INFLUENCE OF CUSTOMER LOYALTY PROGRAMMES

Dr Dipin Mathur

Associate Professor and Principal

Advent Institute of Management Studies, Udaipur, Rajasthan,India

ABSTRACT

In highly competitive environment the customer relationship management (CRM) is concerning on critical importance of clients for every business activity in market economy. Complexity of modern business requires managers to strive for innovative strategies to acquire and retain customers in any product market field. As acquiring new customers is getting costlier day by day, business organizations have offered continuity/loyalty programmes to retain/reward existing customers and maintain relationships. The premise of CRM is that once a customer is locked in, it will be advantageous to both the organization as well as customer to maintain relationships and would be a win-win situation for both. Consumers find it beneficial to join such programmes to earn rewards for staying loyal. Through loyalty programmes, firms can potentially gain more repeat business, get opportunity to cross-sell and obtain rich customer data for future CRM efforts (Yuping Liu, 2007). Still such loyalty programs in India are in its nascent stage. Although a large usage is seen to be made use by retailers these days in order to grab and retain customers. Almost all the retail biggies are constantly trying to do something new in order to foster long term relations with the customers. The major conclusion is that the organized retailing in India is progressing towards a tough competitive environment where only those retailers would survive who can understand their customers and develop a strong bond with them by developing and implementing appropriate loyalty programs consisting of an attractive mix of tangible and intangible rewards. Hence, in the time to come, loyalty program is going to be the most dominant marketing tool for

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enhancing retail performance. This paper aims to outline the concept, importance and opportunities of loyalty programs as a tool of customer relationship management at large and for retail trade in India.

Keywords: Customer relationship management, retail, loyalty programs, relationships.

Introduction

The fiercely competitive Indian retail environment has forced the retail businesses to focus extensively on customer retention of their existing customers. Research findings have also supported this realization that it costs up to five times more to acquire a new customer than to retain an existing customer and a 5% reduction in the customer defection rate can increase profits by 25% to 85% depending on the industry. All these factors have forced retail managers to think of some program to develop long term value-laden relationship with their existing customers and retain them with an ultimate aim of achieving organizational goals **(Rahman, 2013).**   As a result, leading Indian retailers launched their loyalty programs offering a range of attractive tangible and intangible rewards to their customers, with an aim to retain them and enhance the retail performance. These programs not only engaged increasing number of members over the years, but also generated huge proportion of sales and profits from these members.

Concept of Loyalty and Loyalty Programmes:

Oliver (1999) defines consumer loyalty as' a deeply held commitment to rebuy or repatronise a preferred product/service consistently in the future', thereby causing repetitive same brand(store) or same brand set purchasing, despite situational influences and marketing efforts having the potential to cause a switching behaviour."

Jacoby (1973) defines loyalty as" the biased behaviour response expressed over time by some decision making units with respect to one or more alternative brands(store) out of a set of such brands and is a function of psychological processes. **Jacoby & Chestnut (1978)** note that the belief, affect and intention structure of a consumer must be examined in order to analyse loyalty. It is viewed as a defensive tool; a cost item to prevent potential sales loss; to

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restrict defection. **Knox & Maclan (1998)** described customer loyalty as 'retention with attitude'. Thus there exist several definitions of Loyalty. **Jacoby and Chestnut (1978)** reported 53 definitions for the term loyalty. One stream of research considers loyalty largely as an attitude. Thus loyalty is viewed as a psychological attachment related to commitment creating a positive mental disposition toward a particular brand or firm based on familiarity, trust, and confidence, a perception of shared values and past history. Another stream of research considers loyalty as combination of attitudes and behaviours. Still another stream of research conceptualizes customer loyalty in terms of behavioural measures only such as shopping frequency, customer retention over time, tolerance of price increases, share-of-wallet within a product category and/or word of mouth recommendations to others (Allaway, Gooner et. al)

Thus loyalty is a multi dimensional construct and needs to be viewed as an attitude that leads to relationship with the brand/store, outcome in terms of revealed behaviour, relational in terms of advocacy, word of mouth communication and buying is moderated by the individual's characteristics, circumstances and /or the purchase situations.(Vyas & Sinha, 2008)

"Loyalty Programme" can be defined as a programme that allows consumers to accumulate free rewards when they make repeated purchases with a firm. (Yuping Liu, 2007).

Loyalty programmes are structured marketing efforts that reward, and therefore encourage, loyal buying behavior – behavior which is potentially beneficial to the **firm (Sharp and Sharp, 1997).** In marketing generally and in retailing more specifically, a loyalty card, rewards card, points card, advantage card, or club card is a plastic or paper card, visually similar to a credit card or debit card, that identifies the card holder as a member in a loyalty program **(Glossary L, 2011).** Loyalty cards are a system of the loyalty business model. In the United Kingdom it is typically called a loyalty card, in Canada a rewards card or a point's card, and in the United States a discount card, a club card or a rewards card.

By presenting the card, the purchaser is typically entitled to either a discount on the current purchase, or an allotment of points that can be used for future purchases. Hence, the card is the visible means of implementing a type of what economists call a two-part tariff.

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Application forms usually entail agreements by the store concerning customer privacy, typically non-disclosure (by the store) of non-aggregate data about customers. The store uses aggregate data internally (and sometimes externally) as part of its marketing research. These cards can be used to determine, for example, a given customer's favourite brand of beer, or whether he or she is a vegetarian.

Where a customer has provided sufficient identifying information, the loyalty card may also be used to access such information to expedite verification during receipt of cheques or dispensing of medical prescription preparations, or for other membership privileges (e.g., access to a club lounge in airports, using a frequent flyer card). **(Wikipedia, 2013)**

Worthington (2009), added that "Increased customer fidelity is just one benefit of setting up a loyalty program; in addition, such programs can generate a wealth of commercially valuable information about purchasing behaviour. In fact, this aspect of a loyalty program can be just as important for a company as any increase in sales due to customers spending to earn reward points. For this reason, 'loyalty program' is something of a misnomer; a better term would be 'rewards and information exchange program', because that is a more accurate description of the transaction between customer and company. In return for providing information about themselves and their spending patterns, members of a loyalty program receive rewards in proportion to their spending. The company operating the program can then use the information that these programs generate to more accurately target offers to customers, refine their marketing approaches, and potentially to also then sell aggregated information and 'insights' about consumer behaviour to their suppliers."

Loyalty Programmes in India:

According to **Business Standard (20 July 2011)** Payback India (formerly i-mint) is India's largest coalition loyalty program, with 12 million members, over 30 partners and 3000 network partner outlets, with 120 billion INR of sales generated through i-mint-cards in 2009**(Colloquy, 2010)**. German loyalty program operator Loyalty Partner took a controlling interest in i-mint in June 2010 **(Colloquy, 2010)** and renamed the program Payback India in July 2011. **(Business Standard, 2011)**. Hero's Good Life program claims over 10 million members. BPCL's Petro Bonus fuel card program has 2 million members **(The Hindu, 15 October 2009.)** Indian Oil's fleet card program XTRAPOWER and retail program

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XTRAREWARDS claim a combined customer base of 3 million **(IOC, 2010).** The Maruti Suzuki Auto Card, launched in association with Citibank and Indian Oil had 370,000 cardholders as in October 2008.Kingfisher Airlines FFP King Club had 2 million members as in October 2010. Shopper's Stop has been offering a loyalty programme called First Citizen for well over a decade for regular customers. Other retailers like Lifestyle (The inner Circle loyalty Programme) & Reliance Retail also have their own loyalty programs.

Debit card loyalty programs include State Bank Group's Freedom Rewards, is perhaps the largest in the world with over 110 million customers enrolled. The program is operated by Loylty Rewards. Pinpoint operates programs HSBC and Standard Chartered Bank. The immense potential and sheer size of the consumer base in India has already attracted players like Groupe Aeroplan and Loyalty One into the country **(Wikipedia, 2013).**

Factors affecting loyalty program:

Accoring to **Vyas & Sinha (2008),** Factors which influence/shape loyalty are: **satisfaction** emanating from prior purchase experience with a retail outlet motivating a consumer to come to the store again; **switching barriers**, once a consumer signs a loyalty program, if he leaves it, he loses the point accumulated on previous purchases made. Thus once a consumer becomes a member of any loyalty program, switching barriers get created; **interpersonal relationships**, particularly in the context of a retail store, floor persons, billing persons in charge and customers interact. If a customer frequently visits the store, interpersonal relationships develop as shopping of groceries requires frequent visits to the store. This also helps in strengthening loyalty & creating a switching barrier; **attractiveness of alternatives**, in the context of retail store if there is any new outlet which is closer than the current store; proximity enhances the attractiveness of it & may create a barrier to loyalty. If a retail store comes out with a very special promotion then also temporarily it may become very attractive to a potential customer & hence may trigger a drift on that purchase occasion. If the customer has signed in a particular loyalty programme then he would weigh alternatives & accordingly decide to stay loyal or drift.

Objectives of loyalty programmes:

Variety of objectives; such as to build lasting relationships, to gain profit through extended product usage & cross selling, to gather information, to strengthen loyalty, to defend, to

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preempt competition; can be addressed through loyalty programs. Loyalty programs encourage consumers to shift from myopic or single-period decision making to dynamic or multiple-period decision making as loyalty programs operate as dynamic incentive schemes by providing benefits based on cumulative purchasing over time. **(Lewis, 2004)**

Benefits to the firm:

According to **Stone, Bearman, et al. (2004)** Loyalty programs yield benefits both to the firm as well as consumers. It is expected that increased customer loyalty leads to lower price sensitivity & stronger brand/store attitude which create switching barriers. Access to important information on consumers & consumer trends enables to design appropriate reward and communication programs leading to greater satisfaction, commitment. This gives competitive advantage to a firm. Typically, loyal customer brings higher average sales due to cross selling & up-selling opportunities than a non loyal member. They enable targeting special consumer segments as purchase history can be analysed relating to demographic and other information. It facilitates implementation of product recalls as the database is available, and it is believed that loyal customer is profitable as, servicing existing customer is less costly compared to new one. The profitability is generated by reduced servicing costs, less price sensitivity, increased spending and favourable recommendations passed on to potential customers**(Grahame & Uncles;1997).** Loyalty programmes increase referrals/advocacy. It is assumed that satisfied customers are not only loyal but they advocate and refer to their social circle, family/friends/reference group efforts. Long term relationships can be built through such programs.

Benefits to Consumers:

Consumers benefits as their risk is reduced as some incentive is offered to stay loyal. Psychological reassurance is experienced dealing with the same firm. Consumer also gets a feeling of a smart shopper. His or her social need –a sense of belonging gets satisfied as, a customer becomes a part of loyal group. Communities get formed which share similar values. They get something for nothing (free)-economic benefits are accrued by staying loyal. Once consumer is convinced about the value he derives from purchase, repeat behaviour becomes a habit or inertia and this reduces time in evaluation, comparison and search. Advocating the firm to peers also gives satisfaction and motivation to act as an opinion leader. Trust &

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commitment is reflected in future dealings with the firm. Relationships are observed as for mutual gain and not as being viewed as purely on commercial basis. Customers evaluate loyalty programs by considering relative awards/points and likelihood of achieving/getting rewards. Program design having thresholds, rewards and time constraints combined with individual level requirements and preferences determine customer's expected benefits of participation **(Grahame & Uncles; 1997).**

How loyalty programs use information:

Loyalty card programs collect and store different types of data about their card holders. This can include:

• Information provided by the customer upon applying for the card (e.g. age, gender, address)

• Information about purchases made using the Loyalty card at the point of sale (e.g. type and location of retail outlet, type of product, price)

• Information about redemptions made using the rewards that the Loyalty program provides (e.g. type of product redeemed, store at which vouchers are spent)

• Responses to any surveys or other information-gathering schemes conducted by the Loyalty program.

Thus some of the kinds of information that such loyalty programs collect and collate are:

• Customer demographics – e.g. age and gender

• Location – e.g. home address, most visited/highest value store

• Products purchased – by category, brand

• Frequency of purchase – e.g. every week, last six months

• Transaction value – e.g. average basket size, average category purchase

• Basket analysis – which product purchases correlate with other characteristics (such as gender/age/cross-promotions)

• Customer behaviour – response to promotional offers and other marketing.

Loyalty program operators must abide by the provisions of the Privacy Act 1988, which set out how personal information can and cannot be used under the law. For example, personal information cannot be given to any third party organisation. Loyalty program providers use

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personal information about their members in various ways. First and foremost, it is used to keep track of points earned and redemptions made, and then to communicate this to members. Second, personal information is used to send marketing material to members. A third way that loyalty program operators can use the personal information supplied by their members is to convert it into commercially valuable 'insights' to generate additional revenue. A fourth way that loyalty card operators can use member information is to sell it in de-identified form – i.e. after removing any markers, such as name and address, which could reveal the identity of individual members.**(Worthington, 2009)**

Types of Loyalty Programmes:

Although loyalty programs have been around for quite some time, consumer enthusiasm to embrace these programs has not abated but rather has rapidly grown over the recent years. In parallel to favorable responses from consumers, many firms have installed loyalty programs as a core component of their marketing strategy. This proliferation of loyalty programs reflects a changing market environment that is increasingly characterized by intense competition, more demanding and knowledgeable consumers, and a development toward relationship marketing and customer relationship management in marketing thinking and practice **(Liu & Yang, 2009).**

Berry Berman (2006) has provided a typology of loyalty programs as shown in Table-1 below based on characteristics of the programme.

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Table-1: A Typology of Loyalty Program

Program type	Characteristics of program	Example
Type-I Members receive additional discount at register	• Membership open to all • Clerk will swipe • Each member gets same discount irrespective of purchase history • No information on customer name, demo or purchase history • No targeted communications	Supermarket programs Beneficial to small firms as easy to administer and low costs
Type-II Members receive 1 free when they purchase n units	• Membership open to all • No customer database linking purchases to specific customer	Local car wash, Airport fast park
Type-III Members receive rebates or points based on cumulative purchases	Seeks to get members to spend enough to receive qualifying discount program tiers; no personalized communications	Airlines
<u>**Type-IV**</u> Members receive targeted offers and mailings	• Members divided into segments based on purchase history • Requires comprehensive database of demographics & purchase history	Tesco

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Source: Barry Berman," Developing an Effective Customer Loyalty Program", California Management Review, Vol. 49, No. 1, Fall, 2006.

Indian Retail Sector and Loyalty Programs:

For decades, retailing in India has been highly fragmented i.e. unorganized, due to the presence of huge no. of small mom-n-pop stores. Organized retailing was negligible in nineties. But, with the entry of major corporate houses in Indian retail sector, the retailing scenario in India has changed considerably. According to the **Indian Retail Report (2009)** earlier, retailing was not considered as a prestigious sector much enough to attract reputed business organizations. But, in the recent past it has witnessed so much dynamism and corporate attention that big players like Tata, Birla, Reliance, Pantaloon groups etc. are leaping into it. The entry of these big players in retailing has caused a major revolution in retailing formats and infrastructural front. For a long time the small stores were the only choice available

to the consumer. This slowly is giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/ hypermarkets/ grocery chains (Food World, Apna Bazaar, Food bazaar, Reliance fresh etc.) and fast food chains (McDonalds, Dominos etc). However it is in the Non-food segment that has seen organised retailing entering a variety of retail segments. These include Apparel & Lifestyle/Fashion segments (Westside, Shoppers' Stop, Lifestyle, Pantaloon, Reebok, Koutons etc), Books/Music/Gifts (Archies, Music world, Crosswords, Landmark etc), Appliance & Consumer durables (Viveks, Jainsons, Vasant & Co. etc), Drugs and Pharmacy (Health & Glow, Apollo etc.).

The entry of big corporate in retailing has also caused a major revolution its marketing strategies & programs. Retail businesses have been practicing customer relationship for decades, but the relationship was not standard and based only on trust with small customer base. But, now the implementation of loyalty programs has totally renewed the way retailers manage long-term relationship with their customers with an ultimate aim of developing loyalty. Since, organized retailing in India being in the early stage, Loyalty programs,

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supported by sophisticated Information Technology, is quite a new phenomenon and has emerged as an innovative tool for building customer loyalty. **(Rahman, 2013)**

While loyalty programs were popular among US and UK retailers in 1990s, these became popular among Indian retailers in 2000s i.e. a decade later. These programs are still at the nascent stage in India and consumers are learning to taste the benefits of these programs, in developed countries like USA, retailers have been implementing loyalty programs aggressively. Industry players estimate that there are about 20 million loyalty programme members in India. This is nowhere near the US where there are more than 700 million loyalty club members across retail stores, according to a study by loyalty marketing firm Colloquy **(Economic Times, 2011)**

Loyalty Programs of Leading Indian Retailers:

Rahman (2013) in his work on Loyalty Programs and Indian Retailing has presented a glimpse on some of the loyalty program initiatives floored by Retailers in India. The same are quoted below:

A. Van Heusen's 'Power Club' and 'Diva club'

The Power Club is a loyalty program with three levels of membership- Classic, Silver and Gold levels depending on shopping profile. A single purchase of Rs 3,000, Rs 7000 and Rs 15,000 makes a customer entitled to Classic, Silver and Gold Cards respectively. All Members can earn reward points based on the value of their purchase and are entitled to benefits like in-store personal assistance, valet facilities at select locations and advice from in-store stylists on special occasions. While Classic members earn 3 points, Silver members earn 5 points and Gold members earn 7 points for every Rs. 100 spent at any Van Heusen store in India. Silver and Gold members have privileges of access to exclusive sales previews, invitations to fashion evenings, and home delivery of altered garments. Gold members are entitled to exclusive privileges like exclusive trial rooms, Pickup and drop facility for garment exchanges and alerts plus exclusive preview of new collections Van Heusen has another loyalty program 'Diva club' exclusively for women. A Diva Club member can avail a 10% off on all Van Heusen Woman purchases. The other benefits of the program are Alerts/ Exclusive previews of new collections, Exclusive End of Season Sale previews and Special invites to Fashion evenings and private parties. **(Power-club.in, 2013)**

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B. Westside's 'Club West'

Clubwest is an exclusive loyalty program of Tata group's department store chain. This is a two-tier program -Clubwest Classic and Clubwest Gold. A purchase of Rs 2000 and Rs 5000 on the same day entitles a customer to a complimentary membership into Clubwest Classic and ClubWest Gold respectively. Alternately, one can enrol into Clubwest Classic by paying a nominal one-time fee of Rs 150. Members can earn reward points on every purchase Classic members can earn one point for every Rs 100 spent and Gold members can earn one point for every Rs 80 spent at any of the stores. Apart from this, all members are entitled to a range of benefits like dedicated customer help desk for a member's assistance at each of the stores, Exclusive shopping hours only for members during sales, Advance intimation of all in-store promotions and special offers through direct mailers, and a special discount on dining at select restaurants round the year.(Mywestside.com, 2012)

C. Pantaloons Payback Green card program

Pantaloons Green card program is an exclusive loyalty card of the department store format of Pantaloon retail India Ltd. It provides membership plus has a provision of 12-months purchase based upgrading system. This is a 4-tier loyalty program, where tier 1 customers get 1 star status, tier 2 gets 3 star status, tier 3 gets 5 star status and the topmost tier members get an exclusive 7 star status. Getting a green card issued is quite easy but for retaining one star status, one has to make a purchase of Rs 8,000 within two years of card issue date. 1 Star status can be upgraded to a 3 star, 5star and 7 star statuses by shopping for Rs.

8000, Rs. 20,000 and Rs. 40,000 respectively immediately preceding 12 months of current shopping date. All are entitled to a range of benefits and privileges depending upon their member status. 1 star member gets a gift voucher of Rs. 200 on new enrolment, while 3star, 5star, and 7star members get a discount of 5%, 7.5% and 10% respectively. All members get special privilege of End of season Sale preview, special billing counter during End of Season sale, special service desk for handling all queries and providing information, free car parking (Except 1 star members), exclusive shopping offers sent to members on a regular basis through SMSes, emails, and telephones and exchange of products within 60 days of purchase (90 days for Seven Star members). 5 star and 7 star members get an exclusive privilege of free car parking and free home delivery of purchases around the year. (**pantaloonretail.in, 2011**)

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D. Shopper's Stop's 'First Citizen Club (FCC)'

FCC program is a three-tier loyalty program, where a member gets Classic moment's card at entry level followed by the Silver Edge and Golden Glow cards. A customer can sign-in for classic card by paying a membership fee of Rs 200.

FCC members earn reward points depending on the value of the purchase and the membership status at which they are. Silver card members earn one point for every Rs 100 purchase value, while Silver card members earn a point for every Rs 50 spent and Gold card members earn a point for every Rs 34 spent. Silver and gold card holders can receive an extra point of Re 1 and Rs 2 per Rs 100 purchase of preferred brands. All members are entitled to free car parking, exclusive previews and sales, benefits of tie-ups with restaurants, gyms etc., regular updates and associate cards for family members. Golden glow members are entitled to exclusive privileges like Reserved car parking, home delivery of alterations, exclusive invitation to special events organized by the store and a free-subscription to First Update, a bi-monthly magazine on the happenings at Shopper's Stop. In addition, members also receive special offers on occasions such as birthdays and anniversaries**. (shoppersstop.com, 2013)**

The above discussions lead us to understand that today in order to retain customers retailers are leaving no stone unturned. Amongst all such initiatives loyalty programmes are emerging as a significant tool for a number of reasons. A final look at these will bring us to conclude the following advantages:

- Data gathered through running loyalty schemes gives a true reflection of actions of consumers and allows in-depth analysis of customer rather than product or store.

- When loyalty cards are scanned at the point of purchase, data are captured automatically registering time, day, products bought, prices paid and variety of such information of a card consumer. Analysis of these datasets yield valuable insights into consumer shopping processes, reactions to marketing efforts and long term patterns of behaviours.

- It also reveals which customers deliver the bulk of revenue and/or profit by linking the purchase history to firm's cost data.

- Based on promotion tier analysis, which value groups customers fall into, how to measure their increase/decrease in value and the kinds of initiatives that firms have put in place to encourage profitable customer behaviour (Wood, 2005).Thus, Product-

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buyer profile can be developed by consideration of individual customer's life cycles, age, occupation.

- Promotion analysis & Promotion effectiveness can be measured. Understanding who is buying enables to design appropriate reward and communication strategies.

- Tastes & preferences can be understood by undertaking basket analysis.

- Exploration of customer purchasing patterns helps predicting their future intentions.

- Cross purchasing analysis also can be done by merging data from various departments.

- Understanding changes in values across different socio-economic classes enable the firm to develop segment based strategies.

- New product launch performance and cannibalization impact can be seen.

Conclusion:

This is to conclude that the organized retailing in India is progressing towards a tough competitive environment where only those retailers would survive who can understand their customers and develop a strong bond with them by developing and implementing appropriate loyalty programs consisting of an attractive mix of tangible and intangible rewards. Hence, in the time to come, loyalty program is going to be the most dominant marketing tool for enhancing retail performance.

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