

St. Petersburg State University
Graduate School of Management
Master in International Business Program

BUILDING CUSTOMER LOYALTY IN INTERNET PHARMACEUTICAL
RETAIL: INTERNATIONAL EXPERIENCE AND IMPLEMENTATION IN
RUSSIA
Research III

Master's Thesis by the 2nd year student
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St. Petersburg
2016

ЗАЯВЛЕНИЕ О САМОСТОЯТЕЛЬНОМ ХАРАКТЕРЕ ВЫПОЛНЕНИЯ ВЫПУСКНОЙ КВАЛИФИКАЦИОННОЙ РАБОТЫ

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Факультет	Высшая школа менеджмента
Специальность	Общий менеджмент
Год	2016
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Описание цели, задач и основных результатов	<p>Индустрия интернет ритейла в общем и целом становится все более популярной в России. Онлайн шопинг сегодня становится полноценной заменой традиционному шопингу даже в России. Следовательно, это прекрасная возможность для молодых компаний занять определенные ниши на новом, стремительно растущем рынке. Большие игроки с традиционных ритейл рынков не так конкурентоспособны на рынке интернет ритейла, т.к. правила и условия здесь сильно отличаются от традиционных. Фармацевтический ритейл, как один из самых прибыльных видов ритейла вообще, является очень многообещающей нишей. Фармацевтический ритейл в России становится все популярнее и растет из года в год с начала нулевых. Эта индустрия почти не изучена, особенно в России. Не существует четкой классификаций, факторов успешности и т.п. Основная цель этой работы – определить основные факторы, влияющие на лояльность клиентов фармацевтическому интернет ритейлу в России и способы усиления этой лояльности. Исследование было проведено при помощи теоретического анализа, исследования компаний, интернет-опросника и анализа открытой информации.</p>
Ключевые слова	Электронная коммерция, онлайн ритейл, лояльность клиентов, фармацевтический ритейл, Россия, бенчмаркинг, ориентация на рынке, клиентоориентированность, рыночная ориентация, ориентация на потребителя

ABSTRACT

Master Student's Name	Anastasiia Gabur
Master Thesis Title	Building customer loyalty in internet pharmaceutical retail: international experience and implementation in Russia
Faculty	Graduate School of Management
Main field of study	Master in International Management
Year	2014
Academic Advisor's Name	Maria M. Smirnova, Associate Professor
Description of the goal, tasks and main results	<p>Internet retail industry in general is becoming more and more popular in Russia. Shopping online nowadays is a strong substitute to traditional shopping even in Russia. Hence this is great opportunity for young companies to gain some niche on the new rapidly developing market. Big players from traditional retail market are not so competitive on the field of online retail as rules and conditions are completely different there. And pharmaceutical retail, as one of the most profitable types of retail, is very promising niche for online retailers.</p> <p>Pharmaceutical retail is becoming more and more popular in Russia since 2000s and the industry is growing significantly each year.</p> <p>The field is not studied at all, especially in Russia. So there is even no classification or at least statement on what is the nature of online pharmaceutical retail and what are factors of its successful functioning.</p> <p>The main aim of this work is to identify key factors that influence loyalty of customers in the internet pharmaceutical retail in Russia and ways to enable online pharmacy to increase customer loyalty.</p> <p>The research will be held with the help of theoretical analysis, study of internal company information, internet survey and open source data scanning.</p>
Keywords	E-commerce, online retail, customer loyalty, pharmaceutical retail, Russia, customer focus, benchmarking, market orientation, customer orientation

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Introduction

The topic of the research is —Building Customer Loyalty in Internet Pharmaceutical Retail: International Experience and Implementation in Russia. The research is aimed to identify key factors that influence customer loyalty in internet pharmaceutical retail in Russia and ways that enable an on-line pharmacy increase customer loyalty.

Online pharmaceutical retail is a subject closely interrelated with internet retail, the origins of which date back to late 1980s, when first internet stores and commercial internet sites started to come to life. The industry saw a tremendous development in 1990s and 2000s all over the world and resulted in Alibaba Group, a huge internet retail and wholesale giant from China that registered on New York Stock Exchange in September 2014, being the largest initial public offering launched in history.

In Russia online retail industry started to gain popularity starting from early 2000s. Nowadays the industry grows approximately 19% yearly and is expected to reach 38\$ billion to the year 2018.

Internet pharmaceutical retail can be regarded as a peculiar sphere of online business as it is associated with number of problems and complications during its conduct. Examples of such complications can be defined as special government regulations particular for each country, which makes international trade impossible for this kind of product or customer behavior peculiarities like the fear of fraud or need for pharmacist personal recommendations and explanations.

Generally speaking, internet pharmaceutical retail can be regarded as not very studies subject with extremely limited number of articles dedicated to it. In Russian language no articles on the theme can be found up to this date and in English language this number is still less than twenty.

Pharmaceutical internet retail is a fast growing industry with great opportunities for young companies with present comparatively low popularity of internet pharmaceutical retail among population in Russia. No research of online pharmaceutical retail industry in Russia was ever conducted before.

The method used in providing the international experience review is literature research including internal company information, relevant trade publications, newspapers, magazines, annual reports, company literature, on-line data bases.

To analyze the potential of implementation the international experience in Russia PESTEL DG analysis will be conducted in order to analyze macro-environment of the industry and Five-forces analysis will be provided as the analysis of the microenvironment of internet pharmaceutical retail in Russia.

To look at the problem from client's point of view, the internet survey of potential customers along with factor analysis of the results will be conducted in order to indicate the important factors of customer loyalty in Internet pharmaceutical retail.

The topic is of interest for internet pharmaceutical retailers in Russia who are already successfully implementing their activities on the national market and are keen to improve their performance and better understand the customer's behavior while purchasing medicines online. Also the research is quite applicable for start-up companies who want to analyze international experience in the field and understand the perspectives of starting and developing such business in the Russian Federation in modern conditions.

Pharmaceutical companies that want to extent their activities and approach their clients through internet are also in need of understanding the trends and special features of their potential clients. Managers, marketing specialist and other representatives of pharmaceutical companies may show interest in the research as well.

In search for answers for the research question: —Which factors may influence the customer loyalty in online-pharmaceutical retail in Russia, both quantitative and qualitative research are to be implemented in form of the questionnaires for potential customers for the former one and the focus-group for the latter.

Chapter 1. Customer loyalty in internet pharmaceutical retail

1. 1 Internet Retail.

An understanding of Consumer loyalty in internet pharmaceutical retail is impossible without understanding several concepts, such as customer loyalty, pharmaceutical market, and the internet retail itself. Without doubt, internet retail is a successor of traditional brick-and-mortar retail, and in order to create a solid theoretical background for the further practical part of the research, all the aspects of the retail are covered in detail within the first chapter.

1.1.1 Definition of ‘retail’

The word ‘retail’ traces its roots back to as early as XV century, when it started to indicate the sale of goods in small quantities or packages. The word comes from Old French *retaille*, which literally means to cut a piece of something and has a similar meaning in Old Italian *ritaglio*.

Historically the word ‘retail’ in general bore a meaning of selling commodities to customers directly through the small shops, as opposed to the wholesale. In modern world in general retail is defined as the sale of goods or services to the end customer for household, family or personal use. Retail nowadays attributes to both tangible and intangible products, as, for example, a service such as dry cleaning provided to an ultimate customer is also regarded as a retail transaction.

Despite the fact that general definition of retail is acknowledged in the scientific word, there are minor differences in how the concept is explained by scholars.

Table 1. ‘Retailing’ definitions

Reference	Definition
James, Walker, & Etzel, 1981	—All the activities associated with the sale of offerings for final consumption.¶
Morgenstein & Strong in, 1983	—Consists of the selling of goods and services to their ultimate consumers, that is, individuals who buy something for personal or household use.¶
Mason, Mayer, & Ezell 1991	—Consists of all activities involved in the sale of goods and services to the ultimate consumer.¶
Burstiner, 1991	—Form of distribution that involves selling goods or services to final consumers to fill their needs and wants; all the activities that must take place before the retailer can sell the goods (services); and including an exchange process between consumer and retailer.¶
Rosenberg, 1993	—The activity of purchasing for resale to a customer.¶
Lucas, Bush, & Gresham, 1994	—All activities involved in the marketing of goods and services directly to consumers.¶
Levy & Weitz, 1996	—The set of business activities involved in selling products and services to ultimate consumers.¶
Dunne & Lusch, 1999	—Consists of the final activity and steps needed to place merchandise made elsewhere in the hands of the consumer or to provide services to the consumer.¶
Berman & Evans, 2001	—Business activities involved in selling goods and services to consumers for their personal, family, or household use.¶

There are slight differences in how the scholars define the retailing. For example, some state that retailing needs previous purchase of goods from a wholesaler (Rosenberg, 1993). However, there is one specification of a concept that is acknowledged by all the researchers – that retail involves selling goods for a final customer without intermediary.

1.1.2 Retail life cycle theory

Throughout the centuries there existed numerous amounts of different forms of retail: from small-scale manufacturers selling their goods to public on fairs to modern day supermarkets and department stores. Over the years it has been noticed that historically one form of retail is succeeded by another and that each end every one of them goes through certain stages of development: Innovation, Accelerated Development, Maturity and Decline. These observations were described in details in ‘Retail Life Cycle’ by William R. Davidson, Albert D. Bates, and Stephen Bass (Davidson, Bates, Bass, 1976).

The first stage of the retail life cycle is innovation. The new retail institution enjoys the advantage in forms of either/or more affordable price for customer, a new feature offered, location advantage or new promotion methods. However, despite such a preferable position, new form of retail may be less profitable in comparison to the already existing ones due to high institution costs and thus be less attractive to investors.

Internet retail was in the first stage in the late 1990's and in the beginning of the 2000's, when both vendors and customers were not used to implementing the informational technology while purchasing goods. However, many still were attracted by a new form of retail due to the convenience and lack of need of a physical store.

The next stage is called 'Accelerated Development'. During the second stage of the life cycle a new form of retail expand geographically and enjoy rapid development both in sales volume and in profit. The new form of retailing becomes so increasingly popular that other market players, that were previously engaged in other forms of retail tend to completely shift to a new form or at least deliver part of its activities to it.

Internet retail is still on the second stage of its development. Nowadays we can see the rapid geographical and sector expansion of internet retail, with even successful traditional brick-and-mortar retailers shifting part of their activities to the web. Examples may include fashion giants like Zara and H&M, who have recently expanded their activities to internet fashion retail.

The fact that internet retail is still on the stage of its development makes the subject particularly interesting to the researchers as some of aspects of business and marketing related to the sector are still not properly studied and some of them also require further improvements.

The third stage represents the most significant part of the retail life cycle. It is called 'Maturity' and is characterized by highest profits and the most significant market share. It is the scale that starts to create problems for the type of retail in this stage. As the businesses expand, it becomes hard to maintain the service level at its best and to lead the companies to the stage of stability. Moreover, attracted by previous development rated, more players come to the market and the supply in the form of retail suppresses the demand, making business in the sector less profitable.

The last stage of Decline is the most traumatic one. A form of retail experiences loss of market share and profits till it becomes almost or completely obsolete. However, the last stage is avoided in most cases by repositioning and acceptance of new forms of retail.

Internet retail seems to be a good choice for companies that have been engaged in retail businesses that are currently on stage of Decline. The good example here is the shift from mail-order catalog business to an internet store. As the internet retailer fulfills the functions of ordering in far faster ways than mail order or even the phone call, many companies shifted to this new channel while delivering the production to the final customer.

1.1.3 Internet retail

Internet retail, in the scientific literature also bearing the names of online retail and electronic retail or e-retail, is defined as the process of retail that is conducted online (Turban et al, 2011) or the process of selling goods and services to the consumer market via the Internet (Wang, Head, 2002).

The classification of internet retailers include four categories according to their organization models (Chen et al, 2004; Gillenson and Sherrell, 2004): mail-order retailers going online, manufacturers, pure e-retailers and click-and-mortar retailers.

Mail-order retailers going online are the companies that were previously engaged in already outdated mail-order business and timely shifted to a new form of retail, transferring their business online. The advantages of this type of internet retail can be defined as a vast experience in business and already existing reputation and a base of clients, that make the business potentially more competitive than other internet start-ups.

The second type among the internet retailers typology is manufactures, the companies that own the production premises and use web pages to reach the end customers directly without intermediaries. The advantage that the company and the clients enjoy is the reduced price due to elimination of intermediaries. However, limited number of products offered and lack of logistics experience often may clients choose other specialized retailers.

The third type of internet retail is so-called pure e-retailers, which are the companies that sell directly to the customers via internet without any physical stores. This type of online retail

may be considered as the most authentic one and still the majority of most successful internet stores are of this category.

Click-and-mortar retailer is a peculiar category that includes companies that expanded their activities to the internet while still continuing doing business on the brick-and-mortar basis.

A number of researchers (Burton, 2005, Calkins et al., 2000) claim that the most popular two categories of internet retail are click-and-mortars, with the last category being the most supported by the customers as such way of business not only gives the wider choice of purchase, but also enables the clients to experience the product off-line before purchasing it online. It is due to the reason of the popularity of the model that more and more brick-and-mortar retailers are now opening the internet retail facilities in order to enjoy the advantages of both models and expand the market share even further.

With the development of internet technology in the last half of twentieth century more and more businesses worldwide are thinking of shifting their conduct from real world to digital one. Opening and running an internet store creates a chance to serve customers from all over the world regardless of their time zone and country of living. Internet created enormous opportunities for businesses as it destroyed geographical barriers between companies and customers and provided equal conditions for everyone in the market with only one special requirement – creation and maintenance of a web site.

The history of internet retail dates back to 1979 when a company called Videotex started to reach to its clients through text information and providing a platform for so-called teleshopping, which is basically making orders upon information seen on the screen from home. This invention revolutionized the concept of shopping and was a processor for later internet shopping that would develop with the rise of internet.

In 1982 another company, Minitel, became a successor of Videotex and started to conduct its services in French market. The technology enabled clients not only to make purchases, but also to search for information in telephone directory as well as send text messages to another users of the platform.

In 1990 Tim Berners-Lee, a European researcher wrote the first web page and first browser to view it and started the revolution of internet commerce that continues up to this date.

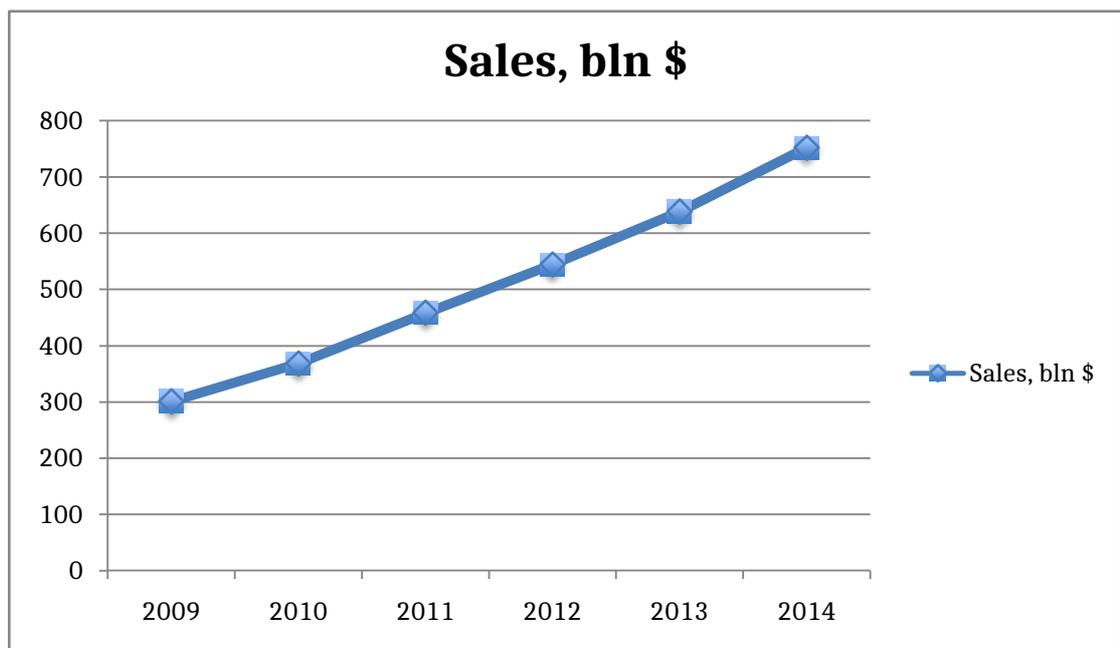
The industry saw a rapid development of e-commerce in the late 1990's, primarily due to the reason of drop in technology cost and rise of availability of computing hardware and software. The fast changes occurred both in business-to-business and in business-to-customer markets.

In the year 1991 a software company Netscape released its first browser and special program for making secure transactions. First companies to start accepting orders internet were fast-food delivery serviced like Pizza Hut which were followed by car dealers and sports equipment stores.

Today's commercial giants such as Amazon.com and E-bay were founded as early as in 1995. Two leaders of the industry operate in different concepts of internet retail, with Amazon being the biggest internet B2C store and E-bay serving as a platform for C2C operations and internet auctions.

The beginning of the new millennia saw the dot-com bust with the overly high speculations which led to it in previous several years. Many young companies lost the investors and were forced to cease to exist. The revival of internet commerce began slowly in 2008 with stable development in the following years.

Figure 1. Global sales in internet retail, bln \$



Source: <http://www.statista.com/statistics/222128/global-e-commerce-sales-volume-forecast/>

Experts predict that in following years internet retail industry will develop with steady pace of 16,1% per year which would create opportunities for business all over the world.

Initially it was widely believed that the rise of internet retail would pose a great threat to the traditional brick-and-mortar retailers. But the history proved that many of the successful internet retailers were originally brick-and-mortar shops that expanded their activities to the web.

Internet retail possesses a numerous advantages and disadvantages both for businesses operation through this retail channel and for customers engaged in purchasing goods and services with the help of web-sites.

General characteristics of internet retail include convenience and high speed of the process of purchase, wider variety of products offered in one store, availability of products all around the globe with opportunity of delivery of the production abroad and low switching costs, as the choice can be changed within the speed of a click. Shopping online is also associated with absence of human contact and availability of products for twenty four hours per day seven days per week.

There are numerous advantages that prompt businesses to expand or completely shift their activities to online (Dennis, Fenech and Merryllis, 2004), such as lack of need of the store rent, global internet audience as potential customers, lack of intermediaries and consequential cost leadership among the competitors. Internet retail presents favorable conditions for companies of any scale which makes it possible to develop and open an on-line store of similar categories for any company from a start-up to a market leader with decades of operations history.

As for the disadvantages of conducting business online, those can be named as complicated logistics, especially in terms of global operations and cases of package lost, returns and refunds. As the choice of production to be purchased can be easily changed, the retailers face low degree of impulse purchases among customers buying online. Post-sales service is also a challenging issue for businesses operating on the web.

Consumers, while engaged in purchasing in internet retail stores, save large amount of time of making the right choice as internet offers a variety of similar production. Online shopping not only is time-efficient, but also a very convenient process, with majority of retailers offering delivery to the doorstep. One of the most important factors (La, 2002) that make

customers shift to online shopping is the prices offered in online stores, that are in most cases lower than in brick-and-mortar ones. Online platforms not only provide a chance to purchase the products, but also create the system of product evaluation and recommendation through the commentaries channels. The system of anonymous feedback make it easier for the companies to improve their services, which is rarely possible in case of brick-and-mortar stores.

However, there are also drawbacks that may prevent the customers from purchasing online, for example, slow and costly delivery due to inefficient logistics, insecurity about payment procedures and worries about origins of the products. For some categories of customers lack of human contact is also a major disadvantage, as they tend to enjoy the process of purchase while engaged in conversation with a shop assistant. Lack of physical and exact visual experience is another important issue for online retail (Caplan, 2004), as some find it hard to make a decision without actually seeing or touching the product purchased.

1.1.4 Internet retail in Russia

According to DataInsight Annual Report, in Russian Federation internet retail sector is currently on the Acceleration Development stage, with total growth rate reaching as high as 42% in the year 2014. For the internal internet retail this rate equaled 35%.

The total market volume equaled to 580 billion rubles and approximately 26% of total population older than 18 years were engaged in purchasing goods in internet retail stores for the year 2014. As only 76% of total population in Russia older than 18 are active internet users, percentage of users involved in purchasing in internet retailers equals 34%. On average, a Russian internet-retail customer makes 8 purchases per year with average bill of 3300 including the cost of delivery.

The most active age segment among all the internet users are younger clients aged 18-24. Among them 43% made purchases in internet retailers during 2014. The higher the age group, the lower this percentage tends to be: for group 45-54 it is 30% , for 55-64 is 17% and older for 64+ is only 6%. However, this tremendous difference may also be attributed to lack of internet penetration into higher age group: if for younger people aged 18-24 almost all representatives are active users of internet, among representatives of elder generation internet penetration is much lower.

The average amount purchased per person equaled 3300 rubles including the cost of delivery. Of all the purchases more than a half was less than 2000 rubles and a quarter less than 800 rubles, which enables us to state that the majority of products purchased are from middle- or low-cost categories.

The most active category of all online retail customers are females – they account for 55% of all online purchases made in the year 2014 on the internet. However, the amount spent is higher among men, as the most popular categories for them are electronics and technical parts, which are in general more expensive than apparel and cosmetics, which are most popular categories purchased by women.

Product category	Number of buyers, million
Apparel	8,1
Cell-phones, tablets	6,5
Cosmetics, perfumes	5,5
Appliances and other electronics	5,2
Books, CDs, Games	5
Children apparel	4,7

Apparel, shoes and accessories are the most popular category for online purchase in Russia, with electronics fall for the second place on the basis on number of customers making a purchase in this category of the product in the year 2014. Another popular category is perfumes and cosmetics, which fall on the third place on the basis of number of customers. The list of most popular categories of products purchased via internet retailers in Russia in 2014 is presented below.

Table 2. Categories of products purchased on the internet in Russia in 2014

PCs, laptops	4,8
Souvenirs, gifts, decoration	4,2
Shoes, bags, accessories	3,9
Hobbies and crafts	2,6
Furniture and household	2,3
Sports and outdoors	2,2
Medicines	2,1
Auto parts	1,9
Pet supplies	1,9
Gardening	1,6
Food and beverages	1,3

Source: adapted from DataInsight annual report

1.2. Pharmaceutical market overview

In the year 2014 the total revenue of global pharmaceutical market reached \$866.9 bn with the annual growth rate of 4.7% since the year 2010. The largest markets in the industry are those of United States, Japan and People's Republic of China. The latter produces continuous high growth year by year while the developed economies growth with considerably slower pace. The US market is still considered attractive due to its size and slow but consistent growth.

It is forecasted for global pharmaceutical market to grow with the rate of 5.8% in the next four years till 2019, when the market value is expected to reach \$1,147.1bn.

In the majority of countries of the world the healthcare and pharmaceutical services are provided by a combination of public and private spending. The source of public healthcare funds may be either taxation or insurance healthcare funds sourced by the payroll contributions. Healthcare insurance companies may also act as a source of private funding for treatments, although there are cases when those are funded just by the private funds of the patients.

In some countries prices of pharmaceutical production is controlled by the government, which created tough barriers for producers and retailers to overcome. The market is characterized by the high level of regulation in terms of safety and quality, which makes the entry of new companies somewhat more complicated than in other industries.

Other complications that the companies face are high level of R&D expense (Banerjee, T., Navak, A., 2015) as for a successful development of a new treatment costly research and tests are necessary. The investments usually are compensated with the premium from the realization of new branded medicine. However, this favorable position is time limited due to instant start of generic drugs production after the expiration of the patent. This situation prompts the pharmaceutical companies to constantly heavily invest in R&D in order to sustain competitive advantage. This also explains high market value of the most successful pharmaceutical companies.

The product distribution system is also different in case of pharmaceutical market from other industries, taking into consideration that the production is sold not only through specialized retailers- pharmacies, but also through hospitals and clinics. The availability of products to

public is restricted by the prescription system and the advertisement of prescription medicines to public is prohibited by law.

It is due to the unique prescription system of the industry that marketing of pharmaceutical companies is often targeting not the end customer, but the intermediary in a form of a medical practitioner who possesses the right of recommending particular treatments and issue prescriptions.

1.2.1 Internet pharmaceutical retail

The purchase of medicines in online pharmaceutical retailers has been growing rapidly during past few years both in developed and developing economies. In the US, according to government statistics, there are more than seven thousand internet drugstores offering both prescription and over-the-counter medicines.

The increasing popularity of this way of medicines acquisition can be explained by several factors that this form of pharmaceutical retail possesses against its brick-and-mortar competitors.

The most important factor is price reduction, which any internet retailer may enjoy and which is particularly important for chronic patients in need of purchase the same medicines over a certain period of time (Erdem& Chandra, 2003). Price factor also seems rather important for members of developing countries whose income limits the purchase of expensive brand drugs and who opt for cheaper generic options purchased in the most affordable way.

Other important factor that may prompt people to choose the internet drug store option is lack of human contact and anonymity. For some purchase of certain category of medicines, such as Viagra or birth control pills in a usual brick-and-mortar store is associated with negative emotions, which can be avoided by making such purchases online with the option of delivery.

Yet another positive factor is the actual convenience of purchase with at-the-door delivery (Fox, 2004), which makes the process possible even for people living in far-away places or elderly people with mobility issues.

Internet pharmaceutical retail in future is also expected to solve the problem of prescription fraud by establishing a comprehensive system of receiving and storage of physicians' prescriptions in electronic form that has been implementing in the US since the year 2006 and which has been growing rapidly ever since (Dearment, 2012).

The potential problems that may occur during the purchase of medicines via the internet include purchase of a drug without prescription and dangerous misuse (Fung, Woo, & Asch, 2004), safety concerns due to illegally produced fake or unapproved medicine distribution. Self-prescription may also result in unwanted side effects (Spain, Siegel, & Ramsey, 2001).

Other major factor that has been disturbing the societies after the rise of online pharmacies is the medical advice given on the internet web sites and sometimes on the forums of online pharmacies. Even when the advice is given from a eligible professional online, there is always the risk of neglecting the patient medical history and misuse of medicines. This problem is considered particularly important for countries without total health insurance coverage and where a doctor visit is a costly procedure for people.

1.2.2 Pharmaceutical market in Russia

In the year 2014 Russian pharmaceutical market volume equaled 1,152 billion rubles with the annual growth rate of 10%. The market still for its major consists of imported medicines with more than 77% of drugs sold in Russian pharmacies are of foreign origins.

All the top-ten product producers represented in Russia are not local with European giants Novartis, Sanofi and Bayer occupying the first three places. In fact, there is only one Russian company, Otisipharm, represented in top-twenty of medicine suppliers in the country.

Para pharmaceuticals is also a very important market in Russia that is present in form of traditional herbal medicines and various dietary supplements which are quite popular among the population. In 2014 market value of Para pharmaceuticals totaled 183 billion rubles with CAGR of 8%.

Government spending on medicines in 2014 were growing with CAGR 10% and accounted for 84,4 billion rubles. Hospital sector totaled with a sum of 209.8 billion rubles purchases.

Among the retail sector of Russian pharmaceutical market for the past few years the trend of mergers and acquisitions dominated with the market leaders expanding the market share through acquisition of local chains. The leader in 2014 is Rigla with annual revenue of 27.4 billion rubles, followed by A.V.E. group and Implozia.

Table 3. Top ten pharmaceutical retailers in Russia in 2014

Rating	Company name	Revenue, billion rubles	Market share	CAGR	Number of stores
1	Rigla	27.4	3.2%	22%	1202
2	A.V.E. group	25.5	3.0%	10%	709
3	Implozia	22.6	2.6%	34%	1350
4	A5	19.6	2.3%	18%	1005
5	Doctor Stoletov	18.8	2.2%	13%	342
6	Raduga	15.7	1.8%	5%	866
7	Pharmimpecs	12.2	1.4%	7%	534
8	PlanetaZdorovia	10.4	1.2%	16%	635
9	Pharmland	10.3	1.2%	47%	485
10	Vita	8.3	1.0%	8%	457

Source: DSM Group Annual Report 2014

1.2.3 Internet pharmaceutical retail in Russia

The sector of online pharmaceutical retail is currently not regulated in Russia, there are no particular legislation regarding this sector of internet retail. Despite this fact there are many internet pharmacies in the country falling into two categories – pure online retailers and click-and-mortar drugstores operating as branches for the traditional brick-and-mortar company. For the past couple of years the web sites providing services of medicines purchase gain the popularity among citizens all across the Russia.

The main reason of internet pharmacies rapid development is the large variety of products presented, which is particularly an issue for small brick-and-mortar competitors or

pharmacies operating in faraway places. The service of internet pharmacy helps to minimize the time for a particular drug search and avoid time spent in lines and contact with other patients during the periods of infections.

Another factor, probably the most important for nowadays Russia is the price preference of internet pharmaceutical retailer compared to the competitors. Keeping in mind the tremendous pace that the internet retail in Russia is developing with, it can be stated that a lot of customers started to trust internet stores, which will positively effect online drugstores in the future.

Lack of clear legislation managing business in internet pharmaceutical retail led to unfavorable position that online pharmacies suffer compared to other internet stores. According to Russian law, it is forbidden to deliver medicine products directly to the customer without licensed pharmacy as an intermediary. That is why the delivery is conducted to any pharmacy which the client suggests and the products consequently are picked up by the customer from there.

The leading online pharmaceutical retailers offer not only a wide range of medicines (more than 50 000 positions on the leader web site), but also cosmetic, dietary supplements and other health-related products for convenience of the clients. The leading online pharmacies in Russia include Piluli.ru, Apteka.ru and eApteka.ru. The full list of top ten internet pharmaceutical retailers according to their web traffic volume is provided below.

Table 4. Top ten internet pharmacies in Russia

Rating	Company name
1	Apteka.ru
2	Piluli.ru
3	366.ru
4	Rigla.ru
5	eApteka.ru
6	Apteka-peterburg.ru
7	Apteka-fz.ru
8	FialkaSpb.ru
9	Apteka.tomsk.ru
10	O'Vita

Source: metrika.yandex.ru

1.3 Customer loyalty

Despite the fact that the definition of customer loyalty is still under discussion, it is generally defined as the fact of a customer buying products or services from the same company over a long period of time. In other words, customer loyalty is a situation when establishment of long-term relationships between the company and the customer have occurred and when the company manages to retain those valuable relationships.

In modern business word customer loyalty is defined as a multidimensional, behavioral, cognitive and emotional process (Salegna, Goodwin, 2005) and is acknowledge and valued by businesses, as clients' attraction and retaining are viewed as crucial factors of success. Severe market competition prompt companies to constantly improve their relationships with existing clients and establish new with new or even potential clients.

Customer loyalty helps to solve a number of issues that the company faces during its activities. The most important one is continuation of business operations in the modern environment of severe competition. Customer loyalty helps to distinguish the company from its competitors and create a solid base of clients that ensure that the company's operation will continue regardless to competitors' successes.

Another important feature of customer loyalty is that loyal clients are a valuable source of information and a base of company's development and improvement (Reichheld and Scheffler, 2000). When trust relationships have been established, it is easier for the companies to open a constant communication channel with the customers and gain an honest feedback, which can serve as a basis for company's consequential improvements and gaining even further loyalty from its clients through increasing customer satisfaction.

As some regard customer loyalty as a form of relationship marketing, it is necessary to state that successful establishment of customer loyalty replaces for the most cases marketing efforts of the company as loyal customers serve as company's promoters and intentionally or unintentionally help to attract new clients.

In modern world with high velocity of information this is especially important due to the fact that relationship between the client and the company begins even before he or she is engaged in purchasing products or services offered. Establishment of strong customer loyalty

ensures positive perception among potential clients and helps with the transit of potential sales to actual ones.

In scientific managerial literature the discussion of customer loyalty in a form of emotional involvement started in 1960-s with the help of professor Phillip Kotler, who defined loyalty as a deep commitment to country, family and friends and compared this kind of emotional commitment to customer loyalty to brands. According to Kotler (Kotler, 1992), once this kind of customer loyalty have been established, the client would never switch to a different company.

The above described approach to defining the customer loyalty is called perceptual in scientific literature and implies that the customer loyalty can only be established when there are positive emotions among customer associated with the company. However there is one major drawback in the theory, namely that positive emotions among potential clients are often not enough for generating the benefits for the company as, in some situation, positive attitude does not always lead to the purchase for reasons such as unaffordable price, absence on the market etc.

Another theory explaining customer loyalty has also been developing since 1960's; it is called transactional and associated customer loyalty with repeated purchase behavior, especially repeat purchase cycles (Bass, 1974). The degree of customer involvement according to the theory can be measured by number of repetitive purchases, the higher the number the deeper the customer loyalty (Cunningham, 1966).

Later this approach has been modified with introduction of probability concept and customer loyalty was estimated with probability of purchase of a similar product or service (Massey, 1970). Purchase of a particular product against other products were also considered an important feature of customer loyalty (Kahn, 1986).

The major disadvantage of the transactional theory is lack of consideration of choice limitation (Jacoby, Chestnut, 1978), e.g. when the repetitive purchase of similar product is conducted not by loyalty, but by lack of other choice or due to limitation of money and consequential choice of the cheapest option (Dick, Basu, 1994).

In general, modern researchers agree that the concept of customer loyalty is highly problematic and includes various dimensions, characteristics and behavioral manifestations (Brandt and Baker-Prewitt, 1997). Usually customer loyalty is connected with customer satisfaction, however it is widely discussed that this factor alone is not sufficient for the customer loyalty.

1.3.1 Customer loyalty measurement methods

As the subject of customer loyalty is highly complicated and includes a variety of factors besides simple repetitive purchase, its measurement may seem rather challenging for researchers. For the past several years three methods proved to be very popular in the practice of measuring the customer loyalty: Trust-Based Commitment model, the Multinational Model and Net Promoter Score Model.

The Trust-based Commitment model is not taking into consideration the connection between customer satisfaction and customer loyalty and stresses only trust as the driver of loyalty. It measures both functional and personal dimensions, with the former focusing on satisfaction and measuring the utility of consumption and the latter resulting from beliefs and feeling beyond the basic characteristics of the product or a service. It is the personal dimension that is associated with incorporating the brands to self-concept of clients and that gives the customer the positive relationship experience (Story, Hess, 2006).

It is discussed that satisfaction only is not enough of a factor for customer not to change the preferences and stay loyal to the company. According to Trust-based Commitment model it is the combination of both satisfaction with the product or service and the personal connection may result in successful establishment of customer loyalty (J. Hess and J. Story, 2005).

The theory supports two dimensions of behavior of loyal customers and according to the degree of functional and personal involvement with the brand:

Low functional, low relational connections customers are merely satisfied with the product and services and do not experience any personal association to the brand. Those are not considered as loyal customers and are more likely to switch to another product or service provider given a chance.

High functional, low relational connections customers are very satisfied with the product or service, however not associating themselves with the brand. This category of clients behaves loyally but tend to switch to products with similar or higher quality characteristics.

Low functional, high personal group expresses motivation by personal factors rather than functional outcomes. Such customers may be regarded as loyal, however they are still considered to be likely to change their preferences when a product or service with higher functional characteristics is introduced.

High functional, high personal connections group are considered as only truly loyal customers as they are attracted to the brand with both functional and personal dimensions of the consumption. They tend to stay loyal to the company even if the competitor introduces products with similar or higher functional characteristics.

In order to distinguish customers into four different segments the research methods of questionnaire and interview are used with the question aimed to measure seven factors of loyal behavior and intention: willingness to pay more for a brand; money spent during the past month; sales promotion at brand's category; visits during a period of time; recommendation probability; willingness to defect and willingness to buy on Internet.

Additional sets of questions are presented to measure the personal involvement and the connection between functional and personal factors resulting in an efficient customer loyalty.

The Multidimensional model is the second model used for measuring customer loyalty. It was developed by A. Dick and K. Basu (Dick and Basu, 1994) and is focusing on relationship between a customer's positive attitude and repeated purchase in the particular store (Garland, Gendall, 2004). The loyalty is measured by two dimensions: relative attitude, that includes satisfaction and preference measures and patronage behavior, that includes frequency and amount of purchases, share of income devoted to the store or a product etc.

According to the customers' degree of relative attitude and patronage behavior, they are divided into four groups with different characteristics of customer loyalty: —true loyal are characterized with high degree of both attitudinal and behavioral loyalty; those with high behavioral and low attitudinal are called —spurious loyal, the high attitudinal but low behavioral

group is of —latent loyal and those with low degree in both dimensions are considered —non-loyal.

The tool used while measuring the degree in two dimensions is survey, however conducted through different channels from paper questionnaire to telephone interviews followed by analysis conducted with means of methods such as the Juster scale (R. Garland and Ph.Gendall, 2004), factor and correlation analysis (Rundle-Thiele, Mackay, 2001) or the Spearman rank-correlation procedure.

Net Promoter Score model was developed by F. Reichheld (Reichheld, 2006) as the new approach to loyalty measurement in order to help companies to more accurately measure the customer loyalty of the clients. The author denies the traditional measurement tools as surveys of satisfaction and compares customers' loyalty to the company to loyalty to friends and family.

Reichheld develops the concept of a loyal customer as the representative of the company, who delivers the information and promotes the products or services to other members of the society. But the author states that this can become true only if the customers are positive about company presenting best value, best product features at the best price.

According to the author, the estimation of customer loyalty can be summarized in one particular question —How likely would you be to recommend our company to your friends or colleagues?, as all other factors including customer satisfaction and other behavioral measures are also underlie this level of commitment.

The measurement index used in this method is called Net Promoter Score and it divides the customers into three groups according to their willingness to recommend the company to others, and, thus their loyalty: —Promoters are those who actually recommend the company to their friends, family and colleagues; —Detractors are the group of unsatisfied clients who are likely to spread negative feedback and —Passives are generally satisfied customers who are not motivated enough to talk about the company or a product.

The research methods suitable for this method include surveys via telephone or paper (Zikienė, Bakanauskas, 2007) with the simple mathematical analysis using the equation

$$P - D = NPS$$

where P is the number of promoters, D is the number of detractors and NPS is New Promoter Score.

1.3.2 Customer loyalty in retail

The concept of customer loyalty is highly important to any form of retail, as the attraction and retention of the customers is the most crucial factors for the businesses. There are different methods of establishing the deep commitment between the client and the retail store that the companies have been implementing during their practices.

One of the most popular one is the introduction of customer loyalty programs. In developed countries the majority of retail customers are involved in one or more customer loyalty programs. In the US the coverage reaches 90% of the population (Berman, 2006). Loyalty programs are designed to encourage the customer to visit the retail store more frequently and make a purchase decision (Demoulin&Zidda, 2008). The main objective of the retailers is to prompt clients to maintain the relationships with the customer, as it has been proved in the study of Reinartz (Reinartz, 2010), that the clients that received the gratitude in a hard type reward, for example as a small gift or points to the loyalty card are more likely to repeat the purchase in the same store than those who just received appreciation as a soft type reward e.g. as a —thank youll.

Customer loyalty programs for the retail stores help businesses to identify, retain and reward profitable customers (Kumar &Reinartz, 2012). As the customer loyalty is important for retailers only in case if it leads to the increase of the profitability (Reinartz& Kumar, 2000), establishing the loyalty program that would successfully lead the client to a repeated purchase in the same store is the crucial task of the company's customer relationship management system.

There are different types of customer loyalty programs that the retailers implement during their conduct. The most popular ones include the issuance of a special plastic card for immediate price discount, accumulation of points for a fixed amount of money spent, that can in future be exchanged for a discount or a complementary product or a gift, members-only deals and eligibility for sweepstakes of contests (Allaway, Gooner, Berkowitz, & Davis, 2006). In general, loyalty programs offer some type of economic benefit to the customers based on repeated

purchase. The economic benefit that the clients receive is usually accumulated over a certain period of time and its materialization is delayed (Dowling & Uncles, 1997; Kumar & Reinartz, 2012).

Some other tools of establishment customer loyalty in retail include paying close attention to the details and constantly keeping customer's attention on the company's activities. Many retailers distribute the catalogues with the production or special offers to their client's home address. Monthly or seasonal contests for loyalty card holders also helps to engage customers and gain the sense of belonging.

In order to establish the close emotional bond and give the clients the sense of diversification, retailers organized special «clubs» for loyal customers. The members of a club enjoy special service in-store, for example, a separated cash-register, receive newsletters or messages with special offers of the company and may enjoy the direct communication with the company through internet or telephone line. The establishments of such clubs as a form of customer loyalty program has already proved itself efficient for retail sales increasing and market share expansion (Sztangret & Bilińska-Reformat, 2014)

With the rise of technology, the customer relationship system becomes more and more sophisticated with the introduction of smart-phone applications and smart shopping carts that enable the retailers to gather and store information about purchasing behavior and verify even individual shopping patterns (Smith, 2008). The information gathered is used in marketing and merchandising decisions in order to enhance the customer loyalty and thus client retention.

1.3.3. Customer loyalty in pharmaceutical retail

Pharmaceutical market is know for its fierce competitiveness, which prompts the businesses in this sector to ensure the sales by establishing a solid customer loyalty, especially given the fact that more and more chain supermarkets and convenience stores introduce new categories to their product range that previously used to belong solely to the drug stores, namely dietary supplements and health and beauty products (Woldt, 2012).

In pharmaceutical world, not only retail stores may establish solid customer loyalty relationships. Due to peculiarity of the business, namely on the predominance of the prescription drugs in the profit of major producers, pharmaceutical giants tend to establish their own

relationship with the end customers, as well as with the physicians as the representatives of the final clients.

The major problem for pharmaceutical retailers and producers is lack of discipline and awareness among patients, among whom nearly quarter does not purchase the prescript medicines recommended by the physician. Having acknowledges the fact that this lack of attention later on leads to more complicated health issues and even in some case hospitalization, some drug store chains in US introduced the loyalty program, one important feature of which is to remind the patients to renew or prolong their prescriptions via information channels of e-mail, text messages or even phone calls.

It is also crucial for the pharmaceutical companies to establish loyal relationships with the physicians who actually make the prescriptions and recommend the treatment to the patients. Wide chain of pharmaceutical companies' representatives serve as the information channel for both informing the physicians, and thus, patients about company's new offers and special discounts and for gaining the valuable feedback on the effectiveness of the products (Pete, 2009).

1.3.4 Customer loyalty in online retail

Customer loyalty in online retail also bears the name of e-loyalty in a number of publications. The creation of e-loyalty is a vital attribute of successful functioning of internet stores as it is estimated that it costs 20% to 40% more for an online retailer to attract a new customer in comparison with a traditional brick-and-mortar competitor's customer attraction costs.

In order to coup with such high costs, online vendors must establish and sustain profound customer-retailer relationship, which not only keeps business running, but also helps to increase the profits and market share with means of attraction new clients through word-of-mouth (Heskett et al. 1994; Reichheld and Sasser 1990; Zeithaml et al. 1996). The success of many known web retailers is explained merely through absence of advertising costs due to significant customer loyalty and extensive referral system.

The factors that may influence the online retailer's customer loyalty are suggested to be similar to those of brick-and-mortar retailers, namely customer trust and perceived quality. The service quality perceived by the customer can be explained through several dimensions, such as

tangibles, in case of an online vendor, the appearance of a web-site, which possesses the features of good organization, neatness and simplicity. Other important dimension is the reliability, which implies on-time delivery without errors in the package. The third feature is responsiveness in form of staff's ability to promptly address to all the client's problems and issues in a polite and helpful manner. Assurance in e-retail is achieved through a logical system of navigation through the whole process of the purchase, which makes the customer comfortable with the web-site and creates no negative emotions. The last dimension of quality is empathy in some form of personalized services, for example personal greetings or recommendations on the basis of previous purchases.

1.4 Summary of the chapter

Internet retail, also bearing the names of e-retail or online retail is the process of selling goods and services directly to the customer that is conducted online or via the Internet. This type of retail is currently on the second stage of retail life cycle and is characterized by rapid development and expansion both within the existing markets and geographically, especially in the developing countries, including Russia.

The advantages and disadvantages of internet retail are numerous both for marketers and customers involved in shopping online. However, the pluses of making purchases on the internet, such as time and cost efficiency and convenience of delivery, tend to suppress the minuses, which lead to even greater expansion of this form of retail.

In Russian Federation, despite general stagnation of the economy, the internet retail sector develops with a rapid pace of 35% annually with the market reaching 560 billion rubles and more than 25 million citizens involved in online purchases. The most popular categories for internet shopping in Russia are apparel, electronics, perfumes and cosmetics, while purchase of medicines online is still not as popular as many other categories of products.

This rapid growth gives the internet pharmaceutical retailers the unique chance of rapid development taking into consideration the negative situation in Russian economy and demand for price reduction services among the population. Although the future of internet pharmacies seems bright, there still are obstacles to overcome, namely the lack of legislation and limitations of delivery service.

In order to retain clients and keep profits at the same level or increase them modern companies introduce measures to increase customer loyalty. Not only loyal customers are more likely to keep repurchasing and increase the company's wellness, they also may act like promoters, spreading the popularity of a particular store and thus increasing the market share of it.

Chapter 2. Research methods

2.1 Problem definition

Recently Russia saw a great increase in popularity of internet-based retailers, offering the widest range of products from clothing and cosmetics to electronics and even machinery. But despite the popularity of some retailers such as online fashion stores, the web-sites of on-line pharmacies seem to attract less customers.

The effective marketing research aims to provide information sufficient for better management decisions, products and strategies (Friemann, 2003). Similarly, this study aims to provide the identification of key factors that influence the customer loyalty in internet pharmaceutical retail and the suggested recommendation of implementation of those in practice in order to managers of online pharmacies to take action and improve the services that they provide in accordance to the outcomes of the research.

In order to provide a comprehensive picture and valid research outcomes, the business environment that online-pharmacies operate in shall be analyzed. The researcher suggests two methods – PESTEL DG and Five-Forces Analysis as the most suitable tools for the industry analysis of Russian on-line pharmaceutical retail.

In search for answers for the research question: —Which factors may influence the customer loyalty in online-pharmaceutical retail in Russia, both quantitative and qualitative research are to be implemented in form of the questionnaires for potential customers for the former one and the focus-group for the latter.

2.2 Research methodology

Research is defined as a systematic and objective investigation of a subject or a problem in order to discover relevant information or principles (Smith, 2005). There are two types of research distinguished by nature: fundamental, or basic research that aims to broaden the boundaries of existing knowledge with no intent of immediate application of the information gained on practice, and, in contrast, applied research that uses the already existing knowledge in attempt to solve the particular problem or task.

The research conducted is thus purely applied as it aims to solve the particular problem that can be defined as building of customer loyalty in on-line pharmaceutical retail.

By the criteria of source of information used two types of research are identified: secondary research that uses already existing sources of information, such as publications and prior data collected in the process of the problem investigation; the other type is primary research, during which the researcher creates the information herself or derives it directly from primary sources.

Both secondary and primary types of research are to be used during the completion of the paper, the secondary for the purposes of analyzing the international experience in building customer loyalty in on-line pharmaceutical retail and the primary for investigating the preferences of local Russian customers.

2.2.1 Industry analysis methods

PESTEL-DG analysis

To analyze the external factor that may affect the company engaged in on-line pharmaceutical retail in Russia, two analyses are to be implemented. The first one is called PESTEL-DG analysis and the second one – Five forces analysis.

PESTEL-DG stands for Political, Economic, Social, Technological, Environmental, Legal, Demographic and Global and provides the comprehensive analysis of a particular industry, in this case of on-line pharmaceutical retail in a paradigm of the above mentioned eight factors.

The analytic tool is one of the most widespread nowadays and it gained its popularity due to its simplicity and easiness while providing the comprehensive understanding of the business environment.

Five forces analysis

Five forces framework, developed by Michael Porter depicts an industry as influenced by five forces, names as Supplier Power, Buyer Power, Threat of New Entrants, Threat of Substitutes and Rivalry.

Five forces provides deeper understanding to the situation within the industry and gives the opportunity to formulate the company strategy by taking advantage of existing situation and avoiding the points of potential weaknesses.

2.2.2 Marketing research methods

Secondary data analysis

The primary tool used for analyzing the international experience in building the customer loyalty in on-line pharmaceutical retail is secondary data analysis. Secondary data is defined as information obtained by other researchers and for purposes others that stated in the study.

Secondary data may include both internal information provided by the companies, for example in a form of an annual report and external information in various forms from government statistics to other researchers' publishing in scientific journals.

Secondary data in form of previous studies and publications with regards to the subject are the source of information on international experience in the field for this research. The experience of the two counties – USA and China will be analyzed as examples of building customer loyalty in on-line pharmacies in both developed and developing market.

The information gained through secondary data analysis is to provide the platform for consequential qualitative and quantitative research in form of factors that influence the customer loyalty in USA and China. Following research would verify whether or not those factors are applicable in Russian practice.

Expert interview

Expert interview is a qualitative research method that includes narrative, focused, dilemma, group and other types of interviews with the members of society defines as experts in a particular field of activities or studies. Experts poses special knowledge which is peculiar to a particular field that they operate in and their opinion is considered valuable when gaining the information on a particular topic.

For the purposes of the research 39 experts on pharmaceutical market and health market regulation body of Saint-Petersburg have been approached and interviewed through various communication channels from personal meeting to e-mail and telephone conversation. The experts were asked to evaluate the prospects of the internet pharmaceutical retail development in Russia, name the main advantages and disadvantages of such businesses with the regards of customer loyalty building, evaluate the customer loyalty factors driven from the international experience analysis and name other factors that may influence the customer loyalty in internet pharmaceutical retail in Russia.

While international experience analysis may be a useful tool for identifying the factors influencing the customer loyalty in general, in order to broaden the perspective, the expert interviews of more than 30 specialists in pharmaceutical industry in Russia will be conducted. The expert interview is going to help to enlarge the list of factors for the following questionnaire and gain the knowledge of predicted future of the industry from within.

On-line questionnaires

The presumption that the end customers of on-line pharmacies are confident internet users gives one the opportunity to pursue with the questionnaires on-line. Contemporary services for on-line questionnaires provide convenience not only for design, but also for a rapid distribution of the form to the potential customers.

The sample size for the study is estimated as 100 with convenience method of sampling to be used. The questionnaires are to be distributed through e-mail and with the means of social networking web-sites.

The design of the questionnaire is to include several questions on the potential customer social and demographic group as well as questions to determine whether or not he or she is in fact an active client of other on-line retail services.

The main part of the questionnaire is to include the list of factors verified through analyzing the international experience in building customer loyalty in on-line pharmaceutical retail with a scale of 5 from Strongly Agree to Strongly Disagree to verify the importance of those factors for potential customers in Russia.

Chapter 3. Empirical part.

Empirical part of the study includes four sections – the industry analysis provided via two analysis methods – PESTLE Analysis and Five Forces Analysis, international experience analysis provided through the analysis of two foreign companies – the Canadian CanadaDrugs.com and one of market leaders in China called YaoFangWang.cn; expert interview of 39 experts from pharmaceutical companies and health administration of Saint-Petersburg; potential customers' questionnaire results and the model of customer loyalty building that was based on the factor analysis of the results.

The industry analysis aims to provide general overview of potential development of internet pharmaceutical retail in Russia, international experience analysis is a main source of customer loyalty building factors, that are completed with the factors suggested by the experts through the interview sessions. The factors are evaluated through the online questionnaire and the results are analyzed through factor analysis and the model of the customer loyalty building in the online pharmaceutical retail is built accordingly.

3.1 Industry analysis

The analysis of the internet pharmaceutical retail industry in Russia is provided through two methods popular in the business and marketing research worldwide, that are PESTLE analysis and Five Forces analysis.

PESTLE analysis provides industry analysis through six factors that may influence business operations in a particular field through different ways: political, economic, social, technological, legal and environmental. The analysis is aimed to justify the potential development prospective of companies operating in internet pharmaceutical retail in Russia through the analysis of microeconomic factors.

Five forces analysis is a powerful tool for analyzing the competition situation on the business field, which helps to understand whether the industry can be named attractive for doing business or not. Five forces include supplier power, buyer power, competitive rivalry, threat of new entrants and threat of substitution. The analysis aims to provide the answer whether or not the internet pharmaceutical retail in Russia is an attractive industry for doing business or not and predicts the development of it in the nearest future.

3.1.1 Internet pharmaceutical retail industry in Russia PESTLE analysis

Political factors that influence internet pharmaceutical retail industry in Russia include lack of proper legislation in this field and several legislations that create boundaries to online pharmacies proper functioning process. The companies operating in medicine retail enjoy favorable tax rate of 10% VAT compared to 18% VAT in other industries. However, this preferable conditions in taxation is compensated by highly strict regulations set by the government in regards to operation of pharmaceutical retailers.

In general, the situation of political influence on the industry can be regarded as neutral, with the majority of government programs targeting not the retailers in pharmaceutical business, but the producers, aiming to substitute the imported medicines which nowadays account for more than 77% of total drugs purchased in the Russian Federation.

Economic factors that may influence online pharmacies in Russia include several factors that may be presented as highly negative or highly positive. Taking into consideration the recent drop of Russian currency, it can be stated that purchasing ability of customers as the majority of medicines are imported. The rise in drug prices is the reason of shift to locally produced or imported generic medicines that are more affordable, which negatively affects revenues and profitability of pharmacies in Russia including the internet retailers.

However, general negative economic situation and drop in purchasing power among citizens can also be regarded as a positive factor for internet pharmaceutical retail development as online retailers offer lower prices than brick-and-mortar competitors, and lower price is a crucial factor for customer attraction during economical crisis as they become more aware of price differences.

High interest rates make it hard to attract finances to the company, which can be regarded as a negative factor both for developing organizations and already mature ones.

Overall, from economical point of view, the situation in internet pharmaceutical retail sector is not ideal, although positive factor in a form of rise of price sensitivity can be presented as a trigger in online pharmacies' development.

Social factors present favorable conditions for businesses in the industry as the aging population is a positive signal for medical and pharmaceutical market. The

Increasing penetration of internet, even in remote places and among elderly people is also a positive sign for companies as more and more potential customers become aware of availability of purchasing goods in the internet.

The growing popularity of purchases on the internet can also be named as a positive social factor as this trend creates positive vision of online retail among Russian citizens in general, which results in favorable conditions for pharmaceutical online retail industry development.

Technological factors can hardly be presented as an issue for online pharmaceutical retail as internet commerce industry has been developing rapidly for the past twenty years and technological solutions are available on every stage of creation of business from web site management, BIG data solutions to logistics.

The recent boom in development of online applications for smart phones is also a positive factor for the industry as with the help of this technological innovation it is possible for users to order goods online on the go without the laptop, which makes the services of online pharmacies even more convenient for the clients.

Legal factors are probably the most important and complicated for the internet pharmaceutical retail industry, as they create different barriers for companies' proper functioning.

First of all, the functioning of pure internet pharmacies per se is illegal in Russia according to Federal Law № 61 - FZ dated 12.04.2010 "On Circulation of Medicines", which states that the retail sale of medicines and related products is allowed only on the brick-and-mortar basis by companies that obtained the license for pharmaceutical retail, e.g. is eligible for conditions presented in Government Decree № 1081 of 22.12.2011. This means that the internet pharmacies may operate only under condition of existence of brick-and-mortar store, which basically makes all the online pharmacies in Russia click-and-mortars.

Moreover, another Government Decree, № 612 of 27.09.2007 —On the Remote Sales of Goods and Services states that the distant sale of medicines and drugs is not allowed on the territory of Russia and forbids the delivery of medicines with the exception described in Federal

Law № 5 – FZ, dated 01.09.97 "On the provision of social guarantees to Heroes of Socialist Labor, Heroes of Labor of the Russian Federation and the Holders of the Order of Labor Glory, which allows medicine delivery to certain categories of citizens.

Due to above mentioned regulations the internet pharmaceutical retailers in Russia created a system of delivery of package to the brick-and-mortar pharmacy chosen by the client and the following purchase of products in there. However, this type of delivery practically eliminate some advantages of online purchase - convenience, anonymity and saving of time.

It is that many specialists regarded this situation ridiculous and highly unfavorable for industry competition, the government prepared several amendments to the Federal Law "On Information, Information Technologies and Protection of Information ", " On Circulation of Medicines " and the Russian Code of Administrative Offences in 2015, practically creating the legislation base for internet pharmacies functioning. The amendments will come into force from January 1, 2017.

Environmental factors are almost not applicable to internet pharmaceutical retail industry. The carbon footprint of the organizations operating in this business may be higher due to extensive delivery system, although other environmental factors are not influencing online retail.

3.1.2 Five forces analysis of Internet pharmaceutical retail in Russia

Supplier Power is very low in pharmaceutical retail. Industry producers are numerous both in the country and worldwide and the implication of the Federal program Pharma 2020, aimed to foster import substitution in the industry, would be a factor even increasing the competition among producers with the introduction of more affordable locally produced drugs.

Suppliers in pharmaceutical industry are struggling to be present in any retail, including internet drugstores, some even introduce special offers for retailers or use the work of representatives to promote the product and make it present in a store. High degree of rivalry ensures the lowest possible prices from suppliers, which keeps internet pharmaceutical retail industry safe from the supply power.

Buyer Power is also comparatively low in the industry as the customers are numerous and are unlikely to influence the prices of retailers. However, the buyer power can be classified as high in case of medicine purchases by hospitals or government from the retailers, as in this case companies may be pressured to offer lower prices for large purchases. Although, those categories of customers tend to purchase necessary drugs and other materials from wholesale companies in batches.

Despite the fact that the buyer power itself may be low, there are other factors that may influence the influence the prices and profits of pharmaceutical retailers. The government, acting as the representative of the citizens issued a number of laws, namely Federal Law of March 8, 2015 № 34 -FZ "On Amendments to Article 61 of the Federal law " On Circulation of Medicines", that restrict the prices of a list of medicines and thus the profitability of the pharmaceutical companies. The result of this legislation was the active restriction of prices of the listed drugs but rise of prices of unlisted ones, as it was important to compensate the losses.

Competitive Rivalry is medium as the internet pharmaceutical retail is still on the initial stage of the development in Russia and there are not many online stores devoted to the sales of medicines. The traditional brick-and-mortar drugstores are not considered as pure competitors to the online pharmacies as they provide services that are completely different in the nature.

The click-and-mortars are considered rivalry and it is expected that from the year 2017, the legalization of internet pharmaceutical trade in the country the number of such companies

would rise significantly, making the competitive rivalry factor to rise to the high. In fact, according to Russian legislation, there may exist only click-and-mortar online pharmacies, the only difference would be in the degree of business completed in the brick-and-mortar form and on the internet.

Threat of Substitution is low for online pharmaceutical retail, as the only way that the medicines can be ordered and delivered the most time-saving and convenient way is the internet. Some may say that there are other options, for example, ordering through the phone or mail., however, for the majority those ways are considered outdated and the preference is given to the internet as the platform for the most comfortable distance purchase.

Threat of New Entrants is high for the reason of simplicity of opening the internet pharmacy and the comparatively low cost of opening a business. The internet retail industry is developing rapidly and the producers are eager to find additional channels of sales for the production. The rise in popularity of internet purchases would prompt more and more pharmacies to open the internet branches and the competition would increase during the next few years.

Overall the internet pharmaceutical retail in Russia may be described as and attractive with concerns only in the number of competitors, which is inevitable in the new fast growing industry.

3.2 Industry leaders analysis

The topic of the research is formulated as —Building customer loyalty in internet pharmaceutical retail: international experience and implementation in Russia, meaning that the author puts the emphasis on the international experience while driving the factors that may influence the customer loyalty building process in case of Russian pharmaceutical retailers.

For the international experience analysis two market leaders companies from two different parts of the world were chosen – the Canadian Canadadrugs.com and Chinese YaoFang.cn. The author aimed to include as many factors that may influence the customer loyalty in internet pharmaceutical retail as possible and the choice of two completely different regions with significantly different practices of doing internet business seemed a valid choice.

The companies were chosen on the basis of three criteria justifying them as the industry leaders: first, they had to operate in the industry for a long time, in other words, be the pioneers

in the industry pharmaceutical retail. This criteria were checked by providing a short company history overview. The second criteria – it had to be market leader with a significant market share in its own market. The economic publications and other secondary data sources provided this information on the chosen companies. And the third, the company should build its operations with the regard to customer loyalty. This criteria is the hardest to estimate as there are no public verifications on customer loyalty measures of particular companies in the internet pharmaceutical retail. However, the author used the customer's reviews on the company websites and the ratings on the specialized web sources that monitor customer loyalty in health services for the justification of the companies chosen on this criteria.

3.2.1 Canadadrugs.com experience

The first company that is analyzed is called Canada Drugs. The company was chosen among other competitors in Europe and America due to the reason that it is the ultimate industry leader in America with suppliers and customers scattered all around the world.

The company experience is noticeable and the attention that the company pays to the customer building process is worth analyzing.

Canada Drugs company overview

Canada Drugs is one of the largest online pharmaceutical retailers in the world and is positioning itself as the global leader in online prescription drug savings.

The company was founded in the year 2001 by Kris Thorkelson and since then filled more than seven million prescription for customers in Canada and other countries, for the most part, from United States of America.

The great success of the company among the American citizens is mainly attributed to high prices of prescription drugs within the country and tremendous difference in pricing, compared with Canadian offer. In the 1990-s there were even special trips organized from US to Canada devoted to medicines purchases. The company took advantage of the situation and started offering services in a more affordable and convenient way.

Nowadays the company employs several hundreds of people and provides 24/7 services in online and phone medicine orders and delivery. Canada Drugs participates in numbers of

pharmaceutical associations in the country and across the globe. Its aim is to provide its customers the best value, service and care with no exceptions.

Canada Drugs has been ranked #1 in the online pharmacies' rating by PharmacyChecker.com, an independent company that verifies worldwide internet pharmacies and compares a wide range of medicine prices. The website's verifications and price comparisons have been referenced by AARP Magazine, the New York Times, the Wall Street Journal, and many others. The goal of the company is to create the safe environment for the new medicines sales model and ensure the welfare of the American citizens who prefer to purchase the pharmaceutical products online.

Building customer loyalty in Canada Drugs

Security and quality of the production offered to the customers is one of the most important parts of customer loyalty establishment in Canada Drugs. Being aware of concerns among potential customers on origins of the medicine purchased, the company introduced the 10 Star Commitment to its clients reassuring them with quality and originality of drugs sold in the store.

The 10 star commitment includes a set of rules that the company has obliged itself to follow while delivering the orders to its clients all over the world. This set of rules creates a sense of commitment and security among its clients, who decide for the first time to shift to online medicine purchase.

Table 5. Canada Drugs 10 Star Commitment

Nº	Commitment
1	All products are purchased within the regulated supply chains of Canada, the United States, the United Kingdom, Australia and New Zealand.
2	Products require a prescription when required by the pharmacy or patient's country.
3	Patient Protection Plan: A 100% money back guarantee.
4	No high-risk products, such as controlled, potentially abusive, or pseudoephedrine medications.
5	All product sales are for patient's personal use.
6	Require a prescription provided by primary care physician after an in-person physical examination.
7	Direct access to licensed dispensary: Pharmacy name, address, license number and contact information is available to all patients.
8	Licensed pharmacists conduct therapeutic screening and review of every order for every patient; providing counseling as required and/or requested.

9	All product packaging must have name and directions in English.
10	Strict protection of personal health information.

Source:Canadadrugs.com

Best Price Guarantee is one of the tools of customer attraction and retention as the major reason for choosing to purchase online is lower price than in brick-and-mortar stores. In order to ensure the best price on the market, Canada Drugs introduced the Price Match Guarantee Policy that states that the company would match the price of any competitors, including the shipment costs.

For example, if any particular drug is sold at lower price including the delivery and found by the customer of Canada Drugs, it is obliged to offer the same or better price of similar drug to the client. As the clients of internet pharmacies tend to be highly price sensitive, this program plays an important role of customer loyalty as insures that the client stays with the company even when better options are offered by the competitor.

Affordable and fast delivery is also a part of successful customer loyalty building in Canada Drugs. The company ensures free delivery for its most important markets – Canada, USA, UK and Puerto Rico and 24\$ shipping regardless of the volume for all international purchases. The stated delivery time is 14-28 days with the 28 day shipping guarantee meaning that if the order is not received within 28 days the company is obliged to send the replacement with the option of the customer keeping both of them.

Availability of wide range of drugs, including prescription is also important for customer loyalty building, and Canada Drugs ships prescription drugs under the condition of customer providing the prescription in electronic, scanned or physical format sent to the company by mail or e-mail. The company values its international customers and provides free of charge translation of the prescriptions issued overseas with the exception of several languages including Chinese, Japanese, Russian etc.

Qualified consultation is available 24/7 via live chat or phone communication channels, offering the recommendations on medicine purchasing and drugs compatibility. Qualified help provided can facilitate the feeling of trust among the clients in addition to reduction of online purchasing anxiety and increasing the positive experience of the shopping process.

Connection in Social Media between the company and the clients is constant – there is an option of receiving the company’s newsletter with the latest great deals and special offers. Canada Drugs is promoting the healthy lifestyle through its channel on Twitter and on its Facebook page alongside with the latest news of pharmaceutical industry in Canada and across the globe. Social media can be considered the most convenient way of communication between the company and the clients, and the establishment of one makes the company seem more reachable in the eyes of the clients.

E-Calendar and Coupon Book are offered to the customers for free as promotion tools to enhance the commitment and engagement of the clients into the life of the company. As the promotion tools tend to be highly personal – this year’s edition is devoted to hometowns of the employee with brief description of their lives, the Canada Drugs is trying to create the feeling of one family with the high degree of personal belonging and, thus, the loyalty.

Referral Reward Program is designed to enhance the referrals of the web site to friends and family with the monetary reward of 5% of friends’ purchases and 2.5% of friends’ friends’ purchases. The most convenient part of the program that may actually greatly facilitate its popularity is the fact that not only earned money may be used during the consequent purchase in Canada Drugs, but also may be sent to the earner in monetary form via check. This may prompt occasional buyers to actually actively perform the duties of net promoters and increase the company’s profitability.

The case of Canadadrugs.com on building the consumer loyalty is worth studying and benchmarking. With the army of satisfied customers all across the globe the company is setting high standards in the industry and can be regarded as a successful example of an internet pharmaceutical retailer.

3.2.2. YaoFang.cn experience

Another company, whose experience is provided for the following analysis is a market leader from other side of the world – the Chinese pharmaceutical giant called YaoFang.cn. The company is one of many operating in this sector in huge, probably the most developed in the world sector of online commerce in China, and was chosen for its customer orientation and ways that the company uses to build its customer loyalty.

The way that the company does business differs rapidly from the way of CanadaDrugs and the author suggests that the factors driven from the analysis may also be helpful when building the model of building customer loyalty in internet pharmaceutical retail in Russia as they put another perspective to the problem.

YaoFang.cn company overview

YaoFangWang is one of the largest online pharmacies in China, operating since the year 2005 with the headquarters in Beijing. It was the first company to obtain the government license for retail of pharmaceutical products after the industry was legalized.

YaoFangWang receives and processes orders made via internet, telephone, mobile app and offers products of different categories, including over-the-counter and prescription drugs, Chinese traditional medicine drugs, dietary supplements, cosmetics, weight control systems, products for mothers and babies, products for adults, pet care products, medical appliances and other products for every-day life.

YaoFangWang operates under the Good Supply Practice regulation basis establish by the government of People's Republic of China in order to ensure the quality of drugs supplied to the market and thus eliminate the fake medicine production and distribution.

The company is highly evaluated among Chinese citizens and is present in various top-lists, for example —One hundred best internet companies‡, —One hundred best pharmacies‡, —One hundred best life-important companies‡ etc.

Nowadays the company is presented in 93 cities across China with 4299 brick-and-mortar subsidiaries all over the country. It was the first company to introduce the system of delivery

online and pick-up in brick-and-mortar store for ensuring the quality of the medicine storage and the convenience of the customers who wanted to check the package before the payment.

The company aims to provide the fastest service and best value for its clients and provides online assistance twenty four hours per day seven days per week.

YaoFang.cn building customer loyalty experience

Customer loyalty in operations of YaoFang.cn is established by several principles that the company has developed through the initial years of business.

Trustworthiness is the first principle of its operations. For the company where falsification of food and medicines has been an issue and still remains one, winning customer's trust is the major milestone for any business, especially operation on the basis of the internet.

Having acknowledge the problem, YaoFangWang operates with close association to government institutions regulating production and sales of drugs and other medicine-related products and participates in different programs aiming to ensure elimination of falsification of food and drugs and improving the quality of products produced and distributed.

In order to further improve its image, the company established more than 4000 brick-and-mortar subsidiaries in order to safe delivery and storage of ordered goods under necessary conditions.

Price leadership is the second important principle of YaoFangWang's operations, as the company acknowledges, how affordable medical products and drugs are important for its clients. The company assures the clients that the prices in the online store are 10-15% lower than in brick-and-mortar stores, due to the savings on the rent and other physical store needs.

Widest range of products available on the web site is the principle that helps customer make all purchases related to well-being in one place, saving time and effort and enhancing positive experience from the purchase. In order to make the customers stay tuned, the store periodically adds new products to its range, introducing the latest and newest medicines solutions available on the market.

Convenience of delivery is the principle of the functioning of the store aiming to attract customers unwilling or unable to leave their house for a trip to the nearest pharmacy. The internet store also values its busy clients, whose schedule prompts them to order the medicines online. Although at-the-door delivery is available in the store, there is also an option of picking the goods up in the nearest pharmacy of more than 4000 stores chain.

Speed of delivery is also an important factor for forming customer loyalty. The company offers the within 1 hour for the Beijing residents and within 4 hours for other cities' residents, where the subsidiaries are present. 2-5 days delivery to other cities when there is not an option of forming the package in one of the subsidiaries or to the small towns' clients.

Social Media and online availability online 24/7 proves the store's involvement and attempt to stay connected to the customers. YaoFangWang is eager to receive any comments and suggestions on its work and provides qualified consultations on medicines online and within its subsidiaries' stores. To stay connected to its client, the store uses popular in China social media tool called QQ.

Constant improvement principle is one of the main goals of YaoFangWang and it shares it with its suppliers and customers. One of the functions of the web site is as it serves as a platform for discussion on different drugs and other products, with the reviews and rating available. The information gathered is analyzed by the company and the suppliers for the modification of the existing medicines and other products and the development of the new ones.

The tools that YaoFang.cn uses to build its customer loyalty are quite similar to the experience of CanadaDrugs.com, although some differences still exist. The lack of special offers and special programs is compensated by prompt first-class service and numerous measures of product security that the company hopes would make the customers loyal and not let them shift to any other internet retailer.

The analysis of international experience enabled the author to derive twenty four factors that the experts and then potential customers were asked to evaluate as important for building customer loyalty in online pharmaceutical retail.

3.3 Pharmaceutical Industry Expert Interview

In order to evaluate the relevance of the factors driven from international industry leader analysis, the pharmaceutical industry expert interview was conducted. The interview was a very simple, consumed only around five minutes and included several questions regarding the development of internet pharmaceutical retail in Russia.

The participants were asked to introduce themselves, the company they represented and their current position in the company. Then they were asked to evaluate the perspectives of the development of internet pharmaceutical retail in Russia, name the factors that may influence the development and name advantages and disadvantages of internet pharmacies that may influence the customer loyalty of the clients. Additionally they were asked to evaluate the factor that were driven within the process of analysis of international experience with five point Likert scale from —not important at all to —crucially important.

Expert in pharmaceutical industry in Saint-Petersburg were reached through network channels developed through summer internship of the author and through other acquaintances relationships. The experts include representatives of the Saint-Petersburg Health Committee, representatives from its analytical branch SPB MIAC, specialists from production companies BIOS Ltd and Polipharms, Distribution companies Otispharma and PSA Pharmaceuticals, as well as pharmacists and analytics from Saint-Petersburg Hospitals and pharmaceutical retailer chains including 36.6, Ozerki, Raduga and Petersburg Pharmacies.

The interviews were conducted using three channels – the individual meeting, phone calls or distribution through electronic mail in Microsoft Word format. The list of experts interviewed along with the companies and the positions can be seen in the appendix section. Overall 39 experts participated in the interviews.

3.3.1 Experts' evaluation of international experience

During the interview the experts were given the table with the factors derived from the analysis of the international companies and asked to evaluate them from 1 to 5 according to the perceived importance on influence on customer loyalty in internet pharmaceutical retail. The number of factors is 24 and the number of participants 39, which is inadequate for performing

the factor analysis and so the results of the evaluation are presented with the help of descriptive statistics below.

Table 6. Experts' evaluation of factors influencing the customer loyalty.

	#	Factor	Mean value
	1	Authenticity of medicines offered	4,97
	2	Availability of License of the internet pharmacy	4,87
	3	Availability of medicines certificates	4,74
	4	Free delivery	4,31
	5	Qualified consultation available via internet 24/7	4,21
	6	Delivery the same day	4,15
	7	Qualified consultation available via phone	4,15
	8	Price lower compared to brick-and-mortar pharmacies	4,00
	9	Delivery at the door	3,87
0	1	Range of medicines higher, than in a brick-and-mortar pharmacy	3,82
1	1	Opportunity of prescription drug purchasing	3,77
2	1	Detailed descriptions of medicines	3,77
3	1	Delivery within few days	3,72
4	1	Delivery to the nearest pharmacy	3,54
5	1 others	Availability of products like dietary supplements, healthy foods and others	3,18
6	1	Coupon book discounts system	3,00
7	1	Price guarantee program	2,97
8	1	Ranking system of medicines available on the web-site	2,82
9	1	Newsletters with special offers and promotions	2,72
0	2	Connection to the clients via social media	2,62
1	2	Informative social media blog	2,56
2	2	Referral reward system	2,36
3	2	Discussion with other clients available on the web site	2,31
4	2	Free gifts (pens, calendars etc.) for purchase	2,26

The experts evaluated all of the factors according to the perceived importance on influencing the customer loyalty in internet pharmaceutical retail. It is worth noting that no factor driven from international experience was not perceived as unimportant, with even the lowest one in the table receiving the mean value of 2.26 out of 5.

The factors receiving the highest score, evaluated by the majority of the respondents as important ones include, for the most part the points on the security of the production and the certification of the products sold and the business itself. The price factor was also evaluated as an important one as well as several factors of highest service convenience – free delivery, delivery at the door and prompt delivery.

According to experts' opinion, consultation of a professional pharmacist shall be one of the most important parts of building the customer loyalty process as they rank qualification consulting factors among top ten.

The factors that received the lowest rates include the various networking tools, such as social media connection, communication on the web site and newsfeed as well as promotion tools such as free gifts for purchases and receiving bonuses for introducing the new clients. Experts believe that the impact of those factors on customer loyalty in the internet pharmaceutical retail is highly likely to be low.

3.3.2 Experts' insights

During the interview all the respondents were asked to express their vision on the development of internet pharmaceutical retail in Russia in the next few years. The majority (28 of the respondents) stated that the industry will develop rapidly or in a decent pace in the nearest future, whereas only few (11) expressed concerns or stated their position as against the development of the online pharmaceutical retail in Russia.

The reasons used by the group who was against the development of industry included severe competition between the already existing chains of brick-and-mortar pharmaceutical retailers, lack of government legislation and, in their vision, impossibility of sale of prescribed medicine through the internet retail channel.

The expert also expressed several other reasons against online pharmacies development, such as high risk of purchasing fake medicines or medicines that have been stored in wrong conditions. Another factor that may influence the functioning of the internet pharmacies negatively is the lack of experience of using computers among the most purchasing categories of customers – the elderly people.

The government regulation problems were named frequently as factors slowing the development of the online retailers. One of the respondents (willing to remain anonymous) even encountered the problem involving the law suit for online business of the pharmaceutical chain that she manages. The company paid a fine for the illegal conduct of delivering the medicines purchased online, however, continued delivering the medicines to the customers that were already in the database in order to retain the existing customer loyalty level and offering the delivery to the one of their brick-and-mortar stores. The expert expresses the fine losses as insignificant, however stating that the losses that the company experiences from not pursuing the opportunity of developing its online business as a major concern for the company management.

One major concern that even experts that support the development of internet pharmacies express is the lack of human contact while purchasing the medicines. According to their experience, it is quite common in Russia that people do not visit physicians while encountering a health problem due to various reasons from lack of time to poor health service in Russian clinics and go straight to pharmacies with the hope of getting the consultation from a pharmacist.

The experienced pharmacists interviewed also confirmed this information and described the situation as a quite common. The lack of human contact, as they state, may influence the sales of a pharmacy negatively, as the customers tend to purchase the drug recommended by the pharmacists and complementary products suggested during the live conversation. All this is the advantage that is present in the brick-and-mortar retailers and may be lost without proper service management on the internet pharmaceutical retailer web-site.

Expert supporting the development of online pharmaceutical retailing state factors as general e-retail development in Russia, recent legislation plans and the economical difficulties among the population as triggers for the rise of industry. The rapid pace of life in the cities, more and more users of computers and internet, according to them, would all influence positively the development of the industry and change the current market segmentation within the pharmaceutical industry of the country.

The pluses of the internet pharmaceutical retailers stated by the experts as that may influence included the majority of the factors already derived from the international experience. The price reduction compared to the brick-and-mortar competitors, delivery at the door as the most important in cases of severe illnesses, time saving service, easiness and convenience in use

and wider range of medicines presented – all of these factors were confirmed by the experts interviewed.

It is worth noting, that the lack of queues was named quite frequently while discussing the advantage suggesting that this is a big issue in Russian brick-and-mortar pharmaceutical retailers and may be used by internet pharmacies' marketing specialists as a tool while establishing the image of the company and expressing the strategic advantage of the online retailer compared to the competitors.

Another great advantage confirmed by almost all the respondents is the greater choice of products offered and detailed description of the products on the web sites. Experts describe the situation when the client feels frustrated after not finding the needed medicine in the brick-and-mortar pharmacy, often even after wasting some minutes standing in the queue. The internet search eliminates those situations, creating the environment where drugs can be purchased with the careful examination and without time spent searching for a rare drug across the town.

According to Russian legislation, it is illegal to return medicines that have been purchased and this creates cases where drugs are bought in haste under pressure of other clients waiting in the queue, without proper examination of, for example, the form of medicine or a dosage. And after the deal is closed, the medicine is already impossible to return, even if the client has not even left the pharmacy yet. The purchase online provides the opportunity to study the options provided and the time slot for changing or even cancelling the purchase.

The new ideas suggested by the experts and later on included into the questionnaire included the presence of brick-and-mortar pharmacy as the mother company, mobile application for ordering on-the-go, introducing the function of saving the previous orders, anonymity of order, speed of order procedure, all-day-all-night order and delivery procedures and heavy advertising of the service via TV and other mass media.

Development of the internet pharmacy as a subsidiary resolves several problems that the companies operating in the market face. First of all, the legislation in Russia, even after the legislating internet pharmacies in on the January 1st 2017 allows the existence only of click-and-mortar pharmacies. Another problem that is solved is the trust issue. Almost all of the respondents expressed concerns regarding clients trusting the quality of medicines purchased online. The internet branch of already existing pharmacy chain with solid reputation is more

likely to become a successful business than the internet pharmacies built from scratch. The expert suggested joint ventures or other forms of cooperation when using the name of established brick-and-mortar pharmacy for developing the online retailer.

Function of saving the previous orders were suggested by experienced pharmacists who have been tracing the customer behavior in the drugstores and were sure that the same customers tend to purchase the same medicines over and over almost as a habit. The patients with chronic diseases without doubt buy same packs of medicines with frequent periodicity. All these facts prompted experts to suggest the function of saving the order with the possibility of automatic delivery within the paradigm of the internet pharmacy web site as a tool for retaining the customers and forming the loyalty.

Other pharmacists notices that the trip to pharmacy may be inconvenient or even humiliating for some people who are shy to talk about their health problems or personal issues (the expert provided examples of condoms or pills for erectile dysfunction). The order of the medicines on the web sites creates the feeling of anonymity, which, when ensured by the service provider, creates the atmosphere of comfort when dealing with issue and would make the customer stay loyal to the service.

Several other suggested factors were the further service development and were also included in the questionnaire.

3.4 Questionnaire for clients/ potential clients

Based on the factors developed within the analysis of international experience of building the customer loyalty in online pharmaceutical retail and with the suggestions of experts in pharmaceutical retail in Russia, the questionnaire was developed and distributed to the potential customers in Russia through e-mail, social networks and specialized forums. The number of respondents questioned is 100.

The questionnaire includes the introduction questions aimed to set the segmentation of potential clients, such as questions on the age, gender, frequency of purchasing in pharmaceutical retailers and the average amount of purchase. The respondents were also asked whether or not they have already experienced the service of internet pharmaceutical retail web sites.

The next step of the questionnaire was the evaluation of the factors driven both from the international experience and insights from the industry experts. Overall the questionnaire included 32 factors that the respondents were asked to evaluate the importance of those factors for customer loyalty by scale from 1 to 5 (not important at all to crucially important).

Table 7. Ranking of factors influencing the customer loyalty

	#	Factor	Mean value
	1	Authenticity of medicines offered	4,93
	2	Availability of medicines certificates	4,61
	3	Order 24/7	4,54
	4	Availability of License of the internet pharmacy	4,46
	5	Speed of order procedure	4,34
	6	Detailed descriptions of medicines	4,32
	7	Free delivery	4,22
	8	Range of medicines higher, than in a brick-and-mortar pharmacy	4,16
	9	Price lower compared to brick-and-mortar pharmacies	4,08
0	1	Delivery the same day	3,97
1	1	Delivery 24/7	3,96
2	1	On-line pharmacy is a subsidiary of a known brick-and-mortar pharmacy	3,84
3	1	Opportunity of prescription drug purchasing	3,83
4	1	Delivery to the nearest pharmacy	3,67
5	1	Function of saving previous orders	3,62
6	1	Qualified consultation available via internet 24/7	3,61
7	1	Qualified consultation available via phone	3,52
8	1	Delivery at the door	3,50
9	1	Anonymity of the order	3,46
0	2	Delivery within few days	3,41
1	2	Availability of products like dietary supplements, healthy foods and others	3,30
2	2	Ranking system of medicines available on the web-site	3,19
3	2	Mobile app for ordering from internet pharmacy on-the-go	3,18
4	2	Coupon book discounts system	3,00
5	2	Price guarantee program	2,91
6	2	Newsletters with special offers and promotions	2,63
7	2	Connection to the clients via social media	2,55
8	2	Discussion with other clients available on the web site	2,42
9	2	Referral reward system	2,36
0	3	Informative social media blog	2,23
1	3	Frequent advertising (though TV, magazines etc.)	2,15
2	3	Free gifts (pens, calendars etc.) for purchase	2,09

The ranking of the factors within the potential clients' questionnaire result is significantly different from the results that were gained from the professionals interviews. The availability of the license of pharmaceutical retailer bothered the potential clients much less than the experts, as well as qualified consultation factor was not even included into the top ten, while in the experts' ranking this factor occupies the fifth place.

The factors that the potential customers valued as the most significantly influencing the customer loyalty included speedy order and delivery available all-day, higher range and lower price compared to brick-and-mortar competitors and detailed prescription of medicines, which ranked much higher in the clients' perception than valued by the experts during the interview.

Another interesting notion is that the delivery at the door, ranking number 9 by experts is ranked 18 by the clients and much lower than the delivery at the nearest pharmacy. This means that the issue that all of the pharmacies have been experiencing in Russia due to medicine delivery at the door prohibition is not that severe, as the clients prefer picking up their order in the nearest pharmacy anyway.

The factors that the potential clients ranked the least important are highly similar to the experts' opinion with different way of news and communication, as well as marketing tools such as free gifts and referral reward system. Although, it does not mean that the companies shall completely neglect those factors while building the customer loyalty as none of them received the lowest mark of one and so still can be considered somewhat important tools.

3.4.1 Factor analysis of the results

The next step of the research process involves the exploratory Factor Analysis performed in IBM SPSS 22 in order to verify the correlation between the factors driven and the reduce the number of factors for the convenience of the following construction of the building customer loyalty model.

In order to test the adequacy of sampling, the Kaiser-Meyer-Olkin statistics and Barlett's test of sphericity were performed and the results confirmed the successful adequacy of the

sample for the following analysis. The result of KMO test is 0.715, which is higher than 0.6 and this means that the sample is adequate for the exploratory Factor Analysis.

Table 8. KMO and Bartlett's Test

KMO and Bartlett's Test			
Kaiser-Meyer-Olkin Measure of Sampling Adequacy.			,715
Bartlett's Test of Sphericity			
	Approx.	Chi	1217,514
	Square		
	df		496
	Sig.		,000

Method chosen to explain what factor explains what concrete part of the variance was the method of principal components and the number of factors was defined by means of Kaiser criterion that extracted factors with Eigenvalue less than one. The Varimax rotation method was used while performing the analysis.

During the Factor Analysis all the factors were grouped into 7 groups:

Social&Bonus Factors include factors such as coupon book discounts system, free gifts (pens, calendars etc.) for purchase, newsletters with special offers and promotions, referral reward system, connection to the clients via social media, informative social media blog and frequent advertising (through TV, magazines etc.) . This group is characterized by presence of different ways of ensuring the communication between the company and the client. Despite the fact that the means listed in the group are believed in the main tools while constructing the customer loyalty, the majority of them are valued considerably low by the respondents.

Web Site Convenience Factors include anonymity of the order, order 24/7, speed of order procedure, and ranking system of medicines available on the web-site, function of saving previous orders and discussion with other clients available on the web site. These are the core tools for creating customer loyalty by ensuring the highest level service of the web site. As the operation on the internet environment is the core competitive advantage from the brick-and-mortar pharmacies, the online ventures need to ensure the presence of all above mentioned tools.

Security factors include authenticity of medicines offered, availability of medicines certificates and availability of license of the internet pharmacy. They ensure the safety of

purchase and are unique features that belong to only pharmaceutical internet retailers compared to other stores operating online.

Convenience factors include qualified consultations both through the web-site and phone, free delivery all day, mobile app and lower price compared to brick-and-mortar pharmacy. It is worth noting that the main competitive advantage expressed by many experts – the price is not listed among the highest important factors by clients.

Widest Choice Factors include wider choice of medicine and supplementary products and the detailed description of them on the web site for the convenience and thoughtful purchase of medicines. The widest choice creates the opportunity of purchasing everything needed in one place and is an important trigger for creation the customer loyalty.

Delivery Options Factors include four options of delivery existing in internet pharmaceutical retail business. In order to attract the highest range of customers it is advised to ensure the possibility of all of them.

Company Image Factors include price guarantee program, possibility of purchasing the prescription medicines and the existence of a well-known brick-and-mortar pharmacy. It was advised by several experts that the clients would more eagerly purchase from a well-known pharmacy they trust, and the system of possibility of delivering the prescription drugs would also add points to the customer loyalty of the internet drugstore.

3.5 Summary of the chapter

In the chapter the industry analysis of the Russian internet pharmaceutical retail was conducted with the means of PESTLE analysis and Five Forces Analysis. The analysis explained the current state of the industry and verified the problems that the companies may encounter while operating within the field.

The international experience was analyzed on the examples of two industry leaders from Canada and China – the highly rated CanadaDrugs.com, specializing in sales of prescription drugs overseas and Chinese YaoFang.cn with the enormous net of logistics all across the country. The analysis resulted in generating of the list of factors that influence customer loyalty in those companies.

Russian experts were interviewed in order to generate additional insights on how

customer loyalty is built in Russian pharmaceutical retailers. The experts' opinion was valuable and helped adding several factors to the list for the potential customers' evaluation.

The major step of the research was generation and distribution of the questionnaires including a list of factors to potential customers for their evaluation with the Likert scale and the following factor analysis of the results. The factor analysis generated 7 groups of factors that are to be used for creation of building the customer loyalty in online pharmaceutical retail model.

4. Model for building customer loyalty in internet pharmaceutical retail in Russia

Building customer loyalty in internet pharmaceutical retail in Russia shall be a very important subject for companies operating in the industry in the next few years, following the rapid development in this field.

Given the opportunity and the financial recourses, it is advisable to use all of the factors that author was able to state in the work in order to ensure the maximum customer satisfaction and involvement into the life of the company. However, the sources are hardly ever to be limitless and keeping in mind this fact, the author attempts to provide several recommendations based on the knowledge generated during the work on the thesis.

The first and the most important for the company operating in pharmaceutical industry is to ensure the security of the production that the company is offering by providing access to all the necessary documentation and emphasizing the existence of all the certification needed. The constant voluntary checks with local healthcare administration are also likely to enhance the customer trust in the company.

A very clever way suggested by experts is creation of a joint venture company with already existing well-known retailer as the reputation of those is already solid and the marketing investments aimed to build customer appreciation and loyalty in this case tend to be minimal. This is also a very thoughtful way of business keeping in mind that in Russia only click-and-mortar pharmaceutical retailers are legitimate.

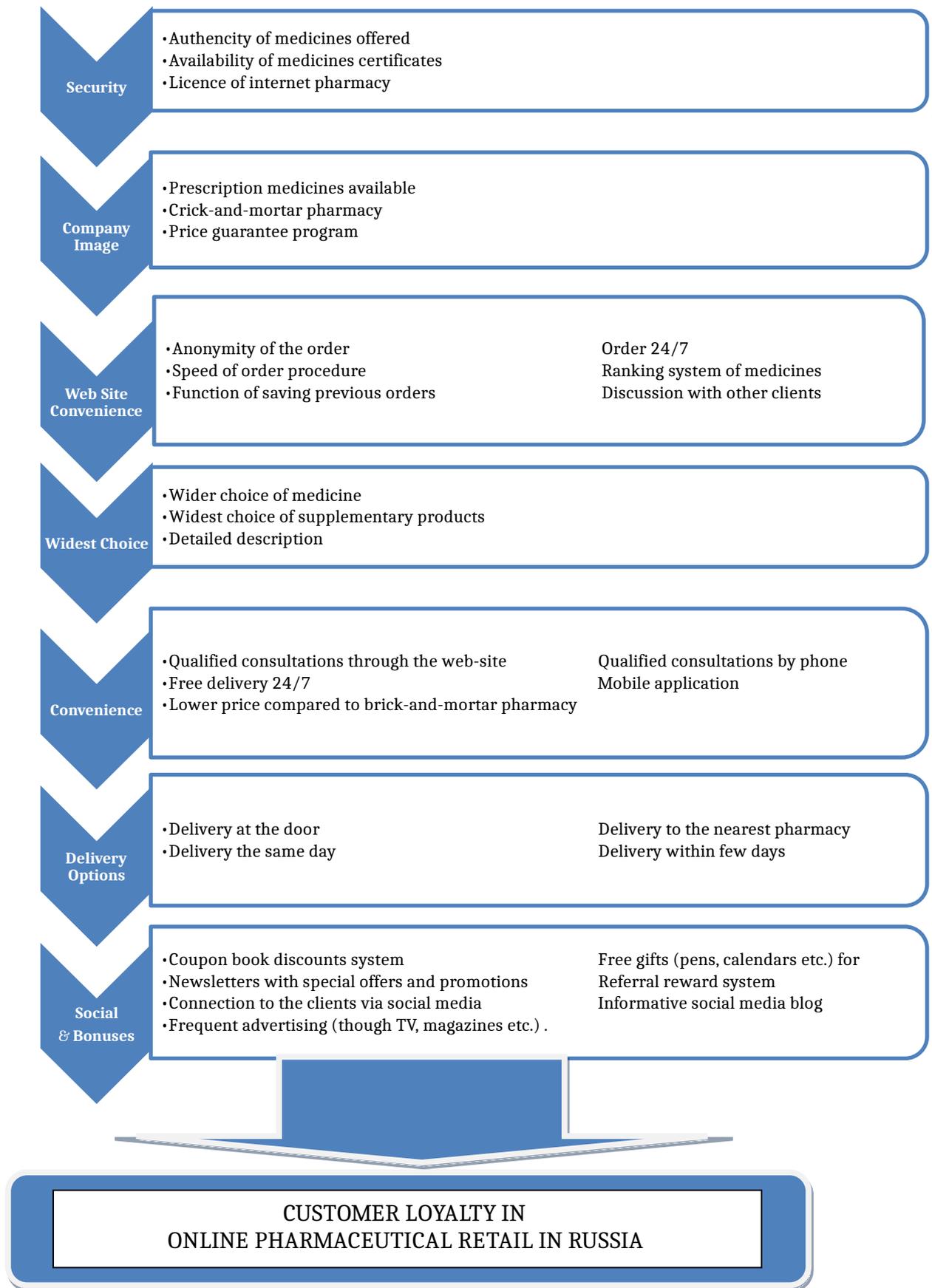
The next step is not precisely connected with the industry that the companies operate in but rather are the same with all other companies operating online. Web Site Convenience and Delivery Options are essentials when providing the retail service online as the experienced customers are expecting the service at the best level and the only way to form customer loyalty here is to keep these factors flawless.

Widest range of the production offered is one of the factors that may prompt the customers to shift from brick-and-mortar to online pharmaceutical stores and the emphasis on this convenience is essential while building the customer loyalty paradigm. Ensuring that all existing, even if very rare medicines can be purchased alongside with the mass-market ones

would ensure that the customer would stay simply due to the convenience of purchasing everything in the same store.

The last but not the least tool that is creating the system of bonuses and gifts as well as ensuring constant communication with customers via advertisements, social media, newsletters etc. Despite the fact that the potential customers paid little attention to those during the questionnaire, the use of those little tools may create the sense of belonging and prevent the customer to shift to the competitor.

Figure 2. Building customer loyalty in online pharmaceutical retail in Russia model.



Research limitations

There are several research limitations of the study that, when overcome, would improve the quality and depth of the research performed.

First, the quantitative part was based on the analysis of the questionnaire of 100 people sample, which, even when proved for the factor analysis as equal, can hardly be named as a representative for the whole population of Russia. The additional time and resources would definitely improve the accuracy of the findings through the base of a bigger sample.

The method of the quantitative research sampling was convenience, which not only limits the possible participants to social networking and nearest social circles, but also the internet basis of the questionnaire excludes all non-users of the internet, particularly people of older age who are not on very good terms with latest technologies.

The qualitative part of the research also had its limitations, as the experts that were interviewed represented only one region of Russia – Saint-Petersburg. The business practices and attitudes may differ significantly from region to region and such narrow choice of experts is definitely a limitation to the research.

Finally, international experience is provided only through the analysis of two companies. Despite the fact, that the industry is only starts to develop on the worldwide basis, the analysis of few more companies could bring additional insights and factors that may influence the customer loyalty that the author have not analyzed in the work.

Conclusion

Internet pharmaceutical retail can be regarded as a peculiar sphere of online business as it is associated with number of problems and complications during its conduct. Examples of such complications can be defined as special government regulations particular for each country, which makes international trade impossible for this kind of product or customer behavior peculiarities like the fear of fraud or need for pharmacist personal recommendations and explanations.

Generally speaking, internet pharmaceutical retail can be regarded as not very studies subject with extremely limited number of articles dedicated to it. In Russian language no articles on the theme can be found up to this date and in English language this number is still less than twenty.

Pharmaceutical internet retail is a fast growing industry with great opportunities for young companies with present comparatively low popularity of internet pharmaceutical retail among population in Russia. No research of online pharmaceutical retail industry in Russia was ever conducted before.

The method used in providing the international experience review is literature research including internal company information, relevant trade publications, newspapers, magazines, annual reports, company literature, on-line data bases.

To analyze the potential of implementation the international experience in Russia PESTEL DG analysis was conducted in order to analyze macro-environment of the industry and Five-forces analysis will be provided as the analysis of the microenvironment of internet pharmaceutical retail in Russia.

To look at the problem from client's point of view, the internet survey of potential customers along with factor analysis of the results was conducted and seven groups of factors were indicated as the important for building customer loyalty in Internet pharmaceutical retail.

The topic is of interest for internet pharmaceutical retailers in Russia who are already successfully implementing their activities on the national market and are keen to improve their

performance and better understand the customer's behavior while purchasing medicines online. Also the research is quite applicable for start-up companies who want to analyze international experience in the field and understand the perspectives of starting and developing such business in the Russian Federation in modern conditions.

Pharmaceutical companies that want to extent their activities and approach their clients through internet are also in need of understanding the trends and special features of their potential clients. Managers, marketing specialist and other representatives of pharmaceutical companies may show interest in the research as well.

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Appendix

Appendix 1. Pharmaceutical industry interview questions (in Russian)

Уважаемый эксперт!

Благодарим Вас за участие в небольшом (5-минутном) опросе для экспертов в области розничных продаж лекарственных средств в России. Проводится в рамках исследовательской работы Габур Анастасии, студентки второго курса магистратуры Высшей Школы Менеджмента СПбГУ.

Пожалуйста, ответьте на вопросы исследования, приведенные ниже. Это исследование поможет выявить факторы, влияющие на формирование лояльности клиентов в интернет-аптеках и, возможно, поможет в дальнейшей развитии отрасли. Если вас интересуют результаты исследования, пожалуйста, оставьте свою электронную почту в конце опроса и я обязательно пришлю Вам результаты!

1. Представьтесь, пожалуйста.

ФИО _____

Компания _____

Должность _____

2. Как на ваш взгляд, будут ли более популярны интернет-аптеки в ближайшие несколько лет?

3. Какие факторы могут на это повлиять?

4. Какие на ваш взгляд плюсы у интернет-аптек?

5. Какие минусы?

6. Оцените важность факторов по шкале от 1 (Не важный) до 5 (Крайне важный), приведенных ниже для формирования клиентской лояльности в интернет-аптеке в России.

	1	2	3	4	5
1. Наличие лицензии у интернет-аптеки					
2. Подлинность лекарственных средств					
3. Наличие действующих сертификатов на лекарственные средства					
4. Более низкие цены по сравнению с обычной аптекой					
5. Программа гарантии низшей цены (возмещение разницы в стоимости при наличии лучшего предложения у конкурента)					
6. Доставка до двери					
7. Доставка в ближайшую аптеку					
8. Доставка в тот же день					
9. Доставка в течение нескольких дней					
10. Бесплатная доставка					
11. Более широкий ассортимент лекарственных препаратов, чем в обычной аптеке					
12. Более широкий ассортимент парафармации (изделий медицинского назначения, БАД, косметики и т.д.)					
13. Возможность покупки рецептурных лекарственных средств					
14. Подробное описание лекарственных средств на сайте					
15. Квалифицированные консультации на сайте 24/7					
16. Квалифицированные консультации по телефону					
17. Связь с клиентами через социальные сети					
18. Новостная лента в социальных сетях					
19. Рассылка со специальными предложениями и скидками					
20. Подарки за покупку (ручки, календари и т.п. с логотипом компании)					
21. Система скидок по купонам					
22. Система поощрения за привлечение новых клиентов					
23. Рейтинг лекарственных средств на базе отзывов и оценок на сайте					
24. Возможность коммуникации с другими клиентами на сайте					

Appendix 2. Questionnaire for clients/potential clients

Customer loyalty in internet pharmaceutical retail in Russia

Q1. Please, choose your gender

- Male
- Female

Q2. Please, indicate your age

- <14 y.o.
- 14-18 y.o.
- 19-30 y.o.
- 31-45 y.o.
- 46-60 y.o.
- >60 y.o.

Q3. Have you ever made purchases in internet pharmaceutical retail stores?

- Yes
- No

Q4. How often do you buy medicines in a pharmacy?

- 1-5 times per year
- 5-10 times per year
- Once a month
- 2-3 times a month
- 4-7 times per month
- 8+ times per month

Q5. What is your average bill in a pharmacy?

- >500 rubles
- 500-1000 rubles
- 1000-3000 rubles
- 3000-5000 rubles
- <5000 rubles

Q6. To what extent do you consider these factors to be important for an internet pharmacy while building customer loyalty (from scale 1 (not important at all) to 5 (crucially important))?

	1	2	3	4	5
1. Authenticity of medicines offered					
2. Availability of medicines certificates					
3. Availability of License of the internet pharmacy					
4. Price lower compared to brick-and-mortar pharmacies					
5. Price guarantee program					
6. Delivery at the door					
7. Delivery to the nearest pharmacy					
8. Delivery within few days					
9. Delivery the same day					
10. Free delivery					
11. Range of medicines higher, than in a brick-and-mortar pharmacy					
12. Availability of products like dietary supplements, healthy foods and others					
13. Opportunity of prescription drug purchasing					
14. Detailed descriptions of medicines					
15. Qualified consultation available via internet 24/7					
16. Qualified consultation available via phone					
17. Connection to the clients via social media					
18. Informative social media blog					
19. Newsletters with special offers and promotions					
20. Free gifts (pens, calendars etc.) for purchase					
21. Coupon book discounts system					
22. Referral reward system					
23. Ranking system of medicines available on the web-site					
24. Discussion with other clients available on the web site					
25. On-line pharmacy is a subsidiary of a known brick-and-mortar pharmacy					
26. Mobile app for ordering from internet pharmacy on-the-go					
27. Function of saving previous orders					
28. Anonymity of the order					
29. Speed of order procedure					
30. Order 24/7					
31. Delivery 24/7					
32. Frequent advertising (through TV, magazines etc.)					

Appendix 3. Total Variance Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings	
	Total	% of Variance	Cumulative %	Total	% of Variance
1	6,363	19,886	19,886	6,363	19,886
2	3,117	9,740	29,626	3,117	9,740
3	2,412	7,538	37,164	2,412	7,538
4	1,851	5,784	42,947	1,851	5,784
5	1,662	5,194	48,141	1,662	5,194
6	1,547	4,834	52,975	1,547	4,834
7	1,473	4,603	57,578	1,473	4,603
8	1,212	3,788	61,366		
9	1,160	3,624	64,990		
10	1,083	3,385	68,375		
11	,986	3,080	71,455		
12	,964	3,011	74,467		
13	,947	2,960	77,427		
14	,737	2,303	79,730		
15	,651	2,034	81,765		
16	,629	1,965	83,729		
17	,595	1,860	85,590		
18	,581	1,817	87,406		
19	,483	1,508	88,915		
20	,442	1,382	90,297		
21	,404	1,262	91,559		
22	,383	1,197	92,756		
23	,354	1,107	93,863		
24	,304	,952	94,815		
25	,278	,868	95,683		
26	,270	,843	96,526		
27	,238	,745	97,271		
28	,214	,669	97,940		
29	,194	,607	98,547		
30	,174	,545	99,092		
31	,155	,486	99,578		
32	,135	,422	100,000		

Appendix 4. Rotated Component Matrix^a

	1	2	3	4	5	6	7
Система скидок по купонам	,764						
Подарки за покупку (ручки, календари и т.п. с логотипом компании)	,742						
Рассылка со специальными предложениями и скидками	,714						
Система поощрения за привлечение новых клиентов	,703						
Новостная лента в социальных сетях	,636						,437
Связь с клиентами через социальные сети	,578						,350
Частая реклама интернет аптеки по телевизору, в журналах и т.д.	,569						
Анонимность заказа онлайн		,740					
Возможность оформления заказа 24/7		,622					
Скорость оформления заказа		,570			,322		
Рейтинг лекарственных средств на базе отзывов и оценок на сайте	,335	,566					
Функция сохранения предыдущих заказов		,531			,390		
Возможность коммуникации с другими клиентами на сайте	,455	,521					,325
Подлинность лекарственных средств			813				
Наличие лицензии у интернет-аптеки			,770	,322			
Наличие действующих сертификатов на лекарственные средства			,747				
Бесплатная доставка			,507	,379	,330	,304	
Квалифицированные консультации по телефону	,305			,781			
Квалифицированные консультации на сайте 24/7	,355			,708			
Возможность доставки заказа 24/7		,399		,510			,341
Наличие мобильного приложения для заказа с телефона или планшета	,350			,479	,378		
Более низкие цены по сравнению с обычной аптекой				,388			
Подробное описание лекарственных средств на сайте					,651		
Более широкий ассортимент лекарственных препаратов, чем в обычной аптеке					,646		
Более широкий ассортимент парафармации (изделий медицинского назначения, БАД, косметики и т.д.)					,636		
Доставка в течение нескольких дней						,734	
Доставка в тот же день						,592	
Доставка в ближайшую аптеку			,505			,513	
Доставка до двери						,415	
Возможность покупки рецептурных лекарственных средств							,691
Программа гарантии низшей цены (возмещение разницы в стоимости при наличии лучшего предложения у конкурента)	,301						,661
Интернет-аптека является подразделением уже существующей известной аптечной сети	,326						,543