a product or service, which goes on to further indicate that the customer is loyal to the brand or service</td>
</tr>
<tr>
<td>Exhibits commitment to repeat purchasing behaviour</td>
<td>Described it as the level of commitment that a customer shows towards a product or service of the bank signifies how committed that customer is to the bank</td>
<td>Dick and Basu (1994) argued loyal customers have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time</td>
</tr>
</tbody>
</table>

6.2.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

From the interview conducted, the manager outlined some of the main objectives why the FöreningsSparbanken is pursuing those programs. The objectives found from interview will be now discussed by comparing with literature.

According to the manager, loyalty programs increase the bank-customer base. This statement is supported by theory of Reicheld and Sasser (1990). In literature, Reicheld and Sasser (1990) mentioned that loyalty programs help less loyal customers of the bank to become more loyal which ultimately makes strong customer base.
The manager mentioned that customer satisfaction is most important objective of loyalty program. This statement matches with the theme what Gremler and Brown (1999) discussed in literature. Gremler and Brown (1999) mentioned loyalty programs attract and satisfy customers to purchase additional goods and services.

During the interview the manager mentioned customer retention an objective of loyalty programs. Theories discussed about customer retention and it also has shown how customer retention affects on business. Reichheld and Sasser (1990) concluded that as a customer’s relationship with the company lengthens, profits rise and companies can boost profits.

The manager mentioned that loyalty programs are performed to be able to gather customer information for customizing products and services. This is supported by the theory of O'Malley (1998) who argued that loyalty programs are developed to generate information about the customers and manipulate their behaviour.

The FöreningsSparbanken objective is to increase the ability to attract new customers through loyalty programs. This statement is supported by the following theory. Gremler and Brown (1996) argued that in the high competitive business world today businesses are attempting to attract and satisfy customers through different programs and relationships.

According to the manager, loyalty programs are performed to promote bank's Customer Relationship Management (CRM). Gremler and Brown (1996) argued that to deal with high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with customers. Here, empirical data was supported by the theory.

The manager mentioned rewarding loyal customers is an objective of its loyalty programs. This statement is similar to the discussion of Gilbert referred to in O'Malley (1998) who argued that the basic idea of a loyalty schemes is to reward customers' repeat purchasing and encourage loyalty by providing targets at which various benefits can be achieved.

According to the manager, loyalty programs help to increase the confidence base of its customers. Confidence could be increased if there is some extra value created. These statements are very similar with theory by O'Malley (1998). In the literature, O'Malley (1998) mentioned that loyalty programs provide benefits which represent ´value´ to customers, and it is because of this that loyalty programs can encourage loyalty.

The following table (see page 69) is drawn from above discussion which shows a summary of the comparison of empirical data and theory.
<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating satisfied and loyal</td>
<td>Customer satisfaction is most important objective of loyalty program</td>
<td>Gremler and Brown (1999) mentioned loyalty programs attract and satisfy customers to purchase additional goods and services</td>
</tr>
<tr>
<td>customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability by customer</td>
<td>Customer retention an objective of loyalty programs</td>
<td>Reichheld and Sasser (1990) concluded that as a customer’s relationship with the company lengthens, profits rise and companies can boost profits</td>
</tr>
<tr>
<td>retention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term relationship</td>
<td>Loyalty programs are performed to promote bank’s Customer Relationship Management (CRM)</td>
<td>Gremler and Brown (1996) argued that to deal with high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with customers</td>
</tr>
<tr>
<td>Give rewards or incentives</td>
<td>Rewarding loyal customers is an objective of bank’s loyalty programs</td>
<td>Gilbert referred to in O’Malley (1998) who argued that the basic idea of a loyalty schemes is to reward customers’ repeat purchasing and encourage loyalty</td>
</tr>
<tr>
<td>Attract and satisfy customers</td>
<td>Increase the ability to attract new customers through loyalty programs</td>
<td>Gremler and Brown (1996) argued that in the high competitive business world today businesses are attempting to attract and satisfy customers through different programs and relationships</td>
</tr>
<tr>
<td>Help less loyal customers</td>
<td>Loyalty programs increase the bank-customer base</td>
<td>Reicheld and Sasser (1990) mentioned that loyalty programs help less loyal customers of the bank to become more loyal which ultimately makes strong customer base</td>
</tr>
<tr>
<td>Generate information about</td>
<td>Loyalty programs are performed to be able to gather customer information for customizing products and services</td>
<td>O’Malley (1998) argued that loyalty programs are developed to generate information about the customers and manipulate their behaviour</td>
</tr>
<tr>
<td>customers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provide value to customers</td>
<td>Loyalty programs help to Increase the confidence base of its customers</td>
<td>O’Malley (1998) mentioned that loyalty programs provide benefits which represent “value” to customers, and it is because of this that loyalty programs can encourage loyalty</td>
</tr>
</tbody>
</table>

The manager further mentioned that objectives of the bank loyalty programs have been affected by the advent of the Internet. The manager mentioned the Internet facilitated FöreningsSparbanken to achieve cost effective objectives. This statement match with literature by Khalifa and Liu (2002) who discussed that the Internet based services are believed to be superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel because of their
convenience, integrity, relatively low cost and high degree of customization/personalisation among other advantages.

The manager mentioned that e-services added values to existing products. This statement is supported by, in chapter two, Jun and Cai (2001) who discussed Internet banking and other completely new services which are considered as loyalty programs add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions.

The manager also mentioned that customer evaluation of technology based services is positive. This is supported by Parasuraman and Grewal (2000) who argued service researchers need to pay more attention to consumer evaluation of technology based services because of its dynamism characteristics.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 10**: Summary of the Comparison of Empirical Data and Theory about the Affect of the Internet on Objectives of Customer Loyalty Programs

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost effectiveness</td>
<td>The Internet facilitated bank to achieve cost effective objectives</td>
<td>Khalifa and Liu (2002) discussed that the Internet based services are believed to be superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel</td>
</tr>
<tr>
<td>Addition of values</td>
<td>E-services added values to existing products</td>
<td>Jun and Cai (2001) discussed the Internet banking and other completely new services which are considered as loyalty programs add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions</td>
</tr>
<tr>
<td>Consumer evaluation</td>
<td>Customer evaluation of technology based services is positive</td>
<td>Parasuraman and Grewal (2000) argued service researchers need to pay more attention to consumer evaluation of technology based services because of its dynamism characteristics</td>
</tr>
</tbody>
</table>
6.2.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?

The manager mentioned the Human Resources as an essential factor FöreningsSparbanken takes a critical look at. She said capable employees in place that handle different customers with regards to peculiar needs and wants, because different classes of customers exist. Different temperaments of staffs therefore need to segment staffs according to the nature of various categories of customers. This strategy helps bank to achieve maximum loyalty level. This Human Resources development is one of the activities bank perform she mentioned. These statements are supported by the literature of Parasuraman et al., (1988) who identified service quality determinants and argued that skills of personnel can be improved by providing up to date training over time, and trained staffs create values and Human Resources base is vital in achieving objectives.

The manager also mentioned that bank maintain long term staff-customer relationship as an activity to create loyal customer. This match with what Mols (1999) described the Internet as a prime means of communication, and assumed it affects banks' relationships with their customers. All aspect of the bank operations are done by integrating the Internet she added. This statement match with Bitner et al., (1990) literature where they argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction. Electronic technology offers greater customization and flexibility in that it can adapt and adjust the service options according to customer needs and wants, and therefore provide greater levels of service.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 11:** Summary of the Comparison of Empirical Data and Theory about the Activities to Create Loyal Customers

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff training</td>
<td>Human Resources as an essential factor bank takes a critical look at</td>
<td>Parasuraman et al., (1988) identified service quality determinants and argued that skills of personnel can be improved by providing up to date training over time, and trained staffs create values and Human Resources base is vital in achieving objectives</td>
</tr>
<tr>
<td>Staff-customer relation</td>
<td>Maintain long term staff-customer relationship as an activity to create loyal customer</td>
<td>Mols (1999) described the Internet as a prime means of communication, and assumed it affects banks' relationships with their customers</td>
</tr>
<tr>
<td>Provide quality services</td>
<td>All aspect of the bank operations are done by integrating the Internet</td>
<td>Bitner et al., (1990) literature where they argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction</td>
</tr>
</tbody>
</table>
The advent of the Internet has had an enormous impact of how banks in Sweden create loyalty. This is seen from both the positive and negative side. The manager mentioned that FöreningsSparbanken is one of the pioneers in Internet banking activities and hence bank has used the Internet in creating customer loyalty since the introduction of the Internet in the bank. The manager mentioned some problems and possibilities which will be analysed now with the literature.

Problems:

The manager mentioned the difficulties to interact with dissatisfied customers. The manager said it’s sometime not noticed who are dissatisfied with online services. This statement is similar with Reichheld et al., (2000) who mentioned difficulties for online companies to satisfy and bond their customers.

According to the manager the ability to determine less loyal customers becomes increasingly difficult for the FöreningsSparbanken. This is supported by Reinartz and kumar (2002) who mentioned creating customer loyalty base is critical for online companies.

The manager mentioned that advent of the Internet has caused less face-to-face interactions with customers. This supports Dabholkar referred to in Drennan and McColl-Kenndy (2003) who mentioned less face-to-face interactions between the firms and its customers in the literature.

The manager mentioned measuring of the satisfaction level of customers becomes difficult to do. In the literature Reichheld et al., (2000) discussed about difficulties for online companies to satisfy and bond their customers.

The manager discussed that it’s becoming increasingly difficult to know which customers of the FöreningsSparbanken are switching to other banks. In the literature, Kotler (2000) has discussed in this regards. Kotler (2000) mentioned the Internet has facilitated customers to choose provider from a wide range, switching cost is less and competitors are just a click away.

The following table is drawn from above discussion which shows a summary of the comparison of empirical data and theory.

**TABLE 12:** Summary of the Comparison of Empirical Data and Theory about negative Affect of the Internet in Customer Loyalty Creation Activities

<table>
<thead>
<tr>
<th>Problems:</th>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low switching cost to other competitors</td>
<td>It’s becoming increasingly difficult to know which customers of the bank are switching to other banks</td>
<td>Kotler (2000) mentioned the Internet has facilitated customers to choose provider from a wide range, switching cost is less and competitors are just a click away</td>
<td></td>
</tr>
<tr>
<td>Difficult for online companies to satisfy and bond their customers</td>
<td>Difficulties to interact with dissatisfied customers</td>
<td>Reichheld et al., (2000) mentioned difficulties for online companies to satisfy and bond their customers</td>
<td></td>
</tr>
<tr>
<td>Critical for online companies to create customer loyalty base</td>
<td>The ability to determine less loyal customers becomes increasingly difficult for the bank</td>
<td>Reinartz and kumar (2002) mentioned creating customer loyalty base is critical for online companies</td>
<td></td>
</tr>
<tr>
<td>Less face-to-face interactions</td>
<td>Advent of the Internet has caused less face-to-face interactions with customers</td>
<td>Dabholkar referred to in Drennan and McColl-Kenndy (2003) mentioned less face-to-face interactions between the firms and its customers</td>
<td></td>
</tr>
</tbody>
</table>
The Internet has not only brought the negative affects on the Banks customer loyalty programs but also has had a strong positive impact on the way customer loyalty is created. Some of these include:

Possibilities:

According to the manager, the Internet has facilitated easy access to customer information for data mining. In the literature, quick and continuous access to information, increased comfort and time savings was mentioned by Levy and Powel (1998). Here, empirical data is supported by the theory.

The manager mentioned that the Internet has increased efficiency in service delivery. This statement is supported by Paul (1996) who argued that the advent of the Internet results in marketing revolution.

According to the manager, the Internet has assisted to improve service quality. Paul (1996) discussed about the impact of the Internet in literature. Paul (1996) mentioned that the advent of the Internet results in marketing revolution. The statement collected from the interview is supported by this literature.

The manager mentioned that the Internet increased the ability to serve a large pool of customers at the same time. This statement is supported by Yakhlef (2001) who argued the Internet as a means of transforming organizations' core business, in chapter two.

The manager mentioned that the Internet has assisted to deliver services in low cost. The similar theme have been found in literature where Kerzkowski et al., (1996) argued that invention of the Internet has caused cheap or low cost in service delivery.

Personalization of services has become now easy and convenient mentioned by the manager during the interview. Drennan (2003) discussed the similar issues in literature review. According to Drennan (2003), the Internet has made it easy for the organization to communicate or advertise on the website. These discussions are similar and supported by the data collected from the interview.

According to the manager, all banking operations can be done through Internet Banking. This statement is supported by the theory of Nehmzow referred to in Yakhlef (2001) who mentioned that the Internet changes the distribution channel structure of retail banks.

The manager mentioned that answers of most FAQ are on the site and this helped bank to minimize pressure on offline staffs. Customers can get the answer of their queries without contacting bank personnel. In the literature, Bitner et al., (1990) discussed about less pressure on the employees since customers does everything by themselves without the involvement of the employees. Bitner et al., (1990) theory supports the empirical data.

The following table (See page 74) is drawn from above discussion which shows a summary of the comparison of empirical data and theory.
**TABLE 13:** Summary of the Comparison of Empirical Data and Theory about positive Affect of the Internet in Customer Loyalty Creation Activities

Possibilities:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Internet is a means of transforming organizations’ core business</td>
<td>The Internet increased the ability to serve a large pool of customers at the same time</td>
<td>Yakhlef (2001) argued the Internet as a means of transforming organizations’ core business</td>
</tr>
<tr>
<td>Advent of the Internet results in marketing revolution</td>
<td>The Internet has increased efficiency in service delivery</td>
<td>Paul (1996) argued that the advent of the Internet results in marketing revolution</td>
</tr>
<tr>
<td>Cheap or low cost in service delivery</td>
<td>The Internet has assisted to deliver services in low cost</td>
<td>Kerzkowski et al., (1996) argued that invention of the Internet has caused cheap or low cost in service delivery</td>
</tr>
<tr>
<td>Less pressure on the employees</td>
<td>Answers of most FAQ are on the site and this helped bank to minimize pressure on offline staffs</td>
<td>Bitner et al., (1990) discussed about less pressure on the employees since customers does everything by themselves without the involvement of the employees</td>
</tr>
<tr>
<td>Improve service quality</td>
<td>The Internet has assisted to improve service quality</td>
<td>Paul (1996) mentioned that the advent of the Internet results in marketing revolution</td>
</tr>
<tr>
<td>Easy to communicate or advertise on the website</td>
<td>Personalization of services has become now easy and convenient</td>
<td>Drennan (2003) mentioned the Internet has made it easy for the organization to communicate or advertise on the website</td>
</tr>
<tr>
<td>The Internet affects the distribution channel structure</td>
<td>All banking operations can be done through Internet Banking</td>
<td>Nehmzow referred to in Yakhlef (2001) mentioned the Internet changes the distribution channel structure of retail banks</td>
</tr>
<tr>
<td>Quick and continuous access to information, increased comfort and time savings</td>
<td>The Internet has facilitated easy access to customer information for data mining</td>
<td>Levy and Powel (1998) mentioned quick and continuous access to information, increased comfort and time savings</td>
</tr>
</tbody>
</table>

6.2.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

The manager mentioned that FöreningsSparbanken has been using the Internet in facilitating its loyalty creation programs. They do this by integrating the Internet in all aspects of the banks operations, i.e., service delivery, customer care, provision of quality and affordable products, services, etc. This statement is supported by Nehmzow referred to in Yakhlef (2001) who mentioned that the Internet changes the distribution channel structure of retail banks.

With regards to the quality of service that the FöreningsSparbanken provides, the manager consented to the fact that service quality is an integral component in customer loyalty creation. The type of service quality that the FöreningsSparbanken provides to its customers tends to influence their commitment to the bank. The manager also mentioned some of the adoption of the Internet in day to day operations of the bank.
According to the manager, the Internet is used to understand customer needs. This is supported by Peterson et al., (1997) who identified that understanding customers needs an important factor in a competitive market place.

The manager mentioned that the Internet is used to assist FöreningsSparbanken to increase profitability and revenue. In literature, Slu and Mou (2003) discussed better service quality typically can help to get better returns. Better service quality could be achieved by the adoption of the Internet in low cost which ultimately leads to profitability. This discussion support data what is collected from the interview.

The manager mentioned that the Internet is used to increase service quality. The similar views have been found in literature where Mefford (1993) argued that providing customers with high quality services is important to survive in the highly competitive Internet banking industry.

According to the manager, FöreningsSparbanken uses the Internet to maintain customer relationship. This statement is supported by the theory of Sing (2002) who has mentioned maintaining effective customer relationship is the key success in e-commerce.

The manager mentioned that the Internet is used as a new distribution channel. In literature, Jun and Cai (2001) mentioned many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day. This Internet banking, compared to traditional banking, heavily involves non-human interactions between customers and online bank information systems. Here, the empirical data is supported by the literature.

According to the manager, the Internet is used to increase the level of customer satisfaction with high efficiency and effectiveness of the bank. In the literature, theories regarding increasing customer satisfaction have been found. In literature, Jun and Cai (2001) argued that Internet banking and other completely new services add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions.

The manager mentioned that the Internet is used as a media of home banking services. Mols (1999) discussed that the Internet is new distribution channel for banks enabling banks to offer variety of home banking services like money management, e.g. up to date balances on deposit and loan accounts, funds transfer between accounts and better communication without visiting, and payments, e.g. utility bill payment.

The following table (See page 76) is drawn from above discussion which shows a summary of the comparison of empirical data and theory.
**TABLE 14:** Summary of the Comparison of Empirical Data and Theory about the Use of the Internet as Support Activities in Creating Loyal Customers

<table>
<thead>
<tr>
<th>Variables</th>
<th>Empirical Data of FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding customer needs</td>
<td>The Internet is used to understand customer needs</td>
<td>Peterson et al., (1997) identified that understanding customers needs is an important factor in a competitive market place</td>
</tr>
<tr>
<td>Higher revenues</td>
<td>The Internet is used to assist bank to increase profitability and revenue</td>
<td>Slu and Mou (2003) discussed better service quality typically can help to get better returns</td>
</tr>
<tr>
<td>Maintain customer relationship</td>
<td>Bank uses the Internet to maintain customer relationship</td>
<td>Sing (2002) mentioned maintaining effective customer relationship is the key success in e-commerce</td>
</tr>
<tr>
<td>Value addition</td>
<td>The Internet is used to increase the level of customer satisfaction</td>
<td>Jun and Cai (2001) argued that the Internet banking and other completely new services add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions</td>
</tr>
<tr>
<td>As a new distribution channel</td>
<td>The Internet is used as a new distribution channel</td>
<td>Jun and Cai (2001) mentioned that many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day</td>
</tr>
<tr>
<td>Home banking services</td>
<td>The Internet is used as a media of home banking services</td>
<td>Mols (1999) discussed the Internet is a new distribution channel for banks enabling banks to offer variety of home banking services</td>
</tr>
<tr>
<td>Provide high quality services</td>
<td>The Internet is used to increase service quality</td>
<td>Mefford (1993) argued that providing customers with high quality services is important to survive in the highly competitive Internet banking industry</td>
</tr>
<tr>
<td>Segmentation of customers</td>
<td>The Internet is used to make the customer base strong</td>
<td>Mols (1999) mentioned that after introduction of Internet in banking, bank can segment the customers in the basis of computer literate customer and computer illiterate customer</td>
</tr>
</tbody>
</table>

**6.3 Cross Case Analysis**

The cross-case analysis will be done based on the within-case analysis and in the order of research questions. Both, similarities and differences, will be detected by comparing the two cases with one another plus theory. The similarities and differences that will be found from comparing two cases will be presented in tables and be discussed in detail.
6.3.1 RQ1: How can Customer Loyalty be Described?

The similarities and differences found from two cases about the definition of customer loyalty are summarized in the following table.

TABLE 15: The Similarities and Differences about Definition of Customer Loyalty

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of time a consumer chooses the same product or service</td>
<td>Customer loyalty was said to be the frequency at which a customer makes a purchase of a product or service from a particular bank and the positive attitude associated with that product or service</td>
<td>Customer loyalty is described as the rate at which a customer makes a purchase of the products or service of the bank or the rate at which a customer makes a repeat purchase of the services and products of the bank</td>
<td>Gremler and Brown (1996) defined customer loyalty as the degree to which a customer exhibit repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises</td>
</tr>
<tr>
<td>In term of Behaviourer</td>
<td>According to the bank, the behavioural has to do with the customers purchasing the Banks product or service for a long period of time and the bank is the only organization the customer deals with</td>
<td>Behavioural is also the rate of purchase which determine the behavioural pattern of that customer and hence, the customer exhibiting behavioural traits of customer loyalty</td>
<td>Kahn et al., (1988) described the behavioural is more concerned with the customers’ repeat purchases of a service or product over a long period of time and this indicates that the customer has a preferred brand or service</td>
</tr>
<tr>
<td>In term of Attitudinal</td>
<td>The attitudinal also has to do with where a customer recommends the product or service of the bank to other potential customers</td>
<td>Attitudinal is where the customer shows a strong attitude towards that product.</td>
<td>Ahluwali et al. (1999) explained attitudinal loyalty as the intentions that a customer has to purchase and recommend a product or service, which goes on to further indicate that the customer is loyal to the brand or service</td>
</tr>
<tr>
<td>Exhibits commitment to repeat purchasing behaviour</td>
<td>The level of commitment to the product or service and how a customer will not switch to another competitor even in the face of dissatisfaction with that product or service or when the service or product does not meet the expectation of the customer.</td>
<td>Described it as the level of commitment that a customer shows towards a product or service of the bank signifies how committed that customer is to the bank.</td>
<td>Dick and Basu (1994) argued loyal customers have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time</td>
</tr>
<tr>
<td>Positive word-of-mouth</td>
<td>Customer loyalty according to the bank’s description is when the customer tends to spread the goodwill of the bank to other potential customers who then become customers of the bank.</td>
<td>Not mentioned</td>
<td>Gremler and Brown (1996) and Dick and Basu (1994) mentioned loyal customers have a high rate to spread positive word-of-mouth about the company and even go on to purchase more service from the company</td>
</tr>
<tr>
<td>Service quality</td>
<td>Service quality is said by the bank to be the main antecedent to loyalty</td>
<td>Not mentioned</td>
<td>Gremler and Brown (1996) argued that satisfaction and service quality are perquisites for customer loyalty</td>
</tr>
</tbody>
</table>

Regarding the definition of customer loyalty in the previous chapter, some similarities and differences were found between two companies, SEB (case 1) and FöreningsSparbanken (case 2). These similarities and differences are discussed bellow:

The branch office manager of SEB defined customer loyalty as the frequency at which a customer makes a purchase of a product or service from a particular bank and the positive attitude.
associated with that product or service. The manager of FöreningsSparbanken described customer loyalty as the rate at which a customer makes a purchase of the products or service of the bank or the rate at which a customer makes a repeat purchase of the services and products of the bank. All definitions are related to Gremler and Brown (1996) who defined customer loyalty as the degree to which a customer exhibit repeat purchasing behaviour from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service arises.

In term of behavioural aspect, branch office manager of SEB mentioned that the behaviourial has to do with the customers purchasing the bank’s product or service for a long period of time and the bank is the only organization the customer deals with. The manager of FöreningsSparbanken mentioned behavioural is the rate of purchase which determine the behavioural pattern of customer and hence, the customer exhibiting behavioural traits of customer loyalty. These discussions are related to Kahn et al., (1988) who described the behavioural is more concerned with the customers’ repeat purchases of a service or product over a long period of time and this indicates that the customer has a preferred brand or service.

In term of attitudinal aspect the branch office manager of SEB described that the attitudinal has to do with where a customer recommends the product or service of the bank to other potential customers. The manager of FöreningsSparbanken said attitudinal is where the customer shows a strong attitude towards that product. These facts related to Ahluwali et al., (1999) who explained attitudinal loyalty as the intentions that a customer has to purchase and recommend a product or service, which goes on to further indicate that the customer is loyal to the brand or service.

The branch office manager of SEB described commitment to repeat purchasing behaviour is the level of commitment to the product or service and how a customer will not switch to another competitor even in the face of dissatisfaction with that product or service or when the service or product does not meet the expectation of the customer. The manager of FöreningsSparbanken described it as the level of commitment that a customer shows towards a product or service of the bank signifies how committed that customer is to the bank. These discussions are related to Dick and Basu (1994) who argued loyal customers have less potential to switch to other competitors even when the competitor offer more compensation or when the product or service is unavailable at a particular point in time.

Positive word-of-mouth described by the branch office manager of SEB, is when the customer tends to spread the goodwill of the bank to other potential customers who then become customers of the bank. The manager of FöreningsSparbanken did not mention in this regards.

The branch office manager of SEB mentioned service quality as the main antecedent to loyalty perhaps the manager of FöreningsSparbanken didn’t mention this.

6.3.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

The similarities and differences found from two cases about the objectives of customer loyalty programs are summarized in the following table (see page 79):
### TABLE 16: The Similarities and Differences about the Objectives of Customer Loyalty Programs

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Creating satisfied and loyal</td>
<td>Loyalty program is as a competitive advantage over</td>
<td>Customer satisfaction is most important objective of loyalty program</td>
<td>Gould (1995) mentioned creating satisfied and loyal customer the most local objectives of loyalty programs, and argued that creating satisfied and loyal customers is a critical matter for many corporations survival</td>
</tr>
<tr>
<td>customers</td>
<td>rivals</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profitability by customer</td>
<td>Customer retention is one of the most influential</td>
<td>Customer retention an objective of loyalty programs</td>
<td>Reichheld and Sasser (1990) concluded that as a customer’s relationship with the company lengths, profits rise and companies can boost profits</td>
</tr>
<tr>
<td>retention</td>
<td>objectives of loyalty programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Long term relationship</td>
<td>Long term relationship with customers is the</td>
<td>Loyalty programs are performed to promote bank’s Customer Relationship Management (CRM)</td>
<td>Gremler and Brown (1996) argued that to deal with high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with customers</td>
</tr>
<tr>
<td></td>
<td>objective of bank’s loyalty programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Give rewards or incentives</td>
<td>Giving rewards or incentives to loyal customers</td>
<td>Rewarding loyal customers is an objective of bank’s loyalty programs</td>
<td>Gilbert referred to in O’Malley (1998) who argued that the basic idea of a loyalty schemes is to reward customers’ repeat purchasing and encourage loyalty</td>
</tr>
<tr>
<td></td>
<td>through loyalty programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Attract and satisfy customers</td>
<td>Acquire new and potential customer to the bank is</td>
<td>Increase the ability to attract new customers through loyalty programs</td>
<td>Gremler and Brown (1996) argued that in the high competitive business world today businesses are attempting to attract and satisfy customers through different programs and relationships</td>
</tr>
<tr>
<td></td>
<td>an objective of loyalty programs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Help less loyal customers</td>
<td>The loyalty programs help less loyal customers</td>
<td>Loyalty programs increase the bank-customer base</td>
<td>Reichheld and Sasser (1990) discussed about customer retention which means retain customers by creating extra values that leads less loyalty to more loyalty</td>
</tr>
<tr>
<td></td>
<td>to become more loyal to the bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Encourage a positive word of</td>
<td>Promoting goodwill of the bank is another</td>
<td>Not mentioned</td>
<td>Uncles et al., (2003) mentioned loyalty programs encourage a positive word of mouth, attract more customers and increase the number of purchase</td>
</tr>
<tr>
<td>mouth</td>
<td>objectives</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generate information about</td>
<td>Gather customer information is an objective of</td>
<td>Loyalty programs are performed to be able to gather customer information for customizing</td>
<td>O’Malley (1998) argued that loyalty programs are developed to generate information about the customers and manipulate their behaviour</td>
</tr>
<tr>
<td>customers</td>
<td>loyalty programs</td>
<td>products and services</td>
<td></td>
</tr>
<tr>
<td>Provide value to customers</td>
<td>Objective of loyalty programs is to satisfy</td>
<td>Loyalty programs help to increase the confidence base of its customers</td>
<td>O’Malley (1998) mentioned that loyalty programs provide benefits which represent value to customers, and it is because of this that loyalty programs can encourage loyalty</td>
</tr>
<tr>
<td></td>
<td>dissatisfied customers to remain loyal to the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Consolidate and expand the</td>
<td>Bank’s objective of loyalty programs is to</td>
<td>Not mentioned</td>
<td>O’Brien and Jones referred to in O’Malley (1998) identified five elements which determine the value of a loyalty program. These elements can create values to consolidate and expand the customer base. Elements are: cash value, choice of redemption options, aspirational value, relevance, and convenience</td>
</tr>
<tr>
<td>customer base of the bank</td>
<td>consolidate and expand the customer base</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Regarding the objectives of customer loyalty programs in the previous chapter, some similarities and differences were found between two companies. These similarities and differences are discussed below:

Both managers of SEB and FöreningsSparbanken mentioned some common objectives of their loyalty programs. These common objectives are supported by literature. One of the common objectives mentioned by both managers is creating satisfied and loyal customers which is supported by Gould (1995) who mentioned creating satisfied and loyal customer the most focal objectives of loyalty programs, and argued that creating satisfied and loyal customers is a critical matter for many corporations survival. Profitability by customer retention is another common objective of customer loyalty program which is supported by the theory Reichheld and Sasser (1990), who concluded that as a customer's relationship with the company lengthens, profits rise and companies can boost profits.

Both managers mentioned that both banks lead customer loyalty program to achieve long term relationship with customers. This empirical data matches what Gremler and Brown (1996) argued. Gremler and Brown (1996) argued that to deal with high concentrated market, businesses are attempting not only to attract and satisfy customers but also create a long-term relationship with customers.

Gilbert referred to in O'Malley (1998) argued that the basic idea of a loyalty schemes is to reward customers' repeat purchasing and encourage loyalty. This literature supports the objective mentioned by both managers. Managers mentioned that giving rewards or incentives to customers is an objective of banks customer loyalty programs.

According to the managers, attracting and satisfying customers is another objectives of bank pursuing loyalty programs which is supported by Gremler and Brown (1996) who argued that in the high competitive business world today businesses are attempting to attract and satisfy customers through different programs and relationships.

To help less loyal customers is another objective mentioned by the managers and this empirical common objective is supported by Reichheld and Sasser (1990) who discussed about customer retention which means retain customers by creating extra values that leads less loyalty to more loyalty.

Both managers mentioned that generating information about customers is an important objective os loyalty programs. This empirical common objective is supported by O'Malley (1998). O'Malley (1998) argued that loyalty programs are developed to generate information about the customers and manipulate their behaviour.

Providing values to customers is another common objective of loyalty programs, according to the both managers, and this objective matches what O'Malley (1998) mentioned. According to O'Malley (1998) loyalty programs provide benefits which represent value to customers, and it is because of this that loyalty programs can encourage loyalty.

The branch office manager of SEB mentioned some other objectives i.e., loyalty programs encourage a positive word of mouth, supported by Uncles et al., (2003) who mentioned loyalty
programs encourage a positive word of mouth, attract more customers and increase the number of purchase. The branch office manager of SEB also mentioned that objective of customer loyalty program is to consolidate and expand the customer base of the bank. This empirical objective is supported by the literature of O’Brien and Jones referred to in O’Malley (1998) who identified five elements which determine the value of a loyalty program. These elements can create values to consolidate and expand the customer base. Elements are: cash value, choice of redemption options, aspirational value, relevance, and convenience. Perhaps, the manager of FöreningsSparbanken didn’t mention these objectives.

The similarities and differences found from two cases about affects of the Internet on objectives of customer loyalty programs are summarized in the following table.

**TABLE 17: The Similarities and Differences about the Affects of the Internet on Objectives of Customer Loyalty Programs**

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost effectiveness</td>
<td>The Internet helped bank to achieve cost effective objectives</td>
<td>The Internet facilitated bank to achieve cost effective objectives</td>
<td>Khalifa and Liu (2002) discussed that the Internet based services are believed to be superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel</td>
</tr>
<tr>
<td>Addition of values</td>
<td>E-services added values to existing products in many ways</td>
<td>E-services added values to existing products</td>
<td>Jun and Cai (2001) discussed Internet banking and other completely new services which are considered as loyalty programs ‘add value’ to existing products by substituting or complementing personal interactions with service staff by means of technological solutions</td>
</tr>
<tr>
<td>Consumer evaluation</td>
<td>Customer evaluation of technology based services are very positive</td>
<td>Customer evaluation of technology based services is positive</td>
<td>Parasuraman and Grewal (2000) argued service researchers need to pay more attention to consumer evaluation of technology based services because of its dynamism characteristics</td>
</tr>
</tbody>
</table>

Concerning the affects on objectives with the advent of the Internet in the previous chapter, some similarities and no differences were found between two companies. These similarities are discussed bellow:

Both managers of SEB and FöreningsSparbanken mentioned some common objectives of customer loyalty programs which are affected with advent of the Internet such as: cost effectiveness which is supported by Khalifa and Liu (2002) who discussed that the Internet based services are believed to be superior to achieve cost effective objectives from loyalty programs to those delivered through regular channel. Another common objective of customer loyalty programs which is affected with advent of the Internet is addition of values. This empirical objective is supported by Jun and Cai (2001) who discussed Internet banking and other completely new
services which are considered as loyalty programs ‘add value’ to existing products by substituting or complementing personal interactions with service staff by means of technological solutions.

Parasuraman and Grewal (2000) argued service researchers need to pay more attention to consumer evaluation of technology based services because of its dynamism characteristics. This literature supports what both managers mentioned. Managers mentioned that customer evaluation of technology based services are very positive.

6.3.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?

The similarities and differences found from two cases about the activities to create loyal customers are summarized in the following table.

**TABLE 18: The Similarities and Differences about the Activities to Create Loyal Customers**

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff training</td>
<td>Bank give a thorough training to it’s employees</td>
<td>Human Resources as an essential factor bank takes a critical look at</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>by providing up to date training over time, trained staffs create values and Human Resources base is vital in achieving objectives</td>
<td></td>
</tr>
<tr>
<td>Staff-customer relationship</td>
<td>Relationship between employees and customers help the bank to achieve objectives</td>
<td>Maintain long term staff-customer relationship as an activity to create loyal customer</td>
<td>Mols (1999) described the Internet as a prime means of communication, and assumed it affects banks’ relationships with their customers</td>
</tr>
<tr>
<td>Provide quality services</td>
<td>Providing quality services on a regular basis are the remarkable activities of loyal customer creation</td>
<td>All aspect of the bank operations are done by integrating the Internet</td>
<td>Bitner et al., (1990) literature where they argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction</td>
</tr>
<tr>
<td>Promote reward/incentives</td>
<td>Promote reward/incentives to loyal customers is another activity of loyalty creation</td>
<td>Not mentioned</td>
<td>Gilbert referred to in O’Malley (1998) argued promoting reward/incentives to loyal customers as the basic activities of a loyalty schemes to encourage loyalty and to achieve various benefits</td>
</tr>
</tbody>
</table>

Regarding the activities of customer loyalty creation in the previous chapter, some similarities and differences were found between two cases. These similarities and differences are discussed below:

In the concern of activities of loyalty creation both companies mentioned some similar activities. One of these similar activities is staff training which is supported by Parasuraman et al., (1988) who argued that skills of personnel can be improved by providing up to date training over time, trained staffs create values and Human Resources base is vital in achieving objectives. Another empirical activity is building staff-customer relationship which is supported by Mols (1999) who described the Internet as a prime means of communication, and assumed it affects banks’
relationships with their customers. Managers mentioned that providing quality services is an activity to in order to create loyal customers. This empirical activity is supported by Bitner et al., (1990) literature where they argued that electronic technology can enhance customer-organization interactions and enable increased levels of service and customer satisfaction. The branch office manager of SEB mentioned promoting rewards and incentives is an activity of loyalty creation which is supported by the theory of Gilbert referred to in O’Malley (1998) who argued promoting reward/incentives to loyal customers as the basic activities of a loyalty schemes to encourage loyalty and to achieve various benefits. But the manager of FöreningsSparbanken didn’t mention on this topic.

The similarities and differences found from two cases about the negative and positive affects of the Internet in customer loyalty creation Activities are summarized in the following tables.

**TABLE 19: The Similarities and Differences about the Negative Affect (Problems) of the Internet in Customer Loyalty Creation Activities**

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low switching cost to other competitors</td>
<td>The cost of switching has become low</td>
<td>It’s becoming increasingly difficult to know which customers of the bank are switching to other banks</td>
<td>Kotler (2000) mentioned the Internet has facilitated customers to choose provider from a wide range, switching cost is less and competitors are just a click away</td>
</tr>
<tr>
<td>Difficult for online companies to satisfy and bond their customers</td>
<td>Difficulties in measuring satisfaction level of customers</td>
<td>Difficulties to interact with dissatisfied customers</td>
<td>Reichheld et al., (2000) mentioned difficulties for online companies to satisfy and bond their customers</td>
</tr>
<tr>
<td>Critical for online companies to create customer loyalty base</td>
<td>Not mentioned</td>
<td>The ability to determine less loyal customers becomes increasingly difficult for the bank</td>
<td>Reinartz and kumar (2002) mentioned creating customer loyalty base is critical for online companies</td>
</tr>
<tr>
<td>Less face-to-face interactions</td>
<td>Advent of the Internet effected less face-to-face interactions between bank and customers</td>
<td>Advent of the Internet has caused less face-to-face interactions with customers</td>
<td>Dabholkar referred to in Drennan and McColl-Kenndy (2003) mentioned less face-to-face interactions between the firms and its customers</td>
</tr>
</tbody>
</table>

**TABLE 20: The Similarities and Differences about the Positive Affect (Possibilities) of the Internet in Customer Loyalty Creation Activities**

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Internet is a means of transforming organizations’ core business</td>
<td>The Internet facilitated fast delivery of services to customers and most services are available online</td>
<td>The Internet increased the ability to serve a large pool of customers at the same time</td>
<td>Yakhlef (2001) discussed the Internet as a means of transforming organizations’ core business</td>
</tr>
<tr>
<td>Advent of the Internet results in marketing revolution</td>
<td>The Internet raised the ability to provide more information to all customers</td>
<td>The Internet has increased efficiency in service delivery</td>
<td>Paul (1996) discussed the advent of the Internet results in marketing revolution</td>
</tr>
<tr>
<td>Cheap or low cost in service delivery</td>
<td>The Internet as a cheap/low cost media in service delivery</td>
<td>The Internet has assisted to deliver services in low cost</td>
<td>Kerzkowski et al., (1996) discussed about cheap or low cost in service delivery which is the effect of invention of the Internet</td>
</tr>
<tr>
<td>Less pressure on the employees</td>
<td>Less pressure on the employees of the bank</td>
<td>Answers of most FAQ are on the site and this helped bank to minimize pressure on offline staffs</td>
<td>Bitner et al., (1990) discussed about less pressure on the employees since customers does everything by themselves without the involvement</td>
</tr>
</tbody>
</table>
Regarding affect of the Internet in customer loyalty creation activities in the previous chapter, some similarities and differences were found between two companies. These similarities and differences are discussed below:

It has been discussed in the previous chapter how the Internet has affected on customer loyalty creation activities. The Internet has affected to both companies in two directions which brings Problems and Possibilities. Both managers mentioned some common problems, one of these problems is low switching cost to other competitors, this empirical problem match with Kotler (2000) who mentioned that the Internet has facilitated customers to choose provider from a wide range, switching cost is less and competitors are just a click away. Another empirical problem is difficult for online companies to satisfy and bond their customer which is supported by Reichheld et al., (2000) who mentioned difficulties for online companies to satisfy and bond their customers. Both managers mentioned that the Internet has created less face-to-face interactions between companies and customers and this empirical problem is supported by Dabholkar referred to in Drennan and McColl-Kenndy (2003) who mentioned less face-to-face interactions between the firms and its customers. The manager of FöreningsSparbanken mentioned, to create customer loyalty base is critical for online companies which is supported by Reinartz and kumar (2002) who mentioned creating customer loyalty base is critical for online companies, perhaps the branch office manager of SEB did not raise this concern.

The managers of SEB and FöreningsSparbanken mentioned some common Possibilities as affect of the Internet on activities of loyalty creation. One of these common possibilities is, the Internet is a means of transforming organizations’ core business which is supported by Yakhlef (2001) who discussed the Internet as a means of transforming organizations’ core business. Advent of the Internet results in marketing revolution, mentioned by both managers and this empirical possibility is matched with Paul (1996) who discussed the advent of the Internet results in marketing revolution. Both managers mentioned that the Internet has facilitated cheap or low cost in service delivery this is supported by Kerzkowski et al., (1996) who discussed about cheap or low cost in service delivery which is the effect of invention of the Internet. Both managers mentioned about less pressure on the employees because of advent of the Internet this empirical possibility is supported by Bitner et al., (1990), who discussed about less pressure on the employees since customers does everything by themselves without the involvement of the employees. The managers mentioned that it is easy to communicate or advertise on the website this statement

<table>
<thead>
<tr>
<th>Improve service quality</th>
<th>Not Mentioned</th>
<th>The Internet has assisted to improve service quality</th>
<th>Paul (1996) mentioned that the advent of the Internet results in marketing revolution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Easy to communicate or advertise on the website</td>
<td>The Internet has made it easy to communicate, online help support, advertise on bank website</td>
<td>Personalization of services has become now easy and convenient</td>
<td>Drennan (2003) discussed that the Internet has aided it easy to communicate or advertise on the website</td>
</tr>
<tr>
<td>The Internet affects the distribution channel structure</td>
<td>The Internet banking as a compliment to the traditional banking methodologies</td>
<td>All banking operations can be done through Internet Banking</td>
<td>Nehmzow referred to in Yakhlef (2001) mentioned the Internet changes the distribution channel structure of retail banks</td>
</tr>
<tr>
<td>Quick and continuous access to information</td>
<td>The Internet has facilitated quick and continuous access to information</td>
<td>The Internet has facilitated easy access to customer information for data mining</td>
<td>Levy and Powel (1998) mentioned quick and continuous access to information, increased comfort and time savings</td>
</tr>
</tbody>
</table>

| The Internet has assisted to improve service quality | Paul (1996) mentioned that the advent of the Internet results in marketing revolution | Drennan (2003) discussed that the Internet has aided it easy to communicate or advertise on the website | Nehmzow referred to in Yakhlef (2001) mentioned the Internet changes the distribution channel structure of retail banks | Levy and Powel (1998) mentioned quick and continuous access to information, increased comfort and time savings |
match with Drennan (2003) who discussed that the Internet has aided it easy to communicate or advertise on the website. The managers of both banks said that the Internet affects the distribution channel structure, this empirical possibility is supported by Nehmzow referred to in Yakhlef (2001) who mentioned the Internet changes the distribution channel structure of retail banks. Another possibility of advent of the Internet mentioned by both managers is quick and continuous access to information, increased comfort and time savings which is supported by the literature of Levy and Powel (1998) who mentioned the Internet facilitated quick and continuous access to information, increased comfort and time savings.

The manager of FöreningsSparbanken mentioned that the Internet has assisted to improve service quality which is supported by Paul (1996) who mentioned that the advent of the Internet results in marketing revolution, perhaps the branch office manger SEB did not mention in this regards.

6.3.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

The similarities and differences found from two cases about the Use of the Internet as support to activities in creating loyal customers are summarized in the following table.

**TABLE 21:** The Similarities and Differences about the Use of the Internet as a Support to Activities in Creating Loyal Customers

<table>
<thead>
<tr>
<th>Variables</th>
<th>SEB</th>
<th>FöreningsSparbanken</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Understanding customer needs</td>
<td>The Internet as an aid to understand customer needs</td>
<td>The Internet is used to understand customer needs</td>
<td>Peterson et al., (1997) identified that understanding customers needs an important factor in a competitive market place</td>
</tr>
<tr>
<td>Higher revenues</td>
<td>Not mentioned</td>
<td>The Internet is used to assist bank to increase profitability and revenue</td>
<td>Slu and Mou (2003) discussed better service quality typically can help to get better returns</td>
</tr>
<tr>
<td>Maintain customer relationship</td>
<td>The Internet is used to maintain customer relationship</td>
<td>Bank uses the Internet to maintain customer relationship</td>
<td>Sing (2002) has mentioned that maintaining effective customer relationship is the key success in e-commerce</td>
</tr>
<tr>
<td>Substituting or complementing personal interactions with service staff</td>
<td>The Internet is substituting or complementing personal interactions with service staffsand</td>
<td>Not mentioned</td>
<td>Jun and Cai, (2001) argued that Internet banking and other completely new services add value to existing products by substituting or complementing personal interactions with service staffs by means of technological solutions</td>
</tr>
<tr>
<td>As a new distribution channel</td>
<td>The Internet as a new distribution channel</td>
<td>The Internet is used as a new distribution channel</td>
<td>Jun and Cai (2001) mentioned that many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day</td>
</tr>
<tr>
<td>Home banking services</td>
<td>The Internet is being used as home banking services</td>
<td>The Internet is used as a media of home banking services</td>
<td>Mols (1999) discussed the Internet is a new distribution channel for banks enabling banks to offer variety of home banking services</td>
</tr>
<tr>
<td>Provide high quality services</td>
<td>The Internet is used to provide high quality services</td>
<td>The Internet is used to increase service quality</td>
<td>Mefford (1993) argued that providing customers with high quality services is important to survive in the highly competitive Internet banking industry</td>
</tr>
<tr>
<td>Segmentation of customers</td>
<td>The Internet help bank for segmentation of customers, i.e., the Internet users and non Internet users</td>
<td>The Internet is used to make the customer base strong</td>
<td>Mols (1999) mentioned that after introduction of the Internet in banking, bank can segment the customers in the basis of computer literate customer and computer illiterate customer</td>
</tr>
</tbody>
</table>
Regarding the Internet as a support to activities of loyalty creation in the previous chapter, some similarities and differences were found between two companies. These similarities and differences are discussed below:

Both managers of SEB and FöreningsSparbanken mentioned some common use of the Internet as a support to activities of loyalty creation. One of these common uses of the Internet is to understand customer needs which is supported by Peterson et al., (1997) who identified that understanding customers needs an important factor in a competitive market place.

The managers mentioned that the Internet is used to maintain customer relationship this empirical common use of the Internet is supported by Sing (2002) who has mentioned that maintaining effective customer relationship is the key success in e-commerce.

Both managers mentioned use of the Internet as a new distribution channel which is supported by Jun and Cai (2001) who mentioned that many banks have used the Internet as a new market channel to offer their customers a variety of services 24 hours a day.

The managers mentioned that the Internet is used in home banking services. Mols (1999) discussed the Internet is a new distribution channel for banks enabling banks to offer variety of home banking services. In this regards empirical data is supported by the literature.

Both managers mentioned the Internet is used to provide high quality services, this statement is supported by Mefford (1993) who argued that providing customers with high quality services is important to survive in the highly competitive Internet banking industry.

According to the both managers, the Internet helps in segmentation of customers. Mols (1999) mentioned that after introduction of the Internet in banking, bank can segment the customers in the basis of computer literate customer and computer illiterate customer. Empirical data from the both companies is supported here in this regards.

The branch office manager of SEB mentioned that the Internet is substituting or complementing personal interactions with service staff which is supported by literature of Jun and Cai (2001) who argued that the Internet banking and other completely new services add value to existing products by substituting or complementing personal interactions with service staff by means of technological solutions, perhaps the manager of FöreningsSparbanken did not mention in this regards.

The manager of FöreningsSparbanken mentioned that the Internet is used to assist bank to increase profitability and revenue which is supported by the literature of Slu and Mou (2003) who discussed better service quality typically can help to get better returns, perhaps the branch office manager of SEB didn't mention this issue.
Chapter 7: Conclusions and Implications

In this final chapter four research questions will be answered and conclusions will be drawn. At the end implications for practitioners, theory and further research will be addressed.

7.1 Findings and Conclusions

In this part of the study research questions will be answered. In the previous chapter empirical data were analyzed both within the cases and between the cases. The similarities and differences found in the analysis will now be presented as findings and after this a specific conclusion will be drawn.

7.1.1 RQ1: How can Customer Loyalty be Described?

Customer loyalty is described as the frequency of purchasing of a service or products from a particular bank and also the rate at which a customer makes a repeat purchase of the services and products of the bank. The level of commitment that a customer shows towards that particular bank and how the customer makes referral of the bank to other potential customers signifies how loyal the customer is to the bank. These findings show that when a customer uses services or products only from a particular bank and the rate of purchases or uses of services is high, the banks tend to say that customer is a loyal customer to the bank. Another finding is where a bank attributed the emotional attachment to the services of the bank as an indication of how loyal the customer is to the bank.

Attitudinal and behavioural pattern was identified as the two main traits depicting customer loyalty. However, it was difficult for the banks to really predict which trait is associated with behavioural and vice versa even though they tried to explain the two traits.

Positive word-of-mouth and the positive attitudinal disposition toward the provider were identified as the characteristics of loyalty when the customer tends to spread the goodwill of the bank to other potential customers who then become customers of the bank.

After discussion of first research question, more specific conclusions have been drawn as follows:

- Customer loyalty is repeat purchasing behaviour of a product or services from the same provider.
- Customer loyalty is the level of commitment that a customer shows towards a particular product or service.
- Customer loyalty is the long term relationship between the customers and the provider of services or products.
- Service quality is identified as the main antecedent to customer loyalty.

7.1.2 RQ2: How can the Objectives of Pursuing Customer Loyalty Programs be Described and How have those Objectives been Affected with the Advent of the Internet?

There are fundamental reasons why banks pursue customer loyalty programs. From the research, it was find out that there are basically no differences in objectives between the banks. This means
that both SEB and FöreningsSparbanken have similar objectives in pursuing customer loyalty programs. The research shows some objectives of loyalty programs are: creating satisfied and loyal customers, profitability by customer retention, long term relationship, give rewards or incentives, attract and satisfy customers, help less loyal customers, generate information about customers, and provide values to customers.

Other objectives were found from SEB. SEB’s objective of loyalty programs is to encourage a positive word of mouth, consolidate and expand the customer base of the bank. Perhaps the manager of FöreningsSparbanken didn’t mention these.

Some common objectives of both companies’ customer loyalty programs were found which are affected with the advent of the Internet. These objectives are: cost effectiveness, addition of values, and consumer evaluation.

After discussion of second research question, more specific conclusions have been drawn as follows:

- One of the most significant objectives of customer loyalty programs is to increase customer base.
- Another important objective of customer loyalty programs is to create values for customers.
- Most common objective of customer loyalty programs is to generate information about customer.
- The advent of the Internet has made it easy to achieve some objectives, as for example, cost effectiveness, addition of values, and consumer evaluation.

7.1.3 RQ3: How can the Activities in order to Create Loyal Customers be Described and How does the Internet Affect these Activities?

In this thesis staff training was found as the most significant activity of creating loyal customer. Human Resources are the most essential concern that companies look at. Maintaining staff-customer relationship, provide quality services, and promote reward/incentives have been found in the concern of activities of creating loyal customers.

It was identified that the advent of the Internet has both negative and positive impact on customer loyalty creation activities. The most pressing negative impact from the findings is the less face to face interactions between the banks and its customers. According to banks, this has really make it difficult to measure the satisfaction level of these customers and also to know whom of the customers are dissatisfied with the services of the banks. The other findings of negative impact are low switching cost to other competitors, and difficulties for online companies to satisfy and bond their customers.

Some positive impact of the Internet on loyalty creation activities have also been identified which are the Internet is a means of transforming organizations’ core business, advent of the Internet results in marketing revolution, cheap or low cost in service delivery, less pressure on the
employees, easy to communicate or advertise on the website, quick and continuous access to information, increased comfort and time savings, pressure on the employees, and most importantly the Internet has affected the distribution channel structure.

After discussion of third research question, more specific conclusions have been drawn as follows:

- Up to date training of Human Resources are the most significant activities of creating loyal customers.
- Providing quality services is important activity of creating loyal customers.
- The advent of the Internet has both negative and positive impact on customer loyalty creation activities.
- The most pressing negative impact of advent of the Internet is the less face to face interactions between the companies and its customers.
- Another negative impact of advent of the Internet is low switching cost to other competitors, and difficulties for online companies to satisfy and bond their customers.
- The most significant positive impact of the Internet on loyalty creation activities is that the Internet results in marketing revolution.
- The Internet has facilitated cheap or low cost in service delivery, quick and continuous access to information.
- Most importantly the Internet has affected the distribution channel structure.

7.1.4 RQ4: How can the Internet be Used to Support Activities in Creating Loyal Customers?

Some common uses of the Internet as a support to activities of loyalty creation by both companies were found in this thesis. These common uses of the Internet are: understanding customer needs, higher revenues, higher customer retention, maintain customer relationship, as a new distribution channel, home banking services, provide high quality services, segmentation of customers.

It was found from SEB that the Internet is substituting or complementing personal interactions with service staffs, perhaps FöreningsSparbanken did not mention in this regards.

After discussion of fourth research question, more specific conclusions have been drawn as follows:

- The most common and significant use of the Internet is as a new distribution channel of products and services.
- The Internet has facilitated to provide high quality services.
- The Internet has made it easy and convenient to home banking services.
- The Internet is substituting or complementing personal interactions with service staffs.

7.2 Implications

_In the following section, implications for practitioners, theory and further research will be presented._
7.2.1 Implications for Practitioners

Due to the rapidly changing and high competitive environment in the banking industry, it is very important for banks to retain their customers. To survive in the highly competitive banking industry, managers need to provide customers with high quality services. In doing so banks need to understand customers' needs and meet their expectations. Then steps need to be taken to monitor and enhance the service performance. Only by doing so, managers would be able to create loyal customers. An organization can be benefited in many ways by having loyal customers, except of their direct value for the organization, loyal customers tends also to spread the goodwill of the bank to other potential customers who then becomes customers of the bank.

In order to create loyal customers, managers need to reflect on activities, processes and loyalty programs which are significant to entice and create value to the customer. Managers need also to place an increasing emphasis on establishing and cultivating relationships with their major customers, this is mainly because of the high competition that are present in the market today and also due to the fact that competitors are only a mouse-click away.

To further develop the evaluation of customer loyalty managers need to adapt their communication to its different customers in order to influence them appropriately. This can be carried out by segmentation of customers. Managers should measure customer loyalty on both attitudinal and behavioral aspects to classify how loyal customers are. This information can be used to reward loyal customers with special offering, for instance giving information where to make a placement but also to give less loyal customers the right incentives so that they becomes more loyal to the bank. This will give a customer credit for his loyalty and also create a stronger bond between the bank and the customer.

Since the Internet based banking brings a dramatic change in the way retail banks build and maintain close relationship with their customers. Service quality has become an increasingly important issue. Therefore, managers understanding of service quality issues within the new delivery channel become very important as a way to retain and acquire customers. This is true, especially in the banking sector where service quality is the main differentiator. High service quality leads to the customer becoming satisfied with the bank and hence the customer automatically becomes a loyal customer of the bank.

7.2.2 Implications for Theory

The purpose of the thesis is to gain a better understanding of the impact of the Internet on customer loyalty in Swedish banks. This study has covered areas such as service quality, loyalty programs, loyalty creation activities, and use of the Internet as a tool to create loyal customers.

Based on the existing theories, this study tested several theories related to customer loyalty in the Internet banking context. More specifically, concerning all research questions the majority of the findings for this study supported the existing literature. The most significant finding was the importance of improvement of service quality through the Internet. This study also highlighted the importance of understanding the impact of the Internet on customer loyalty in banking sector. This study provides a foundation from which further studies may be conducted.
7.2.3 Implications for Further Research

After conducting this study several issues for further research has been found that could be of interest. One interesting aspect could be: to study the topic from the customer perspective. For instance, how did the Internet affect customers’ opinion on customer loyalty as well as their attitudes towards the banks.

Since the service quality is found as the main antecedent of customer loyalty in the banking sector, it could have been of interest to investigate service quality more in depth.
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APPENDICES:

Appendix A: Interview Guide - Case 1 - SEB
Appendix B: Interview Guide - Case 2 - FöreningsSparbanken AB
Interview Guide

Case 1: SEB

Thesis Topic: The Impact of the Internet on Customer Loyalty in Swedish Banks

Date of interview : Thursday, December 08, 2005; 10:00 A.M
Interview conducted with : Position : Branch Office Manager
Organisation : SEB, Luleå, Sweden

Q1. How do you define customer loyalty?

List of themes:
(a) Definition
(b) Behavioural
(c) Attitudinal

Notes & Answers:

Frequency….. Purchase product/service from bank, shows positive attitude to prod/service and resorts only to the use prod/services from SEB. Commitment in purchasing. Emotional attachment to product/services.

Not switch to another bank even dissatisfied, doesn’t meet expectation, tend to spread good will of bank to potential customers.

Loyalty as both behavioural & attitudinal patterns.

Service quality ➔ Satisfaction ➔ Loyalty
Q2. How would you evaluate customer loyalty after invention of the Internet?

List of themes:
   (a) Measuring Satisfaction Level
   (b) Purchasing product
   (c) Service quality
   (d) Customization

Notes & Answers:

Easy to create value for customers
Day to day services on website.
Customers do by themselves
Difficult to measure satisfaction level
Less face to face interaction
More easy to create loyalty because of invention of the Internet
Q3. What are the objectives of banks’ customer loyalty program?

List of themes:
- (a) Customer retention
- (b) Long term relationship
- (c) Competitive advantages
- (d) Handle dissatisfied customers

Notes & Answers:

Customer retention
As a competitive advantage over rivals
Long term relationship
Promote goodwill
Give rewards of incentives to loyal customers
Help less loyal cust……. To more loyal
To satisfy dissatisfied cust to remain loyal
Consolidate and expand the customer base of the bank
Q4. How the Internet affected the objective of loyalty program?

List of themes:
   (a) Cost effectiveness
   (b) Addition of Values
   (c) Consumer evaluation

Notes & Answers:

The Internet helped to achieve cost effective objectives.
E-services added values to products in many ways.
Consumer evaluation of technology based services is very positive.
Q5. What activities bank perform to create loyal customer?

List of themes:
(a) Promote reward/incentives to loyal customers
(b) Staff training
(c) Staff-customer relationship
(d) Provide quality services

Notes & Answers:

Human resources base is paramount in achieving objectives
Staff training
Creating values through trained staff
Long run staff-customer relationship
Provide quality service
Q6. How the Internet changed activities to create loyal customers?

List of themes:

(a) Problems
- Face to face interaction
- Switching cost
- Measuring satisfaction level

(b) Possibilities
- Modified loyalty program
- Reaction of new possibilities
- Creation online strategies
- Integration of online strategy on traditional strategy
- Change in activities
- The Internet Support

Notes & Answers:

Problems

Less face to face interaction
Low switching cost
Very difficult to measure satisfaction level
Satisfaction was measured weekly basis before the Internet, by responding a set of questions anytime they came to the bank

After the Internet .......... difficult....... to contact customers.......... fact to face . Problem solved by assigning an external market research company. This company interviews SEB customers over phone/ provide weekly report.

Possibilities

Fast delivery of service, most services available online
Cheap/low cost in service delivery
Less pressure on employees....... done by customers
Easy to communicate, online help support/advertise on bank website
Provide more information........ without contacting all personally
Quick and continuous access to information
Comfort & time savings
The Internet facility in day to day operations
Internet banking as a compliment to the traditional banking methodologies
Online feedback
Q7. How the Internet support banks’ activities in creating loyal customers?

List of themes:
(a) Which aspect of bank operations
(b) Understanding customer needs
(c) Higher revenues
(d) Provide high quality services
(e) e-CRM
(f) Communication and interactions
(g) Expand market share
(h) New distribution channel
(i) Home banking service
(j) Segmentation of customers

Notes & Answers:

The Internet as an AID in creating customer loyalty
The Internet brought fundamental changes in the way customer loyalty is created
Service quality is a critical issue. The banks which provide quality service have an edge over other competitors-------- Results

- Higher revenue
- Higher customer retention
- Expanded market share
- Improved information sharing
- Bank reputation
- Attract new customers

The Internet as an Aid:
- To understand customer needs
- Maintain customer relationship
- Substituting or complementing personal interactions with service staff
- As a new distribution channel
- Home banking services
- Provide high quality services
- Segmentation of customers

Service quality......... Success and survival.........competitive ....banking environment

There have not been many changes in the way loyalty is created by bank with introduction of the Internet but quality of service that made customers more loyal.

The Internet lack of face to face interaction.......... difficult to measure satisfaction level.
Interview Guide

Case 2: FöreningsSparbanken AB

Thesis Topic: The Impact of the Internet on Customer Loyalty in Swedish Banks

Date of interview : Friday, December 09, 2005; 10:00 A.M

Interview conducted with : Position : Manager, Internet Banking & Customer Service
                          Organization : FöreningsSparbanken, Luleå, Sweden

Q1. How do you define customer loyalty?

List of themes:
   (a) Definition
   (b) Behavioural
   (c) Attitudinal

Notes & Answers:

Customer loyalty as the rate of which customer makes purchase prod/service of the bank, or, the rate at which customer makes a repeat purchase product/service of a bank.

Level of commitment customer shows toward prod/service signifies how committed that customer to the bank. Commitment seen ……doesn’t switch even not satisfied about certain aspect of offering of the bank.

Attitudinal – strong attitude toward product. That is customer prefer bank than other bank

Behavioural – rate of purchase determine the behaviour pattern of that customer and hence……exhibiting behavioural traits of customer loyalty
Q2. How would you evaluate customer loyalty after invention of the Internet?

List of themes:
(a) Measuring Satisfaction Level
(b) Purchasing product
(c) Service quality
(d) Customization

Notes & Answers:

Ability to gather information for customized prod/service
Electronic Customer Relation Management (e-CRM)
More customer satisfaction
Increase bank customer base
Less costly to the bank
Easy access to customer information for data mining
Evaluation of customer loyalty is more after the Internet invention
Some difficulties to interact with dissatisfied customer
Difficult to determine less loyal customers
Q3. What are the objectives of banks’ customer loyalty program?

List of themes:
(a) Customer retention
(b) Long term relationship
(c) Competitive advantages
(d) Handle dissatisfied customers

Notes & Answers:
Increase bank customer base
Customer retention
Customer satisfaction
Increase profitability of the bank
Be able to gather customer information for customized product and services
Increase market share of the bank
Attract new customers
Promote CRM
Reward loyal customers
Increase the confidence base of bank customers
Q4. How the Internet affected the objective of loyalty program?

List of themes:
(a) Cost effectiveness
(b) Addition of Values
(c) Consumer evaluation

Notes & Answers:
The Internet facilitates to achieve cost effective objectives.
E-services added values to existing products.
Consumer evaluation of technology based services is positive.
Q5. What activities bank perform to create loyal customer?

List of themes:
(a) Promote reward/incentives to loyal customers
(b) Staff training
(c) Staff-customer relationship
(d) Provide quality services

Notes & Answers:

Human resources an essential factor bank takes a critical look at
Capable employees in place that handle different customers with regards to peculiar needs & wants,
because different classes of customers exist

Different temperaments of staffs therefore need to segment staffs according to the nature of various
categories of customers

This strategy helps bank to achieve maximum loyalty level
Long term staff-customer relationship
All aspect of the bank operations are done by integrating the Internet
Q6. How the Internet changed activities to create loyal customers?

List of themes:

(a) Problems
- Face to face interaction
- Switching cost
- Measuring satisfaction level

(b) Possibilities
- Modified loyalty program
- Reaction of new possibilities
- Creation online strategies
- Integration of online strategy on traditional strategy
- Change in activities
- The Internet Support

Notes & Answers:

Problems

Invention of the Internet has some difficulties to objective because:

Difficult to interact with dissatisfied customers
To determine less loyal customers
Less face-to-face interactions
Measuring satisfaction level is difficult
Increasingly difficult to know who are switching to other bank

Possibilities

This bank is one of the pioneers in Internet banking activities since the Internet has been used to create loyalty. The Internet changes the way to achieve objectives because:

Easy access to customer information for data mining
Efficiency in service delivery
Improved service quality
Time maximization
Ability to serve a large pool of customers at the same time
Less costly to the bank
Personalization of services
All banking operations can be done through Internet banking
Answers of most FAQ are on the site
Quick feed back
Q7. How the Internet support banks’ activities in creating loyal customers?

List of themes:
(a) Which aspect of bank operations
(b) Understanding customer needs
(c) Higher revenues
(d) Provide high quality services
(e) e-CRM
(f) Communication and interactions
(g) Expand market share
(h) New distribution channel
(i) Home banking service
(j) Segmentation of customers

Notes & Answers:

The Internet has been using in all aspect of bank operation, i.e., customer care, service delivery, special offerings, incentives, provision of quality & affordable products/services, feedback, problem solving

Service quality is an integral component in loyalty creation
Service quality tends to influence commitment to the bank

Result of adoption of the Internet:
- Understanding customer needs
- Increase profitability and revenue
- Increase service quality
- Made strong the customer base
- Maintain customer relationship
- As a new distribution channel
- High customer retention
- High satisfaction level due to the efficiency & effectiveness of the bank
- Home banking services