

# IMPLEMENTING A SHORT-TERM LOYALTY PROGRAM

Case: Bosch Lawn and Garden & the Ventum  
short-term loyalty program

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ABSTRACT

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In 2015, one of the Bosch Home and Garden divisions, Bosch Lawn and Garden, has made a strategic decision to adopt a points-based short-term loyalty program called Ventum LG in the German supermarkets and petrol stations. It was decided that the base of this program will be completed Ventum PT short-term loyalty program which was managed by another division, Bosch Power Tools, and proved to be successful. This thesis aims to evaluate the worthiness of the Ventum LG loyalty program for Bosch Lawn and Garden by conducting vast research with a focus on success factors of the finalized Ventum PT loyalty program and on a marketing mix evaluation of the Ventum LG loyalty program.

The theoretical framework of the study explores relationship marketing prioritizing on the concept of short-term loyalty programs. The researcher retrieves the data from the relevant thematic books and online publications. As for the empirical section, this study applies quantitative research in the form of the survey for the market analysis of the Ventum PT loyalty program participation, and qualitative research in the form of the semi-structured interview for the discussion with Bosch Lawn and Garden and Bosch Power Tools employees on the topic of the Ventum LG loyalty program launch.

Having analyzed literature and empirical research results, the study leads to the assessment of Ventum LG marketing mix segments based on seven criteria: product, place, price, promotion, people, packaging and positioning.

The thesis concludes that, despite a certain number of disadvantages, it is still worth it for Bosch Lawn and Garden to implement the Ventum LG short-term loyalty program. In addition, the hypothesis that the Ventum LG loyalty program brings a positive impact on Bosch Lawn and Garden business is validated and confirmed.

Key words: short-term loyalty program, relationship marketing, supermarkets, marketing mix analysis

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## GLOSSARY

CR: Customer Retention

DIY: Do it Yourself

EAN: European Article Number

EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization

FINER: Feasible, Interesting, Novel, Ethical, Relevant

POS: Point of Sale

PPC: Production Costs

RM: Relationship Marketing

RRP: Recommended Retail Price

SCM: Supply Chain Management

SKU: Stock Keeping Unit

WOM: Word of Mouth

## 1 INTRODUCTION

This chapter provides an overview of the thesis framework. First, it discusses the background of the study: the thesis topic and the author's intention to conduct research. After that, it presents the objectives, hypothesis, research questions and limitations. Subsequently, it introduces the theoretical framework, the research methodology and data collection methods used in the study. The introduction finishes with a detailed thesis structure.

### 1.1 Background

Loyalty programs have seen a vast increase within the past decades. Companies adopt loyalty programs and short-term promotions as a part of their channel marketing in order to support existing and acquire new customers, influence consumer spending and analyse customer habits (Loyalty analytics exposed: What every program manager needs to know 2015, 1). In addition, loyalty programs are seen as a powerful tool in industry competition. As a matter of fact, every year companies in the US spend more than 2 billion dollars on loyalty programs (Donnely 2010).

Statistics show that consumers are encouraging this marketing trend. As an example: according to recent statistics, 94% of the UK citizens currently belong to at least one reward scheme and 64% participate in three or more loyalty schemes (Facts and Stats 2015). Figure 1 demonstrates that there is a straight correlation between existence of loyalty program and prevalence. As can be seen from the chart, more than half of the retailers in Asia, Europe and North America have a loyalty program and more than 70% of the respondents prefer to shop at a retailer that has a loyalty program. (Customer loyalty in Australia comes to a different price to O.S. 2013.)

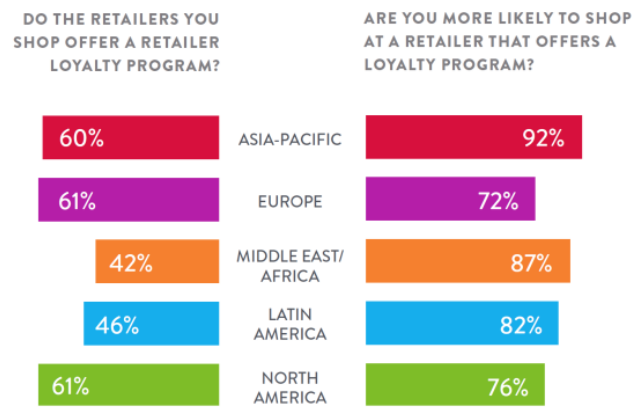


FIGURE 1. Existence of a loyalty program and prevalence (Customer loyalty in Australia comes to a different price to O.S. 2013).

The conclusion can be made that consumers have a strong commitment to the loyalty programs. The reason for this trend might be so that customers can clearly observe participation value in the form of, i.e. discounted products and services or a free shipping (Loyalty Programs 2015).

On the other hand, some analysts question the worthiness of such marketing incentives, claiming that participation costs in the loyalty programs for the companies are much higher than profits gained. As a consequence, cumulative value is destroyed and the business is ruined or overtaken by a more successful competitor. (Shaukat & Auerbach 2012.)

Loyalty programs differ depending on the industry and marketing purposes of the companies. This thesis concentrates on a specific points-based loyalty program in the grocery stores and petrol stations in Germany, as in the biggest and highly developed economic market in Europe (Hintereeder & Orth 2015). What is a points-based program and in which shops does it run? In Germany it is quite popular for the supermarkets to have a promotion where a customer pursues points/stickers with the every purchase and these stickers can be further changed into discounted or free products. It is believed that such programs increase customer loyalty and generate more motivation among customers to spend more money on purchases (Loyalty analytics exposed: what every program manager needs to know, 1). This study concentrates on German supermarkets (i.e. Edeka) and petrol stations (BP).

Research is intended to analyse the effectiveness and the worthiness of points-based short-term loyalty programs on the case of *Bosch Lawn and Garden Ltd.* This company is planning to introduce a new loyalty program called *Ventum LG* in the middle of 2016. The researcher investigates this thesis topic as a part of an internship at Bosch Lawn and Garden in the United Kingdom. Certain information in the paper appears from internal discussions and meetings and, therefore, cannot be found in any published and online sources.

The focus area of Bosch Lawn and Garden is gardening tools, i.e. lawnmowers, trimmers, brushcutters and others. During the past years, Bosch Lawn and Garden has gained an impressive market share by becoming one of the leaders in the gardening industry in Europe (Bosch Lawn & Garden becomes market leader 2013). Still, it has been operating only within a standard business without introducing any loyalty programs.

In 2015, Bosch Lawn and Garden was merged with another company - Bosch Power Tools. The new division is called Bosch Home and Garden (Figure 2) that consequently belongs to Bosch Group, a German-based well-recognised Corporation. (Bosch 2015.)

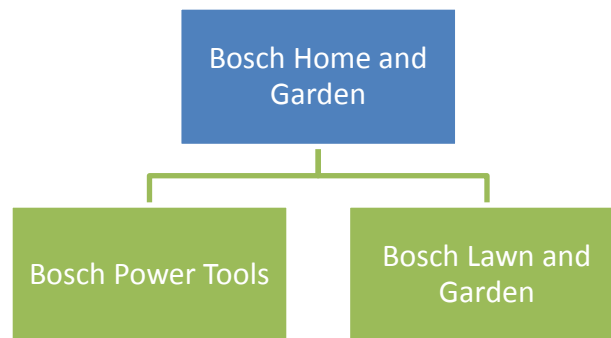


FIGURE 2. Bosch Home and Garden structure (Bosch 2015).

It should be noticed that still only some processes are aligned between Bosch Lawn and Garden and Bosch Power Tools, until late 2017, they are performing on their own by just providing continuous business support to each other. It is already confirmed that from 2018 onwards Bosch Home and Garden will function on the market as a unified division without splitting itself into Power Tools and Lawn and Garden. (Bosch 2015.)

Another part of the division of Bosch Home and Garden, Bosch Power Tools, has been already leading a short-term loyalty program “*Ventum PT*” for 3 seasons (2012-2015). The implementation areas for the program performed to be German supermarkets and petrol stations. *Ventum PT* proved itself as a successful short-term loyalty program by bringing significant turnover to the company and improved brand-recognition among the customers. (Bosch 2015.)

In 2015, the Board of Bosch Home and Garden made a decision to include Bosch Lawn and Garden tools into the *Ventum LG* short-term loyalty program which is going to be introduced in 2016. *Ventum LG* will be organized following the same procedure as the *Ventum PT* loyalty program. In addition, Bosch Power Tools will provide constant support to Bosch Lawn and Garden with the program implementation. (Bosch 2015.)

It is already confirmed that in 2018 Bosch Home and Garden will participate in the *Ventum HG* loyalty program as a unified company; therefore, the introduction of *Ventum LG* into Lawn and Garden these days is a preparatory stage for upcoming massive changes. (Bosch 2015.)

In fact, *Ventum* itself is not only a name of the loyalty program but also a name of the German-based company that provides mediators-services for loyalty programs between Bosch and retailer stores. Figure 3 embraces the organizational process between Bosch Ltd. and *Ventum Ltd.* for organizing the *Ventum* short-term loyalty program: due to the fact that Bosch Power Tools has a long-term experience with *Ventum Ltd.*, it supports Bosch Lawn and Garden preparation activities for the loyalty program. Bosch Power Tools also plays a communicational role with *Ventum Ltd.* for all organizational matters. In addition, *Ventum Ltd.* as a company is responsible for cooperation with food stores and petrol stations. (Bosch 2015.)

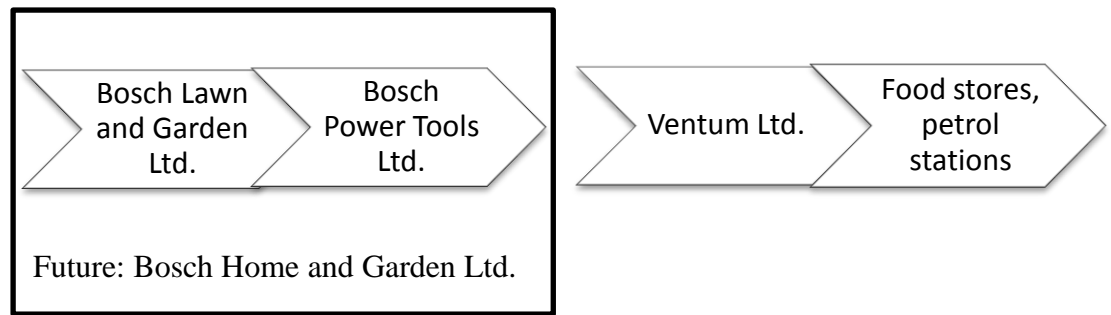


FIGURE 3. Organizational process between Bosch Ltd. and Ventum Ltd. for the Ventum loyalty program (Bosch 2015).

Considering the fact that the word Ventum is used for different applications in this study, the researcher introduces the following terms in order to support the reader with understanding of all four concepts:

-**Ventum PT**: completed short-term loyalty program that has been running by Bosch **P**ower **T**ools during the years 2012-2015,

-**Ventum LG**: a short-term loyalty program that will be introduced into Bosch **L**awn and **G**arden in 2016,

-**Ventum HG**: a short-term loyalty program that will be adopted by Bosch **H**ome and **G**arden (a unified company) in 2018, a cluster of the Ventum PT and the Ventum LG programs,

-**Ventum Ltd.**: a company that helps Bosch with Ventum short-term loyalty program implementation.

To conclude, the study concentrates on two companies: Bosch Lawn and Garden Ltd. and Ventum Ltd. What is more, Bosch Power Tools current experience with Ventum (known as the Ventum PT loyalty program) is taken into consideration in the empirical part as the base for the Ventum LG program from Bosch Lawn and Garden. Bosch Home and Garden, as a future participant of Ventum HG loyalty program, is also discussed. However, most of the attention is paid on Bosch Lawn and Garden, as the case company of this study, and the Ventum LG loyalty program.

Due to the fact that Bosch Lawn and Garden is only on a preparation stage for the loyalty program, it still remains unclear if the program will play a successful role in the company's business. An industry seasonality, high product prices and the nature of the products itself are only some challenges that might prevent the Ventum LG loyalty program from being a cash cow. As a consequence, this thesis conducts a marketing mix plan for Bosch Lawn and Garden that summarizes all the elements of the marketing mix and provides suggestions for the company of the ways to generate profit with the Ventum LG loyalty program.

The topic is of high importance not only for Bosch as for the case company but also for other corporations who would like to differentiate their standard business. Furthermore, as one part of research concentrates on market analysis of short-term loyalty programs in Germany, the results can be further used by German retailers and grocery stores.

## 1.2 Research objectives, research hypothesis, research questions and limitations

The main objective of this thesis is to conduct a vast research on the topic of Ventum short-term loyalty programs and to receive a clearer understanding on implementation of such programs. In addition, this thesis aims to:

- introduce the concept of Bosch Home and Garden, a unified division that includes Bosch Lawn and Garden and Bosch Power Tools, as a future participant of the Ventum HG loyalty program,
- analyse the procedure of Bosch Power Tools and Ventum PT (already completed short-term loyalty program), and
- support Bosch Lawn and Garden and its intention to join the Ventum LG loyalty program by conducting a marketing mix plan.

Bosch Home and Garden, a merge-company between Bosch Power Tools and Bosch Lawn and Garden, should be presented by the researcher as a future contributor to the Ventum HG loyalty program. However, the main emphasis in this study is made on Bosch Lawn and Garden. It is vital to evaluate participation of Bosch Power Tools in the Ventum PT short-term loyalty program in order to



align the procedures with the future marketing mix plan for Bosch Lawn and Garden and the Ventum LG loyalty program.

It is crucial to develop a clear hypothesis before the start of the study that is aiming to drive research questions and build the research strategy (Farrugia, Petrisor, Farrokhyar & Bhandari 2010, 278-279).

The following hypothesis has been raised for this study:

*Despite all the constraints, the Ventum LG short-term loyalty program brings a positive impact on the Bosch Lawn and Garden business.*

In order to validate the above-mentioned hypothesis, the following research question is set:

*What are the advantages and disadvantages of Ventum LG and is it worth it for Bosch Lawn and Garden to join this short-term loyalty program in Germany?*

To answer research questions, the following sub-questions are raised:

- a) How do consumers perceive Bosch Power Tools after it launched the Ventum PT loyalty program in the German supermarkets and petrol stations?
- b) What are the most important factors customers are paying attention to while participating in the Bosch Power Tools loyalty program?
- c) What are success factors of Bosch Power Tools participation in Ventum PT?
- d) How do Bosch Lawn and Garden employees feel about Ventum LG introduction in 2016?
- e) What are the facets to consider in the marketing mix plan for Bosch Lawn and Garden?

Analysis of the research question is important as the researcher evaluates the success of the future study. This thesis validates its research question based on FINER criteria (Farrugia, Petrisor, Farrokhyar & Bhandari 2010, 279). Figure 4 gives a basic understanding of these criteria.

Feasible	<ul style="list-style-type: none"> <li>• Interviewing a relevant number of participants using relevant amount of time</li> </ul>
Interesting	<ul style="list-style-type: none"> <li>• Arousing interest among the research company and the interviewer</li> </ul>
Novel	<ul style="list-style-type: none"> <li>• Extending previous studies and bringing new knowledge</li> </ul>
Ethical	<ul style="list-style-type: none"> <li>• Complying with the all ethical limitations</li> </ul>
Relevant	<ul style="list-style-type: none"> <li>• Aligning the topic to scientific knowledge of the researcher</li> </ul>

FIGURE 4. FINER criteria (Farrugia, Petrisor, Farrokhyar & Bhandari 2010, 279).

Based on the scheme, it can be seen that the research question is validated which consequently proves the research project to have a successful development.

This research is compiled in line with the certain limitations. The success factor analysis of Bosch Power Tools and Ventum PT might not cover the whole process of the loyalty program and therefore might limit research data. However, it can be justified by a low-value priority of this investigation: the success factor analysis is only a small part of whole thesis research and should provide just general information for the further implementation.

What is more, one part of research is a conduction of interviews with the Bosch associates. It should be mentioned that interviewees do not belong to official Bosch speakers and therefore are able to provide a personal subjective opinion. Certain key players are not possible to be reached for the interviews due to their top occupancy in the company. As a result of that, the range of interviewees is narrowed. Another issue linked to interview conduction is limited amount of respondents which might affect the nature of retrieved data.

Another issue to consider is a lack of relevant theory on short-term loyalty programs. There is a wide range of scholarly articles on general promotions and reward-based marketing incentives; however, due to the unique nature of the Bosch loyalty program, it is quite challenging to conduct a thorough comparison.

It should be added that some material is translated from German. Even though all the general information has a trustful translation, there might be some language nuances that affect certain details of the work.

The last issue to take into account is compliance with the Bosch Information and Confidentiality policy. Certain information received from the associates cannot be transferred to any third party and should be modified accordingly.

### 1.3 Theoretical framework

According to Oxford English Dictionary (2015), the theoretical framework is defined as: “the systematic investigation into the study of materials, sources, etc. in order to establish fact and reach new conclusions”. This part provides a brief overview of the highlighted topics for scientific research in the thesis. Even though the topic concentrates more on short-term loyalty programs, the theoretical study is expanded to gain extended knowledge on customer loyalty and relationship marketing. Research is further narrowed to loyalty programs due to the nature of the case company Bosch Lawn and Garden. The theoretical framework is presented on Figure 5.

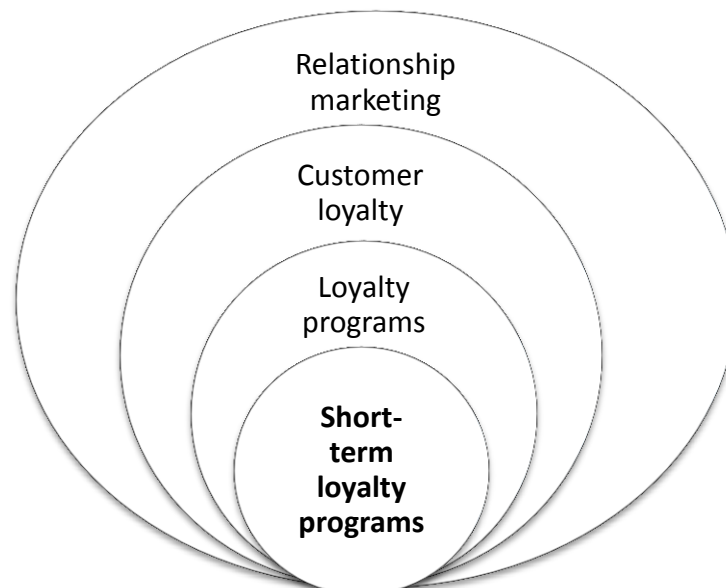


FIGURE 5. Theoretical framework.

The theoretical framework starts with a brief observation on relationship marketing and customer retention as one of the segments of a general marketing strategy. After that, customer loyalty is analyzed as a part of relationship marketing. In addition, demographic variables are taken into consideration and their impact on customer loyalty in relationship marketing. These theories are important for understanding as they provide the base for case-study research. Theoretical framework continues with the extensive study on loyalty programs, their types and strategies. What is more, loyalty programs in retail stores are evaluated. Last part of the theoretical background examines short-term loyalty programs as the basis for empirical study.

Mehta (2013) describes three types of theories in scientific research: descriptive, explanatory and predictive. A descriptive theory provides description or classification of scientific variables, while an explanatory theory specifies on relations between them. The third type, a predictive theory, aims to predict relations between dimensions or groups.

In this thesis more emphasis is made on descriptive and explanatory theories due to their relevance to the theoretical framework. Predictive theories, in contrast, are used in the empirical study.

#### 1.4 Research Methodology and Data Collection

This part of the chapter describes the research methodology and data collection methods chosen to be used in this study. It starts with the overview on various research strategies and research methods and continues with implications of data collection methods on this study. Figure 6 summarizes the research methodology in this thesis.

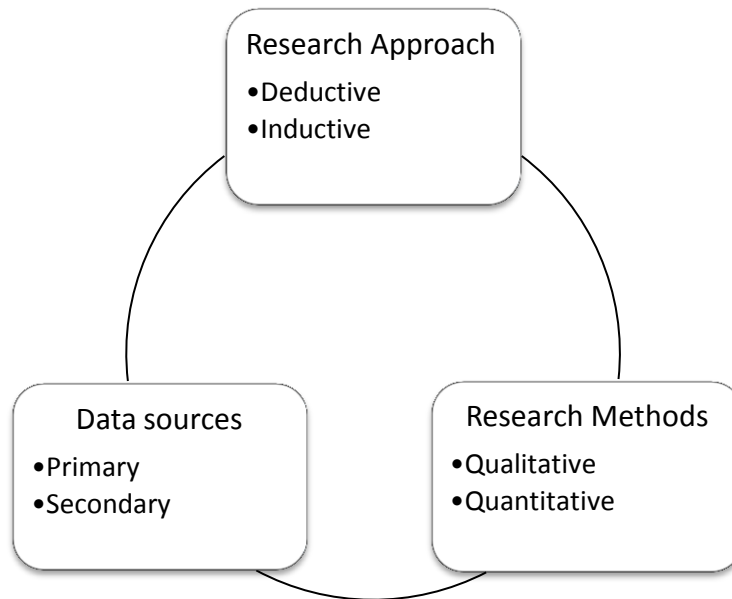


FIGURE 6. Research Methodology.

Deductive and inductive are two main types of a research approach used in the research methodology (Eriksson & Kovalainen 2008, 21-22). A deductive approach advances from a theory to the empirical part and an inductive approach does the opposite: theories are built on empirical results. In general, it means that deduction proceeds from a general theory into a case of specific-based data while in induction broader information is retrieved from a range of circumstances. (Goddard & Melville 2001, 32.) It has been argued that inductive approach contains a high probability of a falsified conclusion due to its complexity, thus, should be taken a special care of (Johnson 1996, 2). This thesis uses both types of the approach: the general thesis structure leads from the theory to the empirical part, therefore, using a deductive approach. However, in the case-study certain hypotheses are built based on research results, thus, using an inductive approach.

Quantitative and qualitative are the most commonly used research methods. Quantitative research aims to receive knowledge by processing a big quantity of data in order to perceive an objective opinion on the certain topic. Qualitative research, in contrast, seeks to gain in-depth information by concentrating not on quantity, but on quality of the responses. In general, qualitative research is considered to be more difficult to organize and more challenging to retrieve the answers since there is always a high probability of subjectivity. (Kumar 2008, 8.)

The differences between qualitative and quantitative researches concern not only the purpose and the number of responses but also the way research is held. In quantitative research, there is a structured narrowed data form which further helps to analyse the answers. On the contrary, in qualitative research interviewer has more independence by leading an unstructured data collection approach. (Newman & Benz 1998, 10.) Table 1 summarizes the main differences between qualitative and quantitative research.

TABLE 1. Comparing quantitative and qualitative research (Othman 2011).

Qualitative Research	RESEARCH ASPECT	Quantitative Research
Discover Ideas, with General Research Objects	COMMON PURPOSE	Test Hypotheses or Specific Research Questions
Observe and Interpret	APPROACH	Measure and Test
Unstructured. Free Form	DATA COLLECTION APPROACH	Structured Response Categories Provided
Research is intimately involved. Results are subjective	RESEARCHER INDEPENDENCE	Researcher uninvolved Observer. Results are Objective
Small samples –Often in Natural setting	SAMPLES	Large samples to Produce Generalizable Results [Results that Apply to Other Situations]

The reason why so much attention is paid to the difference between qualitative and quantitative approaches in this part is because this thesis uses both approaches.

First part of the research concentrates on quantitative research. Creswell and Clark (2011, 117) specify the most popular ways of quantitative research: phone interviews, written questionnaires and surveys. In order to receive the most reliable information, for this study it was chosen to conduct a face-to-face survey. Even despite high research costs and time-consumption, it was decided that the survey (in the form of a questionnaire) is the best way to avoid a sampling error and to receive the highest number of responses. Surveys are made in two German supermarkets (Edeka, REWE) and one petrol station (Esso) in Stuttgart, Germany. In total 30 people are asked on the topic of their satisfaction with Bosch Power Tools and the Ventum PT loyalty program.

Qualitative research is much more diversified than quantitative. There are three major types of qualitative research, according to Hennink, Hutter and Bailey (2011, 10): in-depth interviews, focus-group discussions and observations.

Observations do not suit to the nature of research since the respondents have to be provoked by questions in order to give relevant answers. Focus-group discussions fit into the research topic-frame but impossible to organize due to dislocation of the most of participants. The only type which allows receiving extensive knowledge from the respondents is by conducting in-depth interviews with the each member individually. (Hennink, Hutter & Bailey 2011, 108-198.)

This thesis adopts in-depth interviews as a form of qualitative research. Minding the fact that the participants in this study belong to different nationalities and occupations in the company, this form is considered to be most relevant to guide the conversation in the most comfortable way. Interviews are conducted with four Bosch Lawn and Garden and one Bosch Power Tools employees from different departments who are closely connected with the Ventum LG loyalty program launch. Interviewees are asked on the topic of success factors of Bosch Power Tools participation in the Ventum PT loyalty program. What is more, employees' expectations on implementation of Ventum LG into the Bosch Lawn and Garden business flow are analyzed.

The above-mentioned research activities belong to the primary data collection. Primary data, also called first-hand, is the information collected by the researcher from the originators of data. The necessary requirement that the researcher is collecting primary data for his own purposes for the first time from beginning until the end. Primary data is determined to be the most reliable source of information as it appears from the origin. It is also considered to be "raw material", leading to the fact that researchers have to interpret the information themselves. Thus, there is a high probability of misleading conclusions. (Jain, Aggarwal, Trehan & Ohri 2008, 4.)

Another source of information, secondary data, also takes place in this study. Secondary data, "finished information", is the type of data source in which information on specific topic is already collected by another researcher. The most popular sources for secondary data are television, literature and Internet. The

biggest disadvantages of this type of data are relevance (the type of information) and accuracy (the way information was previously collected). (Patzner 1995, 19.) This study uses secondary data while elaborating on the empirical part in Chapter 4: preparations for the interview and the survey; and creating a marketing mix plan for Bosch Lawn and Garden in Chapter 5. However, major role in the thesis plays primary data.

To conclude, this thesis uses both deductive and inductive thesis approaches and introduces two types of data collection: quantitative (in a form of a survey) and qualitative (in a form of in-depth semi-structured interviews). What is more, the study investigates both primary data and secondary data while research.

### 1.5 Thesis structure

This paragraph is intended to introduce the structure of the thesis. This paper is divided into three parts and contains the theory, the empirical part (research and analysis) and the results. The structural scheme is presented on Figure 7.



FIGURE 7. Thesis structure.



Chapter 1 provides the introduction to the thesis background, research objectives, questions and limitations, the theoretical framework, as well as the research methodology. Chapter 2 presents theoretical research on the topic of relationship marketing, emphasizing on customer loyalty and loyalty programs. Last part of Chapter 2 discusses theories on short-term loyalty programs. In Chapter 3 the researcher introduces the case-company Bosch Lawn and Garden in relation to the Ventum LG loyalty program. The chapter starts with the introduction of Bosch Home and Garden as a unified company for Bosch Lawn and Garden and Bosch Power Tools. Moreover, Bosch Power Tools is discussed as a base for secondary-data research. Last section of the Chapter 3 elaborates on Bosch Lawn and Garden: theoretical implications, communication procedure and the timeline. In Chapter 4 the study examines empirical research on the topic of market evaluation of German food retail stores (quantitative research) and success factors of Bosch Power Tools participation in the Ventum PT loyalty program and expectations on implementation of the Ventum LG loyalty program into Bosch Lawn and Garden (qualitative research). What is more, results are summarized and discussed. Chapter 5 conducts an extensive development plan for Bosch Lawn and Garden joining Ventum LG. Highlighted topics are distributed according to the 7 Ps Marketing Mix strategy. The researcher concludes the research results and answers on research questions in Chapter 6. In addition, the study hypothesis is validated, reliability of data is assessed and suggestions for further studies are provided. Chapter 7 summarizes this thesis with the key points.

## 2 LOYALTY PROGRAMS

*“Smart companies have realized that customer loyalty is the most powerful sales and marketing tool that they have”*

*Bill Price, Driva Solutions (2014)*

This chapter introduces theoretical research on the topic of loyalty programs that later supports the empirical study. First of all, the concept of relationship marketing is presented that provides broader understanding on customer retention from the enterprise point of view. Furthermore, 7Ps strategic model is proposed that is further used in the marketing mix plan of the study. Second of all, customer loyalty is discussed as an outcome from relationship marketing. The third part of the chapter concentrates on loyalty programs, especially investigating the effect of loyalty programs on customers in retail stores. The last section leads to the definition of short-term loyalty programs.

### 2.1 Relationship marketing

This sub-chapter introduces relationship marketing, its fundamental concepts and principles. It finishes with the description of six-market framework.

#### 2.1.1 Evolution of relationship marketing

In the late 1980s, the world saw vast changes from the business point of view. Big and global players appeared on the market crushing under themselves small and local enterprises. With the increased competition and the diversity of similar brands and products, marketers realized that the old model of marketing is no longer relevant and that they have to adjust their strategies to the appeared marketing opportunities. Marketing investments were no longer profitable due to low brand recognition and poor segmentation. (Brink & Berndt 2008, 2.) Old strategies were associating mostly with a product promotion while in the new circumstances marketing activities were concentrating on satisfying the customer (Egan 2001, 11-12). It was exactly the time when the term transactional marketing extinguished from the business world and the new term, relationship marketing, started to be circulated.

What are the main differences between transactional marketing and relationship marketing? Besides being customer-driven, relationship marketing usually has an emphasis on implementation rather than on decision; its intensity of contact and a degree of mutual dependence are dramatically higher than in transactional marketing. What is more, a shift from transactional to relationship marketing affects the range of products (it becomes more customized) and the creation of after-sales services in order to improve customer satisfaction. (Hennig-Thurau & Hansen 2000, 5.) Full information please see in the table in Appendix 1.

### 2.1.2 Relationship marketing: fundamental concepts

Relationship marketing (RM) does not have one agreed definition. For example, L. Berry (2000, 65) defines it as: “... *attracting, maintaining and – in multi service organizations – enhancing customer relationships*”. Jackson (1985, 7) expands the definition and refers to RM to “*as marketing oriented towards strong, lasting relationships with individual accounts*”. (Gaurav 2008, 8.)

In addition to mentioned above, the objectives of relationship marketing include investigating, creating and cultivating a strong relationship with the customer or stakeholder that allows termination of the partnership if it doesn't bring profit to any of the involved parties (Gronroos 1990, 15). It means that, unlike predecessor strategies, relationship marketing concerns not only the ultimate consumers, but also intermediate customers like retailers or resellers (Kanagal 2008, 5).

### 2.1.3 Relationship marketing principles

Diller (1995, 42) identifies seven key principles of relationship marketing: individualization, information, investment, interactivity, integration, intention and selectivity (Hennig-Thurau & Hansen 2000, 5).

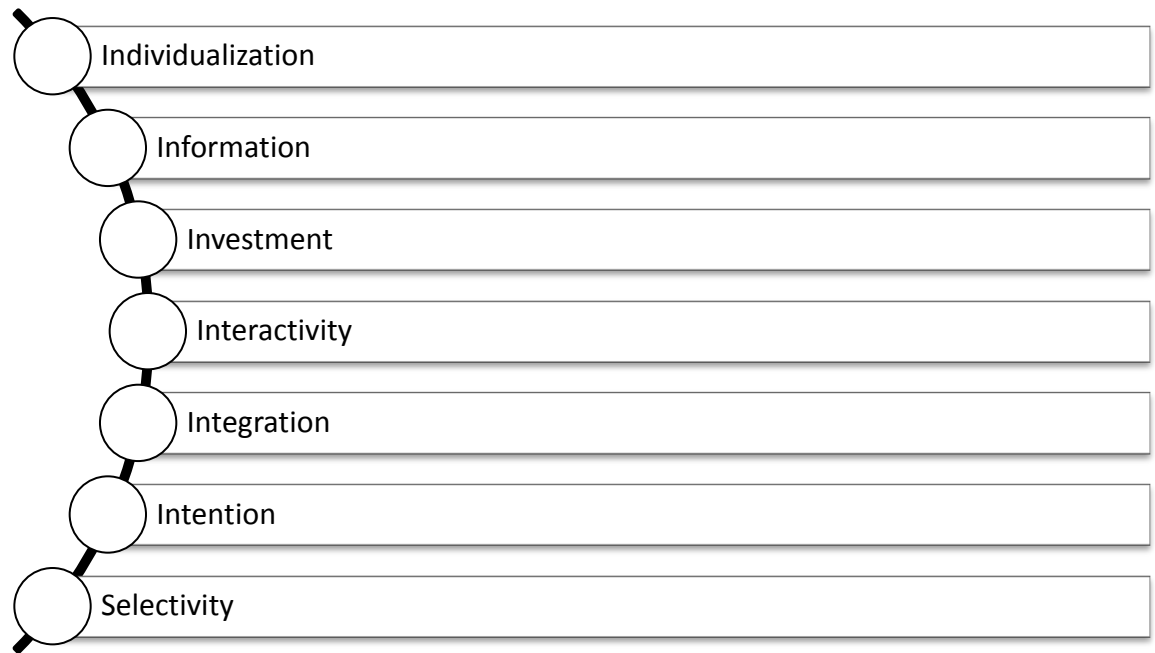


FIGURE 8. Relationship marketing principles (Diller 1995, 42).

As previously discussed, relationship marketing concentrates on customized products and services by trying to make them *individual* for each consumer. Development of products is based on research on consumer needs and *information* about customer wishes. Since the customer becomes a key asset, it is crucial that efficient amount of *investments* and resources is allocated between two goals or maintaining existing and bringing in new a customer (Hennig-Thurau & Hansen 2000, 6; Christopher, Payne & Ballantyne 2002, 4). *Interactivity* between the parties and *integration* of internal marketing in order to achieve external strategic success are another two important principles of relationship management (Christopher, Payne & Ballantyne 2002, 4). Special *intention* should be paid on relationship not only with the customer, but with the range of stakeholders in the supply chain: suppliers, distribution channels and shareholders. The last principle advises the business to select the most relevant customers to make the most profit with them. (Brink & Berndt 2008, 8).

#### 2.1.4 The six-market framework

Referring to the previous sections, relationship marketing does not concern only end-customers, but all stakeholders in the supply chain. Based on this statement,

the 6-market model has been developed in order to provide a vast understanding on relationship marketing principles and objectives (see Figure 9).

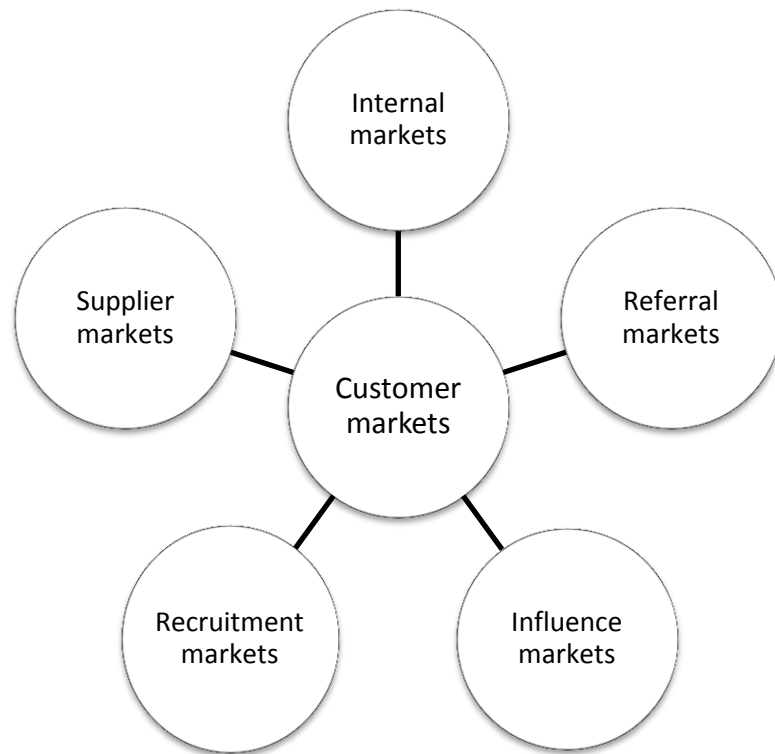


FIGURE 9. 6-market framework (Payne, Christopher, Clark & Peck 2004, 4).

According to the framework, companies should cultivate their marketing activities among 6 markets that conduct both external and internal sides of organization: internal, referral, influence, employee recruitment, supplier and customer. These dimensions of the framework have direct or indirect influence on the outcome of the marketing strategy and, therefore, should be paid a special attention on. (Payne, Christopher, Clark & Peck 2004, 6.) This paper takes a closer look on those markets since they provide a base for a 7 Ps strategy model which is essential for the further study.

The framework suggests having a center-focus on customer markets by emphasizing on both intermediate and end-consumers. Unlike transactional marketing, relationship marketing should concentrate here on both customer acquisition and customer retention by trying to build a long-term trustful relationship with the customer (Payne 1993, 4). One of the sub-branches of customer market is a referral market, in other words: WOM (Word of Mouth).

WOM is an essential marketing mechanism as it proves credibility of the relationship between the customer and the company (Payne 1993, 6). One of the best known examples of WOM is forums where experienced customers discuss certain products and might highly influence on the buying decision of the potential customer.

The most broaden dimension in the framework is an influence market as it covers both internal and external parties involved. Influence markets vary depending on the industry the company operates in and they may or may not have an impact on the company's marketing activities (Krishnan 2007). As an example, to such markets researches attribute shareholders (an internal side of the organization) and governments or consumer associations (an external side of the organization) (Payne 1993, 10). Extensively, most of external markets are covered by PESTEL factors (described in Appendix 2). Another dimension is a market of suppliers. Supply chain management (SCM) is integrated into 6-market framework since it has a massive effect on the organization's relationship with the customer (Krishnan 2007). For instance, raw-material suppliers contribute to the quality of end products or transport suppliers affect delivery time of the products to the customers.

The last two dimensions conclude 6-market framework analysis. The scheme recommends organizations to focus on internal and recruitment markets. According to Berry (2000, 65), employees are an organization's first customers as each of them is responsible for distributing the value to the customer and supporting the company's brand. Therefore, current and potential employees should be treated in the proper way to keep their motivation and retention (Payne 1993, 8).

To conclude, even though 6-market framework covers a wide range of both external and internal dimensions, all of them are inter-related and lead to success only when each part operates cohesively with the others.

## 2.2 Extended marketing mix of relationship marketing

As mentioned in the previous section, 6-market framework has a base for the 7Ps strategic model (also called the extended marketing mix model). In general, marketers identify 4 Ps model which helps to route necessary resources according to 4 marketing dimensions: price, place, product and promotion. These four criteria are considered to be the most crucial in consideration of segmentation and marketing activities. However, since relationship marketing concentrates its resources not only on external markets but also on internal, 4 Ps model is further developed and extended. (Payne, Cristopher & Ballantyne 2004, 9.) This section of the research elaborates on theoretical data on 7 Ps model to compound the knowledge for the further marketing mix plan in the Chapter 5 of the study. Due to information surplus, this section concentrates only on information relevant for the further empirical study.

To start with, unlike in 4Ps, 7Ps model does not have same criteria; dimensions are usually adjusted to the case studies. For example, Buhler and Nufer (2010, 138), while evaluating relationship marketing in sports, suggest considering people, process and physical evidence as additional dimensions. In contrast, Tracy (2004) advises to use people, packaging and positioning dimensions in the study (Figure 10).

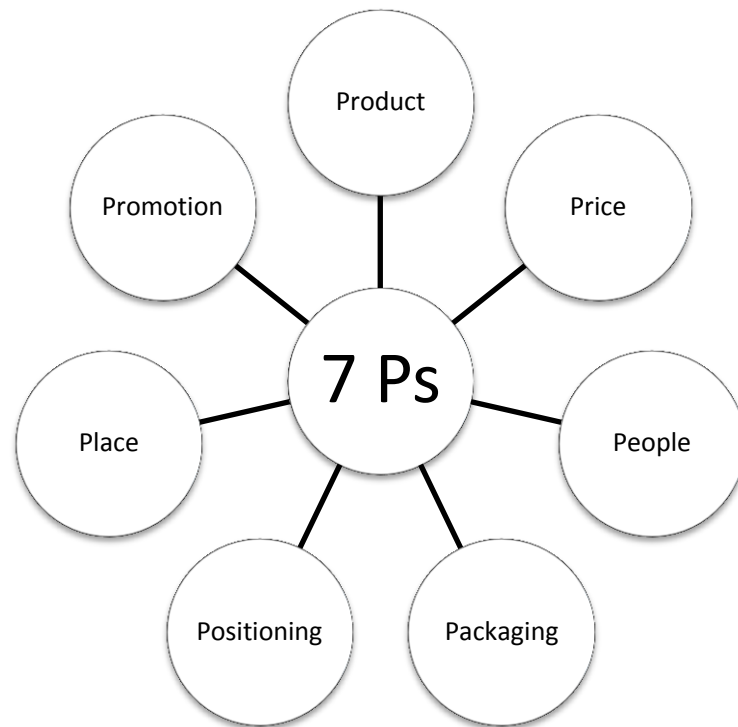


FIGURE 10. Extended marketing mix in RM (Tracy 2004).

After evaluating the nature of the case study of Bosch Lawn and Garden, it is decided to take people, packaging and positioning as additional three dimensions. However, physical evidence and process are also analyzed as a supplementary marketing mix and presented in Appendix 3.

### 2.2.1 Product

Product is the first and the core branch in the marketing mix. In this division, marketers consider all elements related to a product: from a product design to after-sale services (Kotler, Keller, Brady, Goodman & Hansen 2009, 17). In practice, all product features are distributed within three levels of products: augmented product, actual product and core benefit (Kotler, Keller, Brady, Goodman & Hansen 2009, 5). To start with the core benefit, this level reflects the core problem the product solves and the key values it brings to the customer. An actual product is what exactly customer sees as an offer: tangible/intangible product features, quality, a brand name and design. The last level, an augmented product displays services related to the product. Example of augmented products is a warranty or after-sales support. (Jain 2009, 164.) Generally, successful



business cannot be led without satisfying all three levels, therefore, it is of high importance to conduct a vast research on product development to target customer wishes appropriately (Ryals & McDonald 2008, 174).

Product strategies differ depending on the market and the type of product. This study concentrates on the Ansoff matrix which covers general overview on product strategies and provides a strategic tool for market growth.

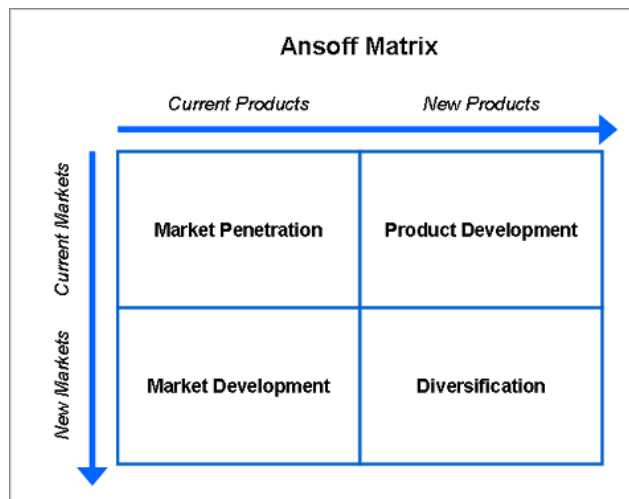


FIGURE 11. Ansoff Matrix (Ansoff 2015).

As seen from the figure, matrix is divided into 4 categories and twists the concepts of new/old markets and products. Starting with market penetration, this strategy suggests concentrating on existing products in the markets of operation in order to improve customer satisfaction. Some marketing activities may include promotions or new pricing policies. The risk here is minimized since the companies already have a steady client base in the existing markets. Product “face-lifting” finds place in product development category in which the company improves product-related features for the existing customers. Other two categories refer to capturing growth in the potential markets. Market development suggests entering new market with the existing product range. This strategy might be successful for a big corporation with the proved brand name and recognized products/services. The last category is diversification in which the company targets the new market with the new range of products. Diversification requires highest amount of investments and contains the highest level of risk. (Ansoff 2015.)

Further in this thesis the researcher applies the Ansoff Matrix to the case company.

### 2.2.2 Place

“Location, location, location – those are three most important strategic criteria”, - this statement is well-known in the business world (Safire 2009). The second branch concentrates on one of the most crucial milestones in the 7P strategy: on place. Correctly chosen place helps to boost sales, attract customers and beat the competitors. What is more, this branch considers availability of the product from the logistical point of view: distribution strategies and logistics (Baybars 2013, 51).

Logistics in the marketing mix plan should evaluate the whole process of the supply chain from pre-production and relationship with suppliers until the finished goods are delivered to the selling units (Baybars 2013, 54). This study mentions the most critical variables of the logistics (The Marketing Mix 2015):

- **Transportation:** the way the product is brought to the customer.  
Transportation can be done via water, road, air and rail, - the very channel is defined after evaluating the nature of the product, distance from manufacturing location, costs and lead-time;
- **Warehousing and inventory levels:** managing the stock and overstock.  
Warehousing can either belong to the company or being outsourced by another party;

In general, distribution channels are divided into direct and indirect. Direct distribution possesses delivering the product from manufacturing site straight to the customer avoiding intermediaries. Direct deliveries are usually used by small local manufactures which acquire short lead-time from the factory to the selling place. In this case, the risks are quite small as the manufacturer has strong control over delivery process. In indirect distribution, in contrast, companies are using intermediary parties in product delivery, for example, warehouses, wholesalers and retailers. In indirect distribution, risks and lead-time are considerably higher due to complexity of the process, however, costs of delivery and responsibilities

can be reduced as there is a strong potential of outsourcing. In addition, indirect deliveries are more suitable for big corporations as intermediary parties are usually responsible for handling after-sale services and managing overstock. (Buhler & Nufer 2009, 168.)

Figure 12 summarizes direct and indirect distribution strategies.

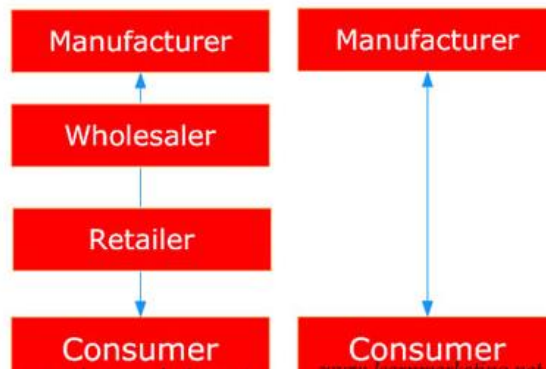


FIGURE 12. Direct vs indirect distribution (The marketing mix: place strategies 2015).

Having discussions on distribution strategies, marketers usually emphasize on three main strategies: intensive, exclusive and selective.

1. Intensive distribution does not possess any customer selection and tries to target as many customers as possible. This type of distribution is good for low-priced simple products;
2. Exclusive distribution supports only one specific selling place (shop/outlet). Products that fall into exclusive distribution are generally of a high price and quality;
3. Selective distribution targets on several outlets or retailers, relevant for the product range. Selective distribution is especially suitable for large companies with high geographical manufacturing spread.

To sum up, both selling places and distribution strategies should fit together to reach the best logistical results. (The marketing mix: place strategies 2015.)

### 2.2.3 Price

Price is the third branch in the 7Ps marketing model. According to evaluations, price is one of the most difficult dimensions as it requires careful planning and calculations (Jain 2009, 79).

Jaine in his books “Principles of Marketing” (2009, 81) refers to the following two pricing variables:

- Pricing strategies: to determine pricing strategy marketer should take customer demand, cost and nature of the product and the nature of the customer into consideration. External factors (policies) should be also analyzed;
- Profit margin (PM): variable that shows the difference between the final price to the customer (RRP) and cost of production (PPC). Profit margin has several stages; usually organization considers also margin of retailer and manufacturer.

Bulher and Nurfer in “Relationship Marketing in Sport” (2010, 143) add more variables:

- Price elasticity: dimension that measures relations between price changes and the demand;
- Sensitivity: the degree to which the price of the product affects the consumer’s demand.

In addition, three pricing methods are usually applied while pricing calculation.

TABLE 2. Pricing Methods (Freyer 2003, 115).

<b>Method of pricing</b>	<b>Calculation variables</b>	<b>Possible challenges</b>	<b>Examples</b>
Cost-oriented	$RRP = PPC * PM$	Not defined PPC	Fitness studios
Competitor-oriented	$RRP \approx RRP$ (competitor)	Lack of competitors	Retail stores
Demand-oriented	RRP based on demand	Undefined demand	Ticket sellers

As it can be seen from Table 2, pricing methods usually depend on availability of calculations variables. The first method, cost-oriented, concentrates on costs of production by adding some profit margin to the price. As a difficulty, it can be mentioned that for some service-providers it is impossible to calculate PPC so pricing method should be based on other dimensions. In competitor-oriented method, marketers should conduct a deep research on competitor's pricing and adjust their prices similar to competitors'. Prices can have deviations by being smaller or higher depending on the intention of the company. The last method, demand-oriented, marketer should evaluate demand on specific product and service to set up a relevant price. In general, demand-oriented prices should answer the question "Is it worth paying such amount of money for this kind of service?" (Buhler & Nurfer 2010, 143-144.)

#### 2.2.4 Promotion

Promotion is the last branch of compulsory 4Ps marketing strategy. Promotion is seen as a marketing tool by which the company communicates with its existing and potential customers. Promotion is also a good way to increase sales and to manage the client behavior. Theoretically there are 4 main promotional tools: advertising, sales promotions, personal selling and PR (Public Relations). All of mentioned promotions have different levels of complexity and cost-structure. (Farlow 2011.) To start with personal selling – this is the least expensive and least

complex marketing tool that has a good personal impact on the customer. However, this is also the most time-consuming as it targets on an individual customer. Advertising and sales promotions are the most popular promotions as they cover a wide range of customers for relatively low costs. What is more, advertising gives a vast space for creative ideas to support the companies in creating a unique individual promotional mix. PR is the most time-consuming marketing tool that also requires the highest amount of investments. This promotion is usually led by big corporation in order to strengthen the image of the company and to point out its strong position on the market. (Hofstrand 2005.) Table 3 provides more information on promotional mix.

TABLE 3. Promotion tools (Hofstrand 2005).

<b>Promo tool</b>	<b>Example</b>	<b>Interchange with audience</b>	<b>Cost per audience member</b>	<b>Confined to target markets</b>
Personal selling	-Direct mailing -Trade fairs	Very good	Very low	Very good
Advertising	-TV -POS	Low to none	Moderate	Moderate
Sales promotion	-Discounts -Offers	None	Low	Poor to good
PR	-Sponsorship -Press releases	None to good	High to very high	Poor to good

Small and medium corporations usually start with one promotional tool and expand their marketing activities to 1-2 more tools. In contrast, it is advised for big companies to have a unique mix of all promotional activities in order to fulfil all marketing gaps (Jain 2009, 81).

### 2.2.5 People

People in 7Ps refer to employees in the company (Dhar, Nath, Nair & Yadav 2008, 12). Buhler and Nufer (2009, 138) expand this explanation and suggests

that this segment should cover all people who are directly or indirectly involved into utilization of the service/ product. To those belong not only employees of the company, but also workers of the intermediary parties and the customers themselves. Recruiting, training, continuous motivating, retaining and rewarding of talented employees are the main milestones that should be possessed in every company (Taylor, Doherty & McGraw 2008, 54). For example, according to statistics, on average 18% of employees in the organization do not feel engaged into the business and 40% do not have knowledge on company's goals and vision (Fermin 2014). These negative numbers suggest that every organization should take a closer look on its employees. The reason for that is stated by GE Capital in "Organizational culture: the effect of behavior on performance" (2012, 5): participation of every employee has a strong effect on company's brand image. Every employee is a face of the company; therefore, he should be fully committed to organizational goals and mission.

#### 2.2.6 Packaging

The term packaging refers to designing a container or a wrapper for a product. Initially the main reason behind packaging was to deliver product save to the customer and to ease transportation process, however, nowadays, packaging is seen as a powerful sales tool as it has a straight correlation to customer buying decision. (Jain 2009, 122.)

Generally marketers define 6 packaging functions (Ryan 2011):

1. Protection from the damage and contamination by external factors (moist, microorganisms);
2. Containment of product parts together;
3. Product identification;
4. Protection during transportation;
5. Simplification of storage;
6. Printed information.

The last function, printed information on the package, provides not only the basic information on the product but also protects brand image of the company. The

latest trend shows that companies allocate vast amount of investments on package design to make it more environmentally- and customer-friendly. (Riezebos 2003, 88.) In addition, every company should consider the following packaging issues: material, inner case, master carton and pallets (Packaging best practices, 2015).

Packaging material is commonly split into (Rose, 2015):

- Foam (for fragile products with sharp edges),
- Metal (for canned food),
- Glass (for foods that require preservation),
- Plastic (for anything applicable),
- Brick carton (for food drinks),
- Cardboard (for wrapped products).

Depending on the type of shipment, company might also need a master carton – a cardboard that has several cardboards in it for better protection (Riezebos 2003, 95). Moreover, the most prevailing way of product transportations is by arranging the cardboards on the pallet. The size of the pallet and the number of cardboards on it should be carefully planned as it ensures not only safe transportation of the products but also helps to save transportation costs. (Packaging best practices, 2015.)

### 2.2.7 Positioning

The last segment of 7P's marketing strategy is positioning. According to K & A Press (2002, 81), it is one of the most crucial and the most neglected marketing tools. By looking at the definition, it can be seen that positioning does not have a tangible appeal (not like other 6 Ps), therefore, it often misleads the marketers from considering its importance.



There is no defined explanation of positioning; this study tries to summarize the key points below (Kalb 2004, 81):

1. Market segmentation. Define and target specific customers as groups of potential buyers.
2. Market niches. Identify market gaps and try to fulfill customer needs in these market empty spaces.
3. Product image. Create a strong product image and obtrude the product to the customer.
4. Uniqueness. Strengthen positioning by making it unique against the competitors.
5. Products in line. Position the company against/ or in line with the other products.

Based on the definition, some types of successful positioning can be identified. The most common types are value and quality-driven where the companies try to emphasize on the benefits the customer pursues from the product. Demographic-geographical positioning accentuate on market niches relating to the location or customer groups. The last type, competitor-driven positioning ensures the customer that the specific product is the best in the competition line. (Suttle 2015.)

To conclude, all 7 Ps of extended marketing mix have a strong correlation with each other and should be considered in the scope of decision-making process. A harmonized and carefully-planned marketing strategy ensures successful sales and a vast number of customers.

### 2.3 Customer acquisition, customer retention

After identifying parts of the extended marketing mix, this study moves forward to concentrate on customer acquisition and customer retention terms as parts of relationship marketing.

Blattberg (2001, 48) identifies five-stages of customer lifecycle (Figure 13).

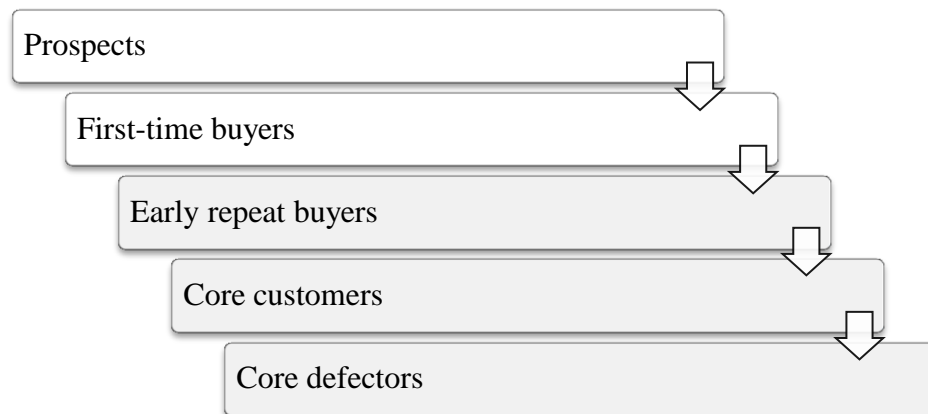


FIGURE 13. Customer lifecycle (Blattberg 2001, 48).

Prospects are prospective customers who have a strong intention to buy company's products, while first-time buyers and early-repeat buyers fall into category of customers who do not make purchases of a specific brand on a regular basis. (Blattberg 2001, 49.) The first three types of customers belong to customer acquisition stage. Core customers are company's profit makers as they have a preference to a specific brand. The last type, core defectors, reflects the factors of customer switch to another brand. Last two types refer to customer retention. (Shajahan 2004, 80.)

Based on customer lifecycle, this part of the study starts with a customer acquisition and continues with elaborating on a customer retention. Moreover, recent statistics show that it is cheaper to retain a customer rather than to acquire a new one: 70% vs 30% (Brynley-Jones 2015). To justify this trend, the study investigates the real costs for customer acquisition and suggests the benefits of customer retention.

### 2.3.1 Customer acquisition

Customer acquisition term refers to alluring the potential and new customers and to entice them to become loyal core customers. In 2001, a model called ACMAN was defined by Blattberg, Getz and Thomas (2001, 49).

ACMAN stands for *acquisition tactical management* and identifies 6 core elements of a customer acquisition strategy:

- Targeting,
- Awareness building,
- Pricing,
- Trial,
- Usage experience and satisfaction, and
- Creation of long-term value for the product.

According to Shajahan (2004, 83) companies should target two types of customers: those who already identify the benefits company provides from the products and those who can potentially become customers in the future.

Theoretically, ACMAN recognizes three levels of *targeting* (see Figure 14).

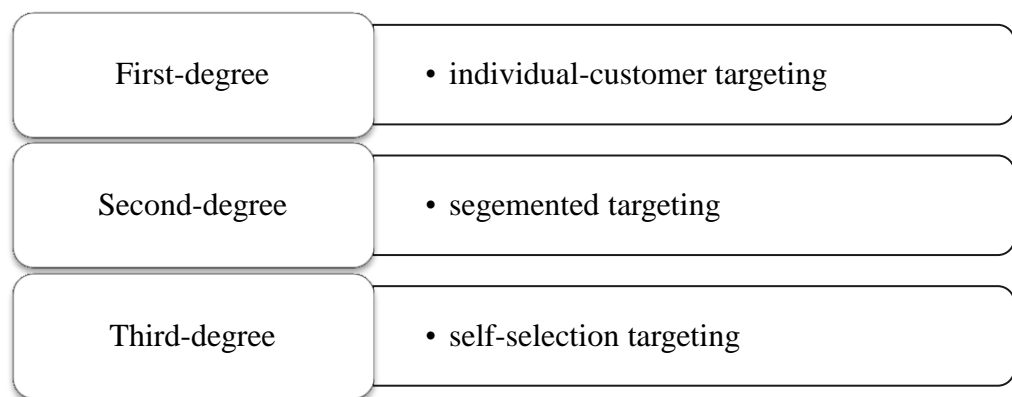


FIGURE 14. Degrees of targeting (Shajahan 2004, 83).

The first degree, individual-customer, is the most difficult and the most desirable level of targeting in which organization aims to reach each customer individually (Shajahan 2004, 83). Segmented is the most popular degree as the target is built on the group of potential and actual customers (market segment). The last section, self-selection, allows the customer making a decision, based on company's offers. (Blattberg, Getz & Thomas 2001, 45).

After the market target is set, the next step is *awareness building* or positioning of the company. Since it was already discussed in section 2.2.7, this part of the study will not elaborate on awareness building to avoid repetitions. However, it should

be emphasized that positioning is especially important while building relationship with the new customers. (Shajahan 2004, 84.)

*Customer acquisition pricing* is one of the most discussed topics in this field. Richards (2015) suggests paying attention on three most common pricing strategies for a customer acquisition: skimming, neutral and penetration. Skimming pricing recommends the company to set higher than average prices while building relationship with new customers. Skimming is suitable for high-value companies that provide high-quality products. Penetration, on the contrary, proposes setting pricing lower than average in order to entice bigger amount of potential customers and to generate a healthy initial turnover. Neutral pricing presumes the prices are set in line with the average.

While elaborating on customer pricing, companies should also consider customer acquisition costs. Kumar and Reinartz (2012, 92) propose the following formula for calculations where total product costs are divided by the amount of new customer (Figure 15):

$$\frac{\text{Product Cost}}{\text{\# of New Customers}} = \text{Customer Acquisition Cost}$$

FIGURE 15. Acquisition cost per prospect acquired (Kumar & Reinartz 2012, 92).

The next step after pricing is a *trial* in which the company makes first steps in meeting the customers. Good example of trials are short-term promotions as they lead to massive increase of potential customers. Trials should be carefully planned and evaluated in the end of the period. The key element in trial assessment is *customer satisfaction* which has a core impact on company's selling business. In general, company can apply acquisition rate to measure success of customer acquisition strategies. (Blattberg, Getz & Thomas 2001, 47.)

The rate is the percentage from the division of the fraction of new customers acquired divided by total amount of prospects targeted (Figure 16):

$$100 * \frac{\# \text{ of prospects acquired}}{\# \text{ of prospects targeted}}$$

FIGURE 16. Acquisition rate (%) (Kumar & Reinartz 2012, 93).

Only when customer satisfaction is healthy and promising, customers are ready to build *long-term relationship* with the company (Blattberg, Getz & Thomas 2001, 49).

### 2.3.2 Customer retention

Customer retention (CR) is one of the main purposes of relationship marketing (Krishnan 2007). As discussed in previous sections, CR strives for keeping the customer loyal to a specific brand or company. With the increased acquisition costs, more and more companies are re-allocating their resources on customer retention. On one hand, Blattberg, Gary and Thomas (2001, 71) claim that maximizing customer retention does not lead to maximizing firm's profit. On the other hand, the researcher Gaurav (2008, 1) argues that, according to their research, 5 percent improvement in customer retention brings an increase in profitability between 25 and 85 percent. To round the argument, it can be said that harmonized mix of customer retention and acquisition is the key of successful relationship marketing strategy.

In addition, the following rules support retaining the customer:

1. Foresee customer expectations and try to satisfy them. According to the statistics, 68% of customers leave the company because of unsatisfying services;
2. Become an expert in the field;
3. Support customer relationship with online services.

CR provides a wide amount of benefits to the company. For example, loyal customers help to improve customer base through WOM (Word-of-Mouth) and make it difficult for competition to expand. Moreover, satisfied customer motivates employees to provide high standards services and improves their satisfaction with the work. Last considerable benefit is that retained customers are less price-sensitive so small increase in price will most likely not cause any dissatisfaction. (Brink& Berndt 2008, 43.)

## 2.4 Customer loyalty

This section has a discussion on customer loyalty with regards to relationship marketing. Firstly, basic overview on customer loyalty is presented, its definition and the impact of customer retention on loyalty. After that the topic of demographic variables on customer loyalty is introduced. This topic has a direct relation to the case study.

### 2.4.1 Customer loyalty in perspective

Customer loyalty, as a term, can be described as continuous commitment to a specific brand or a company without any willingness to switch to a competitor. Customer loyalty is the most desirable outcome from customer retention strategies. In addition, there are three types of customer loyalty. (Brink & Berndt 2008, 41.)

1. Attitudinal – customers have a positive feeling about the brand;
2. Behavioral – customers commit to making purchases on a regular basis;
3. Moderated buying – customers make a purchase under specific circumstances.

For the companies, the best types are the combination of attitudinal and behavioral types of loyalty which in practice means that customers buy the product based on their satisfaction (Aksoy & Keningham 2007, 121). However, satisfaction and loyalty are far from being similar terms. Marketers recognize the concepts when loyalty comes alone without satisfaction or satisfaction does not lead to loyalty. In general, satisfaction is the term that describes positive feelings received from the

products (action acquired in the past) while loyalty is the willingness to make further purchase (future action). (Sugandhi 2003, 145.)

Customer loyalty is driven by different factors (Figure 17):

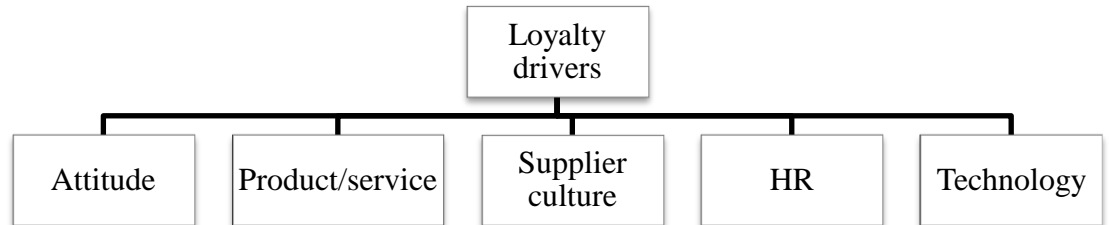


FIGURE 17. Loyalty drivers (Sugandhi 2003, 146).

As seen, products or service are not the only important driving factors, in fact, customers value the whole scope of product delivery process: supplier culture (strategies, market position and company culture), HR (shareholders and employees) and technology. In addition, attitude towards the product also play one of the major roles (Sugandhi 2003, 148). To sum up, in order to achieve best results, company should take care not only of tangible product but also of the whole delivery process chain.

The last topic to analyze in this section is loyalty breakers to foresee possible challenges and avoid mistakes. Theoretically, customers stop being loyal based on six most common reasons that are enumerated below (Sugandhi 2003, 150-151):

1. Customer dissatisfaction: If the customer is not satisfied with product/service, he will most likely try to find any alternative on competitor's side;
2. Higher customer satisfaction: The case when customer's satisfaction is set up higher than supplier is able to satisfy causes customer migration;
3. Customer attitudes: "New seekers" customers are possible to switch to another brand even though they might be satisfied with the previous just due to their interest to try something new;

4. Barriers between products and services: The more the product possesses service elements, the higher customer retention;
5. Higher competition and new options: Intense competition and increased range of products causes changes in customer migration;
6. New technology and product features: Updated technology encourages customers to adopt new features of the product hence tiding them up with a specific brand.

#### 2.4.2 Demographic variables on customer loyalty

As mentioned in the introduction to section 2.4, the study analyzes demographic variables on customer loyalty in order to apply this topic later to the case study. An emphasis is made on customer loyalty in retail stores which further acts a major role in the empirical part.

Demographic variables are statistics that combine information on various personal data (Business dictionary 2015). Based on literature review, the following variables are chosen to be relevant to the study:

- Gender,
- Age,
- Household income,
- Others.

Gender is the first characteristic to discuss. According to research conducted by Fry (1973, 8), male customers are more likely to be loyal to a brand, rather than female. However, Ndubisi (2006, 7) argues that women, in contrast, are significantly more loyal than men. The third finding is provided by Gaurav (2008, 9) which claims that gender does not have a massive effect on consumer loyalty. Chi (2009, 6) supports this statement and explains that, even though there are no significant differences between gender variables, women tend to have more favorable image of the products, hence, willing to make further purchases of them. What is more, in case of retail stores, women are more loyal to a specific hypermarket and are more likely to make purchases in one favorable store (Anic & Radas 2006, 79).



Age variables do not have big deviations in research findings. Anand and Selvaraj (2012, 7), as well as Chi (2009, 6) suggest that the impact of age on customer loyalty is relatively small and, therefore, should not be considered as a milestone. Anic and Radas (2006, 80), however, presume that older customers of retail stores tend to be more loyal than younger ones.

The third characteristic is household income. Even though Gaurav (2008, 9) make a conclusion that income does not have an impact on customer loyalty, many other researchers have different results. Chi (2006, 6) and Anand and Selvaraj (2012, 7) claim that the level of income has a massive impact on decision making process and on customer loyalty to a specific brand. Even in the retail stores customers with higher level of income are more loyal (Anic & Radas 2006, 79).

Some other variables are considered as crucial for the study. Firstly, “Country of origin” that is found to be critical since customers are more loyal to a brand or product of reliable country of origin (Ayyldiz & Cengiz 2007, 50). Furthermore, Reichheld (1993, 9) develops a theory that customers who conduct a purchase based on their personal incentive rather than advertisement are more likely to be loyal to a specific company (Gaurav 2008, 7).

To sum up this section, it appears that customer loyalty in retail stores is especially affected by gender, age and income variables.

## 2.5 Loyalty programs

The last section of theoretical research concentrates on the core topic of this thesis: loyalty programs. The researcher investigates types and strategies of the programs and questions profitability and efficiency of their implementation in the retail stores. The last sub-section leads to the definition of short-term loyalty programs.

### 2.5.1 Loyalty programs at a glance

Loyalty programs have seen a boom in the world in the recent years: according to the statistics, almost 80% of households in the United States have at least one loyalty card and 90% in Canada (Leenheer, Bijmolt, van Heerde & Smidts 2003). The reason for such increasing trend is a biased comprehension of a mutual profitability of the loyalty programs: customers receive benefits from the purchases and companies gain profits from increasing number of customers. As a term, loyalty program is a customer retention strategy, the main idea of which is to provide benefits to customers thereby enticing them to commit higher amount of purchases. (Winer 2001, 99.)

Each loyalty program is entitled to have 6 core objectives (Figure 18). Customers, tempted to receive more benefits, start to expand the amount of purchases, therefore, increasing size of basket and spending per wallet. What is more, eventual benefit obscures initial price for the products or services which allows the company to boost the margin per product. Loyal customers help to decrease the costs of retention and to support acquisition of new customers through referral process (WOM). (Loyalty program gone right – constructing the utopian loyalty program 2015, 1.)



FIGURE 18. Loyalty program core objectives (Loyalty program gone right – constructing the utopian loyalty program 2015, 1).

The main constraint in practice is that most of the companies omit those objectives by trying to capture customer gaps and beat competition within shortest period of time. Therefore, such loyalty programs do not bring any value to customer retention.

On the other hand, what makes the customer joining loyalty programs and what benefits do they expect to receive? First of all, customers are usually motivated both intrinsically and extrinsically. Their intrinsic motivation supports them with the intentional purchase orientation, while extrinsic encourages buying goods which are outside of the initial purchase plan. Regardless of the type of the loyalty program, customers need to be provided by both intrinsic and extrinsic rewards. Towards intrinsic rewards, marketers refer informational and social relationship benefits, i.e. communication with the store. The most recognized extrinsic motivator is economic, also called budget-saving, reward. Economic rewards can be described as discounts or 2-for-1 promotions. (Meyer-Waarden, Benavent & Casteran 2013, 219).

#### Why Customers Participate in Loyalty Programs

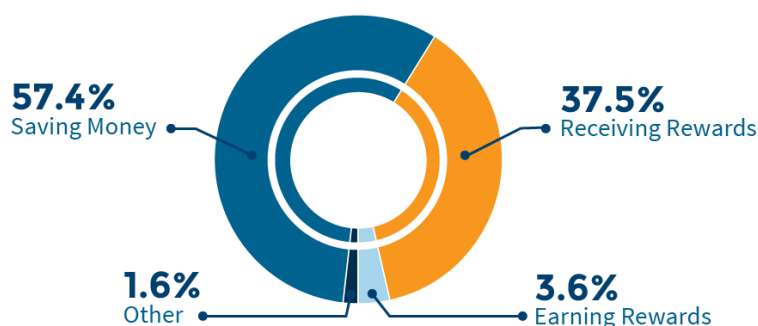


FIGURE 19. Customer participation in loyalty programs (Graham 2014).

Recent statistics have shown that more than half of respondents participate in loyalty programs to save the budget. Quite a significant number (37.5 %) accounts for receiving rewards, i.e. special promotions or exclusive offers. Only 4% of customers, however, participates loyalty program just for the reason of earning rewards. (Graham 2014.)

Additionally, Butscher (2002, 37) classifies two other types of benefits: hard and soft. Economic rewards relate to hard benefits they account for discounts and special prices. Soft benefits, however, provide more value in terms of social side

of a loyalty program; it could be special additional services or entertainment. (Butscher 2002, 37.)

### 2.5.2 Loyalty program types

Loyalty programs can be split into two general groups: open and limited. In the limited loyalty program customers need to merit a membership, i.e. through its long relationship with the company or the amount of purchase. In this program, companies limit customer range and concentrate only on the target loyal customers. Usually such programs provide more benefits than open programs. In the open loyalty program, membership is not restricted and welcomes every customer. This type has an intention to increase customer range and to attract as many existing and prospective customers as possible. (Butscher 2002, 50.)

Jeon (2008, 27) narrows the concept of loyalty programs and specifies five types of them: direct mail, preferential treatment, interpersonal communications, rewards and promotions. Whilst direct mail and interpersonal communication involve direct targeting of each customer individually; preferential treatment, rewards and promotions concentrate on providing specific incentives for the customer mass. Those incentives can involve price discounts or rewards. In practice, marketers usually include several types of loyalty program into one in order to reach the best results. It could be argued with this statement that rewards and promotions are a part of preferential treatment and, therefore, seem to be redundant.

### 2.5.3 Customer loyalty programs: are they profitable?

Despite of all the benefits loyalty program brings to a company and a customer, many marketers are still questioning the effectiveness and profitability of loyalty programs. According to the statistics, they can generate no more than 20 % of company profits which, though, accounts to be quite a significant number, especially for big corporations. However, this number can also cause a big decrease in value. (Shaukat & Auerbach 2012.) In fact, four out of seven companies who adopt loyalty programs are considered to be unprofitable and inefficient (Singh, Jain & Krishnan 2008, 1). The reason for such negative trend is

that companies, trying to beat the competition with the most generous loyalty programs, start to underestimate the reward value and to receive less than they offer to customers (Leenheer, Bijmolt, van Heerde & Smidts 2003, 3).

The graph below (Figure 20) shows weighted average EBITDA<sup>1</sup> margin<sup>2</sup> in 55 major companies in the US. As seen, low focus on loyalty programs earn higher percent of margin rather than those companies, who has set up prioritization on loyalty programs.

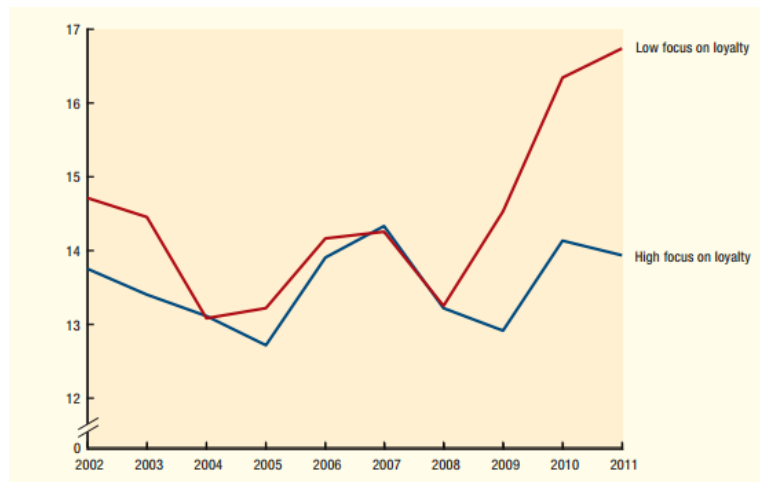


FIGURE 20. Weighted average EBITDA margin of 55 major companies with the low and high focus on loyalty programs (Doppelt & Nadeau 2013, 24).

How to avoid unprofitability and inefficiency? Shaukat and Auerbach (2012) suggest concentrating on the following rules:

1. Build partnerships with other companies in different industries;
2. Maximize the difference between received value and real costs;
3. Fill in customer gap on the market
4. Target the most loyal customers.

In addition, it should be mentioned that short-term loyalty programs are considered to be more profitable than long-term; therefore, many companies need

<sup>1</sup> EBITDA – Earnings before interest, tax, amortization and depreciation (Oxford dictionary 2015)

<sup>2</sup> EBITDA margin – major profitability index, calculated by dividing EBITDA by total company revenue (Business dictionary 2015)

to re-consider their investment allocation (Leenheer, Bijmolt, van Heerde & Smidts 2003, 30).

#### 2.5.4 Loyalty programs in retail stores in Europe

The case study of this thesis concentrates on European supermarkets, therefore, this paragraph elaborates on loyalty programs in specific European markets and retail stores.

Statistics emerge that every year companies in Europe spend about 3 billion dollars on channel loyalty programs (Auyb 2014). Europe is a relatively young market for such types of relationship marketing (Pearson 2013). Due to high taxation and complex legal requirements, it is more difficult to run customer retention programs in Europe. As a reason for that, simplicity and transparency are the key visuals for loyalty programs. (Auyb 2014.) As a trend, it is noticed that European customers tend to visit stores more often than US customers. This fact should be taken as an advantage by Europe-based companies as it provides more opportunities for extending customer loyalty strategies. (Pearson 2013.)

Moving forward to retail stores, the main purpose of establishing loyalty programs is to create a strong brand loyalty and to increase the frequency of purchases at stores (Omar, Che Wel, Musa & Nazri 2010, 2). In addition, retail stores try to increase the revenues and re-structure customer's perception, making it less price-sensitive (Gandomi & Zolfaghari 2011, 7).

Figure 21 shows the most important aspects from the consumer's point of view. When it comes to the choice of the store, the most important aspect customers are paying attention to is low price. After that customers value quality of products and discount offers. (Retail Loyalty and The Consumer 2013, 15.)

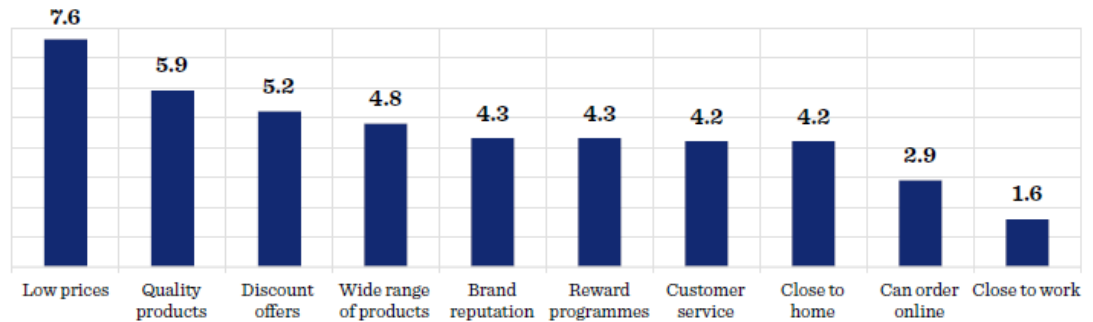


FIGURE 21. Choice of the retailer: distribution of important aspects (Retail Loyalty and The Consumer 2013, 15).

In general, 70% of the respondent support loyalty programs at retailer stores and believe that such marketing activities help in boosting the sales (Retail loyalty and The Consumer 2013, 25).

## 2.6 Short-term loyalty programs

Last section in the theory review explains about short-term loyalty programs and short-term promotions. In fact, it is challenging to find a term of a *short-term loyalty program* in the scientific literature due to a general presumption that short-term campaigns do not have an effect on customer loyalty. However, it has been already proved that smart short-term incentives programs lead to building a long-term loyalty among customers. The reason of this trend is customer positive emotional connection towards the retailer that appears during campaign and stays strong even after the program finishes. (McIntosh 2012.)

The main difference between short-term and the standard loyalty program is the timeframe which affects the whole process of implementation. On one hand, limited time quota encourages managers to use their resources in the most efficient way and carefully plan the activity in advance (McCalley 1996, 198). On the other hand, each short-term loyalty program suggests the customer to commit more sales within specific time constraints, therefore, it should clearly state about its value and benefits to persuade the customer (Lewis 2004, 2).

What is more, McCalley (1996, 200) defines basic rules for a successful short-term loyalty program:

1. Clearly define objectives;
2. Make it profitable;
3. Provide advertising and communication to the customer;
4. Involve everyone necessary;
5. Calculate right starting time;
6. Measure the results.

To conclude, it should be noticed that short-term loyalty programs should not play a major role in the company's marketing activities, but could be a good contemplation in order to stimulate revenue and attract new customers.

### 2.6.1 Rewards programs and promotions

Due to the fact that case study is built on preferential treatment, this section elaborates more on rewards and promotions. Promotion is the type of loyalty program in which customers are able to pursue products either under discounted price or with additional free product (2-for-1). In the rewards programs, in contrast, customers are first earning certain incentives in order to redeem them for rewards. As a matter of fact, rewards programs are already proved to be more effective than promotions: Amar (2015) conducts a vast research and concludes that reward-based program outperforms promotion by 42% with regard to brand recognition and 13% to purchase intention. The reasons for this trend is that customers appreciate earning 'non-cash' incentives (i.e. points or scratch cards) in order to redeem them further for a reward (Amar 2015).

Rewards are usually classified into monetary and non-monetary. Monetary rewards imply economic benefits: discounted or free products when the certain amount of incentives is earned by the customer. With regards to non-monetary rewards, marketers suggest applying two targeting tools: discrimination and customization. Discrimination means that the customers participating in the loyalty program should be treated differently than traditional customers. For example, non-monetary rewards can be adapted based on consumer's personal requests. This tool is called customization. (Melnyk & Bijmolt 2015, 4.)



In order to elaborate on complexity of rewards programs, below are the types of the programs based on type of reward and reward schedule (Table 4).

TABLE 4. Reward programs based on reward frame and schedule (Yi, Jeon & Choi 2011, 4).

		Reward frame	
		Segregated rewards	Aggregated rewards
Reward schedule	Uncertain	Instant scratch	Lottery
	Certain	Frequent-buyer card	Frequent-flyer purchase stamp

To start with, segregated rewards refer to similar small incentives that are received within the whole process of participation while aggregated rewards account for one big reward as an outcome from the commitment to a specific loyalty program. Moreover, uncertain schedule presumes that customer cannot predict an eventual reward and certain card schedule acknowledges the customer of the possible benefits. (Yi, Jeon & Choi 2011, 4.) As seen from the table, instant scratching and lotteries are types of unpredictable rewards. Frequent buyers card and frequent-flyer purchase are the most common types with predictable reward schedule. Frequent buyers card often belongs to a so-called points program when the members collect points and are able later to redeem them for discounted or free services or products (Loyalty analytics exposed: what every program manager needs to know 2015, 1).

In terms of program design, marketers suggest paying special attention on two main concepts of every reward-based program: rewards distance and step size. Rewards distance defines how many points it is required to redeem the rewards (i.e. “Get 5% off from each 1,000 points”) while step size identifies the number of points earned by euro (“1 point per euro” or “100 points per each 50 euros spent”). These two dimensions are in strong correlation with each other and might massively affect consumer behavior. Researchers suggest that when step-size variable is high (earning large amount of points per specific amount of money, i.e. “50 points per each 10 euros spent), consumers are more likely to evaluate only

reward distance dimension meaning how many points they need to redeem the reward. In contrast, when step-size is relatively low (“1 point per 1 euro”), consumers prefer to analyze step-size to check feasibility of reaching potential reward. Moreover, the more the customer is closer to reaching the needed amount of points, the more loyal he stays to the program provider and the more likely he is to advise the program to his surroundings. (Rajesh & Xingbo 2011, 889.) Therefore, for short-term reward-based loyalty programs rewards-distance and step-size should be carefully aligned with each other in order to satisfy limited time conditions.

### 2.6.2 Scheduling reward-based short-term loyalty program

In the last section of the theoretical research, it is vital to cover time milestones for reward-based short-term loyalty program and to enlighten the effects of introduction and termination of the short-term program on customer-company relationship.

In theory every loyalty program has three phases: introduction, maintenance and termination (Figure 22).

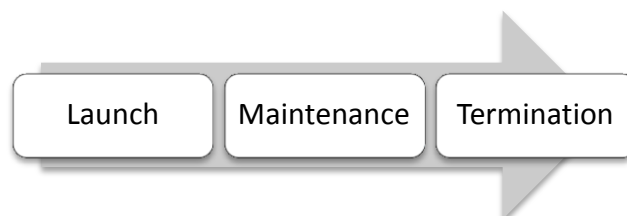


FIGURE 22. Three phases of loyalty programs.

In the launch phase organization needs to consider the following issues:

1. Loyalty program design: monetary and non-monetary rewards;
2. Customer characteristics: demographic, geographic and psychological variables.

After the program is launched, it is critical for the company to be actively involved in the program maintenance and to be time-effective in responding to

customer and market requests. (Ensuring customer loyalty: designing next-generation loyalty programs 2005, 7.)

Evaluation of the termination phase is fundamental in every short-term loyalty program. If the effects of terminating the program damages relationship between the company and the customer, then launching the program does not bring any value to the company. In the reward-based program, terminations effects are dependent on the type of reward. In the point-based program, no significant effect can be seen due to the nature of the saving features. Discount features, however, bring negative effect on customer loyalty in case of program termination. (Melnyk, Bijmolt 2014, 9.) It can be concluded that in order to have a successful and valuable short-term loyalty program, it is advised to start a point-based program to avoid unpredictable negative behavior from the customer side after program termination.

### 3 CASE STUDY: THE VENTUM LG LOYALTY PROGRAM IN BOSCH LAWN AND GARDEN

As mentioned in Chapter 1, Bosch Lawn and Garden has been merged with Bosch Power Tools. As a result, a new legal entity Bosch Home and Garden has been created. This chapter firstly introduces the concept of united Bosch Home and Garden company with making an emphasis on Bosch Lawn and Garden. Bosch Power Tools is observed as a participant in the Ventum PT loyalty program. The last sub-chapters explain the milestones of the Ventum LG program for Bosch Lawn and Garden which will be introduced in 2016.

#### 3.1 Bosch Home and Garden

On the 1st of January, 2015, it has been officially announced to all Bosch shareholders that Bosch Lawn and Garden was to be unified with Bosch Power Tools (Figure 23). The new name of the company was decided to be Bosch Home and Garden and since then it has become a part of the bigger Bosch Group.



FIGURE 23. Consolidation of Bosch Power Tools and Bosch Lawn and Garden.

Being now a consolidated division, Bosch Home and Garden has faced several changes and challenges. The processes in the companies are not yet fully aligned with each other, Bosch Home and Garden will join the market only in 2018 as a unified division.

The major changes are enumerated below:

1. All the strategic activities in both companies (Bosch Power Tools and Bosch Lawn and Garden) should be cooperated. This issue could lead to longer decision-making process and to increased amount of participants involved in the discussions;
2. The legal name on all documents should be changed which is costly from both moneywise and time-wise perspectives;
3. Product range in both companies should be reviewed to avoid similar features in the products. The brightest example is a home sabre saw PSA 700 E and a garden saw Keo which can be used for the same applications. These saws can be considered as competitors on the market. Figure 24 reveals similarities between two products.



FIGURE 24. Bosch Keo vs Bosch PSA 700 E (Amazon 2015).

4. Some managerial processes (i.e. marketing, logistics, and launch management) should be aligned. This could lead to the restructure of internal employee flow.

All in all, this merge is seen as a positive change in the companies' business. Bosch Home and Garden is hoping to boost turnover and profit margins and to increase amount of actual customers. Another decision that has been made is that in the upcoming years Bosch Home and Garden should be performing in the Ventum HG loyalty program without dividing itself into Bosch Lawn and Garden and Bosch Power Tools.

### 3.1.1 Bosch Power Tools

Bosch Power Tools is the leading company in the industry of DIY power tools, i.e. hammers, drills, home saws and planners. DIY stands for Do-it-Yourself and

describes activities that the person is conducting without involving any professionals in the field (i.e. decorating or constructing the house). Originally German-based, this company has manufacturing locations all over Europe and especially strong sales commitment in Asian-Pacific region. In 2012, company has made about 4.0 billion euros turnover and this number keeps steady year after year. About 40% of sales were generated with the new products (less than two years after launch); therefore, continuous innovation is the vision of the company. (The Bosch Power Tools Division 2013.)

### 3.1.2 Bosch Lawn and Garden

Bosch Lawn and Garden is another sub-division of Bosch Home and Garden and the case company for this thesis. The company has been recognized as one of the leaders on the market of DIY corded and cordless gardening tools bringing sales increase every year. For example, in 2013 sales margin has grown up to 3 %, of which new products compounded 35% (Chambers 2014). The company is based in the UK and operates all over Europe, Asia and Africa. Besides, it is important to mention that the main warehouse is in Germany and manufacturing locations are in Europe and Asia.

Wide range of products covers the following main product categories:

- Robotic lawnmowers,
- Lawnmowers,
- Hedgecutters,
- Trimmers,
- Grass saws,
- Grass and shrub shears,
- Shredders,
- Chainsaws,
- Leafblowers,
- Multitool systems, and
- High pressure washers.

## 3.2 Ventum

This section provides information on Ventum as on a supporting organization and then describes short-term loyalty program adopted by Bosch Power Tools and Bosch Lawn and Garden.

### 3.2.1 Ventum Ltd. as a company

Ventum Ltd. is another case company for this study. It is a German-based company that provides service packages for the companies which would like to increase brand awareness and to push customer loyalty. With 8 years of professional experience, Ventum Ltd. is now considered to be one of the most successful companies in the field of increasing customer loyalty and providing mediating services between the companies and retail stores. (Ventum 2015.)

### 3.2.2 Bosch Power Tools and the Ventum PT short-term loyalty program

As mentioned in the theoretical analysis, there is no well-defined explanation of the term “*short-term loyalty program*”. This collocation is used by Bosch for identifying the main purposes of the program – short-term solution for boosting customer loyalty.

Bosch Power Tools joined the Ventum PT loyalty program in 2012 and has been running it every summer season for already 3 years. Due to vulnerable consumer tastes and development of house appliances market, this loyalty program has seen changes but the basic idea behind it has stayed the same for the whole period.

How does this program work? Ventum PT is an **open point-based loyalty program** which operates within 2-3 months during spring-summer period in various supermarkets and petrol stations around Germany. Each time a customer commits a purchase, he receives one point per 5 euros spent in the shop (see Figure 25). After getting 20 points, a customer is able to buy Bosch products with the discounted price of more than 40% less.



FIGURE 25. Bosch leaflet for points' collection (Bosch 2015).

In general procedure can be split in 3 main steps:

1. Collecting points: while customer is saving points, he is able to study the range of Bosch Power Tools and to make a decision which exactly tool he needs to buy;
2. Purchase of the Bosch tool itself;
3. After-sale services: Bosch provides a wide range of after-sale services, including warranty claiming, support in Bosch community and social media (Facebook, YouTube).

### 3.3 Bosch Lawn and Garden and Ventum LG

Due to the creation of Bosch Home and Garden, one of the strategic decisions made is to include Bosch Lawn and Garden into the Ventum LG loyalty program along with Bosch Power Tools to align companies' activities.

#### 3.3.1 General overview and theoretical implications

This sub-section is to find practical implications for certain theories discussed in Chapter 2 of this study. Marketing mix analysis which is introduced further in the thesis is also linked to theoretical research.

The general description of the future the Ventum LG short-term loyalty program can be retrieved from the description of existing Ventum PT due to the fact that Bosch Lawn and Garden will be following the procedures of Bosch Power Tools while launching its Ventum LG loyalty program.



To start with, according to the Ansoff matrix, the implementation of the short-term loyalty program in Germany falls into a *market penetration strategy* because Bosch Lawn and Garden concentrates on an existing market with an existing product range by using a new channel. This strategy is beneficial due to the fact that the company is expanding its customer range and capturing a bigger market share by using the existing knowledge of the market.

To justify the program, it is important to provide an evaluation based on rules of a justified loyalty program:

1. *Satisfaction of 6 core objectives*: the Ventum LG loyalty program is meant to increase a margin per product and to decrease costs in the company. What is more, as an objective it encourages changes in the consumer behavior with increasing spending habits and average basket size. The last objective is to attract new customers, therefore, support customer acquisition process;
2. *Profitability*: Bosch Lawn and Garden conducts a careful research on the topic of financial calculations and profitability. The program does not take place on the market if financials show negative figures;
3. *Advertising*: all communication materials are aligned together with Bosch Power Tools and executed locally in Germany;
4. *Involvement*: the internal communication procedure is discussed further in this study. The scope of involvement is complex and contains different parties: from employees in Bosch Lawn and Garden to workers in supermarkets;
5. *Starting time*: due to seasonality of gardening products, it is crucial to satisfy the right starting time for the program which is usually mid-spring or beginning of summer. Currently it is decided that Ventum LG will start operating in June 2016;
6. *Result evaluation*: one of the milestones of program implementation is the result measurement for future adjustments. Sales are supposed to be tracked every week and continuous feedback is required from Ventum Ltd.

The fact that Ventum LG is an *open point-based loyalty program* presumes that every customer of a certain supermarket/petrol station is welcomed to join the

program and start collecting the stickers (points). The step size of the program is one point per 5 euros and the rewards distance is: by acquiring 20 points, the customer gets 40% discount on Bosch products. It should be also added that within the whole time period, participants receive *segregated awards* in the form of stickers which could be later redeemed for a *certain reward* of discounted products.

The Ventum LG short-term loyalty program targets both types of customers: *prospective and existing*. In terms of existing customers, this short-term loyalty program supports their interest in Bosch products and helps to expand their range of home and gardening tools at home for an affordable price. Moreover, for potential customers (first-time buyers and early repeaters) this loyalty program helps to increase their awareness on Bosch quality and vast product range and to highlight the brand among competitors. As a conclusion, Ventum LG aims not only on customer retention but also on customer acquisition in order to harmonize marketing strategy.

On the other hand, what makes the customers participating in the Ventum LG loyalty program? First of all, they are motivated both *extrinsically and intrinsically with hard and soft benefits*. Extrinsic motivators in this case are economic rewards and opportunity to purchase Bosch products for discounted prices. This motivator refers to hard benefit. Intrinsic motivators, however, are customers' internal perception on high quality of Bosch products and the willingness to communicate with the company through various media tools (soft benefits).

To sum up, it can be seen that, based on theoretical implications, Ventum LG justifies itself as a good addition to Bosch Lawn and Garden business. However, theoretical implication should be supported by empirical results later in this thesis.

### 3.3.2 Internal communication procedure

Communication between the companies starts with coordination of activities inside Bosch Lawn and Garden where one manager plays the role of project coordinator. Project coordinator in Bosch Lawn and Garden receives relevant

information from all the departments and reports it to project coordinator in Bosch Power Tools, who is, consequently, in constant touch with Ventum Ltd. managers. Same time as Bosch Power Tools and Bosch Lawn and Garden are internally communicating for the loyalty program, Ventum Ltd. cooperates with local supermarkets and petrol stations (Figure 26). (Bosch 2015.)



FIGURE 26. Communication chart (Bosch 2015).

As a conclusion, it can be seen that theoretically Bosch Lawn and Garden does not communicate with Ventum Ltd. and supermarkets itself, decisions are made centrally through Bosch Power Tools. However, in practice Ventum Ltd. is able to get in touch with local Bosch Lawn and Garden managers in Germany to ask for translation and training support.

### 3.3.3 Timing framework

The whole process of program implementation can be divided into 3 stages: preparation, actual participation and post-participation (Figure 27).

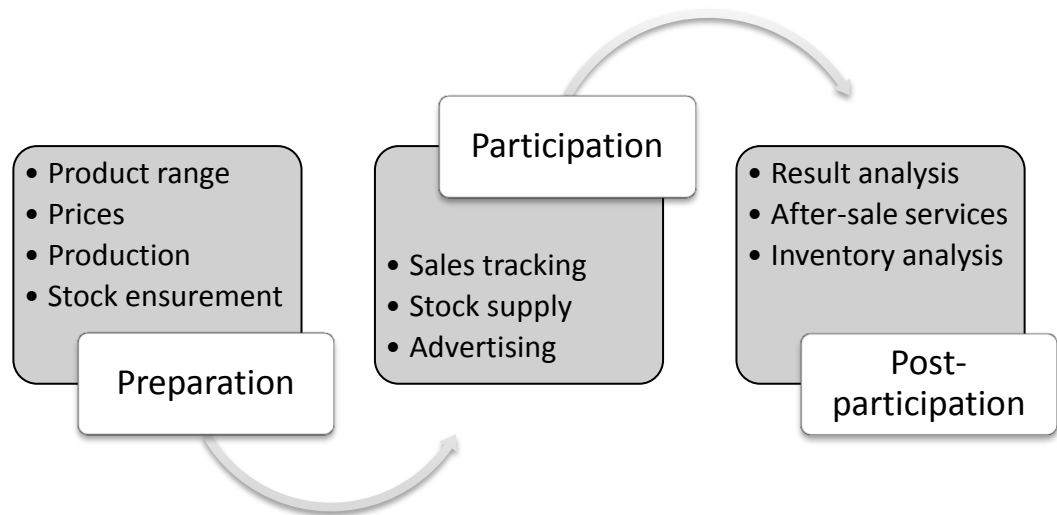


FIGURE 27. Timing framework (Bosch 2015).

#### *Preparation*

Preparation for the program starts approximately 1 year in advance due to complexity of realization. Within this time, Bosch Power Tools and Bosch Lawn and Garden work in a close tandem with each other to harmonize the product range, prices and production issues. POS (Point-of-Sales) materials and advertising booklets are also aligned within the companies. Furthermore, Bosch Power Tools as a project coordinator collaborates closely with Ventum Ltd. to agree on venue and program dates.

#### *Actual participation*

In 2016, the program runs from June till late September. Within this period of time Bosch Lawn and Garden is encouraged to pay maximum attention on the market situation: track sales, supply stock in case of the shortage and communicate with the customers via social media.

#### *Post-participation stage*

After the program finishes, Bosch Lawn and Garden is obliged to conduct a vast research analysis on customer satisfaction by releasing a survey. Moreover, active participation in after-sale services is required. Besides communicating with the

customers on various media platforms, it is vital to support the users with return management in case of any warranty claims.

The last issue in the post-participation stage is inventory analysis: Ventum Ltd. is responsible for stock clearance in the supermarket and communicating the overstock with Bosch Lawn and Garden.

## 4 EMPIRICAL PART

Chapter 4 of the thesis evaluates primary data received during empirical investigation. The aim of the research is, on one hand, to examine customers' perception on Bosch Power Tools introducing the Ventum PT short-term loyalty program in the German supermarkets and petrol stations; and, on the other hand, to consider thoughts of Bosch Lawn and Garden employees on the Ventum LG loyalty program launch in 2016.

As mentioned before, this study uses two types of research methods: both quantitative in the form of the questionnaire and qualitative in the shape of an interview. In order to provide a comprehensive overview, the researcher first analyzes questionnaire and after that moves to interview interpretation. Each part is split into three main sections: data collection procedure, data analysis and results evaluation. First of all, the researcher investigates the whole process of obtaining the results: from preparations to actual data acquisition procedure. Second of all, he provides bare facts and figures retrieved from the survey and the interviews. As the last step, the researcher draws conclusions based on the received information.

### 4.1 Questionnaire

Survey is a type of quantitative research where the researcher is aiming on acquiring descriptive data from the individuals in the defined sample (Bamberger 2000, 46).

#### 4.1.1 Data collection procedure

Creswell and Clark (2011, 118) identify basic steps for survey preparations. Data collection steps are mentioned below and are further applied to the case study (Figure 28).

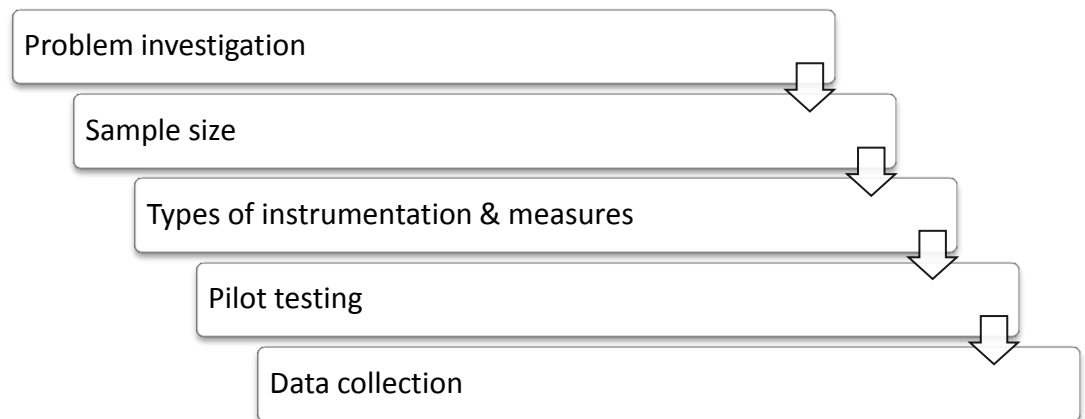


FIGURE 28. Data collection steps: survey preparation (Creswell & Clark 2011, 117).

### **Problem investigation and survey design**

The survey is intended to analyze performance of Bosch Power Tools in the Ventum PT loyalty program from the customer's perspective. Specifically, the study explores demographic variables of the consumers in German supermarkets and petrol stations, motive for joining the Ventum PT loyalty program, post-purchase behavior and assessment of Bosch image.

Based on the objectives mentioned above, survey structure is defined. The amount of questions is carefully planned as the time spent on the answers matters the most to the consumers (Bogen 2010, 5). Therefore, the questions should be concise and clear in order to avoid misleading responses.

In total, the survey has 12 questions which appertain to 3 sections:

- Section 1: Consumer insights (questions 1-3)
- Section 2: Shopping mission (questions 4-8)
- Section 3: Bosch image assessment (questions 9-12)

The first section gives an overview on social-demographic background of the respondents. The researcher investigates age and gender groups and also suggests the customers to evaluate their DIY habits. Answering questions 4-8, respondents provide an understanding on their shopping mission: purpose of the purchase, final users of the Bosch products and reasons for participating in Bosch loyalty

program. The last section analyzes consumer perception on Bosch products and participation of Bosch in the short-term loyalty program. Questionnaire can be retrieved in Appendix 4.

The survey operates with various types of questions. Sections 1 and 3 use mostly structured questions with prepared answer choices. The reason for this design is that either response can be predicted in advance or the researcher does not want to capture new ideas from the respondents other than those that are provided in the survey. Most of the questions in section 2 are non-structured (open-ended) in which the customers are free to describe their thoughts and ideas. (Armstrong & Kotler 2015, 12-19.)

### **Target population and sample size**

To calculate the appropriate amount of respondents and to avoid sampling error, target population needs to be defined first. According to Yount (2006, 4), target population covers all the respondents that are relevant for the research. In this case study, population embraces all customers of German supermarkets in which Bosch organizes the Ventum PT loyalty program. Due to the fact that population size is very large and can be hardly calculated, a sample size is noticeably decreased for further survey conduction. Sample size is a minimized amount of respondents chosen for the study. What is important is that sample size should be carefully planned in order to receive non-biased results on the desired research problem. This study uses the strategy of defining minimum and maximum amount of respondents. (Conroy 2013, 3-5.) Time- and money-wise it is estimated that the minimum sample size for the survey is 20 people and the maximum is 50.

### **Instrumentation and measures**

Questionnaires and structured interviews are two types belonging to survey framework (Bamberger 2000, 49). Due to the nature of thesis research, large amount of questions and respondents, it is presumed that questionnaire is the most appropriate tool. Responses are collected face-to-face to improve efficiency and reduce time-consumption.



Regarding the measures, questionnaires do not involve many preparations. First of all, official permission from the venues is received to conduct the survey inside supermarkets and a petrol station. After that, all questions are printed in order to be filled in during the survey.

### **Pilot testing**

In order to ensure that the survey proposes clear questions to the respondents and satisfies the target problem, pilot testing is run. Pilot testing is a minimized version of the actual survey in which the researcher performs the whole procedure of the data collection (Snijkers, Haraldsen, Jones & Willimack 2013, 67). In addition, pilot testing should perform the following objectives (Stopher & Metcalf 1996, 24):

1. Survey structure should be logical and of appropriate length,
2. Sampling size should be justified,
3. First data collected should be validated,
4. Costs and money for the survey can be estimated based on the pilot testing.

Pilot testing is conducted in August, 2015 with a sample size of 5 German supermarket customers. After the feedback is received, appropriate amendments are done to the survey.

### **Data collection**

The questionnaire is managed in the period of three days in Stuttgart, Germany, in August 2015, shortly after pilot testing is run. In total, the researcher collects 30 responses from German consumers in two supermarkets (Edeka, REWE) and one petrol station (Esso): 7 answers collected from the petrol stations, 12 from Edeka and 11 from REWE.

#### 4.1.2 Data analysis

This part is sub-divided into three main sections used while survey obtainment: consumer insights, shopping mission and Bosch image assessment. It should be

noticed that there is no other difference in the answers received (i.e. difference in places of questionnaire conduction is not recognized); hence the above mentioned division is adopted. The charts and graphs give a clear illustration on the survey analysis.

### Consumer insights

To start with, after evaluating a total number of 30 responses, it becomes clear that age segregation can be divided into “below 50 years old” and “above 50 years old (including 50)”. This division helps to analyze average age category of the gardeners without overemphasizing on the age group.

The first results on consumer insights can be seen from Figure 29:

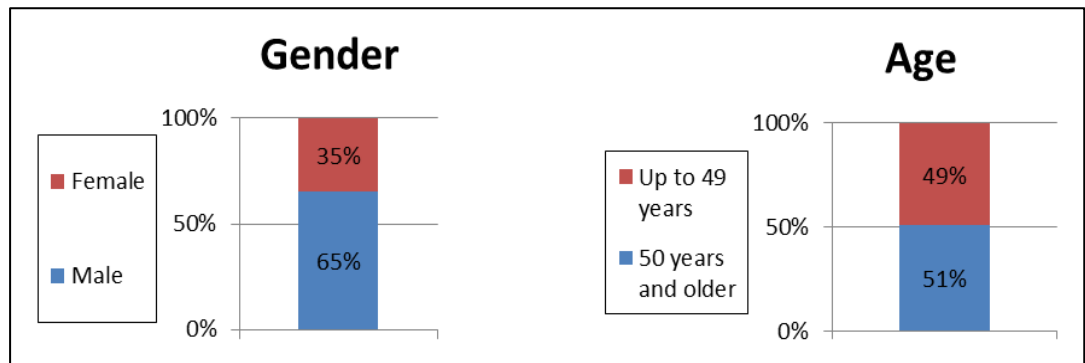


FIGURE 29. Age and Gender distribution.

As seen from the charts, men are prevailing in participating in the Ventum PT loyalty program for Bosch Power Tools by accounting for 65% of all the respondents. It can be also observed that there is no dominance in the age distribution in the sample size; both below and above 50 years old respondents participate in the loyalty program.

In addition, the researcher brings the topic of DIY segments through the answers on question 3 of the survey. Correlation between DIY segments and DIY habits is seen in the table below.

TABLE 5. Correlation between DIY Habit and DIY segment.

DIY Habit	DIY segment
I have never done DIY jobs but I might do it in the future	Non DIY-er
I use power tools for work-related purposes	Professional
I am unexperienced with power tools but I enjoy decorating my house	Easy DIY-er
I am doing DIY jobs only when it is really necessary	Pragmatics
DIY jobs belong to my hobbies	Ardents

By evaluating a DIY segment, the researcher gains understanding on the gardening segmentation among supermarket consumers and participants in the Ventum PT loyalty program. After the answers are gathered, the following distribution can be observed (Figure 30):

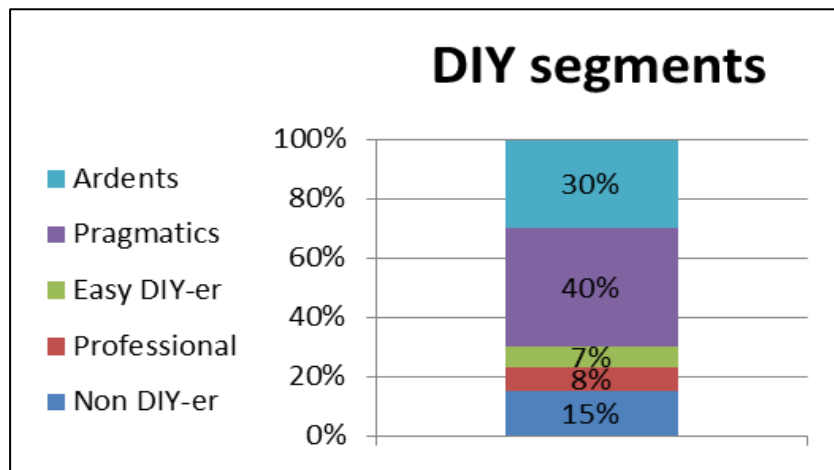


FIGURE 30. DIY segments distribution.

As shown on the chart, pragmatics account for the highest share (40%) meaning that people do DIY jobs only when it is necessary. The second largest segment is ardents so people who perceive DIY activities as their hobby. Professional and Easy DIY occupy the least share among supermarket customers.

## Shopping mission

The first topic to elaborate in this section is the reason for participation in the Ventum PT loyalty program. This open question requires the customers to give their individual answers. The most common mentions are illustrated in Figure 31.

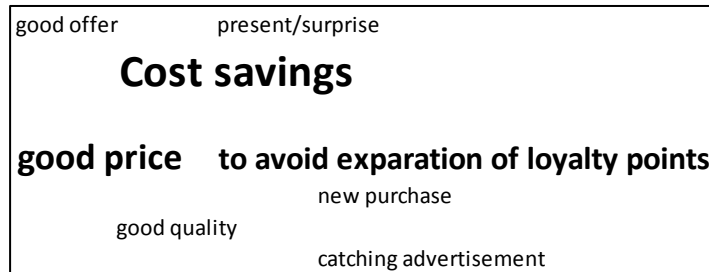


FIGURE 31. Reasons for participation in the Ventum PT loyalty program.

The most common reason for participation appears to be good prices and cost savings for the products. Moreover, customers are taking part in the program in order to redeem the points gained and to avoid points' expiry.

For the researcher it is also important to understand how many tools customers are planning to purchase and for whom exactly the tools are purchased. Charts are divided into DIY segments for the better evaluation of customer insights.

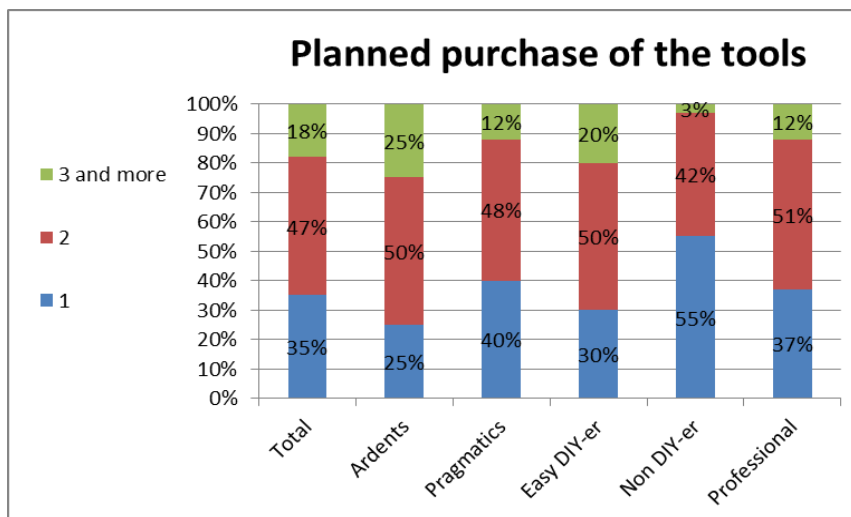


FIGURE 32. Planned purchase of the tools.

In general, about half of the customers are planning to purchase two Bosch tools within the Ventum PT loyalty program. Prevalence in this choice is also observed

in all DIY segments. However, it can be also noticed that Non DIY-ers are more likely to buy only one tool.

In addition to DIY segments, final users for the products should be identified on the gender level which is depicted on Figure 33.

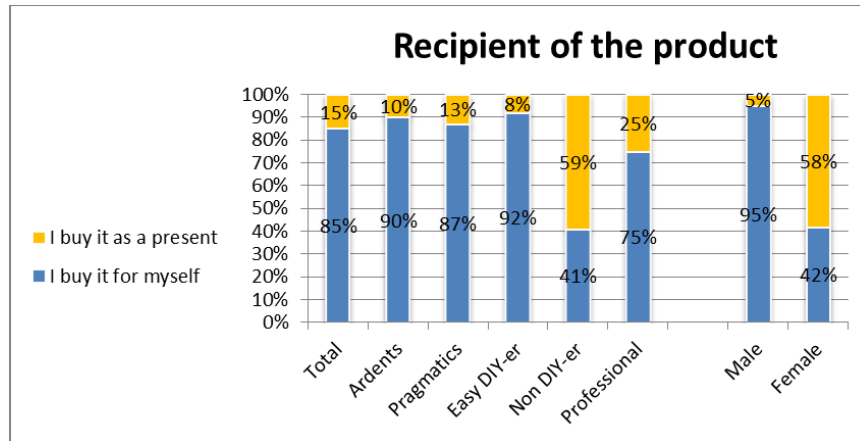


FIGURE 33. Recipient of the product.

In total, 85% of the respondents are buying the products for themselves with the same trend seen in all DIY segments except for Non DIY-ers where people are more likely to buy the tool as a present for somebody else. In addition, it is interesting to observe that women are buying tools mostly as presents for somebody else while men are buying the tools for themselves.

The last topics in this section refer to Bosch products. In order to investigate more on the shopping mission background, the researcher analyzes if customers are willing to purchase the product at regular price.

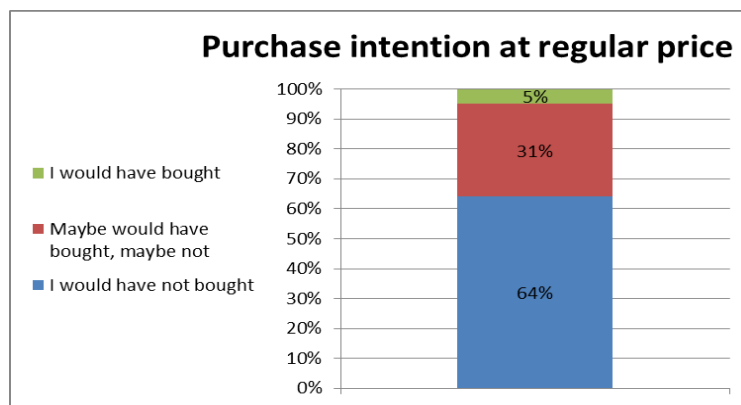


FIGURE 34. Purchase intention at regular price.

As seen from the chart, more than half of the respondents are not willing to purchase the tool at regular price even though about 30% are not sure. Only 5% of all the respondents would have definitely bought the product at regular price.

Answering the question on information search for the product, customers refer mostly to *DIY stores* in the cities (example: OBI, Bauhaus) or to the *Internet*. In the Internet customer prefer the following sources of information: Bosch website (bosch-pt.com), internet retailers (Amazon.com) or searching engines (Google.com).

### Bosch image assessment

Image assessment part evaluates consumer awareness of Bosch products and customer perception about the company. The figures below are shown on both total and gender level.

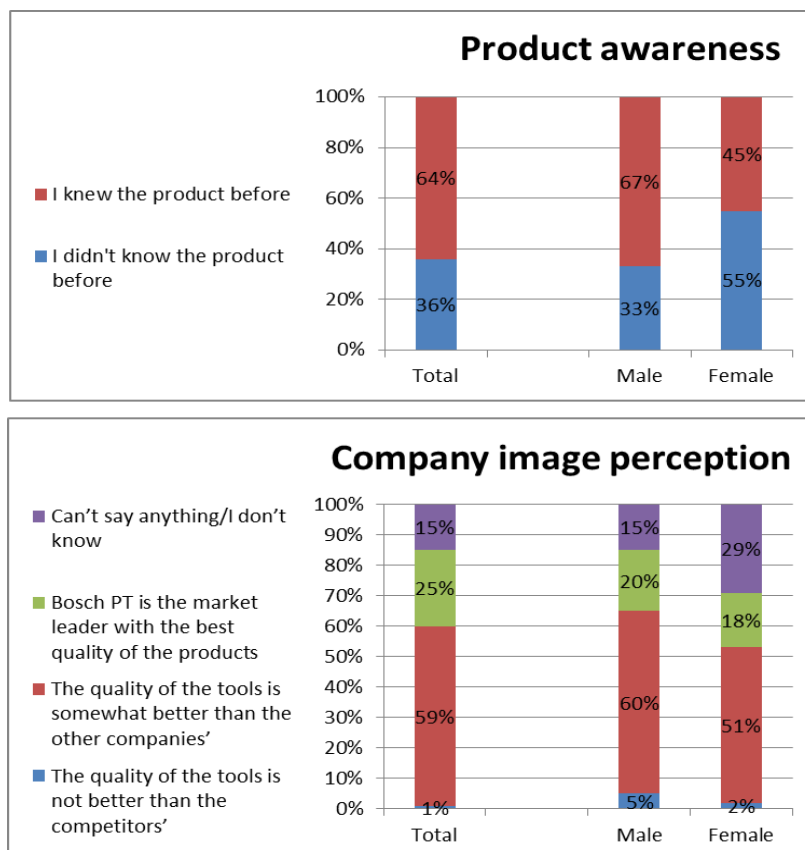


FIGURE 35. Product awareness and company image perception.

About 64% of the respondents are aware of Bosch Power Tools products and more than half consider Bosch tools being somewhat better than competitors. Women tend to know less about products and about the company than men. What is more, quite a high number (25% of the respondents) considers Bosch being a market leader with the best quality of the products.

Answering the question on the fact that Bosch Power Tools implemented its loyalty program in the supermarkets, customers tended to be pleased and satisfied. They have added that it is a good opportunity to buy Bosch tools at more adequate price. Suggestions include implementing expert customer advice service and lower the price for certain tools.

#### 4.1.3 Results and discussion

The main share of participants in the Ventum PT loyalty program for Bosch Power Tools is clearly men (65%). Women very often buy the products for somebody else. Explanation for this trend can be the nature of the products since DIY tools are considered to be more for male house jobs. Moreover, even though the buyers consist mostly of Pragmatics and Ardents, it is noteworthy that there is a relatively high share of respondents (15%) that has not done any DIY jobs yet; hence they are more likely to buy only one tool as a present. On average, people are planning to buy two Bosch tools within the program.

The most common reasons to participate in the Ventum PT loyalty program are to save costs and to avoid points' expiration. Likewise, cheap prices are considered to be an important factor people are paying attention to due to the fact that on average Bosch prices are considered to be quite high. This is also depicted in statistics since 64% of respondents would not have bought the tool at its regular price.

A high share of respondents was aware of the products before it joined the program. The most common sources of information are mentioned to be Internet and DIY stores. In general, Bosch Power Tools is considered to be a good company with high quality of products. Even though only 25% perceive it to be a market leader, more than half believe that Bosch Power Tools is somewhat better

than competitors. In addition, the Ventum PT loyalty program is perceived to be a popular promotion with a wide range of products and a good occasion to buy Bosch products at acceptable price.

In conclusion, it should be noticed that Bosch Power Tools has a great success among the customers with it's the Ventum PT loyalty program. As being built on the experience of Bosch Power Tools with the Ventum PT loyalty program, the following suggestions can be raised for Bosch Lawn and Garden to be implemented in the Ventum LG loyalty program:

- Wide range of products should be offered at a lowered price with the clearly marked saving features,
- Product awareness should be increased through catching advertising materials,
- Expert customer service should be offered to the customers.

## 4.2 Interviews

Second part of the empirical study is qualitative research in the form of an in-depth interview. The main aim of this research is to investigate what employees think about the Ventum LG short-term loyalty program. Therefore, the participants of the interviews are Bosch Lawn and Garden and Bosch Power Tools managers who are tightly involved in the Ventum PT and the Ventum LG loyalty programs organization.

### 4.2.1 Data collection procedure

According to Saunders, Lewis and Hornhill (2009, 320), there are three branches of the interviews based on the structure extent in the research process.

The first branch is structured interviews, also called standardized, which contains pre-determined questions and the order those questions should follow. In structured interview, the researcher is not allowed to go beyond narrowed question-frame. Disadvantages of structured interviews refer to the fact that by emphasizing on pre-determined questions, interviewer might not be receiving full



answers of the participants, therefore, lacking non-biased notions. (Saunders, Lewis & Hornhill 2009, 320.) The second branch is semi-structured interviews. They presuppose pre-determined questions but also allows interviewer to implement own questions in order to expand or to clarify specific sub-topic in the conversation. (Dantzker, Hunter 2006, 69.) The third brand is free-form interviews, which, on the contrary, do not require any preparations in terms of questions. This form might be useful when the flow of the interview is not predictable and the topic itself is abstract. Unstructured interviews usually require interviewer to have a broad knowledge on the topic in order to avoid interruptions in the conversations. (McLeod 2014.)

This study uses semi-structured interviews which allow the interviewer going beyond questions framework and receiving more information on the specific topic. This is vital in this research due to the reason that people from different business fields are interviewed. The following timeframe is applied for the data collection procedure:

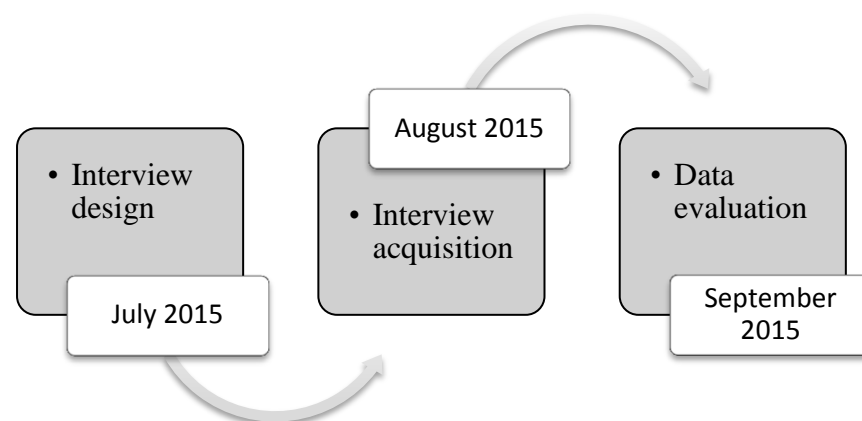


FIGURE 36. Data collection procedure: interviews.

### **Interview design**

The purpose of semi-structured interviews for this research is to retrieve a primary data on the topics of success factors for Bosch Power Tools in the Ventum PT loyalty program and thoughts on future implementation of the Ventum LG loyalty program into Bosch Lawn and Garden business.

In order to gain full understanding on the stated topics, employees from different departments in Bosch Lawn and Garden are asked:

- *Launch manager*: responsible for coordination of business activities for new products and promotions in the company. In the Ventum LG loyalty program launch manager is the main organizer who communicates information between different departments;
- *Logistics (Distribution) manager*: responsible for planning and organizing a smooth flow of goods. In the Ventum LG loyalty program distribution manager should ensure relevant quantities of stock to be delivered on time to Germany from the plant;
- *Regional brand manager*: responsible for in-country marketing activities, communication with the customers and tailor-made advertising and promotions. Regional brand manager supports the Ventum LG loyalty program with any translation help needed and ensures that it does not interfere with any other local promotion in the country;
- *Country marketing manager*: responsible for market support and analysis. Country marketing manager secures that the Ventum LG loyalty program does not compete with the same Bosch product range at the regular price in the other customers' shops.

In addition, a launch manager responsible for coordination of the Ventum PT loyalty program in Bosch Power Tools is interviewed.

It should be noticed that employees from Bosch Lawn and Garden have a good understanding of Bosch Power Tools business operations; therefore, they are able to evaluate performance of the Ventum PT loyalty program in Bosch Power Tools. Moreover, as a launch manager of Bosch Power Tools supports the implementation of the Ventum loyalty program in Bosch Lawn and Garden, he is also interviewed on the questions about Bosch Lawn and Garden. This note leads to the conclusion that all the interviewees are asked the same questions on both Bosch Power Tools and Bosch Lawn and Garden topics regardless the division they are working for.

### **Interview acquisition**

Interviews are acquired within the period of two weeks in August, 2015. All four respondents in Bosch Lawn and Garden are asked to have face-to-face interviews and the launch manager from Bosch Power Tools is interviewed via the phone. All the answers are carefully recorded and later encoded onto the paper. Even though the researcher is following a prepared set of questions, he allows himself asking additional questions on the specific topics:

- The country marketer and the regional brand manager are asked additional questions in the fields of market analysis and pricing,
- The logistics manager is interviewed with an emphasis on international logistics issues,
- The launch managers in both companies are questioned on the topics of a product range and advertising materials.

While conducting the interviews, the researcher is following a basic set of rules suggested by D. W. Turner (757, 2010):

1. Explain the purpose of the interview,
2. State about confidentiality extent,
3. Explain the format and timing of the interview,
4. Give your contact details in case the respondents want to reach you after the interview,
5. Recode all the answers.

The above mentioned rules support smooth interviews acquisition. The researcher explains the interviewees that the main purpose of the interview is to obtain comprehensive research for the thesis. In addition, the author mentions that confidentiality of the conversation is moderate. Each interview does not possess more than half an hour.

#### 4.2.2 Data analysis

In this part, firstly, Bosch Power Tools and the Ventum PT loyalty program are analyzed. Secondly, Bosch Lawn and Garden and the Ventum LG loyalty program future implementation is evaluated. Sub-sections are presented in relations to the questions' sequence.

### Bosch Power Tools and the Ventum PT loyalty program

#### **Success factors of the program**

According to one of the respondents, the main success factor of the Ventum PT loyalty program is *supportive problem-oriented communication*. He elaborates, that both internal and external types of communication are of vital importance and should be paid special attention to. Another interviewee explains that all employees of the company have clear understanding on the goals and objectives of the Ventum PT loyalty program and are highly motivated to support any related activities. In addition, respondent notes that strong cooperation between Bosch Power Tools and Ventum Ltd. benefits fast decision-making process and consequently ensures punctuality and reliability of the program for supermarkets and petrol stations.

Another success factor is mentioned by the third interviewee: *thorough customer segmentation and targeting*. Respondent notices that even though, in theory, customers of the supermarket and petrol station are not considered to be direct target customers for power tools sector, the Ventum PT loyalty program results, however, show that it appears to be a good practice to go beyond traditional segmentation and target a different customer range.

One more factor discussed in two interviews appears to be *well-designed product range* offered for the program. The interviewees mention that from the customer perspective, products presented on the promotion shells are attractive for their good price and neat packaging but, from the company's perspective, introducing a special product range to a new segment of customers brings a good opportunity to offer models that are either old or not successful on the traditional power tools market.

### **Lessons learnt from the program implementation**

Besides success factors, interviewees mention certain issues that were emerging during program performance. The first issue discussed with the respondents is *unexpectedly high demand from the supermarkets*: “in fact, customers were so satisfied with the program that it required delivering additional unplanned product quantities to the supermarkets. Petrol stations, in contrast, fulfilled the demand but remained within the forecasted quantity frame”.

Another topic elaborated by the respondents is *a massive task delegation on the regional brand manager* who is responsible for direct communication between supermarkets and petrol stations on one side, and Ventum Ltd. on the other side. Moreover, regional brand manager should “provide any support required by Ventum in terms of translations, product returns and reporting”. As stated by some of the respondents, the amount of tasks and time required to accomplish those tasks is not justified and should be reviewed in the nearest future.

### **Impact of Bosch Lawn and Garden on Bosch Power Tools and the Ventum PT loyalty program**

Intercalation of Bosch Lawn and Garden into the Ventum LG loyalty program creates certain limitations for Bosch Power Tools. First of all, *decision-making process is going to be prolonged* due to extension of approval board. From the words of one of the interviewees, introduction of Bosch Lawn and Garden into the Ventum LG loyalty program expands communicational chart and, therefore, leads to time-consuming approval processes. The requirement is that Bosch Lawn and Garden approvals should be first communicated with Bosch Power Tools coordinators in order to reach a mutual consensus. Agreed decision from both companies is further discussed with Ventum Ltd. One respondent explains that, in case of any controversy between Ventum Ltd. and Bosch, the new proposal should be discussed jointly by approvals board of Bosch Lawn and Garden and Bosch Power Tools. The interviewees agree that such type of swing communication involves large amount of decision-maker and affects time-efficiency of the managerial arrangements.

Another limitation noticed by the first respondent is a *reviewed product offer* in the Bosch Power Tools range. Respondent elaborates that, even though Bosch Lawn and Garden and Bosch Power Tools seem to operate on the different markets offering distinctive product range, some of the models still appear to have similar applications and can in theory substitute each other. Three respondents conclude that, after Bosch Lawn and Garden joins into the Ventum LG loyalty program, Bosch Power Tools should pay special attention on its product range in order to avoid unnecessary competition between the divisions.

## Bosch Lawn and Garden and the Ventum LG loyalty program

### **General opinion on the program implementation**

Throughout the interviews, respondents are showing a positive outlook on implementation of the Ventum LG loyalty program into Bosch Lawn and Garden business. Most of the interviewees perceive this program as a good way to *generate additional turnover with decreased costs* for the products. Additional remarks possess *expanded market coverage and increased brand awareness* among the customers as promising success factors.

Discussion with two interviewees reveals that Ventum LG is a good opportunity for Bosch Lawn and Garden to start a loyalty program *without large amount of preparations* due to the fact that Bosch Power Tools has strong experience with leading it. Another respondent notes that cooperation with Ventum Ltd. supports *outsourcing* of certain activities for the loyalty program: “Ventum Ltd. is responsible for communication with the clients (supermarkets and petrol stations), logistics from the warehouse to the selling units and overstock management”. Respondent concludes that outsourcing in this loyalty program supports time-efficiency and allows the companies to concentrate on their areas of expertise.

In addition, according to one of the managers, this program is seen as *a good base for further implementation in Bosch Home and Garden*, a unified division. Ventum Ltd. has a client base all over Europe which gives Bosch Home and Garden an opportunity to expand its loyalty program to the other countries.

On the other hand, respondents are raising certain concerns about the Ventum LG loyalty program. Some of them state that one of the major disadvantages of this program is that Ventum Ltd. *offers similar loyalty program* in Europe for Black & Decker which is Bosch Lawn and Garden main competitor. One of the interviewees assures that leading loyalty program at the same time with Black & Decker might negatively affect success of the loyalty program as Black & Decker might occupy a significant market share. Moreover, other manager support this concern by saying that it cannot be guaranteed that Ventum Ltd. will not start cooperating with other Bosch Lawn and Garden competitors in the future.

In addition, one interviewee is critical that outsourcing in the Ventum LG loyalty program increases *controlling risks*. She notices that stock traceability considerably declines due to the fact that Ventum Ltd. takes over the responsibility of deliveries to the selling units. Another issue noticed by two employees is *high Ventum Ltd. commissions* from the sales of goods. Being a mediator between clients and Bosch, Ventum Ltd. requires at least 3% from the initial price of each product. Brand manager questions if paying so high Ventum Ltd. commissions is worth enough for Bosch to implement this loyalty program.

### **Difference between Bosch Lawn and Garden and Bosch Power Tools with implementing the Ventum loyalty program**

Despite the fact that both divisions have common way of leading the business, responses show that there are certain deviations that might considerably affect organizational issues with the Ventum loyalty program.

First of all, as noticed by some respondents, companies have *different production locations* which massively influences the time of delivery from the plant to the warehouse (so called lead-time). The interviewees explain that Bosch Power Tools mostly produces its products in Europe where lead-time from the production location to the warehouse in Germany accounts for just couple of days. Bosch Lawn and Garden, on the contrary, is in active use of non-European production locations, for example, in China. “As a result, lead-time from the plant in China to the warehouse in the centre of Europe increases dramatically up to couple of weeks”. Moreover, as stated by one of the respondents, different

production location occupies different share in the price calculation. For example, shipping the product from China to Europe is much more expensive than delivering the same product within European countries. All the interviewees are sure that this difference has a direct relation to program planning and must be taken into consideration in advance.

In addition, two respondents agree with the fact that Bosch Power Tools has more items that belong to the range of *cheap and compact products*. Bosch Lawn and Garden, oppositely, has more heavy and expensive products, for example, lawnmower segment, in which none of the products from the range are satisfying Ventum Ltd. requirements for the price and compactness (for more details on price requirements refer to Chapter 5.2)

### **Key facets of the program**

In response to the question about key facets of the program, all interviewees admit that organization of the Ventum LG loyalty program is a complex process which requires a lot of attention and thoroughness. It should be noticed that some respondents find this question hard to answer; they are elaborating that all facets of the program are important without emphasizing on the key details.

From the marketing point of view, one of the key aspects is to ensure that the *Ventum LG loyalty program does not happen at the same time as promotional activities on the site of traditional customers*. Two respondents state that interference of two promotions might have a bad influence on the relationship between Bosch Lawn and Garden and permanent customers. In addition, one interviewee discusses that *product range should be specifically tailored* for the Ventum LG loyalty program in order to guarantee that discounted prices in the supermarkets do not hamper sales for Bosch products with market prices at traditional customer selling units. One respondent also indicates that *new discounted prices for the Ventum LG loyalty program should be carefully calculated* to secure profitability of each participating model. Another interviewee reveals the topic of *attractive advertising materials* in order to support customer participation interest. She adds that another reason behind capturing advertising is to increase customer knowledge of Bosch Lawn and Garden products.



In terms of logistics, one interviewee introduces a new concept of *stock preparation* required by Ventum Ltd. The basic requirement is to lock large volumes of products in the warehouse minimum one month in advance before the loyalty program is launched on the market. This rule “guarantees that the company is able to support the sales even in the event of excessive demand”. She notes that this requirement is an innovation for the logistics department and should be implemented in the advanced planning.

### **Germany as a first market for program implementation**

According to the all interviewees, Germany is considered to be *the best first market for implementation* of the Ventum LG loyalty program. Some respondents say that the first argument in favour for Germany is that both Bosch Lawn and Garden and Ventum Ltd. possess a strong knowledge of the market and the consumers due to long-term business experience. In addition, one response indicates that boosting competition in the gardening sector requires the companies to go beyond traditional ways of leading the business and introduce attractive promotions in order to capture and secure a high market share. For this reason the Ventum LG loyalty program should become a good addition in the company portfolio. Last rationale mentioned by the two respondents is location of the market: Germany is located in the centre of Europe with efficient stock reachability.

### **Success measurement and reporting**

Success evaluation is considered to be one of the most important aspects in post-participation stage of the program. All Bosch Lawn and Garden interviewees mutually agree that reporting and program analysis should be made taking *Bosch Power Tools process as a basis*.

Consecutively, one respondent explains that the division is using the following ways of reporting and evaluating on the Ventum LG loyalty program performance:

1. Turnover report: sales value is retrieved on a daily, weekly and monthly levels,
2. Demand vs forecast report: sales figures (in pieces) are compared to initial demand,
3. Stock returns: quantities of returned products are evaluated based on the reason of the returns.

In addition, according to another respondent, success evaluation should be based on *updated market research* after the program finishes, in order to elaborate on customer acceptance of the Ventum LG loyalty program introduction in Germany.

### **Future development of Bosch Lawn and Garden and the Ventum LG loyalty program**

Answering the question on future development of Bosch Lawn and Garden and the Ventum LG loyalty program, respondents provide various ideas to the researcher. On one hand, some respondents perceive this program being a good decision for long-term cooperation between Bosch and Ventum Ltd. From the words of one of the respondents, after the divisions are unified and start acting as Bosch Home and Garden, it is suggested for the Ventum HG loyalty program to *expand to other countries*. Another interviewee supports this idea and proposes to *implement this loyalty program in the other selling units*, not only in supermarkets and petrol stations.

On the other hand, some respondents are questioning if the Ventum LG loyalty program is a good opportunity for long-term development. Two employees perceive that cooperation with Ventum Ltd. is a good solution for market development on the first stage; however, they suggest that Bosch Lawn and Garden should shift from outsourcing and acquiring Ventum Ltd. services into *implementing its own loyalty program*. Another manager agrees with this proposal and adds that *loyalty program should not be centralized* as only country-tailored

programs ensure highest satisfaction among the customers and the largest level of control over demand planning and stock distribution.

#### 4.2.3 Results and discussion

This section summarizes key information collected from the interviews in order to provide a framework for further marketing mix plan for Bosch Lawn and Garden.

Having analyzed Bosch Power Tools experience with the Ventum PT loyalty program, the study suggests Bosch Lawn and Garden prioritizing in the program on supermarket customers rather than on petrol stations. Moreover, task delegation should be equally distributed to avoid work overload. For example, translation support can be shifted from regional brand manager responsibility into responsibility of other employees working for the same region (i.e. key account managers). In this case regional brand manager will have only to approve final translations while the whole communication process is delegated on other employees.

The researcher notices that in general all the respondents express a positive attitude towards Bosch Lawn and Garden implementation of the Ventum LG loyalty program having only certain concerns in terms of market reaction and stock distribution. As a result, the researcher strongly advises Bosch Lawn and Garden to agree with Ventum Ltd. that the Ventum LG loyalty program is not offered to Bosch Lawn and Garden competitors at the same time and place as it is happening for Bosch Lawn and Garden. In addition, certain agreements should be made with Ventum Ltd. to increase stock traceability from the warehouse to the selling units. The researcher suggests requiring from Ventum Ltd. a detailed overview on all stock transactions.

In terms of future development, the Ventum LG loyalty program has good chances to become Bosch Lawn and Garden (later Bosch Home and Garden) a long-term program being offered every season. However, it can be suggested to analyze the possibility of shifting from using Ventum Ltd. services into introducing own not-centralized short-term loyalty program. This proposal allows having increased flexibility and improved turnover share as unnecessary costs, i.e.

sales commissions to Ventum Ltd. will be eliminated. Moreover, having a long-term loyalty program being offered every season gives a customer an idea that he will be able to buy Bosch products for discounted price every year which might potentially damage traditional business.

## 5 VENTUM LG LOYALTY PROGRAM MARKETING MIX

Chapter 5 comprises theoretical implications, information received during market research in the German supermarkets and petrol stations and interviews from the managers of Bosch Lawn and Garden and Bosch Power Tools, as well as personal observations and knowledge of the researcher. This marketing mix is intended to provide detailed overview of the Ventum LG loyalty program implementation in Germany based on 7 core segments: product, place, price, promotion, people, packaging and positioning. Each segment is analysed to answer the main research question of this study: «Is it worth it for Bosch Lawn and Garden to join the Ventum LG short-term loyalty program in Germany? »

### 5.1 Product

According to the interviewees, product, the first segment of marketing mix, is considered to be one of biggest influencers on the decision of the Ventum LG implementation. This section proposes a product range that can be offered to the Ventum LG program and provides suggestions for after-sale services in terms of expert support.

#### **Product range**

Empirical part evaluation made it clear for the researcher that Bosch Lawn and Garden should not offer the current range of models for supermarkets and petrol stations as discounted prices for these models would destroy sales on the traditional market where the same products are offered full-price. Therefore, this segment of marketing mix evaluates two other suggestions for the Ventum LG loyalty program: presenting old models that are discontinued from traditional markets and launching the Ventum LG-tailored products that would appear only in the Ventum LG-participating selling units.

On one hand, participation in the loyalty program provides good opportunities to *decrease overstock of old models* that are not used anymore or not successful on the traditional markets. On the other hand, Ventum Ltd. usually requires about 50,000 pieces of each model to be ready before the loyalty program is launched. The researcher presumes that Bosch does not possess such high quantities of

overstock of each model in its warehouses which means that the company has to produce again the missing amount of products. This additional production interferes with production capacity for innovative Bosch products. Moreover, bringing low-priced older Bosch models into the supermarkets and petrol stations in Germany might affect sales on the traditional market as consumers would most likely prefer buying a considerably cheaper old model rather than investing into much more expensive upgraded model.

*Introduction of Ventum LG-specific models* would solve the problem of conflicting with the current product range. It is important to notice that a Ventum LG differentiation should be reached only by adding additional accessories to the existing products and not by developing completely new products. The researcher suggests Bosch Lawn and Garden to make a research among supermarket and petrol stations customers on the topic of the most favourable model kits. Presumably, customers would be interested in small- and medium-scale products with highlighted additional value. For example, trimmers could be offered with additional lines or wheels (Figure 37).



FIGURE 37. Example of a Ventum-tailored model: ART 26 Combitrim and wheels (Toolstop 2015; Amazon 2015).

It should be also considered, that from the Bosch Lawn and Garden range, petrol stations customers might be more interested in Bosch high pressure washer models rather than gardening products. For example, petrol stations can be offered AQT 33-10 with additional nozzle.



FIGURE 38. Example of a Ventum-tailored high pressure washer: AQT 33-10 and an additional mozzle (Ebay 2015).

One challenge that affects both suggestions discussed above is that increased range of products offered to the Ventum LG program ineluctably increases the number of SKUs. SKU stands for stock-keeping unit and is applied to a specific item in the specific location; they are used mostly by logistics and manufacturers in order to avoid distribution mistakes. Optimization of SKUs number is one of the most common aims of the companies. (Vermorel 2013.) Bosch Lawn and Garden has set up a special set of allowed number of SKUs per product segment; thus, offering any products (either from the old range or tailor-made) to the Ventum LG program as to new distribution location would cause creation of new SKUs per each model offered that cannot be further applied to future products in the product segment.

#### **After-sale services (expert support)**

Survey with the supermarket and petrol stations consumers presented in the empirical part of this study reveals that customers were looking forward for Bosch expert service. Currently, Bosch Lawn and Garden in Germany provides an opportunity for the customers of receiving a written expert advice by submitting an enquiry on the company's website [bosch-garden.com](http://bosch-garden.com). In addition, it is possible to receive expert advice in the communication cloud MyBosch (more discussed in Promotion section of the marketing mix).

After evaluating the costs (installation, equipment and salaries) for launching an expert advice phone hot line, the researcher makes a decision that it would be not profitable for the company so this suggestion is rejected.

To summarize, it should be noticed that product range offered to the Ventum LG loyalty program should be carefully planned in order to avoid clashes with existing and future products. In addition, each model should be customer-friendly and attractive in terms of the size and value. SKU optimization can be reached by introducing products from the segments which do not plan launching any new models in the upcoming years. In addition, expert support services should become more familiar to the Ventum LG participants so that customers could get a full after-sale product support. Overall, however, this facet of the marketing mix for Ventum LG provides negative implications on Bosch Lawn and Garden traditional business.

## 5.2 Price

In the second segment of marketing mix plan, the researcher evaluates pricing strategies Bosch Lawn and Garden is adopting for the Ventum LG short-term loyalty program. In addition, certain aspects of final price calculation are discussed. It is vital to note that most of pricing factors are kept confidential inside the company and, therefore, cannot be retrieved in this study.

### **Pricing strategy**

Bosch Lawn and Garden is operating with a *cost-oriented pricing strategy* in which the final price (RRP) of the product depends on the production costs (PPC) and profit margin (PM). PM is defined as a minimum product target which is different depending on the product segment.

Due to complicated nature of the Ventum LG program, RRP for this loyalty program also includes profit margins of the retailer (supermarket/petrol stations) and Ventum Ltd. The basic rule behind calculations states that the Ventum LG final price for each model should be minimum 40% less than retailer price on the traditional market.



### **Facets of final price calculation**

One of the Ventum Ltd. requirements is to offer the loyalty program only those products in which the final Ventum LG price falls below 100 euros. In this case, PPCs should be also low in order to satisfy minimum profit targets. The researcher's observations reveal that final price calculation possesses a wide range of variables affecting the final price:

- Packaging: the cheaper the packaging, the lower the PPC;
- Manufacturing location: the farther the factory is located from Germany, the larger cost share is included in the final price due to high transportation costs;
- Number of pieces per pallet: large amount of pieces on the pallet decreases cost share in the final price.

Pricing is a complex segment of the marketing mix which also highly influences the worthiness of the Ventum LG loyalty program implementation. Lowering the price up to 50% and high Ventum Ltd. commissions affects negatively Bosch Lawn and Garden traditional business.

### 5.3 Place

Place, the third segment of marketing mix plan in this study, elaborates on logistics and selling channels for the Ventum LG loyalty program.

#### **Logistics**

Logistics sub-section concentrates on the partnership between Bosch and suppliers, production location choice, inbound logistics to the warehouse and final Ventum Ltd. logistics. The whole logistics process is shown below.

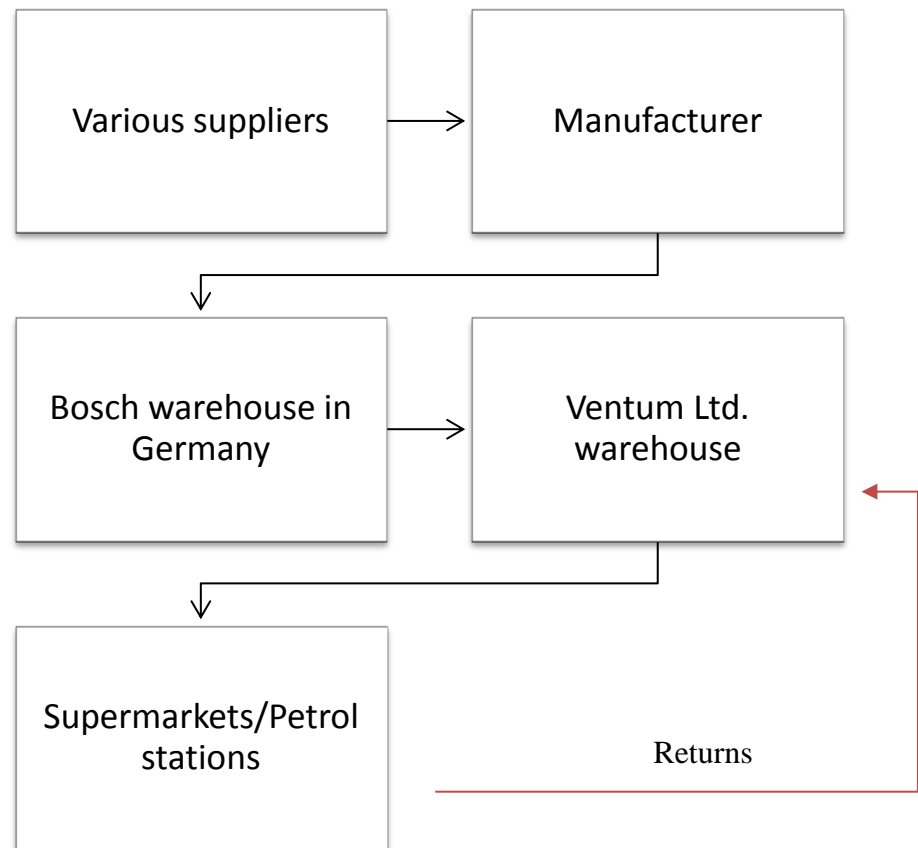


FIGURE 39. The Ventum LG loyalty program logistics structure.

Referring to theoretical research, it can be noticed that Bosch Lawn and Garden is using indirect distribution channel by operating through Bosch and Ventum Ltd. warehouses as intermediaries between manufacturing location and selling units. In addition, selective distribution is adopted for the case of the Ventum LG loyalty program by targeting on only supermarkets and petrol stations.

To start with the suppliers, on the manufacturing stage Bosch Lawn and Garden is in strong cooperation with a wide range of companies from all over the world who might potentially cause delays with spare parts supply and consequent delays in production time. In order to ensure that all the spare parts arrive to the production location on time, orders for parts should be released by Bosch Lawn and Garden in advance with consideration of the lead-time from the supplier site to the Bosch plant.

Regarding the manufacturing location, it has a massive influence not only on the final price of the product, but also on the delivery time from the plant to the

warehouse and on production capacity. Larger production plants have more capacity to produce high volumes for the Ventum LG program. The researcher proposes Bosch Lawn and Garden to take manufacturing locations into consideration while planning product range for the Ventum LG loyalty program. The ideal case would be to offer the Ventum LG program products that are produced in Bosch-owned Miskolc plant located in Hungary. This manufacturer possesses a wide range of benefits:

1. Location in Europe ensures decreased delivery time to the warehouse and hence improved reaction time for the potential requests;
2. In terms of costs, Hungary remains to be one of the most cost-saving countries in Europe with regards to manufacturing. In addition, transportation costs would be considerably decreased;
3. Bosch-owned plant provides a possibility of making changes on the production lines and prioritize required models;
4. European time zones support fast decision making process.

After the product is manufactured, it is shipped directly to the Bosch warehouse in Germany where it is later collected by Ventum Ltd and delivered to Ventum Ltd. warehouse. It should be noticed, that intake procedure in both warehouses might occupy several days so deliveries should be organized in advance. As mentioned in the empirical part of this thesis, one of the Ventum Ltd. requirements is to receive the products three months before the loyalty program starts in order to guarantee sufficient stock quantities. This requirement can potentially cause challenges in Bosch Lawn and Garden manufacturing process so production plan should be agreed about nine months ahead. After the stock is collected in the Ventum Ltd. warehouse, the products are further distributed among supermarkets and petrol stations by Ventum Ltd. In the event of returns, Ventum Ltd. is taking care of the products and storing them in its warehouse until they are further elaborated by Bosch Lawn and Garden.

## Selling channels

Ventum Ltd. has a vast selection of selling channels in Germany; in fact, this company operates with the biggest supermarkets and petrol stations in the country: Edeka, Rewe, Kaufland and Esso.

As investigated in the empirical part, it is suggested for Bosch Lawn and Garden to concentrate its program activities on supermarkets rather than on petrol stations. The reason for this shift is considerable increase of potential customers and high turnover rates. The researcher also presumes that large supermarkets in big German cities should be prioritized for the program launch as they will boost the sales.

Considering possible selling channel extension, this study advises evaluating department stores as a potential location for the program. One of the most popular department stores in Germany is called Karstadt which operates throughout the country. Karstadt clusters different departments of home appliances, cosmetics and clothes. (Karstadt 2015.)



FIGURE 40. Karstadt department store (olympia-einkaufszentrum 2015).

It is assumed that customers of the department stores would be interested in participating in the Ventum LG programs while collecting points during multi-purpose shopping.

In addition, the fact that Ventum Ltd. operates with the international supermarkets allows Bosch Lawn and Garden expanding to other countries by operating through existing customers. For example, besides Germany, Kaufland supermarket is also located in Bulgaria, Czech Republic, Croatia, Romania, Poland and Slovenia

(Kaufland 2015). It would be a good option for Bosch Lawn and Garden to expand the Ventum LG loyalty program to other countries through Kaufland network.

The Ventum LG program possesses one facet which is confronting with traditional business of Bosch Lawn and Garden. The biggest challenge is the location of the supermarkets which could be situated next to DIY stores in which Bosch Lawn and Garden is offering products for a full price. This issue can potentially harm sales results in DIY stores as customers would be more interested in the Ventum LG loyalty program.

To summarize, even though logistics process of the Ventum LG loyalty program might seem complicated and challenging, it does not interfere with traditional business of Bosch Lawn and Garden. On the contrary, outsourcing of storage, final deliveries to the selling units and inventory tracking, which is done from the side of Ventum Ltd., supports Bosch Lawn and Garden business by saving time and allowing concentrating on the other aspects of the program implementation. In addition, Ventum LG provides many opportunities for expansion both in Germany and around Europe through international supermarkets.

#### 5.4 Promotion

Promotion is often considered being the most creative segment in the marketing mix as it allows limitless opportunities of attracting the customer. This sub-chapter states about advertising materials, after-sale communication and events ideas.

##### **Advertising**

Due to the nature of the Ventum LG loyalty program, advertising is considered to be the most relevant promotion tool as it covers a wide range of targeted customers for relatively low costs. In terms of advertising, Point-Of-Sale (POS) materials should become the biggest part of the promotion mix. TV-campaigns appear to be too expensive and therefore irrelevant for this type of the loyalty program.

POS materials include all the advertising that is set up in the supermarket. It is suggested for Bosch Lawn and Garden to support selling units with capturing stands for Bosch products, banners in the entrance to the shop and wobblers on each cash register. Examples can be seen below.



FIGURE 41. Examples of POS materials for Ventum LG.

Usage of advertising in the Ventum LG loyalty program supports decreasing overstock of old POS materials due to the reason that some of the materials, especially metal and plastic product stands, can be reworked for cheaper price rather than produced from the scratch. On the other hand, paper and carton materials (banners, wobblers) should be newly produced which acquires certain costs.

### **After-sale communication**

The main aim of after-sale communication activities is supporting customer's intention to develop a strong relationship with the company. The researcher suggests emphasizing on two main segments of Bosch after-sale communications: social media support and MyBosch communication cloud.

In terms of *social media activities*, Bosch is an active user of Facebook and Youtube websites. From one point of view, the company can mention about the Ventum LG loyalty program in the social media while the program is still running on the market in order to boost the number of participants. On the other hand, after the program finishes, Bosch is advised to welcome new users of its products by increasing the amount of communication actions. The intention behind all the activities should be developing the interest of potential customers in Bosch products. For example, Facebook page can upload more information on Bosch products and applications. Moreover, Youtube channel can expand its range of DIY videos explaining the users how to upgrade the garden with the help of

Bosch gardening tools: for instance, the simplest topiary lessons (trimming hedges as sculptures) with the usage of Bosch hedgecutters and shrubcutters.

Another suggestion concerns *communication cloud called MyBosch* which was introduced by Bosch Power Tools in 2015. The basic idea behind this cloud is that users can register their tool on the platform and receive advice on its exploitation. In addition, customers can get expert help online and get suggestions for the nearest customer service desk. What is more, all the users are able to communicate with each other and discuss Bosch tools and the latest trends in the world of DIY power tools. The researcher proposes that Bosch Lawn and Garden tools should be also introduced into MyBosch cloud so that all the participants of the Ventum LG program would be able to register their new purchases. This innovative idea will be able to tighten connection between Bosch Lawn and Garden and the customer and improve the overall customer satisfaction with the brand. In addition, MyBosch can perform as a market research tool in order to elaborate on consumer behaviour on both traditional markets and within the Ventum LG loyalty program.

### **Events**

In order to enhance sales of Bosch products in the Ventum LG loyalty program, this study proposes implementing events and hand-on stations in the supermarkets and petrol stations. Hands-on stations refer to the event in which the customer has the opportunity to use the tool by himself. Due to the safety issues, customers are usually not allowed to try the products in the selling units; therefore, events can provide a good opportunity for the customers to evaluate the work of the tools. In addition, the above-mentioned activities can increase awareness among the customers on the topics of MyBosch communication cloud, social media engagement and new range of Bosch Lawn and Garden products and accessories.

The researcher proposes organizing one-two events per season in the major cities in Germany in order to ensure sufficient amount of participants.

*German supermarkets* tend to have a lot of space inside the building which could be used for small-scale indoor events. In addition, large parking spaces nearby

supermarkets allow organization of medium-scale activities. This study proposes the following ideas for the events:

1. Indoor/outdoor workshops with Bosch gardening handtools: brush- or grasscutter ISIO and gardening saws KEO (Figure 42). The aim of the workshop is to emphasize on the excellent work and multi-functionality of the tools by using them while a topiary or floristics lesson. In addition, gardening saws KEO can be used in DIY house decoration workshops. Other Bosch gardening products can be also presented on the workshop in order to familiarize the customers with the whole range.



FIGURE 42. ISIO shrubcutter and KEO gardening saw (Argos 2015).

2. Outdoor masterclasses with large Bosch products: trimmers, blowers and hedgecutters. In order to reveal full potential of the products, it is suggested for Bosch to have an event in which the experts will be showing the usage of the products and answer on the questions from the customers.
3. Outdoor hands-on stations for blowers and high pressure washers. It is presumed that the biggest success among the participants will be brought by the events in which customers are able to try the tools. Blowers and high pressure washers are the easiest segments to organize hands-on stations with due to the nature of the products. Examples of these activities are seen below.



FIGURE 43. Examples of hands-on stations for a blower and a high pressure washer (Bosch 2015).



On the first station customers could test the blower power by blowing the cones and on the second station users could evaluate high pressure washers by playing water football.

*Petrol stations*, on the contrary, do not have so much space inside the building so making indoor events might be challenging. Outdoor workshops and hands-on stations could be applied in this case as well; however, the researcher suggests making an emphasis on car applications. For example, users could test effectiveness of high pressure washer on the dirty car.



FIGURE 44. Car applications for a high pressure washer (Bosch 2015)

To conclude, it should be noticed that events are highly dependent on the product range offered to the customers through the Ventum LG loyalty program. The trend is that the more products are offered for Ventum LG, the easier it is for the company to operate its event activities. Each event acquires high costs so the activity should be planned in advance in order to ensure that all the financials are allocated wisely.

To summarize, it should be said that the Ventum LG promotion has a positive impact on Bosch Lawn and Garden business. Besides aiming on boosting sales for the Ventum LG product range, it has also intention to advertise about new Bosch products and after-sale communication. In general, promotion should help the company to support its connection with the customer. On the other hand, POS materials and events organization require high amount of time and investments which should be planned in advance.

## 5.5 Packaging

Packaging segment should be analysed from the side of strict Ventum Ltd. requirements and customer attractiveness.

### **Ventum Ltd. packaging requirements**

To start with the Ventum Ltd. requirements, all products should be packed into *carton boxes* despite of their original packaging. For example, gardening grass- and shrubshears ISIO are usually offered in the plastic box (see Figure 45) which will now have to be packed in the carton boxes. The reason why Ventum Ltd. requires having carton packaging is easiness of transportation and equalization and attractiveness on the supermarket shells.



FIGURE 45. Bosch ISIO: original and Ventum packaging (Bosch 2015).

For Bosch Lawn and Garden introduction of carton boxes reduces the costs for the packaging and, therefore, reduces final price. In addition, carton boxes still remain the most common packaging for Bosch Lawn and Garden products so there are no big packaging changes foreseen.

Second Ventum Ltd. requirement is to additionally pack products into *master cartons* (a box with smaller product boxes inside) in order to protect the tools while transportation and storing. The number of products per box is defined individually, depending on the product size. Each master carton should have a separate product information sheet labelled on long right sides of the carton. Product information should contain name of the product, article number, number of pieces per master carton and EAN codes. An EAN code is an abbreviation for

European Article Number which decodes information about producer and the product (Dancette, Vegnez, Rethore 1998, 76).



FIGURE 46. Dimensions of the master carton information slip and labeling (Bosch 2015).

For Bosch Lawn and Garden requirement of a master carton is a guarantee that the products will be transported and stored with additional safety. Moreover, usage of master cartons supports stock tracking and decreases a chance of a stock loss.

Third Ventum Ltd. requirement concerns the pallets. The company requires usage of *euro-pallets* with the height of no more than 1,05 m (including euro-pallet itself). Euro-pallet is a standardized pallet size in Europe which is used for both international and domestic freight. The size of the pallet is 1500 mm x 800 mm and the maximum gross weight is up to 1,500 kg. (Lowe 2002, 88.) In addition to specific dimensions, Ventum Ltd. requires only A and B quality pallets. These grading letters belong to the highest quality classification and are meant to be without any damages and scratches (Pallet Central Enterprises 2007).

It is suggested for the European plants to use euro-pallets straight on the production line in order to avoid double work of re-packing at the warehouse.

However, for the non-European plants (i.e. in China) it is suggested to use the most relevant pallets to ensure efficient freight costs. In general it should be admitted that usage of euro-pallets increases freight costs for Bosch Lawn and Garden. However, the costs are not high enough to influence the decision if the Ventum LG loyalty program should be implemented by Bosch Lawn and Garden or not.

Last requirement which is mutually agreed by Ventum Ltd. and Bosch Lawn and Garden is *a theft protecting transparent labels*. These labels on the master carton prevent it from being broken or easily opened.



FIGURE 47. Theft protecting labels (Bosch 2015).

### **Customer attractive packaging**

Another topic to consider in this sub-section is consumer's perception of the packaging. The researcher suggests considering boxes that could *easily fit into the supermarket trolley* as they will look more appealing to the customers. In addition, it is strongly advised for the supermarkets to *make checking* of the packages after the products arrive on site. Damaged boxes can considerably decrease customer intention of buying a product and can potentially harm customer's perception of the Bosch brand.

By summarizing all the key points in the packaging sub-section, it should be concluded that packaging issues does not bring any negative implications to the introduction of the Ventum LG loyalty program into the Bosch Lawn and Garden. All the requirements stated by Ventum Ltd. are obtainable and provide additional support to the transportation safety issues. Furthermore, the researcher considers

attractive packaging being a potential factor of boosting the sales of Bosch products in the supermarkets and petrol stations.

## 5.6 People

Thorough communication is revealed to be one of success factors in Bosch Power Tools and the Ventum PT loyalty program, which involves a lot of people; therefore, special attention should be paid to this issue. In order to provide a comprehensive overview, this sub-section can be divided into internal communication to discuss Bosch employees and external to elaborate on communication with Ventum Ltd. and selling units (supermarkets and petrol stations)

### **Internal communication**

One of the most important tasks that Bosch Lawn and Garden Board is advised to do is to *continuously inspire people and share the goals* the company wants to achieve with the Ventum LG loyalty program. It is especially vital to do on the initial stage of preparations when most of the employees are familiarizing themselves with the conceptualization of the future loyalty program. Having common understanding of the very goal leads to internal motivation and improved communication.

In order to avoid overload of additional tasks connected with the Ventum LG loyalty program, it is recommended to *plan task distribution in advance*. In the event when employee does not manage with the task load, there should always be supporting expert in order to take over certain amount of duties.

The researcher proposes to Bosch Lawn and Garden and Bosch Power Tools launch managers, as to communicators of the Ventum loyalty program in the companies, *having weekly team meeting* in order to ensure that all the topics are covered. Meanwhile, in the event of the urgent topic, it is highly expected that launch managers will communicate information with the relevant employees in their divisions.

Once the sales figures can be retrieved, the researcher suggests *sharing the results* with all the employees involved into the program in the interest of supporting their motivation and positive attitude towards the program. In addition, it is crucial to *commend employees* for their commitment to the program development.

In the end of the season, when the loyalty program finishes, Bosch Lawn and Garden Board is expected to *organize a final meeting* for the reason of evaluating program aspects and retrieve the lessons learnt from program implementation. This meeting should enlighten the topics that have to be improved in the upcoming seasons to make the program more successful.

### **External communication**

Communication outside Bosch should be sub-divided into cooperation with Ventum Ltd. and providing support to supermarkets and petrol stations. In terms of cooperation with Ventum Ltd., it is highly advised for Bosch to keep a *close business partnership* to eliminate any possible interpretations in advance. Acting as a client, Bosch is expected to have a dominant thinking and to defend its suggestions. On the other hand, reaching a consensus is a prevailing factor in the trustful communication. This study proposes Bosch to have weekly meetings with Ventum Ltd. in the beginning on the program and after that obtain weekly stock reports to stay up-to-date on the latest information.

As mentioned in the previous chapters, Ventum Ltd. is responsible for cooperation with supermarkets and petrol stations. However, regional brand manager of Bosch Lawn and Garden should support the selling units with *employee trainings*. The following topics are proposed to be covered on the trainings:

- Brief overview of Bosch Lawn and Garden and company strengths,
- Explanations about the Ventum LG loyalty program: overall procedure and advertising materials,
- Introduction to Bosch products presented on the program: key features and applications,
- Presentation of aftersales services: expert support and social media communications.

Successful training supports motivation among supermarket employees and increases the amount of satisfied participants in the loyalty program.

Introduction of the Ventum LG loyalty program increases dramatically the amount of tasks and responsibilities Bosch employees possess. In order to keep their working spirit, it is of vital importance to support the employees with motivation and rewarding. Conclusion from this sub-section is that the Ventum LG loyalty program might negatively affect Bosch Lawn and Garden business unless the tasks of the employees are carefully planned.

### 5.7 Positioning

Despite the fact that positioning is an intangible asset in this marketing mix evaluation, it has a straight correlation with the research question as it analyses position Bosch Lawn and Garden will occupy on the market after introduction of the Ventum LG loyalty program. Moreover, this section assesses customer perception of the company.

First of all, it is advised for Bosch Lawn and Garden to build the Ventum LG loyalty program based on *value- and quality-driven factors*. The company is well-known for its German quality and long live products; therefore, these facets should become the core of the Ventum LG loyalty program message to the customers.

On the traditional markets Bosch Lawn and Garden positions itself as the company with high quality products standing in the medium- and high-price range. Introduction of the Ventum LG loyalty program with the discounted prices might raise questions among customers on the topic of product quality. However, as empirical research has shown, customers support this program by seeing it as a good way to acquire Bosch products for acceptable price.

It is highly recommended for Bosch Lawn and Garden to emphasize in its message to the customers that Ventum LG is only a *short-term loyalty program* in order to avoid misleading perception that every season customers are able to buy Bosch products for twice as cheap as in the DIY store.

By summarizing all the key points, it should be said that the Ventum LG loyalty program does not harm Bosch Lawn and Garden business. However, the researcher suggests the company to frame a thorough message to the customers emphasizing on program impermanence and limited product range offered.

## 5.8 Summary

In order to provide a comprehensive overview of the Ventum LG short-term loyalty program, advantages and disadvantages revealed in the marketing mix plan are clustered together. This section summarizes the most important aspects (full overview can be found in Appendix 6).

TABLE 6. Summary of advantages and disadvantages of the Ventum LG loyalty program revealed in the marketing mix plan.

<b>Advantages</b>	<b>Disadvantages</b>
<ul style="list-style-type: none"> <li>• Opportunity to decrease overstock of old and non-popular products,</li> <li>• Market coverage expansion,</li> <li>• Improved relationship with the customer,</li> <li>• Logistics outsourcing by Ventum Ltd.: saving time and costs, and</li> <li>• High sales of the products → improved turnover.</li> </ul>	<ul style="list-style-type: none"> <li>• Possible interference with existing and future products,</li> <li>• High Ventum Ltd. commissions from the sales, and</li> <li>• Strict Ventum Ltd. pricing requirements.</li> </ul>

As it can be seen, advantages are dominating over disadvantages which brings the researcher to the conclusion that marketing mix evaluation supports introduction of the Ventum LG loyalty program into Bosch Lawn and Garden business.



## 6 CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH

The conclusion evaluates hypothesis raised in the beginning of the study and provides answers on the research questions. Furthermore, it discusses the reliability and validity of the findings and gives suggestions for further research.

### 6.1 Findings

This thesis has provided insights into the definition of the point-based Ventum short-term loyalty programs on the example of three companies: Bosch Power Tools, Bosch Lawn and Garden and Bosch Home and Garden (a merge of Bosch Power Tools and Bosch Lawn and Garden). The researcher introduced the concept of Bosch Home and Garden as a future contributor to the Ventum HG loyalty program and investigated success factors of the completed Ventum PT loyalty program by conducting an extensive research. Bosch Lawn and Garden was evaluated on the topic of the Ventum LG loyalty program launch in Germany. The hypothesis that was raised in the beginning of the study presumed that the Ventum LG short-term loyalty program affects positively Bosch Lawn and Garden business. The hypothesis was supported via six questions including one main research question followed by five sub-questions.

TABLE 7. Summary of answers on research questions.

<b><i>Research question</i></b>	<b><i>Answer</i></b>
<i>Sub-question 1: How do consumers perceive Bosch Power Tools after it launched the Ventum PT loyalty program in the German supermarkets and petrol stations?</i>	Survey in the German supermarkets and petrol stations reveals that customers have a positive attitude towards Bosch Power Tools after it launched the Ventum PT program. In general, provision of discounted prices in the Ventum PT program does not harm customer's perception that the quality of the participating products remains to be high. Moreover, customers become more aware of Bosch Power Tools which leads to improved brand recognition.

<p><i>Sub-question 2: What are the most important factors customers are paying attention to while participating in the Bosch Power Tools loyalty program?</i></p>	<p>Participants of the program mention that the most important facets they are paying attention to in the Ventum PT loyalty program are wide range of products and adequate prices. They also consider catching advertising and the quality of products to be important. In addition, customers are strictly following the stated timeline of the program in order to avoid expiration of the points.</p>
<p><i>Sub-question 3: What are success factors of Bosch Power Tools participation in Ventum PT?</i></p>	<p>According to the customers, success factors of Ventum PT include wide range of discounted products. In addition, interviews with Bosch employees show that supportive communication and smart segmentation and targeting also support successful organization of Ventum PT.</p>
<p><i>Sub-question 4: How do Bosch Lawn and Garden employees feel about Ventum LG introduction in 2016?</i></p>	<p>While interviewing Bosch Lawn and Garden and Bosch Power Tools employees, the researcher notices that all of them are looking forward for the Ventum LG loyalty program launch in 2016. Interviewees admit that certain aspects in the organizational process are new for Bosch Lawn and Garden; as a result, the company should plan in advance the Ventum LG program activities paying special attention on the pioneering facets.</p>
<p><i>Sub-question 5: What are the facets to consider in the marketing mix plan for Bosch Lawn and Garden?</i></p>	<p>The researcher chooses 7P marketing mix plan which evaluates the Ventum LG loyalty program according to the following segments: product, price, place, promotion, packaging, people and positioning. Each segment analyses Ventum LG requirements, advantages and disadvantages. In addition, it provides suggestions for further development.</p>

<p><b><i>Main research question: What are the advantages and disadvantages of Ventum LG and is it worth it for Bosch Lawn and Garden to join this short-term loyalty program in Germany?</i></b></p>	<p>Evaluation of the interviews with Bosch Lawn and Garden and Bosch Power Tools employees presents that the main advantage of the Ventum LG short-term loyalty program is a great opportunity for market expansion, turnover improvement and brand awareness increase. Marketing mix evaluation suggests that Ventum LG benefits include possibility to decrease overstock of old models, to tighten relationship with the customer and to outsource logistics.</p> <p>On the contrary, employees of the companies reveal that big disadvantage of Ventum LG is that Ventum Ltd. provides similar loyalty programs to Bosch Lawn and Garden competitors. Marketing mix analysis reveals possible interference with existing and future products and inflexible pricing rules of Ventum Ltd.</p> <p>All in all, despite of all the disadvantages mentioned, it is still worth for Bosch Lawn and Garden to join the Ventum LG short-term loyalty program in Germany.</p>
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Having summarized the findings, the researcher is able to confirm that the hypothesis, stated in the beginning of the study, is true: *the Ventum LG short-term loyalty program brings a positive impact on Bosch Lawn and Garden business.*

## 6.2 Reliability and validity

Reliability and validity are two important aspects to justify in the end of a scientific study. Reliability refers to the consistency of the information collected during research. (Blankenship 2010, 139.) Validity, meanwhile, evaluates whether the study design is appropriate to draw relevant conclusions for the chosen population (Trochim, Donnely & Arora 2015, 140).

To validate the hypothesis and to serve the objectives raised in the beginning of this thesis, the researcher retrieved a wide range of secondary data from reliable and trustworthy resources, as well as conducted an extensive research by using primary data. This study successfully adopted both quantitative and qualitative research methods to gather sufficient information in order to answer the research questions.

The reliability of the qualitative research was increased by applying the same question set in all the interviews. The researcher made only minor deviations in the discussion flow by asking for additional information and requesting explanation of the unfamiliar terms and procedures. In addition, recording the interviews helped the researcher to double-check the answers of the respondents more than once to ensure consistency of the interview records with the written overview in the thesis. As for quantitative research, the reliability of the data was ensured by the trial survey run before the actual questionnaire was introduced to the market. Since the survey was managed in the German language, native speakers were asked to support it with translation to secure that all the answers are interpreted in the correct way.

In terms of validity, in the beginning of the study, the researcher validated and justified the main research question based on FINER analysis. Furthermore, literature review compounded various online and published data which was confirmed to be up-to-date to assist the researcher's intention to align the findings with the research questions. In the end of the study, the researcher substantiated that the main research question, as well as sub-questions, were answered successfully. Based on these criteria, the study can be considered as valid.

### 6.3 Suggestions for further research

Due to the complicated nature of the Ventum short-term loyalty program, it is challenging to cover all its aspects in one study. As a result, certain suggestions are proposed for further research.

First, after Bosch Lawn and Garden launches Ventum LG, it is suggested to conduct a thorough market research with the customers, similar to the one used in

this study for the Ventum PT program, in order to evaluate market reaction on the launch of Ventum LG. In addition, further development of Bosch Lawn and Garden with Ventum LG could be evaluated.

Second, research can be shifted to Bosch Home and Garden implementation of the Ventum HG short-term loyalty program. In that case, the researcher needs to ensure that all the facets in the merged companies (Bosch Power Tools and Bosch Lawn and Garden) are considered: aligned product range, logistics and finance.

The last suggestion for further research is to compare implementation of the Ventum short-term loyalty programs with the possible introduction of the non-centralized Bosch loyalty program. It would be interesting to observe the difference between the launching and managing procedure of the two programs from the time and financial points of view. Moreover, outcomes and worthiness should be emphasized in that study.

## 7 SUMMARY

The objective of this thesis is to define the concept and to analyse the implementation procedure of short-term loyalty programs called Ventum on the example of three companies: Bosch Power Tools, Bosch Lawn and Garden, and Bosch Home and Garden. Bosch Power Tools has been running the Ventum PT loyalty program within three years and this proved to be successful on the market. As the result of that, Bosch Lawn and Garden has made a strategic decision to adopt a similar short-term loyalty program, Ventum LG, as of the beginning of 2016 in the German supermarkets and petrol stations. Bosch Home and Garden is a merged company of Bosch Power Tools and Bosch Lawn and Garden that will join the Ventum HG loyalty program in the future.

This thesis aims to support Bosch Lawn and Garden with its intention to launch Ventum LG and to conduct an extensive background research on the topics of success factors of the completed Ventum PT loyalty program and the facets of the future Ventum LG program. In addition, this study introduces the conception of Bosch Home and Garden as a future contributor to the Ventum HG short-term loyalty program. Nevertheless, Bosch Lawn and Garden remains to be the main case company in the study.

Theoretically, this study provides a broad overview of relationship marketing, making an emphasis on the definition and implementation rules of loyalty programs. In addition, the researcher pays special attention to the timeline of short-term loyalty programs.

Empirically, both qualitative and quantitative research methods are thoroughly combined in order to draw a comprehensive conclusion and support the evaluation of the Ventum LG implementation based on the marketing mix plan criteria: product, place, price, promotion, people, packaging and positioning.

As a consequence, trustworthy findings are presented as the answers on the research questions. The hypothesis that Ventum LG brings positive impact in Bosch Lawn and Garden business is justified. As future research, the author suggests conducting a market study to evaluate the Ventum LG participation on the market after it is launched.

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### **Interviews**

Interviewee 1. 2015. Launch manager. Bosch Power Tools. Interview 07 August 2015.

Interviewee 2. 2015. Launch manager. Bosch Lawn and Garden. Interview 10 August 2015.

Interviewee 3. 2015. Logistics (distribution) manager. Bosch Lawn and Garden. Interview 11 August 2015.

Interviewee 4. 2015. Country manager. Bosch Lawn and Garden. Interview 12 August 2015.

Interviewee 5. 2015. Regional brand manager. Bosch Lawn and Garden. Interview 14 August 2015.

## APPENDICES

APPENDIX 1: Key differences between relationship marketing and transactional marketing (Hennig-Thurau & Hansen 2000, 5).

**Table 1**

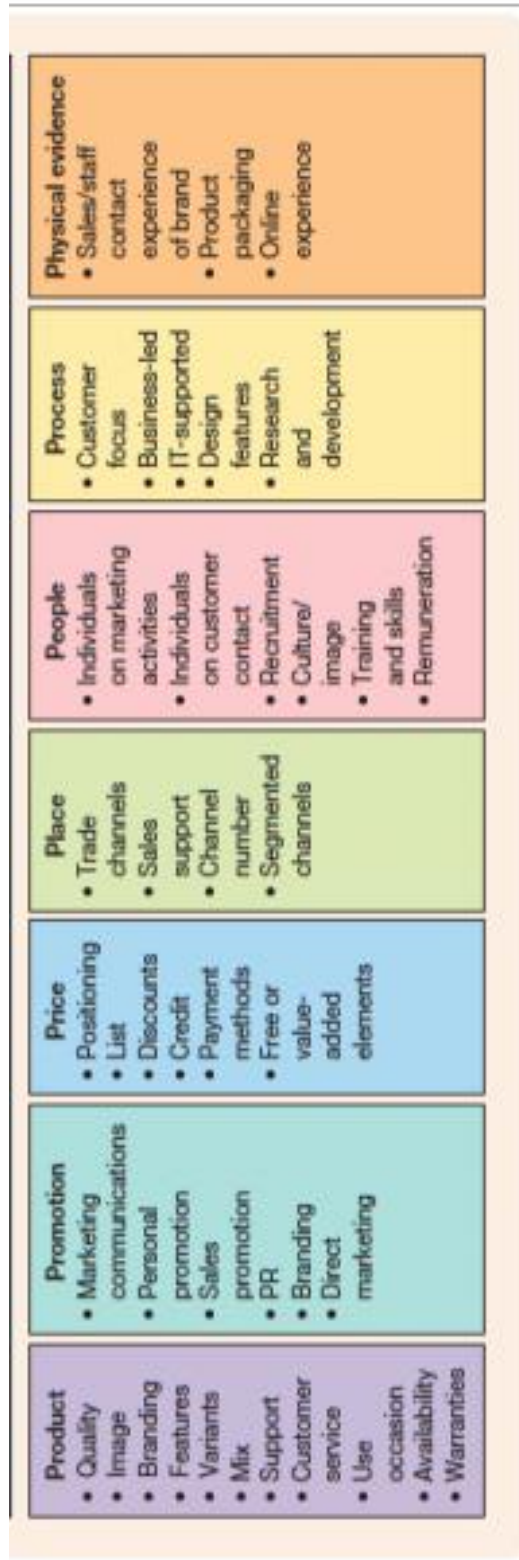
**Key differences between the concepts of relationship marketing and transactional marketing**

<i>Criterion</i>	<i>Relationship marketing</i>	<i>Transactional marketing</i>
Primary object	Relationship	Single transaction
General approach	Interaction-related	Action-related
Perspective	Evolutionary-dynamic	Static
Basic orientation	Implementation-oriented	Decision-oriented
Long-term vs. short-term	Generally takes a long-term perspective	Generally takes a short-term perspective
Fundamental strategy	Maintenance of existing relationships	Acquisition of new customers
Focus in decision process	All phases focus on post-sales decisions and action	Pre-sales activities
Intensity of contact	High	Low
Degree of mutual dependence	Generally high	Generally low
Measurement of customer satisfaction	Managing the customer base (direct approach)	Monitoring market share (indirect approach)
Dominant quality dimension	Quality of interaction	Quality of output
Production of quality	The concern of all	Primary concern of production
Role of internal marketing	Substantial strategic importance	No or limited importance
Importance of employees for business success	High	Low
Production focus	Mass customization	Mass production

APPENDIX 2: PESTEL factors (PESTEL analysis of next PLC 2015).

<p><b>Political factors</b></p> <ul style="list-style-type: none"> <li>➤ Government organization/attitude</li> <li>➤ Political stability/instability</li> </ul>	<p><b>Economic factors</b></p> <ul style="list-style-type: none"> <li>➤ Economic growth</li> <li>➤ Unemployment policy</li> <li>➤ Inflation, interest rates &amp; other monetary policies</li> <li>➤ Consumer confidence</li> </ul>
<p><b>Social factors</b></p> <ul style="list-style-type: none"> <li>➤ Income distribution</li> <li>➤ Demographic changes</li> <li>➤ Labour/social mobility</li> <li>➤ Lifestyle changes</li> <li>➤ Fashion changes</li> </ul>	<p><b>Technological factors</b></p> <ul style="list-style-type: none"> <li>➤ New inventions &amp; development</li> <li>➤ Rate of technology transfer</li> <li>➤ Life cycle &amp; speed of technological obsolescence</li> <li>➤ Changes in information technology</li> <li>➤ Changes in mobile technology</li> </ul>
<p><b>Legal factors</b></p> <ul style="list-style-type: none"> <li>➤ Tax policies</li> <li>➤ Employment laws</li> <li>➤ Safety regulations</li> <li>➤ Competition regulations</li> </ul>	<p><b>Environmental factors</b></p> <ul style="list-style-type: none"> <li>➤ Environmental regulations &amp; protection</li> </ul>

APPENDIX 3: Supplementary 7Ps marketing mix (Hanlon 2014).



#### APPENDIX 4: Questionnaire for market research.

1. Gender?
2. How old are you?
3. Which statement refers most to you?
  - I have never done DIY jobs but I might do it in the future
  - I use power tools for work-related purposes
  - I am unexperienced with power tools but I enjoy decorating my house
  - I am doing DIY jobs only when it is really necessary
  - DIY jobs belong to my hobbies
4. Why do you participate in Bosch short-term loyalty program?
5. Are you buying a product for yourself or for someone else?
  - For yourself
  - For someone else
6. How many products do you intend to buy within this short-term program?
  - 1
  - 2
  - 3 or more
7. Would you buy the product at a regular price?
  - Yes
  - Maybe
  - No
8. Where do you find information about Bosch products?
9. Did you know Bosch products before participating in short-term loyalty program?
  - Yes
  - No
10. What are the statements that describe best Bosch Power Tools?
  - The quality of the tools is not better than the competitors'
  - The quality of the tools is somewhat better than the other companies'
  - Bosch PT is the market leader with the best quality of the products
  - I can't say anything/I don't know
11. What do you think of the fact that Bosch participates in this short-term loyalty program?
12. Any suggestions for improvements?

## APPENDIX 5: Questions for the interviews with Bosch employees.

### 1. Bosch Power Tools and the Ventum PT loyalty program

- Bosch Power Tools has seen great success by launching the Ventum PT loyalty program in Germany. What do you believe are the main success factors?
- What lessons have Bosch Power Tools learnt from implementing this program?
- Do you think Bosch Power Tools will have to adjust its participation in the Ventum PT loyalty program after Bosch Lawn and Garden joins in?

### 2. Bosch Lawn and Garden and the Ventum LG loyalty program

- What are your thoughts on Bosch Lawn and Garden implementing the Ventum LG loyalty program next year?
- Do you believe there is any difference between Bosch Lawn and Garden and Bosch Power Tools ways of operating in the Ventum loyalty program?
- In your opinion, what are the key facets of the program in your field of operations (marketing/logistics)? What should we pay special attention to?
- How do you perceive Germany being the first market for introducing the Ventum LG loyalty program?
- How shall Bosch Lawn and Garden measure success of the program?
- How will Bosch Lawn and Garden develop in the future with Ventum LG?

#### *Additional questions:*

To the Launch Manager Bosch Power Tools: How does Bosch Power Tool measure the impact of the program on the company business?

To the Country Manager & the Regional Brand Manager Bosch Lawn and Garden: What kind of pricing strategy will the Ventum LG loyalty program have? How should the market react on the new program?

To the Launch Managers Bosch Power Tools & Lawn and Garden: What product range should be considered for the program? What type of advertising should be used and who is responsible for creation of advertising materials?

To the Logistics Manager: Are there any special requirements in packaging?



APPENDIX 6: Advantages and disadvantages of the Ventum LG short-term loyalty program revealed in the marketing plan (full overview).

Advantages	Disadvantages
<ul style="list-style-type: none"> <li>• Opportunity to decrease overstock of old and non-popular products,</li> <li>• Logistics outsourcing by Ventum Ltd.: saving time and costs,</li> <li>• Possible expansion of market coverage both on country and international levels,</li> <li>• Potential rework of old metal and plastic POS materials: cutback of overstock,</li> <li>• Improved relationship with the customer,</li> <li>• High sales of the products → improved turnover,</li> <li>• Possibility to promote new range of Bosch Lawn and Garden products, and</li> <li>• Increased safety of the products due to packaging restrictions.</li> </ul>	<ul style="list-style-type: none"> <li>• Possible interference with existing and future products,</li> <li>• Increased number of SKUs,</li> <li>• High Ventum Ltd. commissions from the sales,</li> <li>• Strict Ventum Ltd. pricing requirements,</li> <li>• Increased production capacity deficit,</li> <li>• Costly newly-produced paper and carton POS materials, and</li> <li>• Expanded amount of employee workload.</li> </ul>