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CONSUMER LOYALTY AND SUPPLIER SWITCH IN SMES:

THE HAIRDRESSER CASE

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PROGRAMA DE DOCTORADO EN ECONOMIA Y EMPRESA

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LIST ABBREVIATIONS AND ACRONYMS

AG	Aktiengesellschaft, a German term for a public limited company
ALMEA	Asia, Latin America, the Middle East, Africa and Australia
AR	Augmented Reality
B2B	Business-to-Business
BN	Billions
BPS	Basis points. One basis point is equivalent to 0.01%
B2C	Business-to-Consumer
B2B2C	Business-to-Business-to-Consumer
CAGR	Compound average growth rate
CO	Company
CORP	Corporation
COVID-19	Coronavirus disease of 2019.
CRM	Customer Relationship Management
CY	Calendar Year
EMEA	East, Middle East and Africa
EU	European Union
FX	Foreign exchange market
GDP	Gross Domestic Product
INC	Incorporated company
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística
IVA	Impuesto sobre el valor añadido
K	Thousand
LFL	Like-for-Like
LTD	Limited
L4Y	Last four years
M	Millions
M2	Squared meters
N.V.	Naamloze Vennootschap a Dutch term for a public limited company

OECD	Organisation for Economic Co-operation and Development
PIB	Producto Interior Bruto
PYMES	Pequeñas y medianas empresas
P&L	Profit and Loss
R&D	Research and Development
SA	Société Anonyme a French term for a public limited company.
SE	Societas Europeae
SL	Sociedad Limitada
SMEs	Small and medium-sized enterprises
SWOT	Strengths, Weaknesses, Opportunities, and Threats
TV	Television
US	United States
VS	Versus
VAT	Value Added Tax
Y	Year
3D	Three dimensions

LIST OF SYMBOLS

&	And
€	Euros
$	Dollars
#	Number

CONTENTS

CHAPTER 1: Resumen y conclusiones

1.1. Objetivos, estructura y contribución de la tesis

Esta tesis se divide en cuatro capítulos. El Capítulo 1 contiene un resumen y las principales conclusiones de la tesis en castellano. El resto de la tesis está escrita en idioma inglés. El Capítulo 2 es un capítulo introductorio. Los objetivos del Capítulo 2 son primero, comprender el mercado de peluquería global y local (mercado español) desde la perspectiva del fabricante (Sección 2.1.1). En segundo lugar, conocer el mercado de la peluquería (global y local) desde la perspectiva del peluquero (Sección 2.1.2). En tercer lugar, identificar las principales diferencias respecto a otros modelos de negocio y conocer las características distintivas y las estrategias clave de comercialización de la industria de la peluquería (Sección 2.1.3).

El papel de la lealtad en el éxito de las pymes ha sido poco estudiado y se ha centrado sobre todo en los antecedentes y la medición de la lealtad. Además, las investigaciones pasadas se han centrado principalmente en empresas grandes. El Capítulo 3, contribuye y refuerza la literatura previa, adoptando una visión de gestión empresarial. Con este fin, se analiza desde la perspectiva del peluquero las estrategias que implementan y la lealtad del consumidor conseguida en sus salones. El Capítulo 3 tiene dos objetivos: primero, establecer un marco teórico basado en la literatura previa. Segundo, proporcionar evidencia empírica relacionada con los planes de marketing más exitosos para lograr la lealtad conductual en las pymes, dentro del mercado de peluquería. Por lo tanto, la principal contribución del Capítulo 3 a investigaciones anteriores, consiste en analizar el efecto de la estrategia (precio, rango de servicios, comunicación, tamaño y ubicación) en el logro de la lealtad del consumidor en las pymes. Los resultados tienen implicaciones interesantes para peluqueros o gerentes de peluquerías, ya que necesitan conocer las mejores estrategias que deben aplicar a sus negocios para tener éxito en el mercado. Además, las principales ideas de este estudio también podrían aplicarse a otros sectores como la salud, el cuidado personal o los servicios de bienestar.

El Capítulo 3 está organizado de la siguiente manera. En la Sección 3.1 se presenta el capítulo. En la Sección 3.2 se revisa la literatura teórica y empírica relacionada, a partir de la cual se propone el marco conceptual y las principales hipótesis. En la Sección 3.3 se presentan el conjunto de datos y las variables que se utilizarán en el análisis empírico. Además, se incluye un análisis descriptivo de las variables de interés. En la sección 3.4, se especifican dos modelos empíricos que son estimados para contrastar las hipótesis propuestas. El modelo 1 especifica la relación entre nuestra variable dependiente definida como el porcentaje de visitas semanales de los clientes al salón de peluquería y las variables independientes relacionadas con las estrategias de marketing: hipótesis (H1-H7). El modelo 2 permite contrastar las hipótesis de moderación (H8; H9; H10). Además, se analizan los principales resultados de las estimaciones empíricas. Las conclusiones centrales relacionadas con el efecto de la estrategia (precio, gama de servicios, comunicación, tamaño y ubicación) en el logro de la lealtad en las pymes se presentan en la Sección 3.5. Finalmente, la Sección 3.6 describe las limitaciones del estudio que sugieren investigaciones futuras.

El Capítulo 4 tiene como objetivo principal el de investigar las causas de cambios de proveedor por parte de las pymes en un contexto B2B. A pesar de la disponibilidad de varios estudios de lealtad del cliente (Watson et al., 2015), pocas contribuciones abordan los cambios de proveedor de las pymes. La investigación del Capítulo 4, primero, propone un marco conceptual. Después, proporciona una evidencia empírica relacionada con los factores explicativos más importantes que hacen que las pymes cambien de proveedor por razones de precios en un contexto B2B. La originalidad de esta investigación reside en ampliar la literatura actual al estudiar las causas de cambio para las pymes en el sector de belleza B2B. Por lo tanto, estos resultados también pueden aplicarse a otros sectores de servicios, como servicios de salud, belleza y cuidado personal y bienestar. Los resultados ofrecen enseñanzas e ideas para gerentes y académicos, así como algunas instrucciones para futuras investigaciones. Además, para establecer estrategias de servicio para la retención de clientes y los mejorar sus proyectos de nuevos lanzamientos al mercado, los fabricantes o proveedores, pueden utilizar los resultados de este estudio y así evitar futuras pérdidas de clientes.

El Capítulo 4 se estructura de la siguiente manera: en la Sección 4.1 presentamos el Capítulo 4. En la Sección 4.2 revisamos la literatura teórica y empírica relacionada en base a lo cual, se proponen las hipótesis del marco conceptual. En la Sección 4.3 se presentan el conjunto de datos y las variables que se utilizarán en el análisis empírico. Además, incluimos un análisis descriptivo de las variables de interés. En la sección 4.4, especificamos dos modelos empíricos que son estimados para contrastar las hipótesis propuestas. El modelo 1 especifica la relación entre nuestra variable dependiente definida como la utilidad de cambiar de proveedor por razones de precio y las variables independientes relacionadas con las estrategias de marketing: hipótesis (H1-H7). El modelo 2 permite contrastar la hipótesis de moderación (H9). Además, analizamos los principales resultados de las estimaciones empíricas. La discusión y las implicaciones se proporcionan en la Sección 4.5. Finalmente, la Sección 4.6 describe las limitaciones del estudio que sugieren investigaciones futuras.

1.2. Resumen

1.2.1 Descripción del Mercado de peluquería

El mercado global de peluquería representa más de 3.5 millones de salones en todo el mundo. Anualmente, más de 800 millones de clientes utilizan los servicios de esta industria al realizar 6 mil millones de visitas a salones de peluquería (Machek, 2010). Globalmente, 7 de cada 10 mujeres asisten regularmente a salones de peluquería, con una frecuencia de visita promedio de cinco veces al año. Todos estos datos demuestran el potencial de este mercado (GFK, 2016). El mercado global de productos de peluquería representa 17,2BN$. Esta cifra crece principalmente por mercados en desarrollo (EMEA) y un crecimiento estable de mercados clave (Europa y América del Norte). La Tabla 2.1 describe cómo el mercado global de peluquería tiene una alta concentración de fabricantes. Las cinco principales compañías representan el 51% del valor del mercado global. L'Oréal es el líder mundial del mercado, seguido de Coty, Henkel, Kao y Estée Lauder (Kline, 2019). L'Oréal representa el 25% del valor global del mercado. Coty es el segundo mayor competidor en la industria (su cuota de mercado global en valor es del 12%). El mercado español de peluquería representa 604 millones de dólares desde el punto de vista de los fabricantes y su concentración local de fabricantes es ligeramente similar a la global: L'Oreal representa el 35% del mercado español y Coty el 18%, (Kline, 2019).

De acuerdo con la Tabla 2.12, el mercado de peluquería en España está altamente fragmentado con 50,000 salones. España tiene la concentración de salones por habitante más alta dentro de Europa Occidental: 1 salón por cada 934 habitantes en promedio. La media europea es de 1 salón por cada 1531 habitantes. Como ejemplo, España tiene aproximadamente la mitad de los habitantes de Alemania, pero la misma cantidad de salones de peluquería. Además, el ticket promedio femenino en España es un índice 59 (más económico) que el alemán y un índice 71 en comparación con el promedio de la UE. La industria de la peluquería en España emplea directamente a 110.000 personas y se estima que este negocio genera alrededor de 3,6BN dolares por año (ventas con IVA incluido). Esta cifra constituye el 0,3% del PIB español y representa una facturación promedio de ventas por salón de 73.000 dólares al año. El número promedio de empleados por salón es de 2,2 y el promedio de metros cuadrados es de alrededor de 60m2. (Key Stone, 2019). El año de apertura promedio de un salón de peluquería promedio en España es el año 1999. Por último, la mayoría de los salones de peluquería (83%) son unisex. De acuerdo con estos indicadores clave, podemos razonar que los salones españoles son pequeños en un mercado muy fragmentado y extremadamente atomizado, orientado a los precios bajos. Desde un punto de vista comercial, estas características significan una clara aproximación hacia bajos niveles de profesionalización. (GFK, 2016; Key Stone, 2019). Esta ausencia de profesionalización del sector genera una mala gestión del negocio impulsada en parte por la falta de capacitación en gestión empresarial de los peluqueros (Lussier y Corman, 1995; Matlay, 2004).

En la Tabla 2.16 podemos encontrar las principales diferencias entre el mercado de gran consumo (retail) y el mercado profesional, desde el punto de vista del fabricante. Las características principales de los negocios profesionales son, en primer lugar, la educación. El principal desafío de los productos profesionales es, a través de la educación, vender un servicio en lugar de un producto. Mientras que el principal desafío del mercado “retail” es diferenciar los productos y convencer a los consumidores en el momento de la venta (Machek, 2010). En segundo lugar, no hay concentración de clientes ya que es una industria altamente fragmentada. En tercer lugar, el peluquero es al mismo tiempo consumidor final y usuario del producto. Cuarto, el motivo de la decisión de compra es emocional. Está relacionada con la relación que el peluquero tiene con el representante comercial del fabricante/ proveedor o con el vínculo emocional, que el peluquero tiene con la marca. Quinto, el foco publicitario clave es la comunicación boca-a-boca. Sexto, los fabricantes priorizan estrategias de marketing “push” por encima de las de “pull” al consumidor. (Coty, 2017; Lakoonen, 2014; L’Oréal, 2014, 2018; Machek, 2010).

1.2.2 Impacto de la estrategia de la pyme en la lealtad: el caso de las peluquerías

Una empresa que genera una mayor lealtad de clientes, empleados, proveedores y accionistas tiende a obtener mayores ganancias (Kumar y Reinartz, 2018). Aquella que no genera lealtad corre el riesgo de perder al cliente (Wirtz et al., 2014).

El Capítulo 3 tiene dos objetivos: primero, establecer un marco teórico basado en la literatura previa. En segundo lugar, proporcionar evidencia empírica relacionada con los planes de marketing más exitosos para lograr la lealtad conductual del consumidor en las pymes en el mercado de peluquería. Por lo tanto, la principal contribución del Capítulo 3 a la investigación anterior, consiste en analizar el efecto de la estrategia (precio, rango de servicios, comunicación, tamaño y ubicación) en el logro de la lealtad en las pymes. Para contrastar el modelo propuesto se usan datos obtenidos en una encuesta telefónica a 475 peluqueros españoles. El modelo utilizado para la estimación es el de mínimos cuadros ordinarios.

Los resultados empíricos muestran que los precios, los servicios y la comunicación (tanto en página web como la comunicación en el salón) son elementos clave de la estrategia de marketing, que ayudan en la consecución de la lealtad del cliente. Las pymes deben tener precaución en el correcto uso de las redes sociales para comunicarse con los consumidores y evitar daños potenciales a la lealtad del consumidor. Además, las pymes posicionadas en segmentos de precios más altos, podrían ver erosionada su lealtad cuando no dedican suficiente atención a la comunicación de su página web. Por último y para evitar ver erosionada la lealtad del consumidor, las pymes deben mantener un equilibrio en el foco que dedican tanto a estrategias de ventas de productos para usar en casa, como a la comunicación en el salón.

Los resultados tienen implicaciones interesantes para los peluqueros, ya que necesitan comprender la mejor estrategia que deben aplicar a sus negocios para tener éxito en el mercado. Además, las ideas principales de este estudio también podrían aplicarse a otros sectores como la salud, el cuidado personal o los servicios de bienestar.

1.2.3 ¿Por qué las pymes cambian de proveedor?

Retener una base existente de clientes es mucho más atractivo y menos costoso que buscar nuevos clientes. La elaboración de una estrategia exitosa de retención de clientes requiere una comprensión adecuada de sus factores causantes. La investigación del Capítulo 4, establece un marco conceptual adecuado y proporciona una evidencia empírica relacionada con los factores más importantes que hacen que las pymes cambien de proveedor por razones de precios en un contexto B2B. La originalidad de esta investigación es que amplía la literatura actual al investigar las causas de cambio para las pymes en el sector de belleza B2B. El marco conceptual propuesto y la evidencia empírica ofrecen algunas ideas sobre por qué las pymes podrían cambiar de proveedor, en el contexto relevante y único del sector de belleza B2B.

Los datos del estudio se obtuvieron mediante una encuesta telefónica a 475 peluqueros españoles, y se utilizó modelos de elección discreta para contrastar las hipótesis propuestas. De las nueve hipótesis propuestas, cinco son validadas empíricamente. Las pymes que más cambian de proveedor por motivos de precios, son aquellas que, primero, son sensibles a ofertas y promociones y segundo, están menos satisfechas con el proveedor actual. Por otra parte, las pymes que menos cambian de proveedor por motivos de precio, son aquellas más grandes (medidas en función del tamaño del salón) y las que tienen un mayor número de consumidores que compran productos profesionales para usar en el hogar. Aquellas pymes que están más satisfechas con los servicios de los proveedores y más propensas a negociar con sus proveedores actuales, también son las que menos cambian de proveedor por motivos de precio.

Los resultados del Capítulo 4 ofrecen algunas ideas novedosas para proveedores en el sector de belleza B2B y otros sectores dominados por las pymes. Cualquier fabricante o proveedor, probablemente pueda lograr una ventaja competitiva aplicando estos conocimientos. De hecho, se pueden aprovechar estos conocimientos para asignar sus presupuestos de marketing de manera óptima y establecer estrategias de servicio que les permitan retener a compradores y reducir su riesgo de cambio a otro proveedor.

1.3 Conclusiones

1.3.1 Conclusiones

Las principales conclusiones del Capítulo 3 son, primero, las pymes posicionadas a precios altos pueden generar más confianza y atraer a una clientela menos sensible al precio y, por lo tanto, a consumidores que están menos dispuestos a cambiar. En segundo lugar, el posicionamiento del servicio es un elemento clave para mantener la lealtad del cliente. Las empresas con un mayor número de servicios permiten atender más necesidades de los consumidores, lo que implica una mayor lealtad. Más allá de la estrategia de comunicación "boca a boca" que necesitan las pymes, éstas deben centrarse en las estrategias de comunicación “online” y “offline” para retener clientes y atraer nuevos. La presencia en “online” es clave para generar lealtad. Adicionalmente, los salones deben dedicar un mayor esfuerzo en la forma en la que usan las redes sociales. La clave para usar la comunicación en las redes sociales es generar contenido que sea consistente, relevante y útil. La comunicación “online” debe estar vinculada a la comunicación “offline” con especial atención a la comunicación en el salón. La combinación efectiva de estas dos estrategias, así como una ejecución excelente, podría aumentar la lealtad del cliente. Finalmente, la capacitación y entrenamiento del personal es clave para mantener la lealtad a la pyme.

En relación al Capítulo 4, para optimizar la asignación de recursos a estrategias de retención de clientes, los proveedores deben considerar las características principales de las pymes. Aquellas pymes que atienden a una mayor proporción de consumidores que compran productos para usar en el hogar tienen menos probabilidades de cambiar de proveedor por razones de precios. De acuerdo con este resultado, los proveedores deben proporcionar productos con un rendimiento superior, a un precio que permita a los salones obtener márgenes suficientes cuando los venden a los consumidores finales (Machek, 2010). De esta forma, si el margen es el adecuado, los salones probablemente recomienden sus productos a sus consumidores. Además, los proveedores podrían considerar la adopción de promociones específicas o programas de marketing para atraer o fidelizar a los salones que atienden a muchos consumidores que usan productos profesionales en sus hogares. Por otra parte, las políticas de retención de proveedores deben encontrar un equilibrio en términos de asignación de recursos entre el aumento de la satisfacción del cliente en sus productos, al tiempo que incorporan modelos de respuesta competitivos para aquellos clientes con mayor sensibilidad para negociar con otros proveedores. Conceptualmente, una mayor satisfacción en el servicio debería reducir los beneficios percibidos a la hora de cambiar de proveedor y así, disminuir su probabilidad de cambio (Anderson y Sullivan, 1993). Esto último es especialmente relevante en industrias centradas en el cliente, como lo demuestran las relaciones B2B2C en el mercado de la belleza (Laakkonen, 2016). Para abordar las necesidades de las pymes, los proveedores deben establecer canales de retroalimentación e iniciativas de participación continua (Ellis et al., 2012). Finalmente, los proveedores deben trabajar en régimen de asociación con sus clientes para identificar las causas fundamentales de los problemas de fallo de servicio.

1.3.2 Limitaciones y futuras investigaciones

La presente tesis, al igual que cualquier investigación académica, adolece de una serie de limitaciones, que abren nuevas posibilidades a trabajos futuros.

En relación a las limitaciones del Capítulo 3. Primero, la posibilidad de tener datos de ingresos de empresas (pymes) para analizar el efecto de las estrategias de lealtad en la rentabilidad de la empresa. Segundo, la posibilidad de profundizar sobre las razones por las cuales los consumidores finales eligen una empresa u otra. Tercero, analizar el nivel de capacitación de los empleados y cómo influye este en la lealtad del consumidor a la empresa. Cuarto, investigaciones futuras podrían probar el modelo propuesto en datos de otros países o datos de otros sectores con características similares.

En relación al Capítulo 4, para complementar los resultados de dicho trabajo, la investigación futura podría obtener datos de listas de precios, promociones, descuentos en factura, ofertas específicas de clientes e incentivos para clientes. Segundo, la medición del conocimiento de los proveedores se refiere al subconjunto de todos los proveedores que la pyme conoce, aunque no necesariamente los considere para comprar (Shocker et al., 1991). Sería interesante analizar los conjuntos de consideraciones de proveedores en líneas de investigación futuras. Tercero, investigaciones futuras podrían probar el modelo propuesto, con datos de otros países o datos de otros sectores. Cuarto, mientras que la mayoría de las investigaciones se centran en las razones por los que clientes insatisfechos cambian (Colgate y Hedge, 2001; Keaveney, 1995; Levesque y McDougall, 1996), hay pocos estudios que investigan por qué los clientes insatisfechos deciden no cambiar y quedarse con el proveedor (Berezina el al., 2016). Esta última sería una línea de investigación interesante.

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CHAPTER 2. Introduction

2.1.Hairdressing market overview

The hairdressing market it is a business-to-business-to-consumer model (B2B2C). Previous literature on hairdressing market is scarce which underscores a research gap. It is critical to identify in advance how the hairdressing market performs globally, identify its key dynamics and peculiarities, get to know who are the main competitors, understand core go-to-market strategies and establish comparisons with similar business models (retail). The main contributions of this Chapter 1 are first, to understand the global and local (Spanish) hairdressing market from manufacturer's perspective. Second, get to know the hairdressing market (Global and local) from hairdresser perspective. Third, to identify the core differences versus other business models such as business-to-consumer (B2C) or haircare retail. Fourth, to learn the distinctive characteristics and key go-to-market strategies of hairdressing industry.

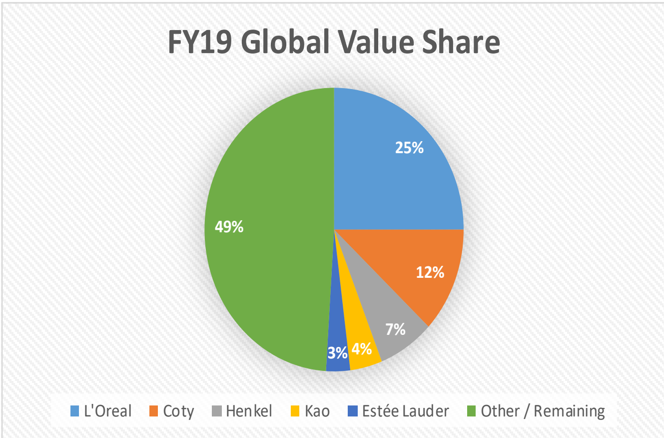
2.1.1 Hairdressing market: global and local manufacturers' perspective

Hairdressing salon market represents more than 3.5 million salons worldwide. Annually more than 800 million customers make use of hairdressing services making 6 billion visits of hairdressing salons (Machek, 2010). Worldwide 7 out of 10 women regularly attend hairdressing salons, visiting the salons five times per year, showing the potential of this market (GFK, 2016). The global market for hairdressing salon products accounts for 17.2 BN dollars, growing mostly by dynamic developing markets and stable performance of key established markets. Table 2.1 describes how global hairdressing market has a high manufacturer's concentration as top five companies account for 51% of global market value. L'Oréal is the global market leader, followed by Coty, Henkel, Kao and Estée Lauder (Kline, 2019). L'Oréal accounts for 25% global value share. Coty is the second largest branded competitor in the industry (12% global value share).

According with Table 2.2 manufacturer market size in FY19 was worth 17.2 BN dollars. Prior to COVID-19 effect, the Global hairdressing market was expecting moderate growth +1.4% in value for the next 5 years (CAGR 20-24). The market was showing a slightly more positive trend vs the past in value (Last Four Years growth was +1% vs +1.4% for the future 5 years). This growth was primarily driven by two factors. First, increased pricing versus the past especially in Europe, Latin America and Middle East. Second, volume stabilization effect in Russia, and Southern Europe countries (Italy and Spain). Overall, Europe is the biggest region (40% of overall manufacturers' market size), growing CAGR L4Y Value +1%. ALMEA (Asia, Latin America, the Middle East, Africa and Australia) is the second biggest region (36% of overall manufacturers' market size), growing in CAGR L4Y Value +2%. North America is the third region (25% of overall manufacturers' market size), flat in value CAGR L4Y. (Kline, 2019). If we compare the last four years trends (L4Y) versus other markets value on a global perspective, hairdressing market growth (+1%) was slightly below retail hair +1.6% value CAGR L4Y, below cosmetics, worth 56BN dollars in 2019 and +3% CAGR L4Y and luxury fragrances, worth 28.0 BN dollars in 2019 and +4% CAGR L4Y (Kline, 2019; Euromonitor, 2020).

Table 2.1: Global Market Value Share per manufacturer

#	Global Market Value	FY19 M$	Value Share
1	L'Oreal	4.312	25,0%
2	Coty	2.070	12,0%
3	Henkel	1.207	7,0%
4	Kao	690	4,0%
5	Estée Lauder	517	3,0%
6	John Paul Mitchell	517	3,0%
7	Shiseido	517	3,0%
8	Unilever	345	2,0%
9	Milbon	345	2,0%
10	Other / Remaining	6.727	39,0%
	Total	17.248	100,0%



Notes: FY= fiscal year; M$ = million dollars
Source: (Kline, 2019; Own elaboration)

Table 2.2: Global Market Value per category (manufacturer's perspective)

Global Market Value	Absolute M$					Growth Rates (%)			
	FY16	FY17	FY18	FY19	Weight FY19	FY17	FY18	FY19	CAGR L4Y
Total	**16.587**	**16.769**	**16.992**	**17.248**	**100%**	**1%**	**1%**	**2%**	**1%**
Color	6.835	6.924	7.040	7.181	42%	1%	2%	2%	2%
Care	6.052	6.159	6.279	6.405	37%	2%	2%	2%	2%
Styling	2.560	2.553	2.549	2.549	15%	0%	0%	0%	0%
Perms	1.140	1.132	1.124	1.113	6%	-1%	-1%	-1%	-1%

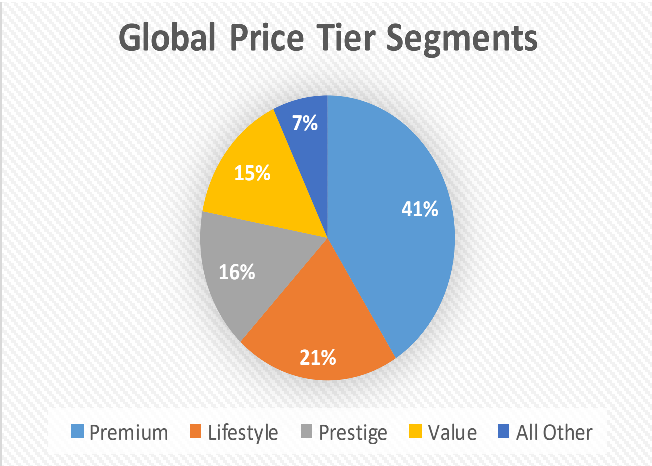
Notes: CAGR = compound average growth rate; FY= fiscal year; M$ = million dollars
Source: (Kline, 2019; Own elaboration)

As described at Table 2.2, Color is the biggest category (42% of value market size), which L4Y growth was +2%. This growth was explained, first by price increase policies, especially in Western Europe, Latin America and EMEA. Second, by Eastern Europe economy's recovery (mainly Russia) growing at 10% L4Y. Care is the second biggest category (37% of value market size) and also one with fastest growth, +2%(L4Y) explained, first, by product innovation launches, especially in conditioners and “intensive treatments” subcategories In Europe and North America. Second, by Asian markets growth with China, India, Japan and South Korea growing more than 2% in value. (Kline, 2019). Styling is the third category, with flat growth L4Y CAGR. It is being stabilized in North America (where it accounts for 24% of regional sales), while declining in Europe (-1% in value, L4Y) behind trends and consumer preferences. Perm is the smallest category, declining -1% L4Y CAGR (Kline, 2019).

Within the professional hairdressing market, there are five pricing tiers which help to position professional brands: Prestige, Premium, Lifestyle, Value, and all other . Each brand is defined by its unique equity and price positioning. Professional brands convey a more emotional and visually inspired message to their consumers and stylists. Table 2.3 presents the different brand positioning according with the pricing tiers. Premium is the biggest price-tier segment in the market and accounts for 7.1BM dollars, (41% of the market). Lifestyle is the second biggest segment, worth 3.6BN dollars (21% of the market). The Prestige segment worth 2.8BN dollars (16% of total market). Finally, Value segment accounts for 2.6BN dollars (15% of the market), with China accounting for 55% of it . (Kline, 2019)

Table 2.3: Global Price Tier Segments

Global Market	FY19 M$	Weight
Total	**17.248**	**100%**
Premium	7.071	41%
Lifestyle	3.622	21%
Prestige	2.760	16%
Value	2.587	15%
All Other	1.207	7%



Notes: FY= fiscal year; M$ = million dollars
Source: (Kline, 2019; Own elaboration)

Hairdressing Spanish market accounts for 604 million dollars from a manufacturers stand point. Since 2012, it has been severely impacted by the economic situation. Consumer and market knowledge data estimates a category drop of -8% (for the period 2013-2016). Manufacturers separates the market in two channels with different go-to-market strategies: the direct channel accounts for 80% of total market in Spain, while

20% are made via the indirect channel (wholesalers sales representatives, stores and cash and carries). (Key Stone, 2019; Kline, 2019).

Table 2.4: Spanish Hairdressing Market (manufacturer's perspective)

Spanish Market Value	Absolute M$					Growth Rates (%)			
	FY16	FY17	FY18	FY19	Weight FY19	FY17	FY18	FY19	CAGR L4Y
Total	**581**	**588**	**597**	**604**	**100%**	**1%**	**2%**	**1%**	**1%**
Color	354	358	361	365	60%	1%	1%	1%	1%
Care	153	156	161	164	27%	2%	3%	2%	2%
Styling	60	61	62	62	10%	1%	1%	1%	1%
Perms	14	13	13	13	2%	-5%	-1%	-2%	-3%

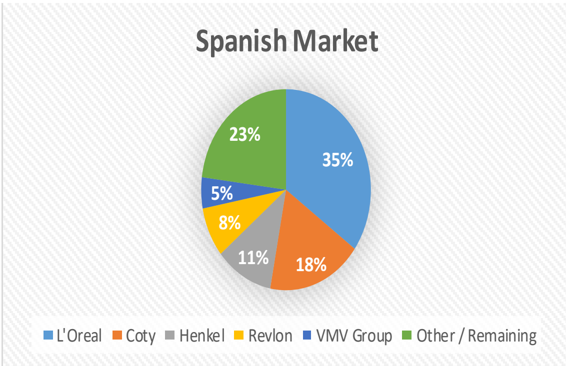
Notes: CAGR = compound average growth rate; FY= fiscal year; M$ = million dollars
Source: (Kline, 2019; Own elaboration)

Within Spanish market, Color category accounts for 60% of total market sales and is the most important segment in the market. Color is currently growing +1 CAGR L4Y. Care segment accounts for 27% of the Spanish market and it is the category with highest growth rate +2% CAGR L4Y. Styling is growing at +1% CAGR (in line with the market average growth) and accounts for 10% of the market. Finally Perms category accounting 2% of market is decreasing at -3% CAGR L4Y and below market average. This segment has been de-prioritized by the majority of manufacturers. Since 2016, Spanish market witnesses a slow recovery from the economic crisis. While still struggling with sluggish economy, the salon hair care market registers a positive sales growth of 1% CAGR L4Y. As core market trends, the increase of low cost salons and the self-employed hairdressers is still increasing. In 2019, 42% of the salons were self-employed hairdressers, compromising the quality of the services offer and the not proper use of products. Competition among marketers is fierce forcing many to reduce prices on products and accept lower profits. Economic adversity in the country affects the spending habits of consumers who reduced the hairdressing salon visits and the overall spending in hair salons. (Key Stone, 2019; Kline, 2019)

At Table 2.5 we can analyse the Spanish market value per manufacturer. L'Oréal is the market leader with 35% share while Coty is the second player at 18% value share. The rest of competition players are highly fragmented by categories and L'Oréal is always the key mirror to compete. In the next years, high competition from local brands will remain constant as long as they are able to compete with low prices and good quality. Prior to COVID-19 crisis, the market was expecting to recover after the economic crisis. The expected recovery was going to be gradual, since consumers needed to recover confidence on their domestic economy. Business opportunities in intensive hair treatment, (as an important part of hair care segment) particularly in-salon treatments and barbershops movements were expected growth factors to definitely consolidate in the Spanish market, by focusing more in the end-consumer service versus the products offered. (Kline, 2019)

Table 2.5: Spanish Market Value Share per manufacturer

#	Spanish Market Value	FY19 M$	Value Share
	Total	604	100,0%
1	L'Oreal	211	35,0%
2	Coty	109	18,0%
3	Henkel	66	11,0%
4	Revlon	48	8,0%
5	VMV Group	30	5,0%
6	Other / Remaining	139	23,0%

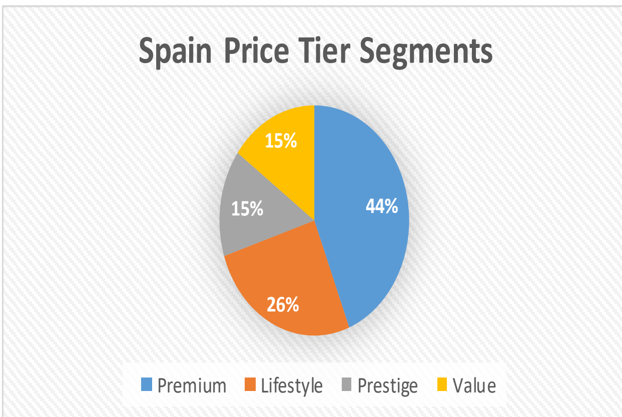


Notes: FY= fiscal year; M$ = million dollars
Source: (Kline, 2019; Own elaboration)

At Table 2.6 we can examine the Spanish price tier segments. The market is fragmented by 5 tiers. Premium segment represents 44% of the Market reaching 266 million dollars and is the major battlefield to compete where L'Oréal and Coty account both for more than 60% of the total premium business. Prestige business accounts for 15% of the market. Finally, Lifestyle and Value represent 41% of the Market (26% and 15% respectively). These last segments are characterized as the most fragmented tiers, with lots of local or distributor brands, with high regionalist impact, aggressive low prices and intensive value for money promotions. (Kline, 2019).

Table 2.6: Spain Price Tier Segments

Spain	FY19 M$	Weight
Total	604	100%
Premium	266	44%
Lifestyle	157	26%
Prestige	91	15%
Value	91	15%



Notes: FY= fiscal year; M$ = million dollars
Source: (Kline, 2019; Own elaboration)

With the objective of better comprehend hairdressing industry dynamics, we will focus on the two largest manufacturers at global level: L'Oréal and Coty Inc. Both manufacturers group more than 37% of total global market value share and 53% of total Spanish market value share.

L'Oréal Company

L'Oréal Company is a cosmetic French company. L'Oréal is the global market leader (Kline, 2019). L'Oréal accounts for 25% global market value share. The company classifies its business operations into four reportable segments: Professional Products, Consumer Products, L'Oréal Luxe, and Active Cosmetics. The company produces and markets a range of make-up, perfume, hair care, coloring and skin care products. L'Oréal markets its products under various international brands, including Lancôme Giorgio Armani, Yves Saint Laurent, Biotherm, Kiehl's, Ralph Lauren, Shu Uemura, Cacharel and Helena Rubinstein. Its portfolio also comprises brands such as Clarisonic, Diesel, Viktor & Rolf, Yue-Sai, Essie, Maybelline New York, Redken, Kerastase, and Matrix. L'Oréal Company sells products through a distribution network of mass market, department stores, pharmacies and drugstores, hairdressing salons, travel retail, branded retail and e-commerce platforms. The company has operations across the world. L'Oréal Company is headquartered in Paris, France. The company reported revenues of 29.8BN euros for the calendar year ended December 2019 (Y2019). This represents a top line growth of +11%, above their major competitors. In Y2019, the company's operating profit was 19%, compared to an operating profit of 18% in Y2018. (L'Oréal, 2019).

SWOT framework is a strategic planning technique used to evaluate a company's competitive position and to develop strategic planning. SWOT framework assesses internal and external factors, as well as current and future potential. For the L'Oréal SWOT analysis, we will describe this factors sorted by the following order: strengths, weaknesses, opportunities, and threats.

L'Oréal is one of the largest cosmetic companies in the world. Market position, focus on research and development, financial performance and market position are the strengths. These strengths allow the company to serve multiple customer segments, which reduces risk and widens the pool of growth opportunities. Lawsuits may be an area of concern. However, focus on digitalization and acquisitions are likely to offer growth opportunities to the company. In the future, growing counterfeit goods market, changing consumer preferences and increasing competition across product categories could affect its business operations. At Table 2.7 we can find the L'Oréal SWOT analysis, which will be explained below.

Table 2.7: L'Oréal SWOT analysis

Strength	Weakness
Strong market Position Focus on Innovation through Robust R&D Efforts Financial Performance	Different lawsuits Slow decision-making processes
Opportunity	**Threat**
Focus on Digitalization Strategic Acquisitions	Counterfeit Goods Market Increasing Competition across product categories Changing Consumer Preferences

Source: (Own elaboration)

Strong Market Position

L'Oréal's strong market position has built its brand equity and helped the company to establish itself as a leading provider in cosmetics market. Its leading market position also helps the company to attract a larger customer base and improve its top-line performance. The company has developed a strong brand portfolio of 34 international brands. Its brand line-up includes L'Oréal, Redken, Matrix, Lancôme, The Body Shop, Garnier, Maybelline New York, Kerastase and Carita, among others, all of which are recognized globally. These brands are available through a variety of distribution channels ranging from mass market retailers to selective distribution, including hair salons, pharmacies/drugstores and a network of directly-owned stores and franchisees. L'Oréal's Professional Products division distributes its products in hair salons and beauty institutes all over the world. The Consumer Products division offers products in all mass-market retailing channels. The Luxury Products division brands are sold through selective retail outlets such as department stores, perfumeries, travel retail outlets, the company's own boutiques and through e-commerce websites. The Active Cosmetics Division distributes its products worldwide in all types of health channels, primarily through pharmacies, pharmacies, drugstores and medi-spas. Strong market presence and brand portfolio lends better visibility and presence in all distribution channels which enables L'Oréal to reach a large customer base, thereby increasing its market penetration opportunities. (L'Oréal, 2019).

Focus on innovation through robust research and development efforts

L'Oréal's drive to innovate is based on a strong research and development effort. The company's research and development activities are focused on skin, haircare, color cosmetics, beauty and sun protection among others. The company employed 3,885 researchers of various disciplines for product development, as well as applied research. It has expertise in the fields of hair biology, photobiology, scientific computing, hair styling, chemistry, biophysics, green chemistry, skin stem cells and robotics. In Y2017, the company registered 498 patents. The company collaborates with various institutions, laboratories, start-ups, suppliers and research institutions. The company operates 16 evaluation centres and 20 research centres of which three global centres are located in France and six regional hubs (United States, Japan, China, Brazil, India and South Africa). In Y2017, the company invested 877 million euros towards its research activities. Strong research and development capability enables the company to stay abreast of the changes in the industry and provides it with 'first mover' advantage by launching products ahead of competition. (L'Oréal,2018; 2019).

Financial Performance

Strong financial performance enables the company in providing higher returns to its shareholders, thereby attracts further investments. Growth in revenue as well as profitability also enhances the company's ability to allocate adequate funds for its future growth prospects and expansion plans. At Table 2.9, we could see that in Y2019, the company reported revenue of 29.8BN euros, which represents an annual growth of +11%. The growth in revenue was primarily attributed to net sales of Professional Products +5.5%, Consumer Products by +6% ; L'Oréal Luxe by +17.6%; and Active Cosmetics by +17.1%. The company's operating profit increased to 5.5BN euros as compared to an operating profit of 4.9BN euros in Y2018. Improving operating performance indicates the company's focus towards efficient cost management. (L'Oréal, 2019).

Lawsuits.

L'Oréal is subject to past lawsuits and claims, actual and potential. Currently, the company is involved in defending several of its cases. Legal proceeding, regardless of the outcome, could drain the financial resources and divert the time and effort of any management. In October 2017, the company was imposed a fine of about 2.6 million euros by Greece's competition authority due to indirect price fixing. In September 2017, the company was accused of stealing anti-aging technology for use in its own line of beauty products. In February 2017, L'Oréal USA was accused for misleading consumers with its false advertising. L'Oréal USA and its brand Matrix Essentials were facing a class action lawsuit over three of its keratindose hair care products. The lawsuit alleges that the company's Keratindose hair care products do not contain keratin. Such Lawsuits hamper the company's brand value and result in huge penalties. On August 2019, in federal court in the United States., the jury told L'Oréal to pay the Olaplex company (a start-up) $91.3 million for stealing its trade secrets, breaching a contract and infringing two patents related to a popular, three-step system that protects hair during bleaching treatments.

Slow decision making processes

The breadth of L'Oréal's portfolio means that you need too many subdivisions to manage product categories and references. Overall, L'Oréal has more than 60,000 employees who work in product development, manufacturing, marketing, and customer service for what they spend. The management and direction of so many people to administer the products generates problems, such as slow decision-making and lack of agility when changing plans from a tactical point of view.

Focus on Digitalization

The company has been focusing on digitalization by taking up several initiatives in its beauty products. L'Oréal offers skin diagnostics, an online and offline tool, as well as daily skincare regimens like La Roche-Posay's personalized which provides customers a comprehensive skincare experience. L'Oréal offers customers digital services to guide and help in choosing the right products allowing users to test its products virtually that includes 3D makeup and hair colour testers, complexion detectors, skin assessments. The company collaborated with Perfect Corp to integrate the makeup products into the "YouCam Makeup" augmented reality application. It further launched its first 3D hair color tester based on artificial intelligence. The company's professional products division launched two programs: Salon Secret and Salon E-motion which is designed to enhance salon attractiveness and its customers and professionals. It also developed applications designed to exhibit professional expertise in the retail channel. The K Profile app by Kerastase brand allows hairdressers to prescribe regimens to be used in salons and at home. Thus the company's strong digital base will improve its company's global reach and thereby generate incremental revenues. (L'Oréal, 2019).

Strategic Acquisitions

L'Oréal entered into strategic acquisitions to strengthen its market position. In August 2018, the company acquired Societe des Thermes de La Roche-Posay, a thermal station. The thermal water of La Roche-Posay has therapeutic anti-inflammatory, healing and soothing properties to treat skin diseases so the acquisition could enable L'Oréal to enhance its presence in the dermatologic market. In the same month, the company acquired Logocos Naturkosmetik AG, a German natural beauty company. The acquisition is expected to expand its brand geographically and boost its presence in organic beauty market. In May 2018, the company acquired Nanda Co. Ltd., the Korean lifestyle make-up and fashion company. The acquisition could expand its presence in Asian make-up market. In the same month, L'Oréal acquired Pulp Riot, a professional hair color brand. The acquisition is expected to boost its international presence. In March 2018, the company acquired ModiFace, augmented reality and artificial intelligence brand. The acquisition enables the company to strengthen its position in digital market. Such strategic acquisitions will help the company to bolster its position in the company's markets, and provide access to new markets. (L'Oréal, 2018; 2019).

Counterfeit goods market

The company's performance would be affected by the rising influx of counterfeit products. The market for counterfeit goods has been increasing across industries and is affecting the sales and image of established brands such as L'Oréal. With global annual sales of around 500 billion dollars, the sales of counterfeit goods are expected to cross 2 trillion dollars in sales by 2026. It accounts for about 5-7% of the world trade. In the United States alone, these activities result in a yearly sales loss of about 200-250 billion dollars, a figure that is steadily increasing. As a result, the imitated goods are eating into the market share of branded cosmetic products, especially due to their low price offerings. When customers buy copied brand labels, the low quality of these counterfeit products affects consumer confidence and also tarnishes the brand image of the genuine company. Such industry scenario could have a major effect on the company's growth prospects. (Kline, 2019; L'Oréal, 2019). Finally, despite it is a bit early to assess, due to the COVID-19 global crisis that started at March20, these forecasts have been affected and should be under review.

Increasing Competition across product categories

The skin care, makeup, fragrance and hair care businesses are characterized by intense competition throughout the world. The company competes in selected product categories against a number of multinational manufacturers. In addition to products sold in the mass-market and demonstrator-assisted channels, L'Oréal's offerings compete with similar products sold in prestigious department store channels, through door-to-door sales, mail-order or telemarketing by representatives of direct sales companies. Brand recognition, quality, performance and price have a significant influence on consumers' choices among competing products and brands. Advertising, promotion, merchandising, the pace and timing of new product introductions, line extensions and the quality of in-store sales staff also have a significant impact on consumers' buying decisions.

Changing consumer preferences

The company's operations are subject to ever changing consumer preferences. It must continuously develop, produce and market new products in order to maintain and enhance the recognition of its brands and try achieving a favourable mix of products. Consumer spending patterns and preferences that change rapidly cannot be predicted. The decrease in the market demand and change in consumer spending may result in inventories that are too high or cannot be sold at anticipated prices. The company's business, financial condition and results of operations could be affected if it is unable to adapt to the trends in the market.

Coty Inc.

Coty Inc. is a multi-segment beauty company that offers a wide range of beauty products, including fragrances, color cosmetics, and skin and body care products. The company operates in more than 46 countries and markets, sells and distributes its products in over 150 countries and territories across the Americas, EMEA and Asia Pacific. The company operates 14 manufacturing facilities across the United States, Europe, and Brazil. Coty operates through three business segments: Luxury, Consumer Beauty, and Professional Beauty. The company's major products include haircare products, fragrances, color cosmetics, and skin and body care products. Coty Inc. distributes products through drug stores, hypermarkets, prestige retailers, supermarkets, traditional food and drug retailers, mid-tier department stores and duty-free shops. It markets products under various brands including Biocolor, Bozzano, Bourjois, Clairol, CoverGirl, Jovan, Max Factor, Monange, Paixao, Rimmel, Risque, Sally Hansen, Wella, Younique, Escada, Joop!, Lancaster, Philosophy, Clairol Professional, ghd (good hair day), Kadus Professional, Londa Professional, Nioxin, OPI, Sebastian, System Professional and Wella Professional. Under Consumer Beauty segment, the company offers mass fragrances, color cosmetics, retail hair coloring and styling products, and body care products through supermarkets, hypermarkets, drug stores and pharmacies, traditional food and drug retailers, and mid-tier department stores. Geographically, the company classifies its operations into three regions such as North America, Europe, and ALMEA (Asia, Latin America, the Middle East, Africa and Australia). In Y2019, Europe segment accounted for 45% of the company's revenue; followed by North America (32%) and ALMEA (23%). (Coty, 2019). The company is headquartered in New York, United States. At Table 2.9 we can see that the company reported revenues of 8.6BN dollars for the Year 2019. This represents a decrease of -8% over Y2018. The operating profit of the company was 266 million dollars in Y2018, compared to an operating loss of -3.4BN dollars in Y2018. This was explained as Coty Inc. incurred a meaningful $3.85BN non-cash value impairment charge, primarily connected to the Consumer Beauty division (Coty, 2019).

SWOT framework is a strategic planning technique used to evaluate a company's competitive position and to develop strategic planning. SWOT framework assesses internal and external factors, as well as current and future potential. For the Coty Inc. SWOT analysis, we will describe this factors sorted by the following order: strengths, weaknesses, opportunities, and threats.

Coty Inc. is engaged in manufacturing, marketing and distribution of fragrances, color cosmetics, and skin and body care products. Wide geographic presence, robust distribution channel, and focus on innovation are the major strengths of the company, whereas debt remains an area for concern. Positive outlook for the global fragrance market, positive outlook for skincare market in Europe, and strategic initiatives are likely to offer growth opportunities for the company. However, intense competition, labour cost in the US, and foreign currency fluctuation could affect its business operations. At Table 2.8 we can find the Coty Inc. SWOT analysis, which will be explained below.

Wide geographical presence

Coty Inc. focuses on expanding its international presence to explore opportunities available in other developed and emerging markets. It has a diversified geographic presence which helps it to serve a wide customer base and provides a competitive edge over its peers. The company operates in North America, Europe, and Latin America, Middle East, Africa and Australia (ALMEA), (Coty, 2019). A wide geographic presence enables Coty Inc. to provide core customers with an supreme combination of extensive global resources, world-recognized technical expertise and profound local commercial knowledge.

Robust distribution channels

Coty operates its business through a multi-channel distribution strategy. It markets products across price points in prestige and mass channels of distribution. The company offers certain products through multiple distribution channels to reach a broader customer base. Coty sells products through retailers, including hypermarkets, supermarkets, independent and chain drug stores and pharmacies, upscale perfumeries, upscale and mid-tier department stores, nail salons, specialty retailers, duty-free shops and traditional food, drug and mass retailers. In Y2019, no retailer accounted for more than 10% of the global net revenues. Coty's top retailer, Wal-Mart accounted for 6% of the overall revenue. The company also sells a range of products through travel retail sales channels, including duty-free shops, airlines, cruise lines and other tax-free zones. Additionally, it sells through the internet over e-commerce sites, and through direct marketing via television. Furthermore, the company sells its products through third-party distributors in countries where it is not present through subsidiaries. Thus, Coty's strong multi-channel distribution strategy provides easy access to customers across geographies and allows it to target a wide customer base. (Coty, 2019).

Table 2.8: Coty Inc. SWOT analysis

Strength	**Weakness**
Wide geographical presence Robust Distribution Channels Continuous Focus on Innovation	Debt performance affects the company's business Weak financial performance
Opportunity	**Threat**
Strategic partnerships Strategic initiatives to gain growth opportunities	Rising labour costs in the US Intense competition from well-established companies Fluctuations in currency exchange rates

Source: Own elaboration

Continuous focus on innovation and digitalization

Coty focuses on delivering new and innovative products. The company's research and development (R&D) efforts are directed at developing new products and improving its existing range. The company's R&D teams work with its marketing and operations teams to identify recent trends and consumer needs. Additionally, Coty's basic and applied research groups, which conduct longer-term research, focus on developing proprietary new technologies for first-to-market products and for improving existing products. This R&D is done both internally and through affiliations with various universities, technical centres, supply partners, industry associations and technical associations. The company focuses on consumer engagement and building brand equity through exploring opportunities in the field of e-commerce, digital, social media and influencer marketing. It also uses artificial intelligence-powered tools to provide personalized advice on selection and usage of products and augmented reality tools to enable customers to virtually try products. As of June 2019, the company secured approximately 2,000 utility patents and patent applications globally and 1,800 design patents. As an average, Coty Inc. invest a 2% of the company's revenue in its R&D activities. (Coty, 2019).

Debt performance affects the company's business operations.

High debt remains a major concern for the company. This increase in debt levels indicates that Coty Inc. will incur higher interest expense in the future, which affects profitability. In Year 2019, net cash provided by operating activities was $639.6 million, up $225.9 million from $413.7 million in Y2018, benefiting from the impact of working capital management initiatives, including cash collection initiatives for receivables and the net contribution of approximately $118 million from a receivables factoring program. Y2019 free cash flow of $213.0 million improved by $245.7 million from negative free cash flow of -32.7 million dollars in the Y2018, reflecting the strong improvement in operating cash flow coupled with a $19.8 million reduction in capex. Net debt of $7,405.4 million on June 30, 2019 increased by $113.8 million from the balance of $7,291.6 million on June 30, 2018 and increased slightly by $17.2 million from the balance on March 31, 2019. This increase was driven by a negative FX impact of approximately $59 million, partially offset by net debt reduction of approximately $42 million. The net debt reduction was the result of $92.5 million of free cash flow in the quarter and approximately $13 million of other cash inflow, partially offset by $63.4 million of cash dividend payment. (Coty, 2019).

Weak financial performance

Luxury Division had a strong year, delivering +4.7% LFL net sales growth driven by strength in ALMEA and Europe, and solid performance in Travel Retail despite disproportionate supply chain disruption in this channel in the first half of the year. Y2019 marked the second consecutive year of double-digit growth in Luxury's emerging markets, with particular strength in China. By brand, Y2019 was fuelled by Burberry, Calvin Klein and Gucci, supported by successful launches such as Burberry Her, Gucci Guilty Revolution and Gucci's new Alchemist Garden collection. Coty Inc. also had a strong performance in Luxury e-commerce revenues in Y2019, with approximately 30% e-commerce net revenue growth and e-commerce penetration reaching a little over 10%. In Y2019, the Luxury division delivered adjusted operating income of $511.2 million, reflecting significant 30% growth from the prior-year. The adjusted operating margin reached 15.5%, growing 320 bps versus Y2018, driven by fixed cost reductions and lower non-working media.

Year 2019 was a challenging year for the Professional Beauty division, with net sales decreasing -1.7% LFL, primarily driven by the performance in North America, due to supply chain disruptions coupled with trade inventory reductions at certain key customers. The division saw solid growth in ALMEA and very strong growth in ghd globally fuelled by new product introductions and improved execution. Professional Beauty division also made strong progress in e-commerce, which reached a low teens percentage of their divisional sales, largely fuelled by online platforms for Wella and ghd. Professional Beauty adjusted operating income in Y2019 grew +13% to $219.4 million, fuelled by gross margin expansion and fixed cost reduction, which also drove a 190 bps increase of the adjusted operating margin to 12.1%. (Coty, 2019).

Consumer Beauty remained pressured over the course of the year. Net revenue declined by 10.6% LFL in Y2019 as Coty Inc. brands faced share losses and continued weakness of the mass beauty category in North America and Europe. While sell-out in North America and Europe declined high single digits, net revenues in these regions - which together accounted for approximately 70% of Consumer Beauty - declined double digits, impacted by elevated promotional activity and trade spending, as well as by the supply chain disruptions at the start of the year. On the other hand, revenues and sell-out in ALMEA grew in the single digits, supported by consistent strength and share gains in Brazil. From a profit perspective, the Y2019 adjusted operating income declined 47% to $219 million, with the adjusted operating margin down by 340 bps to 6.2% due to a reduction in net revenue and gross margin pressure, partially offset by lower fixed costs and advertising expenses management. Importantly, in Y2019 Coty Inc. incurred a meaningful $3.85bn non-cash value impairment charge, primarily connected to the Consumer Beauty division. From a financial standpoint, impairment charges mean adjustments of the values in their accounts. These adjustments are done periodically, as a matter of compliance and to ensure an accurate financial view of business. (Coty, 2019).

Strategic partnerships

The company underwent several strategic partnerships to maintain its market competitiveness. In July 2018, the company entered into a partnership with DKSH to develop its professional hair care distribution in Asian market. This partnership would help the company to improve its logistics, distribution, sales order processing, inventory visibility, and delivery schedule. This would also enhance the company's brands and quality of after-sales services in Singapore and Malaysia. In October 2017, Coty Inc. partnered with Burberry to secure global rights of its beauty luxury fragrances, skincare, and cosmetics businesses. This partnership would enable the company to become a leading player in the global luxury beauty market and develop luxury products by leveraging technical expertise and craftsmanship of Burberry. (Coty, 2018; 2019).

Strategic initiatives to gain growth opportunities

The company undertook several strategic initiatives to maintain its growth momentum. In May 2018, the company's professional beauty segment opened its head quarter in North America. The campus is located at 4500 Park Granada of capacity 26-acre. This new facility would provide the advantage of Southern California weather, which enables its employees to focus on product innovation, solution, and new product development. In April 2018, the company introduced blended reality beauty magic mirror at Bourjois boutique in Paris. This product would offer augmented reality (AR) makeup try-on experience by integrating physical products and digital content. This product could improve the shoppers experience by removing barriers in traditional virtual makeup. In February 2018, the company's brand Covergirl unveiled live mobile-web try on experience, making it available in modern smartphones. This would enable Covergirl shoppers to visit http://www.covergirl.com/tryit to apply beauty looks to their face by using desktop or mobile device. The company partnered with Walmart to make it easy to purchase new Covergirl products. This initiative would enable the company to meet shoppers need (Coty, 2018; 2019).

Rising labour costs in the US

Increasing manpower costs could have an adverse effect on the company's margins. In Y2018, Coty Inc. employed 20,000 for conducting its business operations. It implemented several initiatives to expand its presence, which requires increasing its employee base. However, increasing manpower costs could impact its stability and operational efficiency. The tight labour markets, government mandated increases in minimum wages and a higher proportion of full-time employees could result in an increase in labour costs.

Intense competition from well-established companies

Coty Inc. faces hard competition in the beauty industry. The company faces intense competition from manufacturers and marketers of beauty products, salon professional, hair care, and personal care products. Coty Inc. also faces increasing competition from multinational brands, small targeted niche brands and private label products sold by apparel retailers and mass distribution retailers. The major factors where the company competes include pricing and innovation, service to the consumer, product efficacy, promotional activities, special events, advertising, new product introductions, direct sales, e-commerce initiatives, and other activities. Its key competitors include Avon Products, Inc., BABOR Cosmetics America Corp, Beiersdorf AG, CCA Industries, Inc., Kao Corp, L'Oréal SA, LVMH Moet Hennessy Louis Vuitton SE, Puig, S.L., Revlon, Inc., Shiseido Co Ltd., The Estee Lauder Companies Inc., The Procter & Gamble Co, and Unilever N.V.

Fluctuations in currency exchange rates

The company operates in many parts of the world and is exposed to fluctuations in foreign exchange rates. The company reports financials in US dollar and therefore its revenue is exposed to volatility of US dollar against other functional currencies such as Euro, Chinese yuan, and South Korean Won, and among others. Major elements exposed to exchange rate risks include the company's investments in overseas subsidiaries and affiliates and monetary assets and liabilities arising from business transactions in foreign currencies (Coty, 2019).

Table 2.9: L'Oréal and Coty Inc. Income Statements (Years 2018-2019)

	Million Euros			As % of sales		
L'Oréal Income statement as reported	**Y2018**	**Y2019**	**% Growth**	**Y2018**	**Y2019**	**Change**
Net Sales	26.937	29.874	11%	100%	100%	0,0%
Cost of sales	7.332	8.065	10%	27%	27%	-0,2%
Gross Profit	**19.606**	**21.809**	**11%**	**73%**	**73%**	**0,2%**
Research and innovation expenses	914	985	8%	3%	3%	-0,1%
Advertising and promotion expenses	8.145	9.208	13%	30%	31%	0,6%
Selling, general and administrative expenses	5.625	6.068	8%	21%	20%	-0,6%
Operating profit	**4.922**	**5.548**	**13%**	**18%**	**19%**	**0,3%**

	Million Dollars			As % of sales		
Coty Inc Income statement as reported	**Y2018**	**Y2019**	**% Growth**	**Y2018**	**Y2019**	**Change**
Net Sales	9.398	8.649	-8%	100%	100%	0,0%
Cost of sales	3.608	3.307	-8%	38%	38%	-0,2%
Gross Profit	**5.790**	**5.342**	**-8%**	**62%**	**62%**	**0,2%**
Selling, general and administrative expenses	5.018	4.564	-9%	53%	53%	-0,6%
Amortization expense	353	354				
Other operating expenses	266	3.896	1365%	3%	45%	42,2%
Operating profit	**153**	**-3.472**		**2%**	**-40%**	**-41,8%**

Note: Y= Year as reported at annual report
Source: (L'Oréal, 2019; Coty Inc., 2019; Own elaboration)

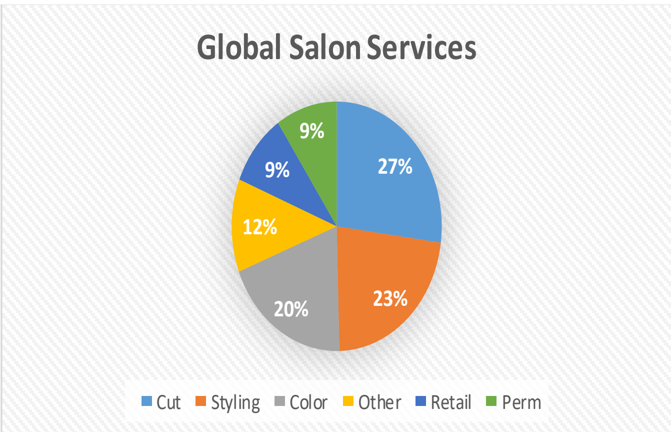
2.1.2 Hairdressing market: global and local hairdressers' perspective

The hairdressing industry is categorized by low market share concentration. As an example the largest United States company in the industry, Regis Corporation generates just 4% of total revenue and is still 60% larger than the next-biggest company. The Hair Salons industry is highly fragmented, with most operators located in high-traffic areas but others located in niche markets. Low barriers to entry allow small companies to set up locations without the backing of larger operators. The fragmented nature of this industry makes it difficult for any one company to gain a large share of the market (IBISWorld, 2016). Additionally, start-up costs are relatively low compared with other industries. As a new hairdressing salon, all that is required to begin operating is rental space and hair styling equipment. To perform higher-margin services, operators require straighteners, curlers and professional hair products, in addition to specialized facial equipment. The average initial capital investment is about 45,000 dollars, excluding inventory costs (IBISWorld, 2016).

The Table 2.10 reflects the way hairdressers look at the market according with Kline (2019). Cut services constitutes 27% of their total invoice sales. The second largest service is Styling with 22% of the market and finally Color is grouping 19% of total market. Overall we can determine from Table 2.10 that the revenue driver is cut services followed by styling and colour services. Actually, cutting and styling services represent for circa 80% of Salon profit and is a key profit driver for the salon due to limited cost of goods involved. Color services are a key driver of differentiation, a key driver of client loyalty as well as revenue to cover overhead and staffing costs. In addition, retail sales (products to use at home) are highly profitable (circa 60% gross margin) but at very low incidence levels (at Table 2.10, retail sales represents 9% of total salon sales).

Table 2.10: Hairdresser Market Global Size (Salon Services)

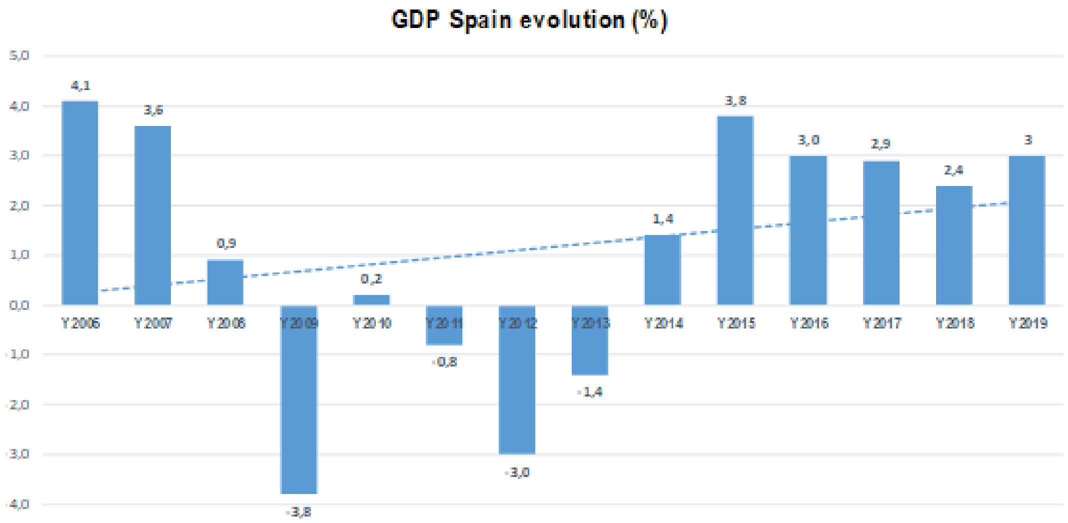
Global Salon Services	FY19 M$	Weight
Total	**93.849**	**100%**
Cut	25.339	27%
Styling	21.022	22%
Color	18.207	19%
Other	11.262	12%
Retail	8.822	9%
Perm	8.822	9%

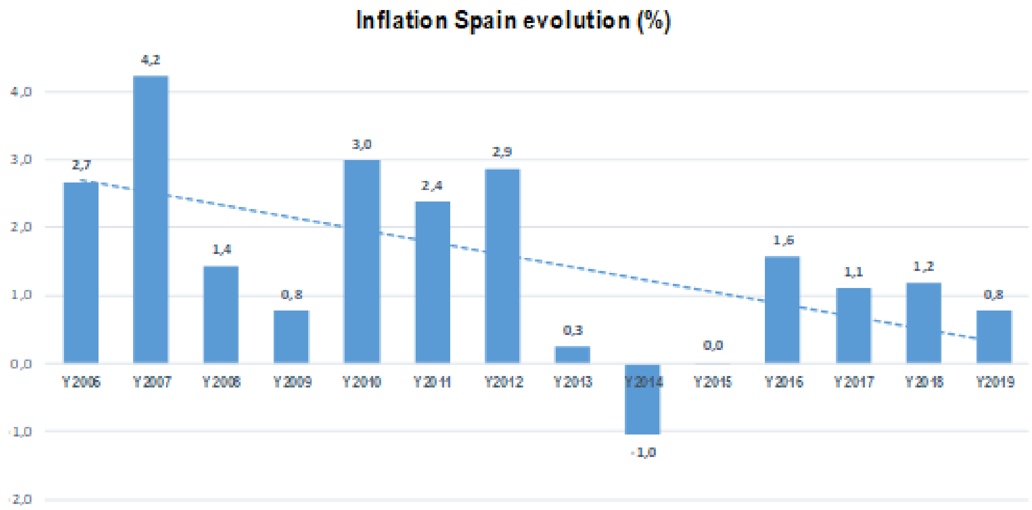


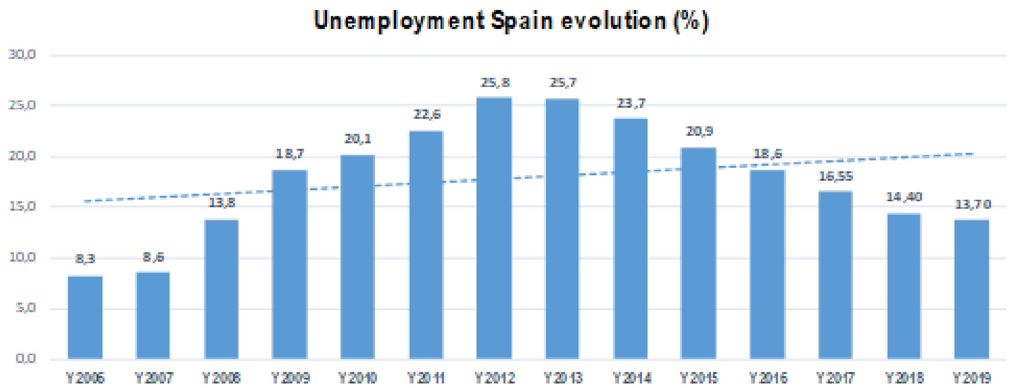
Note: FY= fiscal year.
Source: (Kline, 2019; Own elaboration)

At Table 2.11 we can find the evolution of core macroeconomic indicators. From 2008 to 2013, Spain suffered a deep recession, rising debt, stock market crash, dropping consumer confidence, rising unemployment, which will have both a short term and long term impact on consumption. The crisis mainly affected small businesses and entrepreneurs (hairdressers) who suffered financial constraints due to credit limitations. Indeed, the professional category was directly affected. The macroeconomic crisis ended up at year 2014 where GDP growth was +1,4% after government implemented tough fiscal reforms to put its public finances back on a sustainable path. The economic situation in Spain started to see the light at the end of the tunnel: GDP rose +1,4% at Year 2014 and ended Year 2019 at +3%. (IMF, 2020; INE, 2020). Spain suffers a high level of structural unemployment rate. Since Year 2006, unemployment has never decreased below 8%. The unemployment remains at 13.7% at year 2019. While decreasing since 2009, this rate is extremely high. First, versus the European Union countries, the Spanish average unemployment rate is almost double: 13.7% vs 7.9% at Europe. Second, five of Spain's 17 regions have an unemployment rate above 20% in: Melilla 26%, Ceuta 22.3%, Andalucía 21%, Canary Islands 21%, Extremadura 21.1%. Actually, there are only two regions where unemployment is below 10% (Navarra, País Vasco). (IMF, 2020; INE, 2020). The essential trend for Spanish inflation is very stable. Inflation is almost flat +0.7% at 2019. (IMF, 2020; INE, 2020). It is very likely to continue its gradual ascent explained by volatility in oil and electricity prices.

Table 2.11: Core macroeconomic indicators evolution: Spain







Notes GDP = Gross Domestic product growth; Y = Year
Source: (IMF, 2020; INE, 2020)

Spanish market is expected to have a higher economic impact compared to the European Union economies. Although the country of Spain at May 2020 was largely viewed as having passed its peak, multiple waves are still possible. Therefore, it is It is still unclear to quantifty how COVID-19 will impact the country at 2020-2021 period.

According with Table 2.12 the hairdressing market in Spain is highly fragmented with 50,000 salons representing the highest concentration within Western Europe: 1 Salon per 934 in-habitants on average. It is estimated that this business generates around the 3.6BN dollars per year (invoice sales including VAT). This figure constitutes 0.3% of Spanish GDP and represents an average invoice sales per salon of 73,000 euros per year. More than 80 manufacturers and importers can be counted operating with circa 140 different brands. (Key Stone, 2019). The average number of employee per Salon remains very low at 2.2 and the average square metres is around 60m2. (Key Stone, 2019). The use of technologies for professional purposes is quite frequent in esthetics centers 89% versus hairdressing salons 67%. Hairdressing salons that use these tools to a greater degree coincide with those of large size, 85%, and with more than three employees 82%. It is also interesting that hairdressing salons who perceive an improvement of the business, use technology for professional purposes. (Key Stone, 2019). Around 90% of the hairdressing salons are located at street level and 7% in shopping centres that are usually larger. The majority of the salons (95%) are not affiliated to a chain. Additionally, the majority (83%) of the hairdressing salons are unisex. This figure is very important for the segmentation of markets. Around 8% of the salons declare only men-oriented services and 9% have exclusively female clientele. Only 42% of the salons use the computer for professional use and only 25% use a management CRM. Lastly, only 21% of hairdressing salons have a professional website and only a 7% declared using a website for the sale of products. Although the data show increasing year by year, these percentages reflect a clear reality about the low penetration of the use of the technologies and the computer tools of the industry. (Key Stone, 2019).

At Table 2.12, we can find four columns containing data for the main European Union (EU) countries: population expressed in millions, number of hairdressing salons, number of in-habitants per salon and lastly the average female ticket in dollars including VAT. If we focus on Germany, it is the country of the EU with the largest population of 83.8 million and has about 50,000 hairdressing salons throughout the country. This means that the ratio of in-habitants per hairdressing salon is 1,676, the highest in the EU (+ 23% above the average). At the same time, the average female ticket is 56 dollars per visit and is + 121% higher than the European average. (GFK, 2016; Keystone, 2019). Spain is the fifth country of the EU in terms of population with 46.7 million in-habitants. It has about half the inhabitants of Germany, but the same number of hairdressing salons. This means that there is 1 hairdressing salon per 934 in-habitants and this fact explains everything in relation to the problems and lack of competitiveness of the sector. In addition, quantity does not mean quality: the average ticket in Spain is an index 59 more economic versus the German average female ticket and an index 71 compared to the average of the EU. Finally, Spain is the country with the highest concentration of hairdressers per in-habitant and has the lowest ticket in Europe, only surpassing Portugal in 5 dollars (33 vs 28 for a female ticket). According with these key indicators, we can conclude that Spanish salons are smaller in a very fragmented and extremely atomised market, low-price-oriented. From a commercial standpoint, these factors mean a clear approximation of low professionalization levels. (GFK, 2016; Keystone, 2019).

Table 2.12: European benchmark hairdressing market: population, number of salons, female average ticket

#	Countries	Population (Millions)	Nº Salons	Population per Salon	Average Female Ticket in $	% vs Average Ticket
1	**United Kingdom**	67,8	60.000	1.130	50	108%
2	**Germany**	83,8	50.000	1.676	56	121%
3	**France**	65,3	40.000	1.633	50	109%
4	**Italy**	60,5	40.000	1.513	45	98%
5	**Spain**	46,7	50.000	934	33	71%
6	**Portugal**	10,196	7.500	1.359	28	61%
	Grand Total	**334,296**	**247.500**	**1.351**	**46**	**100%**

Source: (GFK, 2016; Keystone, 2019; Own elaboration)

The chances of survival of a SME (Small and medium enterprise) of new creation, according to (OECD, 2012) are: 74% at the first year of life, 60% to the second, 45% to the third, 36% to the fourth, 29% to the fifth. These are worrying figures, since finally only 10% manage to survive the first ten years of life. In particular for the hairdressing market, the main reasons are a total absence of professionalization of the sector that results in poor business management driven in part by lack of capabilities and business managing training. (Lussier and Corman, 1995; Matlay, 2004). Hence the most common issues are, first, insufficient income level in relation to the level of investment or even too high fixed costs. Second, poor management and commercial supervision: lack of anticipation of business objectives, absence of training plans, absence of management and supervision of employees. Third, inappropriate cash flow management: mistaken decisions are made based on subjective judgments and without proven data. The most repeated case is the excessive remuneration of the owner who jeopardises the business financially. Fourth, absence external competition analysis, and lack of internal strategy neither brand equity management. Fifth, absence of a marketing plan: as a consequence of a lack of positioning or superficial analysis on key variables such as product, price, promotion and location. (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010). The Table 2.13 presents the evolution of the results of an average hairdressing salon in Spain. Based on the turnover of (Key Stone, 2019) and a projection of the income statement we can appreciate how in the last 8 years, the sales of the hairdressing salon have decreased by 39K euros which means a decrease of -63% at the invoice sales including VAT. The cost of product or costs of supplying beauty products is low in proportion (being variable costs) and as a consequence of this decrease in sales we realise how the fixed costs are tried to adjust to the drop in sales, namely first, reducing the number of employees in the hairdresser. Second, renegotiating local rentals in times of crisis or changing more expensive rents in shopping centres to rents on the street. Third, reducing semi-fixed costs in the hairdressing salon (cleaning, newspapers, commodities, etc.). Nevertheless, the keys to managing the profit and loss account of a hairdressing salon in Spain are very simple: while the cost of the product is only 11% of a hairdresser's income, fixed costs constitute 87% of the income of a hairdressing Salon. This is where hairdressers owners or managers need to focus to optimize their business.

Table 2.13: Average Spanish hairdressing salon Profit and Loss account per type of income (Male / Female)

	Hairdressing Salon P&L	Average Salon Spain (2019)						Average Salon Spain (2011)					
							2,2						3,0
	P&L CONCEPTS	Total	Male	Female	%	Monthly	By Employe	Total	Male	Female	%	Monthly	By Employee
TOP LINE	Retail Sales incl VAT	65.937	17.795	48.142		5.495	29.972	104.886	15.596	89.290		8.741	34.962
TOP LINE	% customers	100%	40%	60%				100%	35%	65%			0
TOP LINE	# customers	597	239	358		50	271	597	209	388		50	199
TOP LINE	# Average Ticket	24	12	32		24,0	24,0	30	12	39		29,7	29,7
TOP LINE	# Visit Frequency	5	6	4		5,0	5,0	6	6	6		5,9	5,9
TOP LINE	VAT 21%	11.444	3.088	8.355		954	5.202	18.203	2.707	15.497		1.517	6.068
TOP LINE	Gross Sales excluding VAT	54.494	14.707	39.787	100,0%	4.541	24.770	86.683	12.889	73.794	100,0%	7.224	28.894
	Cost-of-goods	5.970	1.611	4.359	11,0%	498	2.714	5.712	849	4.863	6,6%	476	1.904
	Gross Margin	48.524	13.096	35.428	89,0%	4.044	22.056	80.971			93,4%	6.748	26.990
BOTTOM LINE	Salaries	35.535			65,2%	2.961	16.152	37.500			43,3%	3.125	12.500
BOTTOM LINE	Salon rent	7.000			12,8%	583	3.182	13.000			15,0%	1.083	4.333
BOTTOM LINE	Marketing expenses				0,0%	0	0	0			0,0%	0	0
BOTTOM LINE	Other Fixed cost	5.000			9,2%	417	2.273	6.000			6,9%	500	2.000
BOTTOM LINE	Total Fixed Costs	47.535			87,2%	3.961	21.607	56.500			65,2%	4.708	18.833
BOTTOM LINE	Depreziation				0,0%	0	0				0,0%	0	0
BOTTOM LINE	Other variable cost				0,0%	0	0				0,0%	0	0
BOTTOM LINE	Total Variable cost	0			0,0%	0	0	0			0,0%	0	0
BOTTOM LINE	TOTAL EXPENSES	47.535				3.961	21.607	56.500			65,2%	4.708	18.833
PROFIT	Operating Profit before Taxes	989			1,8%	82	449	24.471			28,2%	2.039	8.157
PROFIT	Taxes 25%	247				21	112	6.118				510	2.039
PROFIT	Operating profit after Taxes	742			1,4%	62	337	18.353			21,2%	1.529	6.118
	Breakeven (Sales)	53.383				4.449	24.265	60.486				5.040	20.162
	Breakeven (Months)	10				10	10	7				7	7

Note: VAT= value added tax
Source: (GFK, 2016; Keystone, 2019; Own Elaboration)

At Table 2.13, the year 2011 was still slightly affected by the effect of the crisis. The average invoice sales of a salon was 104,886 euros and generated net profits of 18,353 euros with an average profitability of 21%. After nine years, we can highlight that in the year 2019 the top line sales have fallen to 65,937 euros with profits that reach 742 euros. For this level of invoice sales, an average salon will remain in the breakeven or threshold of profitability, where neither wins nor loses. Therefore, we could conclude that an average hairdressing salon has lost -20 profitability points during the last 9 years.

Overall and at a global perspective, the COVID-19 effect will be seen in a sharp decrease of industry revenues via salon closures in most markets and important restrictions in others. Product sales will not take as steep a dip, thanks to marketers' efforts to expand into other distribution channels, especially online. Even in most conservative markets, such as Japan, it is seen as a trend. The number of salons should also decrease to lesser extent, although some permanent salon closures are expected. Across the markets, salons going out of business will result in increased activity official or on the grey market of independent stylists. (Kline, 2020).

Spanish market is expected to have a higher impact compared to the Global industry impact. Although the country of Spain at May 2020 is largely viewed as having passed its peak, multiple waves are still possible. Moreover, after a shutdown of two months as the best case, the most negatively impacted driver is the closure of salons , however at this point of time, it is It is still unclear how COVID-19 will impact the country. At Table 2.14 we can perceive the recent market performance estimate for the next five years driven by COVID-19 effect.

Table 2.14: COVID-19 effect at hairdressing industry (hairdresser's perspective)

		FY19	**FY23**	**CAGR 5Y**
Global Market	Market Value BN$	94	73	-6,0%
Global Market	Number Salons M.	3	3	-1,5%
Spain	Market Value BN$	3	2	-13,0%
Spain	Number Salons K.	50	30	-12,0%

Notes: BN$ = Billion dollars; CAGR = compound average growth rate; FY= fiscal year; K.= thousand; M. = millions; 5Y = five years
Source: (Kline, 2020; Own elaboration)

Focusing on hairdressing market, the importance of customer loyalty is more than a marketing strategy itself. Furthermore, it is a key strategic driver that is directly impacting the profitability of a business and long term sustainability. A loyal customer base in turn exhibits several traits that are beneficial for retailers, including reduced sensitivity to other price and market offers and reduced proneness to seek other alternatives or switch stores or switch stores (East, et al., 2000; East, et al,1995; Knox and Denison, 2000), increased spending and related sales (Knox and Denison; 2000) and significant communication potential through word of mouth (Bloemer et al.,1999; Gounaris and Stathakopoulos, 2004). This advantage translate into higher retailer profitability (Chaudhuri and Ligas, 2009; East et al., 1995, 2000; Knox and Denison, 2000).

During the years of the macroeconomic crisis (2008-2015) that deeply impacted the hairdressing market, customer loyalty became one of the most effective tool in which to retain consumers in spite of tough competitive environment. Most compelling evidence of this direct effect is the hairdresser salon revenue model. The revenue of a hairdresser is the result of multiplying the visit frequency of customers (loyalist or new) per the average ticket per customer (affected by the spending at hair services or purchases at the hair dresser salon). Customer retention is essential for firms to protect their revenues and profitability (Maicas et al., 2009). Hairdresser revenue can be achieved through higher average ticket or higher frequency of customer visits. Higher frequency of visits can be reached by acquiring new customers or making current customers visit more frequently. Higher average ticket can be achieved by higher sales volume, by providing more services, or raising prices. More services may be provided by offering new services or increasing the volume of existing services provided. (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010).

Table 2.15: Hairdresser revenue model at salon

Hair-Dresser Revenue	=	Visit frequency	x	Ticket per customer
		Key drivers		Key drivers
		Loyal Customers		Service spending
		New gain customers		Retail spending

Source: (Own elaboration)

2.1.3 The hairdressing professional business-to-business-to-consumer model

The hairdressing market constitutes a business-to-business-to-consumer model (B2B2C). Before to give more in depth detail about the hairdressing B2B2C we are going to explain the main differences between of business-to-consumers (B2C) versus business-to business (B2B) in critical behaviours and characteristics. Ellis (2011) considered eight core differences which are listed in Table 2.16.

Table 2.16: Differences of B2C and B2B buying behaviour

BEHAVIOURS & CHARACTERISTICS	B2C	B2B
Number of buyers	Normally large	Normally small
Size of orders	Small	Large
Value of orders	Normally low	Normally high
Evaluating criteria	Social, ego & utility	Price, value & utility
Purchase initiation	Normally self	Normally others
Level of risk	Low to Medium	Medium to High
Complexity decision	Low to Medium	Medium to high
Information search	Normally short	Normally long

Notes: B2B = business-to-business; B2C = business-to-consumer
Source: (Ellis, 2011)

According with Laakkonen, (2016), B2C customer groups are wide, multinational and moreover expanding. In B2B there are less buyers therefore the competition is high, as it also is in consumer market but since suppliers target their goods and services to businesses that are not usually the end users themselves, the constitution of business is different. Finally, the providers must adjust and customize their services and tools to match the business owners' needs perfectly. Feedback and continuous evolvement are critical in order to generate customer satisfaction and loyalty.

In this thesis, we focus on the professional hairdressing market, however, the retail mass-market also affect the professional market. At Table 2.16 we can find the core differences between retail mass-market and professional market from a manufacturer stand point. The core characteristics of retail business are: first, higher customer concentration (around 5 customers groups more than 50% of total business sales). Second, the scale is being constructed by customer size. Third, the purchaser manager is the customer (not the final end consumer). Fourth, the purchasing negotiations are focus on product assortment, inventory rotation and profit margin. Fifth, the marketing model is a combination of push-pull strategies sustained by higher advertising support level (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010).

The core characteristics of professional business are, first, the main challenge of professional products is, through education, to sell a service rather than a product, whereas the main challenge of the retail market is to differentiate products and to convince consumers at the point of sale (Machek, 2010). Second, there is no customer concentration and the customer size is being conducted via numerical distribution. Third, on the contrary the hairdresser is also a final consumer and user of the product. Fourth, the purchase decision driver is more emotional linked to customer representative relationship or emotional bond with brand. Fifth, the key advertising focus is word-of-mount. Sixth, manufacturers priories push marketing strategies over consumer pull. (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010).

Table 2.17: Retail Hair care vs Salon Professional business

BEHAVIORS & CHARACTERISTICS	Retail Hair care	Salon Professional
Business Model	B2B	B2B2C
Customer size	Mega customers	Individual entrepeneurs
Business size	Scale per customer	Scale through number of customers
Customer vs consumer	Customer is not consumer	Customer = Consumer
Purchase decision driver	Best value, rational purchase, product focus	Loyalty, emotional purchase
Consumer purchase driver	First moment of truth Awareness	Recommendation-aided awareness
Advertision focus	TV advertising focus	Word of mouth

Notes: B2B = business-to-business; B2C= business to consumer
Source: (Own elaboration)

The manufacturer's marketing of the professional products division focuses on two levels of communication. First, towards hairdressers, motivating them to purchase new products - through education and training, distribution of free samples, communication in professional journals, through sales representatives. Second, towards customers, helping hairdressers to sell their products - through sales promotion tools, public relations building in lifestyle and fashion magazines, promotional packaging (Machek, 2010).

In this context, manufacturers need to commercialize their go-to-market strategies for two different targets: hairdressers and the end consumers. In the first place, manufacturers need to convince their customers (hairdressers) of purchasing into their brands, initiatives, including product or commercial innovation in order to increase their top line growth. The hairdressers, however, will always be influenced by what their consumer - the end consumers - is looking for because this is how the salons drive their business. Hence manufacturers always need to excite both targets with everything they design and bring to the market by applying different push / pull marketing strategies. Inspiration and innovation are a must. (L'Oréal, 2014; 2018). In a constantly evolving market, core manufacturers must lead the way, always being a step ahead as retail and semi retail strive to catch up. Being a flag bearer is an imperative for hairdressing Market – not a point of difference. The industry is fast moving, trend and fashion driven. Hairdressers have an ongoing requirement for inspiration, products and techniques to serve clients according to latest styles and looks. On the contrary, hairdressers are the manufacturers business partners. Hairdresser's involvement is disproportionately high. First, products are tools for hairdressers to deliver services to delight their clients. Second, hairdressers expect full service. Third, hairdressers are both users and retailers of manufacturers products. (Coty, 2017; L'Oréal, 2014).

Hairdressing market has its own idiosyncrasy, complexity and full distinctive characteristics versus other markets or industries which needs special and specific consideration. Hairdressers are highly emotional people with no major income statement profit focus: their primary focus is on people, hair beauty and creativity over business and profitability. All other key driving factors are trend, emotional, experience, and inspiration led "I do not buy what is in the bottle but what it can potentially do with me: Make me dream!". (Coty, 2017; L'Oréal, 2014, 2018;). Hence, help in business management and back office operations is the most common and urgent support needed (but not where their passion lies). Influence can be attained by various reasons such as expertise, special connections or favourable personality. (Kotler et al., 2010).

Hairdressers have a low academic profile. Professional profiles with the highest qualification have a cycle qualification formative degree or higher in the professional family of personal image. In addition, it is appropriate for them to have developed competencies related to the treatment of persons, so it is essential to have skills such as customer orientation, good communication. It will also be necessary for them to have leadership and decision. The academic profile of less qualified professionals corresponds to the formative cycle formation of medium degree. The most significant required are those related to personal relationships. This is not necessary translated to have leadership skills. Additionally hairdressers have little ability to negotiate with suppliers as a consequence of lack of capability and business skills (Lussier and Corman, 1995; Matlay, 2004).

Relationships and loyalty are critical. This is explained, first as hairdressers are highly emotional. Second, consumers are loyal to their hairdressers and will often follow them from salon to salon. Third, owners are loyal to their sales representatives and, when possible, will switch suppliers to stay with them. (Coty, 2017; L'Oréal, 2014, 2018). Hairdressers as SME's owner–managers are often the key decision maker, responsible for managing virtually all the functions performed by the organization, including advertising, recruitment, and purchasing (Culkin and Smith, 2000). In turn, SMEs often face resource constraints, in terms of both time and money, and engage in relatively limited strategic planning (Huang et al., 2002).

Professional market is a service industry consumers go to the salon for the service and hairdresser expertise- not for the product neither the manufacturer brand. (Bove and Johnson, 2006, 2009). Hence, the hairdresser (and not the manufacturer) is the authority in hairdressing market as 90% of the salon revenue comes from services and only 10% from products to use at home (sales retail). Manufacturer products are an enabler for their craft and higher order services. According with industry trends, cut service is biggest salon profit driver, but color drives salon differentiation, client loyalty, and finally hair dresser revenue. Superior product performance is a must have but not enough to win this means manufacturers need hairdressers identification with brands. This is key as hairdresser recommendation is biggest driver of professional product sales to use at home. Word-of-mouth is key to get new clients into salon- clients are walking endorsers of the hairdresser skills. Finally, innovation needs to stretch into holistic services and techniques, hairdressers are driven by look creation. (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010).

From hairdressers stand point: the first reason for choosing to enter the profession is contact with people to make them beautiful and happy. Personnel cost is the biggest cost driver (43-65% of total Salon Revenue; Table 2.13) but also the biggest revenue driver “my employees are my most precious capital”. Salon revenue directly correlated to number of hairdressers in a salon. Top three salon needs are people related. First, employee quality, motivation, development and management “My employees have to be on fire. Passion and enthusiasm for best in class work cannot be replaced by rules and principles“. Second, client understanding to help retain customers (increase loyalty), grow (increase ticket price) and gain (acquire new) clients “it is not about satisfied clients, it is about thrilled clients”. Third, networking with other hairdressers for inspiration to facilitate salon management. (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010).

From manufacturers stand point, the core reasons for hairdressers long years loyalty with manufacturers is a combination of trust (business support and product performance), relationship/friendship and pride (success together, exciting events and fun) . Sales representatives are the currency. They are the face of the company for the customers, and a key communication vehicle. Loyalty is built over time. The continuity in people and processes are the foundation of customer service and critical for maintaining the customer satisfaction level. In fact, customer satisfaction is directly correlated to business results: Salon value creation can only be achieved once the basics of people and process continuity are in place. (Coty, 2017; Lakoonen, 2014; L'Oréal, 2014, 2018; Machek, 2010).

2.2. Objectives and contribution of the thesis

The first objective in this thesis (Chapter 2) is to identify in advance how the hairdressing market performs globally, identify its key dynamics and peculiarities, get to know who are the main competitors, understand core go-to-market strategies and establish comparisons with similar business models (retail). The main contributions of Chapter 2 are first, to understand the global and local (Spanish) hairdressing market from manufacturer's perspective. Second, get to know the hairdressing market (Global and local) from hairdresser perspective. Third, to identify the core differences versus other business models such as business-to-consumer (B2C) or haircare retail. Fourth, to learn the distinctive characteristics and key go-to-market strategies of hairdressing industry.

The role of loyalty in the success of SMEs has been poorly studied and has focused on the antecedents and the measurement of loyalty. Additionally, previous research focused mainly on large companies. Within Chapter 3, we contributed to the previous literature by adopting a managerial vision. To this end, we asked hairdressers about the strategies they implement and about consumer loyalty in their salons. Chapter 3 has two main purposes: first, to establish an adequate theoretical framework. Second, to provide empirical evidence related to the most successful marketing plans in achieving behavioral loyalty in SMEs in the hair salon market. Therefore, the main Chapter 3 contribution to the previous research, consist in analysing the effect of the strategy (price, range of services, communication, size and location) in the achievement of loyalty in SMEs. The core findings have interesting implications for hairdressers as they need to understand the optimal strategy to succeed in the market. Also, the key insights of this study could also apply to other sectors as health, personal care or wellness services.

The third objective raised in this thesis (Chapter 4) presents an investigation of the drivers of switching behaviours by SMEs in a B2B context. Despite the availability of various studies of customer loyalty (Watson et al., 2015), few contributions address switching behaviours by SMEs. The Chapter 4 research, first establish a suitable conceptual framework and second, to provide empirical evidence related to the most important drivers that cause SMEs to switch suppliers, reflecting price-related reasons, in a B2B context. The originality of this research is that it extends current literature by investigating switching drivers for SMEs in the B2B beauty sector. Thus, these findings may apply to other service sectors too, such as health services, beauty and personal care, and well-being. The results offer implications for managers and academics, as well as some directions for further research. Moreover, to establish service strategies for customer retention and best-in-class go-to-market efforts, suppliers can use this study's findings regarding key switching drivers and thus avoid future customer losses.

2.3. Structure of the thesis

This thesis is divided into four chapters. Chapter 1 is a summary of the thesis in Spanish.

Chapter 2 is an introductory chapter. The objectives of Chapter 2 are first, to understand the global and local (Spanish) hairdressing market from manufacturer's perspective (Section 2.1.1). Second, get to know the hairdressing market (Global and local) from hairdresser perspective. (Section 2.1.2). Third, to identify the core differences versus other business models such as business-to-consumer (B2C) or haircare retail. Fourth, to learn the distinctive characteristics and key go-to-market strategies of hairdressing industry. Third and fourth objectives are located at (Section 2.1.3)

The next Chapters 3 and Chapter 4, each one are containing an introduction of the topic and a review of the literature to describe the current state of the and to delineate the hypotheses. Together with a description of the data to be used, each chapter includes an exploratory analysis of the variables of interest. The presentation and discussion of the main results is followed by general discussion and managerial implications.

Chapter 3 is based on the published paper cited as:

López-Jáuregui, Á., Martos-Partal, M. and Labeaga, J.M. (2019), "Impact of SMEs strategy on loyalty: the hairdresser case", Spanish Journal of Marketing - ESIC, Vol. 23 No. 2, pp. 273-293. https://doi.org/10.1108/SJME-11-2018-0051

Chapter 3 is organized as follows. In Section 3.1 we introduce the chapter. In Section 3.2 we review the related theoretical and empirical literature, from we will outline our main hypotheses. In Section 3.3 the dataset and variables to be used in the empirical analysis are presented. Also, we include a descriptive analysis of the variables of interest. In section 3.4, we specify two empirical models. Model 1 specifies the relationship between our dependent variable defined as the share of weekly visit of customers to hairdressing salon and the independent variables related to marketing strategies: hypothesis (H1-H7). Model 2 provides the test of the moderation hypothesis (H8;H9;H10). Additionally, we analyze the main results of the empirical estimations. Core conclusions and implications related to the effect of the strategy (price, range of services, communication, size and location) in the achievement of loyalty in SMEs are provided in Section 3.5. Finally, Section 3.6 describes the study limitations that suggest further research.

The Chapter 4 have been submitted to the Journal of Business and Industrial Marketing. López-Jáuregui, Á., Martos-Partal, M. and Labeaga, J.M. (2020), " Why do SMEs switch suppliers?" (second round),

Chapter 4 is organized as follows. In Section 4.1 we introduce the chapter. In Section 4.2 we review the related theoretical and empirical literature, from we will outline our main hypotheses. In Section 4.3 the dataset and variables to be used in the empirical analysis are presented. Also, we include a descriptive analysis of the variables of interest. In section 4.4, we specify two empirical models. Model 1 specifies the relationship between our dependent variable defined as the utility of changing providers for price reasons and the independent variables related to marketing strategies : hypothesis (H1-H7).Model 2 provides the test of the moderation hypothesis (H9). Additionally, we analyze the main results of the empirical estimations. Core conclusions and practical implications related to the most important drivers that cause SMEs to switch suppliers, reflecting price-related reasons, in a B2B context are provided in Section 4.5. Finally, Section 4.6 describes the study limitations that suggest further research.

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CHAPTER 3: Impact of SMEs strategy on loyalty: the hairdresser case[1]

ABSTRACT

Purpose – This study proposes a theoretical framework and provides empirical evidence on the most successful marketing strategies for obtaining behavioural loyalty in small and medium businesses (SMEs).
Design/methodology/approach – The data source is based on 475 telephone surveys to Spanish hairdressers. We have used Ordinary Least Squares to estimate the empirical model.
Findings – Pricing, services, and communication (web page and in-store communication) are the main drivers of customer loyalty. SMEs have to be cautious with the use of social networks to avoid damaging loyalty. In addition, those positioned at high-price segments should pay more attention to communication on the web and all companies should find a balance between in-store communication and the sale of products for use at home.
Research limitations/implications – Further research should try to replicate the findings with data from consumers and firms.
Practical implications – Service managers need to understand the optimal strategy to succeed in the market. The key insights of this study could also apply to other sectors as health, personal care or wellness services.
Originality/value – Previous research focused mainly on large companies, while the role of loyalty in the success of SMEs has been poorly studied and has focused on the antecedents and the measurement of loyalty. We contribute to the previous research by analysing the effect of the strategy (price, range of services, communication, size and location) in the achievement of loyalty in SMEs.

Keywords – Loyalty; small and medium businesses; hairdresser; marketing strategy; salon
Paper type -Research paper

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3.1 Introduction

Customer loyalty is one of the most debated subjects in marketing (e.g., Kamran-Disfani *et al*., 2017; Serra-Cantallops et al., 2018; Watson et al., 2015) and has interest for academics and practitioners (The Economist, 2016) who want to understand the effect of strategy on customer loyalty and performance given that achieving customer loyalty is a primary marketing goal (Watson et al., 2015).

Building and maintaining a loyal customer base creates multiple potential benefits for firms and brands. Loyal consumers remain with a company because they are pleased with the service and therefore, are more likely to buy additional services and spread favourable word-of-mouth communication (Zeithaml *et al*., 1996). The literature of services state that customer loyalty drives firm performance (Hogreve *et al*., 2017; Coviello *et al*., 2006). First, loyal customers amplify sales through frequent repurchases and customer referrals (Kamakura *et al*., 2002). Second, loyal customers reduce service costs and marketing expenditures because they are familiar with service provider's processes and are reluctant to switch (Anderson, 1998).

In the rich history of loyalty, the empirical research has mainly been undertaken on large organizations and there is a gap concerning the role of loyalty in the management and success of small businesses (Mostajer Haghighi *et al*., 2014). The scarce literature on loyalty in the small business services are focused mainly on the antecedents and measurement of loyalty (e.g., Bove and Johnson, 2006; 2009; Mostajer Haghighi *et al*., 2014; Russell-Bennett, *et al*., 2007; Wiid *et al.,* 2016; Yim *et al*., 2008**)** whereas marketing strategy remains less studied. While some aspect of the strategy on loyalty have been studied as loyalty card programme adoption (Hutchinson, *et al*., 2015), brand management decision and brand experiences (Mitchell, *et al*., 2015; Ong et al., 2018), changes in different attributes of a service (Lam *et al*., 2009), other components have been left out. Price, store format, product quality, human interactions, store image, among others, driver retail patronage and loyalty are key elements of the whole strategy that have not been investigated on SMEs (see, Gauri et al., 2008; Pan and Zinkhan, 2006; Kamran-Disfani et al., 2017).

Bove and Johnson (2006; 2009) and (Yim et al., 2008) analyse the achievement of loyalty, from a consumer perspective, in a sector mainly composed by SMEs, the hairdressing salon market. These authors found that trust, commitment and interactions (loyalty to service workers) are key drivers to engage customer loyalty. However, we propose that other factor to explain loyalty, the marketing strategy. Could managers choose a strategy to engender loyalty? This research question remains unanswered because other elements of the strategy such as pricing, assortment of services, or communications are out of the scope of these studies, at least in their potential role of the components of the strategy such as moderators to generate loyalty. Therefore, this paper adopts a managerial perspective trying to fill the gap and contributing to the previous literature through the analysis of the effect that the SMEs marketing strategy exerts on customer loyalty.

Hairdressing salon market is a business to business to consumer model (B2B2C) whose core stakeholders are manufacturers, hairdressers and consumers. Hairdressing salon market represents more than 3.5 million salons worldwide. More than 800 million customers make use of hairdressing services annually, making 6 billion visits to hairdressing salons (Machek, 2010). Worldwide, 7 out of 10 women regularly attend hairdressing salons, visiting them, on average, five times per year. Overall, these figures show the potential of this market (GFK, 2016).

According with Key Stone (2016), in Spain, the hairdressing market employs 200.000 people directly and 35.000 people indirectly. It is highly fragmented with 50K salons representing the highest concentration within Western Europe: one salon per 1.000 inhabitants on average. It is estimated that this business generates around 3300M€ per year, 0.3% of the Spanish GDP. In this market, more than 80 manufacturers and importers operate with 140 different brands. From a manufacturer standpoint, hairdressing salon market in Spain accounts for 520M€.

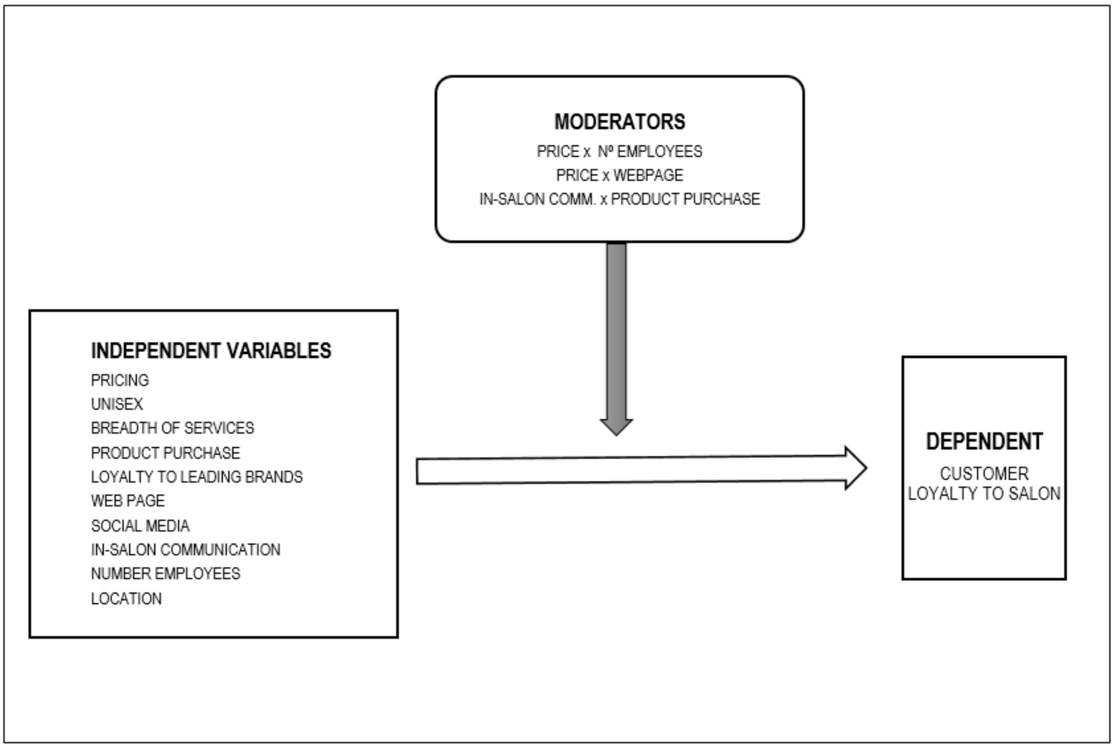
We contribute to the previous literature by adopting a managerial view and with this aim we ask hairdressers about the strategies they implement and about the consumer loyalty in their salons. Thus, the study has two main purposes: (1) to establish a suitable theoretical framework and (2) to provide empirical evidence related to the most successful marketing plan in the achievement of behavioural loyalty in SMEs in the hairdressing salon market.

3.2 Theoretical framework

A retail strategy is the overall plan guiding a retail firm. It influences the firm's business activities and its response to market forces, such as competition and the economy. The implementation of the strategy involves the choice of factors such as the store location, the range of services, pricing and communications, to achieve objectives of the firm (Berman, *et al*., 2018).

The fundamental assumption of our set-up is that the goal of hairdressing salons seeks to build loyalty through the combination of different elements of the marketing strategy such as price, customer service like breadth of services, unisex services and sales of professional products to use at home, loyalty to leader supplier, communication (webpage, social media and in-salon support material), number of employees and location. In Figure 3.1, we present the conceptual framework proposed in this paper.

Figure 3.1: Impact of SMEs strategy on loyalty: the hairdresser case. Conceptual Framework.



Salon loyalty

In order to measure loyalty, three different perspectives have been used in the literature: behavioural, attitudinal and mixed (Watson *et al*., 2015). The behavioural perspective focuses on measuring behaviour, such as repeated purchases, which has obvious benefits for a firm's financial performance. Since we adopt a managerial perspective, we measure loyalty from a behavioural perspective (Hult et al. 2017; Larsson and Viitaoja 2017; Wiid et al., 2016). In the current study, we measure salon loyalty from a hairdresser perspective as the share of frequency of visits of the clients to the salon (Ailawadi *et al*., 2008).

Pricing positioning

Pricing positioning is a central strategic decision for all companies. Pricing constitutes a critical marketing strategy because it is the only variable that ultimately generates income (Monroe, 1979). The retailer's price positioning is an important factor in store choice and loyalty (e.g., González-Benito and Martos-Partal, 2012) and an important element of the retailer strategy (Gauri *et al*., 2008). Therefore, we expect that it will constitute an important factor for salon strategy to drive loyalty.

According to classical economic theory, a higher price increases perception of monetary sacrifice, implying a negative relationship between price and the purchase probability. At the same time, for many services a higher price increases perception of quality and, thus, it positively affects the purchase probability (Rao and

Monroe, 1988). Monetary savings often represent a key motivation for purchase, especially for consumers sensitive to price and promotions. Store loyalty might diminish monetary savings though, because customers must waive the advantages of offers and promotions provided by different retailers. Price-focused consumers who perceive significant benefits from comparing prices across brands and stores likely spread their purchases among various stores to obtain the benefits of the best deal. Therefore, it is common in the retailing industry to find a negative relationship between consumer price sensitivity and store loyalty (e.g., Ailawadi *et al*., 2008; Martos-Partal and González Benito, 2013; Pan and Zinkhan, 2006).

Moreover, hairdressing services differ from other retailing sector services in that the former are perceived as a greater involvement in the purchase decision; greater both in experience quality and intangibility. The prices of hairdressing services are difficult to comprehend as these services cannot be kept, demonstrated, returned or resold. Furthermore, the experience of consumers with the service they receive in the hairdressing salon is an intangible, and, as such, it cannot be sold or transferred to a third party.

Therefore, we expect higher prices in salon to increase the perception of service quality and thus to have a positive effect on loyalty. Hairdressing salons that are positioned in the high price segment can generate more confidence and attract a clientele less sensitive to prices and, consequently, less willing to change their hairdressing salon. Previous literature also finds empirical evidence that higher prices generate loyalty (Dawes, 2009; Sayman and Hoch, 2014). If customers trust a particular stylist with a high standard quality, they will be willing to pay the price it costs. Hence, we propose as hypothesis that higher price positioning provides greater customer loyalty:

H1: Salon with higher price positioning engenders more customer loyalty

Positioning in service and assortment

Product/service selections (or assortment) is defined as the number of different items in a category (Levy *et al*., 2012). The breadth (number of brands) and depth (number of stock-keeping units) of an assortment offered in a shopping centre help retailer to meet the heterogeneous tastes of their customers (Dhar *et al*., 2001).

Store formats refer to competing categories of retailers that match varying customer needs and shopping situations and it is related to store assortment (González-Benito *et al*., 2005). A format with higher assortment (like hypermarkets) can provide one-stop shopping convenience for their customers and could meet more heterogeneous needs (González-Benito *et al*., 2005). For example, Finn and Louviere (1990) found that different apparel shopper segments tend to choose shopping centres that they associate with different combinations of features. Shopping centres that provide good services and a wide selection, but with less emphasis on low prices, are more likely to fall into the shoppers' consideration set. Moreover, previous literature in retailing finds evidence of a positive relationship between greater assortment or store format and loyalty (e.g., Pan and Zinkhn, 2006; Kamran-Disfani, et al., 2017).

Therefore, we expect that salons with greater assortment and more services (such as unisex salons or/and salons with major breadth of services) could meet more heterogeneous needs and show higher loyalty levels. A hairdressing salon has two different sources of income: services and professional products to use at home. Professional products have higher prices than retail alternatives because they have an exclusive distribution, they are high-tech and high-quality products, and they are highly intensive in capability training and education of hairdressers (Machek, 2010). Therefore, we consider as part of salon assortment both the professional products sold at the salon as well as the hairdressing services.

Loyal customers are more likely to buy additional services (Zeithaml *et al*., 1996). Therefore, the number of products or services a customer buys are critical factors that impact on the depth of the customer-company or brand relationship. One way to intensify the depth of this relationship is to increase the amount of retained products (Bolton *et al*., 2004).

Previous arguments are consistent with the social exchange theory (Blau, 1964); firms, which offer more services to customers, provide concrete beneficies to them and explain why customers engage in repeated exchanges, behave in response to being bestowed with benefits by an exchange partner. Based on the previous reasoning, we propose as hypothesis (H2) that higher service positioning such as unisex services or salon with higher breadth of services and sales of professional products to use at home deliver higher customer loyalty to the hairdressing salon.

H2: The number of services offered, and customer loyalty have a positive relationship. In particular

H2.1: Unisex salons have higher customer loyalty

H2.2: Salons with a major breadth of services reveal higher customer loyalty

H2.3: Salons with high sales of professional products to use at home show greater customer loyalty

Loyalty to leading providers

Peculiarities of these professional products sold at the salon made difficult for the hair stylist to switch to another provider, due to the high switching costs, which will drive higher relational exchanges between the manufacturer and the hairdressers (Zeithaml, 1981).

According to Ries and Trout (1986) and the double jeopardy theory (Martin, 1973), history shows that the first brand in the brain gets on average, twice the long-term market share of the second brand and, again, twice as much as the third brand. Hence, the leader accrues almost all the material advantages. This thought matches one law-line generalization in marketing; the double jeopardy effect, larger brands win twice; they have more buyers and these buyers tend to buy more often (Ehrenberg *et al*., 1990). Consequently, these brands generate brand loyalty, which is one of the key elements of brand equity (Aaker, 1991).

The professional products sold in the salon are important elements in the hairdresser strategy and the hairdresser make the decision about the brand to include in the assortment. Consumers, however, visit the salon mainly for the service and stylist expertise and not for the product (Bove and Johnson, 2006; 2009). Brands with higher equity could drive more customer loyalty for hairdressers more concerned about building image and reputation (Aaker, 1991). If we rely on the image transfer theory (e.g., Park *et. al*., 1996), hairdressers must consider that an image transfer could occur between the brand sold and their salons, which would help building salon image and trusting, as it happens with co-branding. Consequently, we expect that salons loyal to leading brands generate higher loyalty.

H3: Loyal salons to leading brands show higher customer loyalty

Communication strategy: Web page, social media and in-salon communication activities

According to the economy of information theory (Nelson 1970, 1974), consumers have uncertainties about the attributes and benefits of the products and services they aim to purchase because of imperfect or asymmetric information, which characterises most markets. Consumers can search for information about products and services to compensate for this lack of knowledge. Communication is an informative tool and a key element in the strategy of a firm (Kotler, 2010) and, then, the hairdresser has to choose right communication policies to inform consumers. Communication causes consumer trust, which stimulates commitment to the relationship and loyalty to the firm (Morgan and Hunt 1994; Ball *et al*., 2004).

Nowadays, the first-place consumers search is Internet. They look either for information about businesses whether they try to shop online or simply for primary information such as the address or phone number of a hairdresser salon. Therefore, building an online presence is critical for hairdressing salons, not only to share information with consumers, but also to gain credibility and trust. As outlined by Verisign (2013), 56% of consumers declare that they do not trust a business without a website. In addition, today consumers like to connect and communicate with companies more than ever. In this sense, establishing an online presence through a website or social networks is an excellent platform to achieve this goal. Maintaining ongoing communication and providing updates on company initiatives, news and events through digital channels, help companies reaching a broader audience to create and strengthen relationships and to build trust, which is critical for the loyalty to the company.

Communication in the store is a key retail mix element (Berman *et al*., 2018). Moreover, the physical environment is influential to communicate the firm's image and its purposes to customers. In fact, physical setting may also influence customer's ultimate level of satisfaction with the service (Bitner, 1992) and provoke loyalty. In this paper, we focus on in-salon communication activities, specifically display and advertising in the salon. Display activity improves in-store visibility, gaining consumer attention to the category and, therefore, positively influencing in-store purchase decisions (Dhar *et al*., 2001).

According with the previous arguments, we focus on the most used communication tools in the hairdressing salon (webpage, social networks and in-store communication) and we propose that the use of those tools (online, offline) provides higher customer loyalty.

H4: More communication activities and consumer loyalty have a positive relationship

H4.1: Salons with web page engender more customer loyalty

H4.2: Salons with social media generate more customer loyalty

H4.3: In-salon communication activities provoke more customer loyalty

Number of employees

Consistent with the social exchange theory, we expect the higher the number of employees, the greater is loyalty. Moreover, given that in this sector the average number of employees is low, more employees could serve more customers, which, as time goes on, could get interactions with indirect effects on loyalty. Previous research found that in personal service contexts, loyalty to service workers are key drivers to engage customer loyalty (Bove and Johnson, 2006; Yim *et al*., 2008; Ganesh *et al*, 2000). This means that loyalty to the employee translates into behavioural loyalty to the firm, a channel explained by the closeness and interaction of service workers and customers. Thus, we postulate that:

H5: Number of employees and customer loyalty are positively related

Location

One of the more critical decisions that a small retail establishment makes is the choice of its location (Kuo *et al*., 2002). It is not possible to determine how many businesses with positive potential fail because of the entrepreneur's failure to find an adequate location for the business survival (Scarborough and Zimmerer, 2006). Even minor differences in location can have significant impact on market share and profitability (e.g., Craig *et al*. 1984). Therefore, the choice of the location of the salon can help making or breaking the business. In fact, location decisions are more difficult to change (in comparison to pricing or services) because retailers make important investments to purchase and develop real state or commit to long-term leases with developers (Berman *et al*., 2018). These authors distinguish three types of locations: the isolated store, the unplanned business district and the planned shopping centre.

Consumers go to shopping centres to have an experience of leisure, family life, and enjoyment (Berry, 1996). The act of purchase is only one of the aspects to consider and the border between commerce and leisure has been diluted. Shopping centres are no longer a place just to buy but also to put the desire for "fun" into the context of successful retail value propositions (Howard, 2007; Wakefield and Baker, 1998). This evidence matches with the motivation theory, which proposes that the value of the shopping/service experience has not only a utilitarian but also a hedonic dimension (Babin et al., 1994). Hedonic benefits are experimental and affective, i.e., consumers appreciate them for their own qualities, not as means to an end (Hirschman and Holbrook, 1982).

Based on the previous premises, we propose that consumers in shopping centres are less loyal than consumers in any other location. It can be justified by two reasons. One, the motivation of consumption is different since they seek leisure or relaxation rather than a pure functional cutting and colour service in a street salon. Second, their main goal or plan is not to visit the shopping centres salons but since they are there, they take advantage of the time and enjoy the experience that this type of salons can offer.

H6: Location at shopping centres has a negative relationship with customer loyalty

Moderating effects

Worldwide there are a current premiumisation trend at beauty markets (Euromonitor, 2017). Thus, the evolution to upper pricing positioning over different salons could have consequences for consumers' motivations to repeat the visit. Hence, the price itself can be one of the factors that moderates the effect of other marketing strategies on customer loyalty. Specifically, we propose that price positioning could moderate the effect on consumer loyalty of the size of the hairdressing salon measured by the number of employees and the effect of webpage communication. Bove and Johnson (2006) find that the number of workers moderates the transference of positive attitudinal loyalty for the service worker to attitudinal loyalty to the service business. The transfer is stronger when the service business has only one or two workers, as these personnel represent the service business to the customer. They argue that in a company with one or two workers it is likely that they may be partners in the business. Even if they are not partners, each one is a larger portion of the "business" than when there is a medium or high number of service workers. We go further and propose that price positioning moderates the relationship between the number of employees and customer loyalty. At price-oriented salons, customers' motivations to keep loyal relate more to low prices than to quality perceptions. In contrast, at high priced-oriented salons, customers' motivations focus more on quality and trust, so the importance of perceived quality may be higher, and the heterogeneity of service could become a problem when the number of employees increase because a higher number of employees could also imply a lack of personalization or lower emotional link with consumers. Each day more, consumers like to be treated in a special and personalized way and their desire is stronger to the extent that they pay more.

Heterogeneity is one of the characteristics of services and concerns the potential for high variability in the performance of services. The quality and essence of a service can vary between producers, customers and time (Zeithaml et al., 1985). Therefore, even if more employees could serve more customers, time can make it translate, first, to employee loyalty and, then, to customer loyalty. In salons with high-price positioning, customers expect high service quality, high employee capability and more experience of the stylist. Customers pay the price for the trust to a particular stylist with a high-quality standard. However, as the number of employees increases, it becomes more difficult to keep the same standard across employees, which could damage the loyalty to the firm. This is explained because customers are not going to be willing to pay the same price for stylists with lower quality levels. Then, we expect that:

H7: Salons price positioning moderates the relationship between the number of employees and consumer loyalty, so the relationship between loyalty and size in high-price salons is negative

On the other hand, since salons must align their price positioning with their marketing actions, we propose that price positioning of the salon moderates the relationship between the most important communication activities to build salon image (webpage) and customer loyalty. Communication is key to build image and engender trust and loyalty to the firm (Morgan and Hunt 1994; Ball et al., 2004) and webpage is the key tool to do it (Verisign, 2013). Given that customers' motivations focus more on quality and trust in high-price salons, the effect of web communication to generate loyalty ought to be more important for these types of salons. However, firms and, more specifically small firms, have difficulties to develop integrated marketing communication between online and offline strategies. Therefore, high-price salons are going to have more difficulties to satisfy the needs of consumers that are paying more for services, i.e., consumers that expect the same quality and trust in the salon than in the available information on the web.

H8: Salons price positioning moderates the relationship between web page communication and consumer loyalty, so the relationship between web page communication and consumer loyalty in high-price salons in negative

Moreover, we propose that the proportion of customers who bought professional products to use at home moderate the effect of in-salon communication on customer loyalty. As previously argued, display activity improves in-store visibility, gaining consumer attention to the category and, therefore, positively influencing in-store purchase decisions (Dhar et al., 2001). According to Valenzuela and Raghubir (2009), shoppers are more likely to purchase an item when they can easily see from the aisle, demonstrating a need for more visible and eye-catching displays. Therefore, display of professional products to use at home could damage the loyalty to the salon, because if more customers buy these products, they are going to use them at home and, therefore, the number of visits to salons will be reduced.

H9: Proportion of customers that bought professional products to use at home moderates the relationship between in-salon communications on customer loyalty so, the higher the proportion of customers using products to use at home, the lower the consumer loyalty through in-salon communication activities

3.3. Empirical model

Research method and measures

We provide empirical evidence of the conceptual framework proposed in Figure 3.1 in a sector characterized by SMEs, the hairdressing industry. The population of interest was defined as hairdresser's owners or salon managing directors. We conducted a survey in Spain during 2013, whose respondents are a sample of the population of interest. The data was gathered by a marketing research company with high reputation and specialization in the industry. The data collection was CATI telephone interviews and we employ a stratified sampling method across Spanish regions. We obtain 475 completed questionnaires and we validate 463 questionnaires after dropping observations with missing information across multiple items. Sample size represents approximately 1% of total Spanish salons (53061) according with Key Stone (2016) and are representative of the salons market population across Spanish regions. 97% of the Spanish salons are not affiliated at a national chain and the average sample salon age is 10 years.

In the survey we use single item measures for two reasons. First, we try to minimise respondent refusal given the difficulty to get responses by owners and directors of firms. Second, since we measure concrete singular objects and attributes, it is recommended to use single item measures instead of multiple items measures for this kind of construct (Bergkvist and Rossiter, 2007; Bergkvist, 2015). All items and sources used to build the variables and their descriptive statistics are reported in Table 3.1.

Table 3.1: Impact of SMEs strategy on loyalty: the hairdresser case. Variable Definition

VAR. NAME	MEAN	S.D	SURVEY QUESTION	Source
Loyalty	0.231	0.150	Considering all your customers, what % would have weekly frequency?	Adapted from Ailawadi *et al.,* (2008)
Pricing	23.502	1.008	What is the avg. value (€) of the salon ticket for products and services?	Adapted from Ailawadi *et al.,* (2008)
Unisex	0.873	0.334	What type of clients do you attend in your Hair-Salon?	Adapted from Anne Garretson Folse *et al.,* (2012)
Services	4.479	0.994	Do you have the following services at your salon? The hair care services included: hair colour services, hair beauty treatments including nutrition, hydration, volume, repair, specific treatments for hair care (fall, dandruff, grease, etc.), haircut and styling services and straightening / permanent services. The aesthetic services included: waxing, manicure, pedicure, massages, nail reconstruction, anti-aging treatments, make-up services and other aesthetic treatments. What % of income come from the hair services invoice sales over total salon sales?	Adapted from Dhar *et al.,* (2001)
Product Purchase	0.116	0.136	What % of customers who use the salon services, buy the products?	Own development
Leader Loyalty	0.227	0.419	According to volume of purchase Who is your main supplier?	Adapted from González-Benito y Martos-Partal (2014)
Web page	0.184	0.388	Does the Salon have a web page?	Adapted from Goode (2002)
RRSS	0.067	0.250	Does the salon have activity in social networks?	Adapted from Goode (2002)
Animation	6.895	1.887	Does the salon contribute to the animation of the point of sale?	Own development
Location	0.026	0.159	Where is located your salon?	Adapted from Sayed et al., (2013)
Employees	2.359	2.073	Number of full-time employees at salon? Number of part-time employees at salon?	Adapted from Bove and Johnson (2006)

Loyalty to the salon measure

We adopt a behavioural perspective on service loyalty. Specifically, we follow Ailawadi *et al*. (2008) and we focus on the share of shopping trips to the salon. The item used was: “Considering all your customers, what % would have weekly frequency?”. Therefore, the variable “*loyalty*” represents the percentage of weekly visits (over total visits) to the hairdressing salon by an end-consumer as declared by the hairdresser. This variable is thus bounded between 0 and 1 and the mean value is 0.23.

Pricing strategy

The "*pricing*" variable was seized from the following item: "What is approximately the average value (in €) of the ticket in your salon for hairdressing services and products?". We imputed missing cases (30) of this variable by calculating the weighted average ticket at the Spanish province where the salon belongs. The average price per salon is 23.5€.

Services strategy

"Unisex" measures hairdressing salons with unisex services using the survey question: "What kind of clients do you attend in your salon?". The variable takes three possible answers (100% Men dedicated; 100% Female Dedicated or Unisex), which were transformed to a scale (1, 0) being 1 Unisex and 0 "Not unisex". 87% of the sample are unisex salons.

The "service" variable measures breath of services and it was built using the survey question: "Do you have the following services at your salon?". The hair care services asked in the survey were: hair colour, hair beauty treatments including nutrition, hydration, volume, repair, specific treatments for hair care (fall, dandruff, grease, etc.), haircut and styling and straightening / permanent. The aesthetic services include waxing, manicure, pedicure, massages, nail reconstruction, anti-aging treatments, make-up services and other aesthetic treatments. Answers to previous questions were transformed to (1, 0) dummies being 1 Yes / 0 No. Once transformed to a dummy, we compute the variable as the sum of hairdressing salon services multiplied by χ, (χ being the percentage of hair services invoice sales over total salon sales as declared by respondents to the survey) plus the sum of all the aesthetic services multiplied by $1-\chi$. The variable has an average sample value of 4.48.

Professional product sales to use at home was measured by "*product purchase*" variable. The item was: "Could you tell me what percentage of customers who come to use salon services also buy the products?". On average, 12% of consumers purchase professional products to use at home.

Hairdresser loyalty to leading supplier is measured by the variable named "*leader loyalty*". One common measure of behavioural loyalty considers the expenditure distributions across stores/brands and define the preferred store as the store that gets the greatest expenditure from the consumer (Bustos-Reyes and González-Benito, 2008; González-Benito and Martos-Partal, 2014). Therefore, we compute the variable considering the percentage of purchases in professional products that hairdressers acquire for their salon to measure behavioural loyalty to the supplier. It was computed considering the item: "According to volume of purchase: who is your main supplier?". There is a high market concentration from suppliers as premium segment accounts for 41% of the market (219M$). This is the major battlefield to compete where L'Oréal

Company and Coty Company account together for 51% of the total premium segment. Overall L'Oréal is the market leader with 34% share while Coty is the second player (17%) (Kline, 2016). Therefore, we consider L'Oréal as the leader supplier brand and, then, we distinguish between salon loyal to the leader brand, then when the salon points out as main supplier to L'Oréal, and in this case the leader loyalty variable takes a 1 value, and 0 otherwise. 23% of the sample has L'Oréal as their main supplier.

Communication strategy

The survey items related to webpage and social media activity use dichotomous answers: "Yes/No". For web page communication, we compute the variable "*web page*". This variable captures the results of the item: "Has the hairdressing salon a website?" and for social network communication we build the variable "*rrss*". This variable is computed using the survey question: "Has the hairdressing salon activity in social networks, such as Facebook, Twitter, etc.?". In both cases, the answers were transformed to a scale (1, 0), "Yes" to 1 and "No" to 0. In-salon communication activities is computed in the "*animation*" variable, which capture the animation effort in the salon. We measure the effort on a ten-point likert scale (from a minimum effort of 1 to a maximum of 10). We find that salons made more effort in-store communication (6.90 on average), whereas the internet presence is low (18% of the salons have webpage and only 7% have social network presence).

The size of the hairdressing salon was measured by the variable named "*employees*". It was constructed considering the number of full and part time employees attending to answers to the following two questions: "How many full-time employees, owner or manager included, do you have in your salon?" and "How many part-time employees, owner or manager included, do you have in your salon?". We use the common rule in the sector (Key Stone, 2016) to have a comparable base on equivalent employees. A part-time employee represents one third of a full-time one. So, the final variable is computed as the weighted sum of full-time and part-time employees declared by hairdressers. The average size of the salon in the sample is 2.36 employees.

Finally, location of the hairdressing salon is measured by "*location*", which is calculated from the answers to the following item: "Where is your hairdressing salon located?". Four answers were possible: street level, shopping centre / mall, apartment or other. Since we are interested in the effect of location at shopping centres, the previous answers were transformed to a (1, 0) dummy being 1 if the salon is located at shopping centre and 0 otherwise. 3% of the salons are located on a shopping centre.

3.4. Analysis and Findings Discussion

Our dependent variable, π_i, is defined as the share of weekly visit of customers to hairdressing salon *i* and, therefore, it measures the percent as estimated by the hairdresser. The independent variables relate to marketing strategies. Because our loyalty measures range from 0 to 1 we transform the dependent variable to log-linearize the relationship between the dependent variable and the explanatory variables, where $ln(\pi_i/(1-\pi_i))$ represents the logit transformation of the dependent variable and we estimate the model using Ordinary Least Squares (OLS). In the 17 cases in which π_i was equal to 0, we approximate the log by 0.01 to preserve the full sample. Thus, we assume a zero-weekly frequency of visits to a salon as an error in the variable. Then, our specification is expressed as:

$$E[ln\ (\pi_i/(1-\pi_i)] = \alpha + \beta X_i$$

Where α is a parameter estimating the average share of weekly visits to hairdresser salons; X_i is a vector of variables measuring the marketing strategies of hairdressing salon *i*; and β is a vector of the parameter to be estimated, capturing the effect of the marketing strategies on the proportion of weekly visits. As usual, we assume that, on average, the model does not make mistakes, i.e., the error has zero mean. In Table 3.2 we report the estimation results.

Table 3.2: Impact of SMEs strategy on loyalty: the hairdresser case. Model estimations

VARIABLE NAME	MODEL 1				MODEL 2			
	Unstandardized COEF.	Standardized COEF.	Z	P > Z	Unstandardized COEF.	Standardized COEF.	Z	P > Z
Constant	-3.837		-15.14	0.000	-4.596		-15.14	0.000
Pricing	0.019	0.178	3.95	0.000	0.042	0.389	5.15	0.000
Unisex	0.481	0.146	3.02	0.003	0.394	0.120	2.51	0.012
Service	0.212	0.193	3.81	0.000	0.191	0.173	3.49	0.001
Product Purchase	0.320	0.054	0.91	0.363	4.466	0.555	3.10	0.002
Leader Loyalty	0.126	0.048	1.14	0.256	0.132	0.050	1.21	0.225
Web page	0.324	0.114	2.46	0.014	1.107	0.392	3.58	0.000
RRSS	-0.450	-0.103	-2.37	0.018	-0.503	-0.115	-2.70	0.007
Animation	0.065	0.112	2.65	0.008	0.121	0.208	4.05	0.000
Employees	-0.003	-0.006	-0.16	0.876	0.071	0.136	1.28	0.201
Location	0.375	0.054	1.32	0.189	0.336	0.048	0.28	0.231
Pricing x Employees					-0.003	-0.195	-1.41	0.158
Pricing x Web page					-0.027	-0.326	-2.66	0.008
Animation x Product purchase					-0.555	-0.554	-2.98	0.003
GOODNESS OF FIT								
F test	P value= 0.000				P value= 0.000			
Adjusted R^2	0.229				0.265			

We estimate two specifications. A first model (model 1 in Table 3.2), where vector X_i is composed by *pricing, unisex, service, product purchase, leader loyalty, web page, rrss, animation, employees and location*. This model allows us to test hypotheses H1 to H6. Model 2 in Table 3.2 is proposed to additionally test the moderation hypothesis (H7 to H9). This second specification adds to the previous determinants of loyalty, three moderator variables (*Pricing X employees; Pricing X web* and *Animation X products purchase).* "*Pricing X employee*", *"Pricing X web"* and *"Animation X products purchase"* are the interactions of *"pricing"* and *"employees"*, "pricing" and "*webpage*" and "*animation*" and "*products purchase*", respectively.

Before presenting the results, we analyse if collinearity is an issue in our model. We test for multicollinearity using the Variance Inflation Factors (VIF). The VIF identify both correlation and its strength. The diagnostics in our estimated models does not reveal important multicollinearity problems (all VIFs are below 1.54 in model 1 and below 1.75 in model 2).

The direct effect of salon strategy through "pricing" on customer loyalty in the simplest model is positive and significant. Therefore, salons positioned at higher prices do generate more customer loyalty in support of H1. Hairdressing salons positioned at high prices could generate more confidence and attract a less price sensitive clientele and, therefore, they will be less willing to change their salon. While superior product performance translated into higher price services must be a concern, consumers wishes would seem to be related more to final look or services satisfaction. Therefore, higher prices positioning could help to increase consumer confidence and become a powerful marketing strategy for retaining customers.

We find a significant and positive relationship between *Unisex* and loyalty providing support to H2.1. Nowadays, specialization is crucial and critical as a benefit to deliver prestige to the hairdressing salon**.** The raw data shows that most Spanish salons -87%- are unisex and the estimation results confirm this marketing specialization strategy to increase loyalty. We also find a positive and significant coefficient between customer loyalty and service variable, supporting H2.2. Moreover, the standardized coefficients in Table 3.2 show that the breath of service is the strongest force driving loyalty (0.193), pricing being the second (0.178) and unisex the third one (0.146).

Our results do not support that the service of sale of professional products to use at home generates customer loyalty (H2.3). These results could be explained by two core drivers explaining the cannibalization from professional market to retail market: 1) According to the recessionary environment during last years, the price gap vs retail products have increased; 2) the development of online channels (e-commerce) has cannibalized part of the volume that consumers purchased at the salon (offline) and, therefore, they have now access and purchase these products at lower prices.

H4 proposes that hairdresser loyalty to leading supplier brands drives customer loyalty, but our results do not support it. Customer loyalty to the salon does not seem to be generated by hairdresser fidelity to leading manufacturers (L'Oréal). Therefore, consumers visit the salon for the service and hairdresser expertise, and the hairdresser decides the brands used in his salon (Bove and Johnson, 2006; 2009). Another possible explanation could be that there are brands belonging to other companies that also are symbols of prestige and quality performance. Therefore, hairdressers could change to others market players without any cost to the loyalty of their consumers.

Regarding communication strategies, our results support H4.1 (web page) and H4.3 (in-salon communication) whereas H4.2 (social media) is not supported. We find a positive and significant relationship between loyalty and the use of web page by the salon; this insight constitutes an opportunity for salons that do not currently use it or those underutilizing this marketing tool.

Regarding social networks communication, our finding shows opposite results to our proposal in H4.2 (results in line with Trainor *et al*., 2014). Thus, social media presence damages customer loyalty. Although digital communication is a reality that hairdressers cannot ignore in business, it looks like current social media digital strategies are not engendering customer loyalty. We can explain this result because despite thousands of hairdressing salons have opened profiles in social networks, most of them do not know how to manage them. They understand the need to have presence in social media, but it looks like they do not use it as an additional tool to the business. Therefore, we can summarize that the path to digital failure is to have presence without an integrated strategy, without providing value, with no coherence and integration with the business itself and with no link with the offline strategy.

The estimated coefficient of the variable animation is positive and significant, thus supporting H4.3. Therefore, the investment in store communication looks a good strategy to drive loyalty. Moreover, the standardized coefficients in Table 3.2 show similar importance across communication in order to engender/damage loyalty. The estimated coefficient of the number of employees is not significant, so, it does support H5. The number of employees is not related to behavioural customer loyalty. One possible explanation for this result is the small variation of the variable impeding a proper identification of its effect. According to descriptive statistics, 95% of the salons have a number of employees in the range [1, 4,5].

We do not find support for H6 in our data. Location of the salon at shopping centres does not have any effect on customer loyalty. This result is consistent with Jones *et al*., (2003), who provide empirical support that location is less important for small convenience stores offering less standardized and more personalized goods and services. Moreover, Bove and Johnson (2009) state that convenience, location and accessibility are the most frequent reasons for changing stylist and salon. Therefore, hairdressing salons at shopping centres do not generate less consumer loyalty. Consumers choose the salon considering a convenient location and for some consumers shopping centres could be a good one, since they make “shopping” while they find time for themselves.

To provide empirical evidence for the moderating effect of salon strategy on customer loyalty, we analyse the estimated results under the heading model 2 in Table 3.2, which includes the interactions already mentioned. We propose that higher priced salon diminish the relationship between the number of employees and customer loyalty (H7). However, we find that the interaction of price with employees has a negative but non-significant coefficient and it does not support H7. Price does not moderate the relationship between number of employees and customer loyalty. This result implies that heterogeneity of the service and the lack of training in small firms are not important issues in this sector.

Regarding H8, we propose the relationship between web page communication and customer loyalty is negative in high-price salons. The interaction variable has a negative and significant effect, thus supporting H8. Therefore, having online presence without an integrated strategy with the offline strategy damage loyalty for salons with higher prices because the website could not be signalling enough differentiation between higher price and lower prices salons, which could be damaging the trust towards the salon. Considering that an important reason of webpage communication strategy is to differentiate and build image versus core competitors, luxury or prestige hairdressing salons with no-differences in communication hurt the loyalty of their consumers (Seringhaus, 2005).

Finally, we propose that higher proportion of customer using products to use at home strategies decrease the relationship between in salon communication activities and customer loyalty (H9). In this case, the interaction variable has a negative and significant effect, so, our finding supports H9. Hence, hairdresser needs to be cautious with the sale of professional products to use at home if they emphasize store communication on these products, they could lose loyalty due to lower frequency of visits because these products could be used as substitutes for visits to the salon.

3.5 Conclusions and Implications

This study proposes a theoretical framework and provides empirical evidence related to the most successful marketing strategies in obtaining behavioural loyalty in SMEs. The empirical results show that pricing, services and communication (web page and in-store communication) are key elements of the strategy, which help in the consecution of customer loyalty. On the other hand, SMEs need to have caution in the way of using social networks to communicate with consumers to avoid damage to consumer loyalty. Moreover, SMEs positioned in higher price segments could damage their loyalty when they do not get enough attention to web page communication. In addition, SMEs need to keep a balance between sales of products to use at home and in store communication to prevent hurting loyalty.

SME positioned at high prices can generate more confidence and attract less price sensitive clientele and, therefore, consumers that are less willing to change. Second, service positioning is a key element to keep customer loyalty, firms with higher number of services allow serving more consumer needs, which implies higher loyalty. About communication and beyond the “word-of-mouth” offline strategy needed by SMEs, they must focus on communication strategies online and offline to retain customers and to attract new ones. Online presence is key to engender loyalty while salons need to devote further efforts in the way they use social networks. The key for using social media communication for top-of-mind awareness is to deliver content that is consistent, relevant and helpful. Online communication should be linked to offline communication with special attention to in-salon communication. The effective combination of these two strategies as well as best-in-class execution could increase customer loyalty. Finally, the training to the staff is key to keep loyalty to the firm. Capability and capacity strategies to staff will ensure and increase cross-sales via professional products sales to use at home, amplify the breath of services and optimize social media strategies to overall increase customer loyalty.

Managerial implications for manager of SMEs

Our findings drive interesting implications to hairdressers and to other sector characterized by SMEs. While loyal consumers go to the firm for the service and employee’s expertise, also marketing strategies affect customer loyalty and customer loyalty build up is a sum of multiple effects. As a potential watch-out, we want to highlight that even though the high-price predisposes the consumer at first, repeated experience will lead her to dismiss her firm in the mid /long term, as the price is not in line with her service quality expectations. A high-quality service perceived at a high price accordingly would be the perfect combination. Therefore, quality service can afford to be marketed in a higher price segment. Moreover, the manager needs to make good decisions about the service offered in the firm because, as the number of services offered increase, the cost could also increase, and it could be covered from a wide base of loyal consumers. Moreover, it would also constitute a mistake not to offer customers everything they demand in relation to services and sales of products to use at home.

Managers also need to focus on engendering digital communication capabilities because the level of knowledge in digital marketing could make a clear difference within SMEs. Digital marketing is much more profitable than traditional marketing because it needs few resources to generate measurable results. Moreover, it is a convenient tool to attract the youngest audience with service proposals adapted to them.

The cost of SMEs not being at social media is higher than that of being; the non-presence in these platforms / social networks could generate distrust to the consumer and it could suggest a lack of closeness. At the same time, the manager can benefit from the positive opinions and word-of-mouth. To do so, the manager needs good capabilities on digital communication, or he could externalize communication activities to satisfy consumer needs in the new digital era. Another issue that managers should not forget is in-store communication, which is the last opportunity to communicate with customers to take a last-minute service consumption option. SMEs requires agile communication media and capable of attracting attention: a good product or service deserves a good exposure. Firms should determine the location of the different communication actions chosen but they should also be concerned with easing orientation and increasing the average customer's ticket without damaging the brand-equity of the firm.

Regarding professional products, sales to use at home, firms should understand the changing and competitive economic environment where profits may decrease so they need to find sources of additional economic growth. However, they also must balance the impact on damage loyalty when the firm made a big effort in store communication about professional products to use at home. By applying direct marketing techniques, a proper training of the firm team and an increase of the promotion of the products intended to sale could easily facilitate the sale of these products without damage loyalty.

3.6 Limitations and future research

This study also suffers limitations that suggest further research. First, one important difference between the hairdressing salon market and mass distribution market is the difficulty to obtain scanner data with real consumer purchases. This has been our main reason for conducting a survey. Moreover, we did not have access to objective income data from the firm. Future research containing this variable should analyse the effect of the strategy on firm's profitability. Second, in this paper we adopt a managerial perspective to analyse loyalty. The proposed model does not reflect the reasons why end-consumers motivate choosing a firm. Further research could adopt both the manager and the consumer perspectives to analyse all the drivers of customer loyalty (Hult et al. 2017). Then, it would be possible to analyse geodemographic, socioeconomic and psychographic characterizations of different loyalty profiles, for instance. Moreover, it would be possible to study their sensitivity to alternative marketing strategies or how alternative methods of exceeding consumers expectations at salon such as the physical setting and spatial layout of the store (Lee et al., 2005) or how "servicescape" (Bitner, 1992) could impact consumer loyalty. Third, in this paper we focus on the number of employees, however, it would also be interesting to analyse the level of training of employees. Fourth, in order to generalize our findings, future research could test the proposed model on data from other countries or data from other sectors with similar characteristics.

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CHAPTER 4. Why do SMEs switch suppliers?[2]

Abstract

Purpose—Combining a conceptual framework with empirical evidence, this study offers insights into why small and medium enterprises (SMEs) in the business-to-business beauty sector switch suppliers, due to pricing considerations.

Design/methodology/approach—Data gathered from 475 telephone surveys of Spanish hairdressers provide the input for discrete choice models for testing the proposed hypotheses.

Findings—The SMEs that change suppliers tend to be sensitive to promotions, express less satisfaction with a current supplier's offerings, and serve fewer customers who buy professional products for their in-home use. If SMEs are satisfied with the supplier's services though, they are less likely to change and more prone to negotiate with that supplier.

Research limitations/implications—This study does not address why dissatisfied SMEs might remain with their current suppliers. Further research might replicate this study using additional pricing data from suppliers.

Practical implications—Suppliers in B2B sectors can leverage these findings to allocate their marketing budgets optimally and establish service strategies that will enable them to retain buyers and reduce their switching risk.

Originality/value—As an extension of extant literature, this study specifies switching drivers for SMEs in the B2B beauty sector. The findings should apply throughout this worldwide service sector, as well as to similar markets such as health, beauty and personal care, and well-being services.

Keywords–SME; switching; B2B; supplier; pricing; hairdresser; salon; satisfaction; service strategy

Paper Type—Research paper.

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4.1 Introduction

A company that prompts greater loyalty from customers, employees, suppliers, and shareholders tends to earn higher profits (Kumar and Reinartz, 2018); one that fails to generate loyalty is at risk of customer defection (Wirtz *et al.*, 2014). Such issues are especially prominent in business-to-business (B2B) settings, in which customers, often referred to as buyers, make large, frequent purchases with substantial transaction value (Rauyruen and Miller, 2007; Samudro *et al.*, 2018). Zhang and Li (2019) define customer loyalty as a willingness to purchase products repeatedly from a specific supplier and make a long-term commitment to the supplier, despite any potential benefits of switching (Algesheimer *et al.*, 2005). Loyal buyers also recommend the supplier's products (Cater and Cater, 2010), such that they contribute to a steady stream of revenue and offer favorable word of mouth (Rauyruen and Miller, 2007; Zhang and Li, 2019). Because B2B buyers tend to adopt rational buying criteria and lack the sort of emotional commitment that often arises in consumer settings, loyalty considerations are especially vital for B2B marketing (Cater and Cater, 2010; Zhang and Li, 2019).

Furthermore, buyer switching behaviors can have devastating effects for suppliers' profits, so retention efforts and decreasing churn are crucial goals for B2B suppliers (Wiersema, 2013). In service contexts, Keaveney (1995) predicts several sources of switching, noting that otherwise, customers should remain locked into relationships with providers. Various studies in turn identify multiple drivers of switching behavior, such as price (Keaveney, 1995; Sengupta *et al.*, 2012; Williams *et al.*, 2011), quality (Zeithaml *et al.*, 1996), responses to service failures (Keaveney, 1995), customer dissatisfaction (Athanassopoulos *et al.*, 2001), innovativeness (Athanassopoulos, 2000), competition (Vyas and Raitani, 2014), or customer commitment (Bansal *et al.*, 2004). However, most marketing literature emphasizes consumer relationships, with comparatively limited attention to B2B contexts (Kienzler and Kowalkoski, 2017).

In addition, among the many studies of customer loyalty (e.g., Cassia *et al.*, 2017; Galvão *et al.,* 2018; Ruiz-Martínez *et al.*, 2019; Zhang and Li 2019), we find few that address the unique context of small and medium-sized enterprises (SMEs). This gap is problematic, in that SMEs are critical for economic growth, and understanding the factors leading SMEs to remain with or leave suppliers would have notable implications for both buyers and manufacturers. These small firms account for approximately 99% of all firms and 70% of employment, and in terms of value creation, they generate 50%–60% of value added on average (Cusmano *et al.*, 2018; OECD, 2017). In addition, the strategic characteristics of SMEs differentiate them from larger organizations, and they demand special considerations with regard to how to ensure effective integration between a supplier and its buyers (Galvão *et al.,* 2018). Most SMEs exhibit substantial flexibility and innovation and seek to lower their overhead costs. In terms of management styles, operations, and functions (Bocconcelli *et al.*, 2015), a SME's owner–manager is often the key decision maker, responsible for managing virtually all functions of the organization, including advertising, recruitment, and purchasing. In turn, SMEs often face time and monetary resource constraints, and they engage in relatively limited strategic planning (Sternad *et al.*, 2019). They also respond to B2B relationship efforts uniquely; for example, as Zhang and Li (2019) suggest, when B2B sales personal rely on social media, it influences buyers' perceived trust and purchase risk, which then affects their loyalty, through a mediating effect. But as Table 4.1 reveals, only three studies address the specific, relevant topic of switching behaviors by SME buyers in a B2B context: a study of switching costs in the B2B audiology industry (Russo *et al.*, 2017), an investigation of loyalty in the B2B health care industry (Russo *et al.*, 2016), and research into switching in a consumer retailing sector (Chance and French, 1972).

Table 4.1: Literature Review

Source	Perspective	Market	Industry	Firm
Russo *et al.* (2017)	Switching	B2B	Audiology industry	SMEs
Russo *et al.* (2016)	Switching	B2B	Health Care Industry	SMEs
Sengupta *et al.* (2012)	Switching cost	B2B	55% manufacturing, 43% service	Large
Williams *et al.* (2011)	Switching	B2B	Facility management services	Large
Liu (2006)	Switching cost	B2B	Financial staffing industry	Large
Low and Johnston (2006)	Switching	B2B	Telecommunication services	Large
Yanamandram and White (2006)	Switching barriers	B2B	Multiple service sectors	All
Lam *et al.* (2004)	Switching cost	B2B	Courier service	All
Money (2004)	Switching	B2B	Banking, advertising, and insurance	Large
Heide and Weiss (1995)	Switching cost	B2B	High technology	Large
Chuah, S.H. *et al.* (2017)	Switching cost	B2C	Telecommunication	Large
Maicas *et al.* (2009)	Switching cost	B2C	Telecommunication	Large
Lee *et al.* (2001)	Switching cost	B2C	Telecommunication	Large
Wirtz *et al.* (2014)	Switching	B2C	Telecommunication	Large
Manrai and Manrai (2007)	Switching	B2C	Banking	Large
Burnham *et al.* (2003)	Switching	B2C	Credit card and long distance	Large
Colgate and Lang (2001)	Switching	B2C	Banking and insurance	Large
Keaveney and Parthasarathy (2001)	Switching	B2C	Online services	Large
Athanassopoulos (2000)	Switching	B2C	Retail banking	Large
Srinivasan (1996)	Switching	B2C	Various	Large
Keaveney (1995)	Switching	B2C	Service industries	All
Mazursky *et al.* (1987)	Switching	B2C	Grocery	All
Chance and French (1972)	Switching	B2C	Retail	SMEs

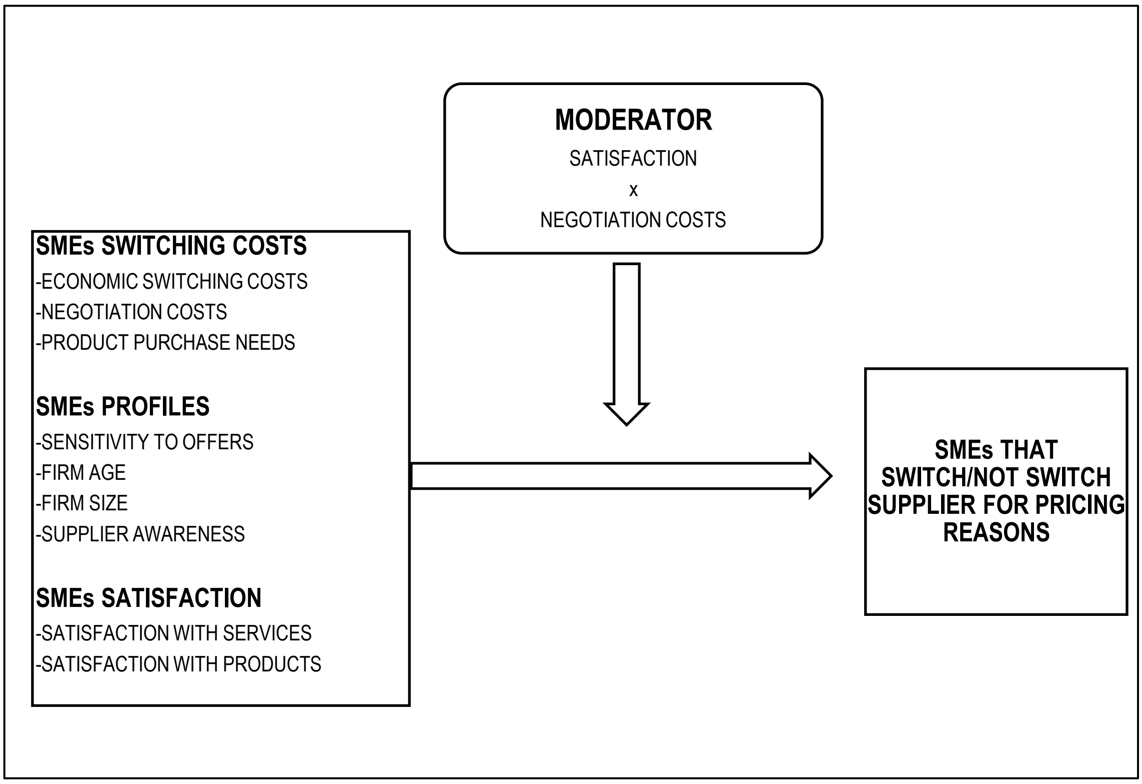
To advance understanding of antecedents that lead SME buyers to switch suppliers, we build on prior evidence that indicates that external environmental factors can induce switching; specifically, we consider whether price sensitivity and competition due to price wars affect switching behaviors. Such developments were evident in 2008–2015 in Spain, where an increase in the value added tax (VAT) rate from 10% to 21% in September 2012 aggravated the ongoing economic crisis that was hindering many B2B service industries, such as hairdressing. The disproportionate tax increase created substantial challenges for the SMEs in this sector, prompting professional beauty suppliers to enter into price wars (Rao *et al.*, 2000) that vastly increase switching risks.

The hairdressing industry represents an appropriate study for this analysis for several other reasons as well. Notably, this global market comprises more than 3.5 million salons, most of which can be classified as SMEs, which earn an estimated $17.2 billion annually (Kline, 2019). In Spain, the market is worth about $604 million, and approximately 80 manufacturers supply around 140 different brands to their SME buyers (Key Stone, 2019). More precisely, these SMEs function according to a business-to-business-to-consumer (B2B2C) model, in which manufacturers supply the hairdressing salons as buyers, who then provide services to individual consumers. An estimated 70% of female consumers visit salons regularly, averaging five times per year (GfK, 2016), and they often develop close, personal relationships with their hairdressers (Bove and Johnson, 2006, 2009; Sternad *et al.*, 2019). Despite its reach, economic impact, and pervasiveness though, the hairdressing sector rarely has been addressed in prior research.

Furthermore, this market, dominated by SMEs, experienced substantial price effects of the 2012 VAT increase. In the period following the VAT increase, SME buyers, with their strong drive to reduce costs, became more price sensitive (Vyas and Raitani, 2014; Wiersema, 2013) and potentially more prone to change their purchasing behavior, especially if they believed suppliers' products were substitutable (Vyas and Raitani, 2014; Wiersema, 2013). Nor are such effects limited to the VAT increase; the COVID-19 pandemic continues to buffet the sector, deeply damaging industry revenues due to lockdown restrictions that prevented hairdressers from providing their services. For those that have survived, efficiency is a pressing demand, because growth effects for 2020 are –6% globally and –13% in Spain (Kline, 2020). If they are struggling to survive, much less grow, these SMEs might become even more price sensitive. Accordingly, we use the historical event of the VAT increase and its effects on SME buyers' price sensitivity in this relevant market to (1) establish a suitable conceptual framework and (2) provide empirical evidence related to critical price-related drivers that cause SMEs to switch suppliers in a B2B context.

Figure 1 presents the proposed conceptual framework, which we detail further in the next section. The results, based on analyses of data gathered from 475 telephone surveys of Spanish hairdressers, offer implications for managers and academics, as well as some directions for further research.

Figure 4.1: Why do SMEs switch suppliers?. Conceptual framework



4.2 Conceptual Framework

If a buyer leaves one supplier for of another, the original supplier loses revenue (and possibly profits) and must bear the cost of acquiring new customers (Keaveney, 1995). Price is a product attribute, reflecting what must be given up or sacrificed to obtain certain products or services (Zeithaml, 1988), and it influences customer switching (Colgate and Hedge, 2001; Keaveney, 1995). For example, loyal customers express lower price perceptions than those who switch (Williams *et al.*, 2011). In a price-sensitive context, SME buyers might switch suppliers for several reasons, as displayed in Figure 1. First, they might be more or less sensitive to economic switching costs, such as those required to negotiate or purchase products. For this study, switching costs pertain to the SME buyer's perception of the magnitude of additional costs required to end a current relationship and find an alternative supplier (Jackson, 1985). Anticipated penalties for disloyalty discourage customers from switching and offer a strategy for retaining customers (Blut *et al.*, 2014). Second, the specific profiles of different SMEs, including their sensitivity to promotional offers, age, size, and awareness of available suppliers, likely inform their switching behavior. Third, satisfaction with suppliers may be relevant. Beyond the direct effects, we thus predict moderating roles of satisfaction and willingness to negotiate on SME switching behaviors.

4.2.1.SME Switching Costs

Economic switching costs. In typical B2B relationships, buyers invest and plan to remain, which leads to higher switching costs and lower switching rates (Pick and Eisend, 2014). Suppliers also invest significant time, energy, capital, and technology to serve the relationship, and those costs generally do not change, due to customer inertia and switching costs. Furthermore, switching costs increase with more extensive contracts that lock in buyers (Viard, 2007). Jackson (1985) advises supplier firms to impose high supplier-specific switching costs, and Nielson (1996) shows that establishing switching costs linked to hard assets or structural bonds tends to be more effective than using soft assets or social bonds.

Switching suppliers thus can impose various costs on the buyer, along with demanding effort (to find a new supplier) and the loss of trust or knowledge (Lam *et al.*, 2004). To encourage it though, competing suppliers might offer incentives (Chen and Hitt, 2006) and engage in strategic pricing to subsidize those switching costs (Maicas *et al.*, 2009). Even perceived switching costs have direct effects on B2B buyers' switching intentions (Russo *et al.*, 2017), such that when they must allocate their spending to multiple suppliers, any differences in their expenditures across suppliers could signal further economic switching costs. For example, if there is a substantial difference between two suppliers, such that a buyer devotes substantially more of its expenditures to one supplier, the cost of switching to the other would increase, so the buyer has less incentive to switch, even if the second supplier proposes an advantageous price. Formally then, we anticipate

H1: Buyers that face higher economic switching costs are less likely to change suppliers to receive a lower price.

Negotiation costs. In B2B exchanges (Perdue *et al.*, 1986), a company's negotiation practices reflect its overall competitive strategy and determine its costs. A two-sided negotiation process ideally tries to solve problems to the benefit of all parties (Atkin and Rinehart, 2006). According to Ganesan (1994), each negotiation should be regarded as a singular event in a sequence, such that together, all these events define the relationship of the negotiators. Negotiating by current buyers and suppliers can restore and improve their B2B relationship (Tähtinen and Vaaland, 2006). However, SMEs suffer from relatively limited negotiation capabilities, due to their limited business skills (Matlay, 2004). Their business or sales volume is usually not very substantial, which reduces SMEs' bargaining power relative to their suppliers, such that they often wind up accepting conditions demanded by suppliers (Lepoutre and Heene, 2006). Finally, SMEs make considerable resource commitments to their business, relative to their limited financial resources (Carson *et al.*, 1998). Therefore, in line with switching costs theory (Burnham *et al.*, 2003), SME buyers that engage in more, relatively demanding negotiations with suppliers may be less likely to change suppliers solely out of price considerations.

H2: Buyers that are prone to negotiate with current suppliers are less likely to change suppliers to receive a lower price.

Product purchase needs. Suppliers try to convince B2B buyers to purchase their brands or services to increase top-line growth, but B2B2C markets also depend on end-consumers' preferences. The SME buyers must satisfy their own consumers, but they depend on suppliers to provide information and assistance (Jackson and Cooper, 1988). Hairdressing market a comprehensive offering, comprised of hairstyling products, the expertise of the hairdresser, and the interactive salon experience. Consumers tend to look to their hairdressers to recommend products that will meet their specific needs, including hair care and styling products, many of which are available only or primarily through salons. Compared with hair care products sold in general retail settings, the prices of these professional products (which promise better quality and specific benefits; Machek, 2010) tend to be higher, and a higher final price increases the hairdresser's margins. Thus, the peculiarities of different professional products sold through salons make it difficult for hairdressers to switch suppliers, in that they would lose access to products that their end-consumers prefer, potentially disrupting those close, relational exchanges. Moreover, brands influence re-purchase decisions (Beverland *et al.*, 2007). Therefore, if salons serve more end-consumers who buy professional products to use at home, they should face higher switching barriers, because they worry about the risk of losing business if a new supplier's products cannot fulfill their consumers' needs.

H3: Buyers with higher proportion of consumers who buy professional products to use at home are less likely to change suppliers to receive a lower price.

4.2.2 SME Profiles

Sensitivity to offers. A loyal customer base is valuable to firms, because it exhibits lower sensitivity to price or marketing offers and reduces the proneness to seek alternatives (Knox and Denison, 2000). For example, consumers' store loyalty diminishes their price and promotion sensitivity (Martos-Partal and González-Benito, 2013). In B2B markets, buyers tend to be more sensitive to value considerations, reflecting the greater product complexity, relationships, and account sizes in these markets (Bendapudi and Leone, 2002). Yet their switching likelihood also increases when their loyalty decreases, because they are more willing to consider alternative offers as part of their business strategy.

H4: Buyers more sensitive to other suppliers' offers are more likely to change suppliers to receive a lower price.

Firm age. Ganesan (1994) argues that economic agents seek long-term relationships. Suppliers' strategies tend to focus on interpersonal relationships and service recovery, which add value to the relationship by providing essential benefits that can diminish the likelihood of switching (Burnham *et al.*, 2003). However, dependent relationships also might cause buyers to feel trapped (Jones *et al.*, 2002). According to Money (2004), older companies switch more. Therefore, SMEs with more years of business experience might be more proactive, flexible, and open to new suppliers, such that they are more likely to switch in pursuit of better prices.

H5: Older buyers are more likely to change suppliers to receive a lower price.

Firm size. Changing suppliers demands operational adjustments; for example, the salon would need to restyle its advertising displays to highlight the new supplier, and its staff would need to be trained in the use of new products. Such resource demands are greater for larger spaces, which house a relatively greater number of employees, so larger SMEs may be unwilling to undertake this effort. These larger buyers also must consider their responsibilities to more employees and may worry more about revenues or reputation issues, so they seek to reduce their risk by seeking reputational assurance from suppliers, rather than just price reductions (Almquist *et al.*, 2018). Therefore, we anticipate that larger SMEs might tend to remain loyal to current suppliers, to reduce their risks and overall costs.

H6: Larger buyers are less likely to change suppliers to receive a lower price.

Supplier awareness. Buyers first establish a consideration set before making the ultimate choice to switch or remain with a supplier (Heide and Weiss, 1995). That is, an initial awareness set includes all potential suppliers, which then shrinks to the more limited consideration set (Shocker *et al.*, 1991), comprised of suppliers the buyer would consider purchasing from for a particular purpose or occasion (Lehmann and Pan, 1994). This consideration set provides the basis for the final supplier selection, but if SMEs lack a sufficient awareness set, they may be unaware of attractive supplier alternatives, so they remain in their current supplier relationship, even if it is less than satisfactory (Patterson and Smith, 2003). Counterparts with larger sets instead may be more prone to change suppliers.

H7: Buyers with larger awareness sets of suppliers are more likely to change suppliers to receive a lower price.

4.2.3 SME Satisfaction

Satisfaction refers to an overall attitude toward a service provider, regarding its ability to address some need, goal, or desire (Levesque and McDougall, 1996). It can be achieved if a B2B supplier offers technical competence, appropriate knowledge, and cooperation (Schellhase et al., 2000, Zolkiewski *et al.*, 2007), such as through qualified account representatives, maintenance and repair services, good customer service, and technical support (Athanassopoulos, 2000; Jackson and Cooper, 1988). Greater satisfaction tends to enhance customer retention, and increased service satisfaction should reduce the perceived benefits of switching (Williams and Naumann, 2011). In contrast, service dissatisfaction provides a reason to switch (Athanassopoulos *et al.*, 2001; Keaveney, 1995), which likely is reinforced when prices increase. Moreover, Parasuramam (1998) argues that service that greatly exceeds expectations does not go further to affect loyalty or switching intentions; that is, customers' willingness to pay more increases with product or service improvements but only within a zone of tolerance, beyond which the relationship levels off, suggesting that

H8: Buyers that are more satisfied with the supplier's services and products are less likely to change suppliers to receive a lower price.

4.2.4 Moderators

We also anticipate a moderating influence of satisfaction, in interaction with buyers' willingness to negotiate with suppliers. That is, satisfied buyers have fewer incentives to switch to receive a lower prices (H8), as do those that are more prone to negotiate (H2). If satisfied buyers adopt a negotiation strategy, they also might be better able to compensate for any price advantages offered by a competitor. Therefore, buyers that tend to negotiate with suppliers could exhibit a particularly strong link from their satisfaction to their low switching likelihood.

H9: The relationship in which buyers that are more satisfied with the supplier are less likely to change suppliers to receive a lower price is stronger when those buyers also are more prone to negotiate.

4.3 Empirical Model

Research method and measures

To provide an empirical test of the conceptual framework in Figure 4.1, we establish the SME population of interest as hairdressers (owners acting as buyers) or salon managers (buyers). A survey conducted in Spain in 2013 by a well-reputed marketing research company used CATI telephone interviews and stratified sampling across Spanish regions to target these respondents. It obtained 463 valid questionnaires, out of 475 completed, after dropping observations with missing information across multiple items. This sample represents approximately 1% of all Spanish salons (50,000; Key Stone, 2019), a population in which 97% of firms are not affiliated with any national chain.

Most of the measures, except that for satisfaction, consist of single items. The use of single items is beneficial in encouraging participation, which was difficult to attain from owners and salon managers. The measures also refer to concrete, singular objects and attributes, so single instead of multiple items are appropriate (Bergkvist and Rossiter, 2007; Bergkvist, 2015). The items and their descriptive statistics are in Table 4.2.

Table 4.2: Why do SMEs switch?. Variable Definitions

Hyp.	Variable	Definition	Mean	SD	Item
	Switch supplier (dependent variable)	SME decides to change suppliers	.250	.433	Have you changed your supplier for a more economical one?
H1	**Economic switching costs**	Difference of SMEs' share of wallet between first and second most used suppliers	.531	.405	Considering purchases in professional products for your salon, what percentage do you purchase from each of the suppliers you mentioned?
H2	**Negotiation costs**	SME decides to negotiate with current suppliers	.779	.414	We negotiate more with all our suppliers purchasing more carefully.
H3	**Product purchase needs**	Percentage of consumers who buy professional products for use at home	.116	.136	What percentage of customers who use the salon services, buy products?
H4	**Sensitivity to offers**	SME decides to take advantage of competitive offers	.352	.478	We take advantage of offers from new or less usual suppliers.
H5	**Firm age**	Number of years since opening	17.824	11.756	How many years has been your salon open?
H6	**Firm size**	SME size measured in m2	61.50	43.75	What are the square meters of the hairdressing salon?
H7	**Supplier awareness**	Number of suppliers in mind	2.250	.985	In the field of hairdressing products, list brands that come to your mind.
H8	**Satisfaction with services**	Factor score	9.64 e-10	1	See Table 4.3
H8	**Satisfaction with products**	Factor score	-4.46 e-10	1	See Table 4.3
H9	**Satisfaction with services × Negotiation**		.024	.869	
H9	**Satisfaction with products × Negotiation**		-.011	.888	

The dependent variable indicates whether the SME salon had switched suppliers, measured on a yes (1)–no (0) scale. In our sample, 25% of the salons changed suppliers for price reasons. Among the explanatory variables, economic switching costs reflect the difference between the share held by the leading supplier and the share of the second supplier; the informants provided the percentage of their orders from each supplier, enabling the calculation of a percentage difference, bounded between 0 and 1. For the negotiation variable, the measure uses a dichotomous yes (1)–no (0) scale. On average, 11.6% of the SMEs' individual consumers buy professional products for use at home, reflecting the product purchase variable. The assessment of sensitivity to offers is a dichotomous variable (1 = yes, 0 = no). Firm age reflects the number of years the salon had been operating in the market. Firm size is proxied by the size of the salon in square meters. The measure of supplier awareness focuses on brands, such that respondents listed the brands that come to their mind and we calculated a numerical variable. Then, we computed the number of suppliers for that variable. In this sector, a supplier could sell different brands, and our focus is on supplier (not brand) switching. Finally, the measure of satisfaction relies on multiple items, related to product and service satisfaction on 10-point Likert-type scales (1 = "strongly dissatisfied," 10 = "strongly satisfied"). We perform a principal component factor analysis with Varimax rotation to identify the underlying dimensions of the satisfaction measures (see Table 4.3). It produced two factors that we use as proxies, "satisfaction with products" and "satisfaction with services." The latter refers to the salon's satisfaction with the supplier's service.

Table 4.3: Why do SMEs switch?. Satisfaction Principal Component Analysis Results

Item	**Factor Scores**	**M**	**SD**	**V.E.**	**ALPHA**
Satisfaction with services				**32.882**	**0.874**
Rate your satisfaction level regarding:					
Support to marketing tools and activities at Salon	0.793	6.895	1.887		
Education support to hairdresser for consumer	0.806	7.300	1.700		
Support to sell products to use at home	0.788	7.200	1.800		
Support to launch new products or services at the salon	0.799	7.200	1.700		
Promotions and offers	0.661	7.300	1.700		
Satisfaction with products				**27.184**	**0.773**
Rate your satisfaction level regarding:					
Product quality	0.843	8.500	1.100		
Innovation levels of the products	0.607	7.900	1.200		
Quality / price relationship	0.583	7.800	1.300		
Sales force quality visit	0.545	8.000	1.500		
Logistics services and orders delivered	0.598	8.000	1.300		
Overall satisfaction with supplier	0.761	8.200	1.100		
Total Variance				**60.066**	

Notes: M = mean, SD = standard deviation, V.E = variance extracted, ALPHA = Cronbach's ALPHA

4.4 Analysis and Findings

The dependent variable takes only two values (1, 0), so its analysis requires a discrete regression model, and we opt for a probit model. According to a comparison of the utilities (U_i) that salon I derives from each alternative, it will choose the alternative that provides the greatest utility. The unobserved (to the analyst) utility that each salon I assigns to each alternative is a linear function of a vector of individual variables (X_i), which introduces observable heterogeneity, so salons with different characteristics assign different values to each alternative.

In Equation [1], the utility of changing providers for price reasons depends on a vector X_i of independent variables and a random error ε_i. Because utility is not observable, Equation [1] represents a latent model, in which utility must be expressed as a function of observable variables. Then $Y_i = 1$ for the event "change supplier," which happens when the utility of switching is greater than the utility of staying ($X_i \beta_i > \varepsilon_i$). Here, β_i represents the impact of variable X_i on the probability of changing suppliers for price reasons, and ε_i is the effect of random unobservable heterogeneity on the probability of changing (distributed standard normal). Thus,

$$[1] \qquad U_i = X_i \beta_i + \varepsilon_i \; I = 1, 2, \ldots, N$$

Given assumptions for ε_i, the probabilities can be defined as:

$$[2] \qquad P_i = P(Y_i = 1) = F(\beta' X_i i) = \frac{1}{\sqrt{2\pi}} \int_{-\infty}^{X_i} e^{\frac{-x_i^2}{2}}\, dx,$$

where P_i represents the probability that salon I changes suppliers for price reasons, and F is the cumulative function of a standard normal distribution. Because we have a random sample, we assume the errors are independent and identically distributed. We estimate the model using robust maximum likelihood to control for potential heteroscedasticity.

Instead of coefficients, we present marginal effects at the sample means (Williams, 2012), which reflect the magnitudes of the effects on probabilities. We also test the hypotheses using sequential regression analysis, with two steps, so that we can identify the distinct explanatory power of the variables added in each step and establish a cleaner interpretation of the moderating effects. Table 4.4 details the results for the models produced in both steps. In Model 1, the vector X_i comprises the economic switching costs, negotiation costs, product purchase needs, sensitivity to offers, firm age, firm size, supplier awareness, satisfaction with services, and satisfaction with products variables. Thus, in the first step, we test H1–H8.

Then in a second step, we derive Model 2 by adding the potential moderators, negotiation costs × satisfaction with services and negotiation costs × satisfaction with products, to test H9.

Table 4.4: Why do SMEs switch?. Marginal Effects

	MODEL 1		MODEL 2	
VARIABLE NAME	**COEF**	**P > Z**	**COEF**	**P > Z**
Economic switching costs	.006	0.908	.007	0.893
Negotiation costs	-.027	0.632	-.004	0.937
Product purchase needs	-.397	0.040	-.256	0.149
Sensitivity to offers	.234	0.000	.231	0.000
Firm age	-.001	0.371	-.001	0.528
Firm size	-.001	0.041	-.001	0.012
Supplier awareness	.010	0.663	.006	0.763
Satisfaction with services	-.035	0.102	.117	0.007
Satisfaction with products	-.076	0.000	-.086	0.052
Satisfaction with services × negotiation			-.186	0.000
Satisfaction with products × negotiation			.007	0.875
Goodness of fit				
F Test	*P-value =0.0000*		*P-value =0.0000*	
Adjusted R^2	0.1455		0.1705	

Higher economic switching costs do not influence switching behaviors, according to the results for H1. Perhaps other switching costs and risks (not only economic) are more prevalent in the hairdressing industry than in most B2B2C markets, because these service providers offer such extensive knowledge, expertise, and interpersonal bonds (Laakkonen, 2016).

The results do not confirm H2, because buyers that negotiate more with suppliers are not significantly less likely to change suppliers for price reasons. The limited ability of SMEs to negotiate with suppliers, due to their lack of business skills (Matlay, 2004) or power imbalances, could explain this result.

Buyers that serve more consumers who buy professional products to use at home are significantly less likely to change suppliers, in support of H3. The probability of changing suppliers decreases by 39.7% as the proportion of consumers buying products to use at home increases. Due to an exclusive distribution strategy implemented by suppliers, salons are the only place consumers can access such products, and salons in turn are strongly influenced by end-consumers' behavior.

The significant coefficient for sensitivity to offers confirms H4. Buyers that are more prone to other suppliers' offers exhibit a 23.4% higher probability of switching when they receive offers from alternative suppliers. These SMEs change suppliers when they are more sensitive to competitors' offerings, new opportunities, or better pricing, in line with several empirical research findings in consumer sectors.

Regarding H5, older buyers seem more likely to change suppliers, but the coefficient is not significant at standard levels. Even if older SMEs might be more proactive, flexible, and open to new suppliers (Money, 2004), they also might have had more time to learn about potentially negative effects of switching, whether directly or indirectly by observing other SMEs, including choice risks (Jackson, 1985). Such risks may be just as important as time and money considerations in determining buyer behavior, so older buyers with more business experience might be less ready to switch suppliers for pricing reasons, because they recognize other operational barriers to switching (Wirtz *et al.*, 2014).

Larger buyers are less likely to change suppliers, though the dip in probability is low at just –.1%. These results partially support H6. Arguably, other size proxies that influence training costs could have stronger effects. Professional hair care products often require specific education to support their applications to end-consumers (Laakkonen, 2016; Machek, 2010), and changing suppliers would demand staff members to receive such training.

In H7 we predicted that a larger consideration set increases the likelihood of switching, but the related coefficient is not significant. If the buyer can list more brands sold by the supplier, it may mean greater market knowledge expertise, but that trait does not translate into heightened switching probabilities.

The results related to satisfaction are in line with our hypotheses. If a buyer is satisfied with the services provided by the supplier, it has a 3.5% smaller probability of changing suppliers, though this finding is significant only at the 10% level. Satisfaction with suppliers' products also reveals a significant negative coefficient, such that the probability of switching decreases by 7.6%, as we predicted in H8. If buyers are satisfied with product performance, they have less incentive to change, even if a new supplier offers price incentives.

Finally, the results of Model 2 partially support our moderation hypothesis. That is, we cannot confirm that satisfaction with the supplier's products interacts with negotiation, but we find a negative and significant coefficient for the interaction between satisfaction with the supplier's services and negotiation. The probability of switching in this case decreases by 18.6%, in partial support of H9. Buyers that are more satisfied with the service have less incentive to switch, and that view gets reinforced when they adopt a negotiation strategy that improves their relationship with the supplier. In this customer service–oriented industry, SMEs that tend to negotiate with suppliers note a stronger link between their service satisfaction and their switching behavior.

General Discussion

The proposed conceptual framework and empirical evidence offer insights into why SMEs might switch suppliers, in the relevant and unique context of the B2B beauty sector. Five of the nine hypotheses receive support, revealing, in particular, that SMEs change suppliers to obtain pricing benefits when they are sensitive to such offers and less satisfied with the current supplier. Larger SMEs and those that serve more consumers who buy professional products to use at home are less likely to switch, as are those SMEs more satisfied with supplier services and more prone to negotiate with their current suppliers.

4.5 Practical implications

Retaining a current buyer is more attractive and less costly than searching for new buyers, so buyer retention is essential to suppliers' revenues and profitability (Maicas *et al.*, 2009). Crafting a successful buyer retention strategy requires a proper understanding of its drivers, and our findings offer some novel insights for B2B sectors, such that suppliers can leverage them to achieve competitive advantages. In particular, we detail some research-based implications related to strategic marketing mix optimization (Almquist *et al.*, 2018), segmentation (Simkin, 2008), churn risk assessment (Jahromi *et al.,* 2014), satisfaction (Stathopoulou and Balabanis, 2016), core business (Zhang *et al.,* 2014), and competitive intelligence (Itani *et al.,* 2017) efforts.

First, suppliers seeking to optimize their marketing mix can apply these findings to increase returns on their marketing investments by applying more effective marketing tactics (Almquist *et al.*, 2018). Using evidence that average marketing budget spending by B2B manufacturers is 8.3% of their total net revenue (Deloitte, 2020), we can calculate that for the $17.2 billion global market for hairdressing products (Kline, 2019), suppliers spend around $1.4 billion on marketing annually. Our study offers specific marketing guidance for optimizing the allocations of these massive marketing budgets to ensure that they assign them to loyal buyers that are at less risk of switching. They also can increase the efficiency of their efforts to gather relevant information about buyers, by focusing on the specific selection criteria we identify as relevant.

Second, these findings should inform suppliers' strategic segmentation efforts. When a company can identify important expectations among its buyers, it can better produce and customize services and products to meet their needs (Laakkonen, 2016). If they adapt their selling behaviors accordingly, it also might improve suppliers' sales performance (Pandey *et al.*, 2020). Therefore, the marketing and sales departments of supplier firms should use these recommendations to develop retention plans (Stathopoulou and Balabanis, 2016) and build internal buyer databases that identify which buyers exhibit the highest staying probabilities—namely, those that serve many consumers who buy professional products to use at home, those that are satisfied with supplier's services, larger buyers, and those more prone to negotiate.

Related risk assessments in terms of churn also could help the suppliers identify buyers at risk of switching. Combining this calculation of the total number of potential switchers with their average annual sales would provide a measure of net revenue risk in the short-term. Furthermore, suppliers could use this pertinent segmentation to design different marketing strategies for buyers at risk of switching (Jahromi *et al.*, 2014).

Third, our results do not support Blut *et al.'s* (2014) recommendation to impose more switching costs to retain buyers and instead indicate that suppliers should focus more on satisfying buyers with their services, as well as with their products. For example, sharing technical competence and knowledge and cooperating with the SME likely drives buyer satisfaction (Schellhase et al., 2000; Zolkiewski *et al*., 2007). Suppliers might offer training and product-specific education programs to show how to use their products, to help the SMEs serve their consumers. For buyers whose consumers buy products for use at home, suppliers also must ensure their products offer superior performance and sell them at prices that enable the hairdressing salons to earn margins from sales to consumers (Machek, 2010). In that case, salons likely recommend that supplier's products to their consumers, which could further increase the proportion of people who buy products for use at home and thereby reduce the probability of switching even further. Targeted promotions and marketing programs for such salons likely would be beneficial. An effective buyer retention method also should include feedback channels and involvement initiatives, so that the suppliers can learn about their SME buyers' characteristics and needs (Ellis *et al.*, 2012), then enhance those buyers' perceptions of the received service. Such service efforts, especially conducted in collaboration with buyers, might allow the supplier to identify causes of problems or service failures, establish strong and trusting relationships, and encourage more word of mouth by their loyal and satisfied buyers (Hausman *et al.*, 2006).

Fourth, we propose that retention policies should anticipate and account for competitive responses (Itani *et al.*, 2017; Stathopoulou and Balabanis, 2016), especially if their buyers appear more price sensitive and likely to negotiate with suppliers. That is, SMEs change suppliers if they are more sensitive to competitors' offers, new opportunities, or better pricing, and we propose three potential action plans for suppliers from this perspective. They might allocate fewer marketing resources to buyers that are sensitive to competitive offers, because those buyers tend to be focused on price and could switch suppliers again later, to receive a lower price in the future. Alternatively, they might intensify their competitive intelligence efforts and develop better response models that enable them to block competitors or mimic their strategies for pursuing new buyers (Itani *et al.*, 2017). Finally, suppliers could identify smaller firms and target retention plans at them, as well as pursue other small buyers currently buying from competitors.

The practical implications also can inform buyers. Hairdressing salons generally display relatively low professionalization (Bove and Johnson, 2006). For SMEs, such business models might limit their ability to negotiate with suppliers, due to their resource constraints and relatively minimal business skills (Matlay, 2004). With our findings, buyers might gain a better understanding of the need to develop a professional business culture and learn and apply improved supplier selection and negotiation tactics (Aissaoui *et al.*, 2007). Buyers also might be able to exploit suppliers' concerns and pressures during negotiations if they understand how their own traits suggest the risk that they might switch to receive lower prices.

4.6 Limitations and further research

Some limitations of this study suggest further research directions. In particular, our focus is on the drivers that cause SMEs to switch suppliers to receive lower prices, though our data do not reveal the prices charged by the existing or alternative suppliers. Continued research might obtain pricing and revenue data, including promotions, negotiated prices, specific customer offers, listing fees, and customer incentives. Furthermore, the consideration set measure actually determines the SMEs' awareness set, by asking the respondents to list any suppliers they are aware of, even if they might not consider purchasing from all of them in any particular situation (Shocker *et al.*, 1991). Because the consideration set is the basis for the final supplier selection, it would be appropriate to analyze actual consideration sets.

Continued research also could generalize the findings by testing the proposed conceptual framework with data from other countries and industry sectors. Finally, substantial research considers how consumers' dissatisfaction leads to switching (Colgate and Hedge, 2001; Keaveney, 1995), but relatively fewer studies investigate consumers' or buyers' reasons for staying (Berezina el al., 2016). Further research should address these questions.

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