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**IMPACT OF CONSUMER LOYALTY PROGRAMS
IN RETAILING BUSINESS: A CASE STUDY OF
INDIAN RETAILER**

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Impact of Consumer Loyalty Programs in Retailing Business: A Case Study of Indian Retailer

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Abstract – There has been a revolution during the last three decades in the Retail Industry, especially in India. The retail market has changed from a product-oriented industry to a more market-oriented to the service and experience oriented, with the customer as the core of their operations. This customer centricity has been the outcome of the hyper competition in the retail markets, and every retailer is doing their best to woo the customers from other retailers.

This phenomenon has resulted in the maximization of the customer focus and the path towards bringing in the customer delight, just not the satisfaction. Customer Relationship programs have been taken as the strategy to attract customer for repeat purchase as well to up-sell and cross-sell to the existing customers at lower cost than attracting the new ones. Hence companies started to work its customer loyalty programs to keep customers for long time while making profit through them.

Working with customer care the company hopes to create satisfied and loyal customers. One of the most popular ways of working with customer care in the retail business is customer loyalty program. The popularity of this is based on the beliefs that loyal customers are lucrative and these programs would bond customers to the company. Under the loyalty program companies are offering different kind of benefits to the customer. Gift cards, frequent purchase program, point program, rewards, offers. Schemes, value added services etc are lucrative content of loyalty programs.

Indian consumer behavior has evolved over the years focusing on merchandise assortment, convenience and experiential delight from price considerations. The aspiration driven demand for goods and services has risen transforming the consumer behavior. Retailers are striving to develop differentiating strategies to deepen customer loyalty.

The fiercely competitive Indian retail environment has forced the retail businesses to focus extensively on customer retention of their existing customers. 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.

INTRODUCTION

Loyalty programs are widely used in building relationships with customers. The dynamic competition in business today has provoked the companies to implement the loyalty programs with the only intention of building long term relations with the customers. Good relationship with the customers is extremely important for an organization in sustaining and winning in the market. Loyalty programs are implemented in every industry like banking, retailing, travel, services etc. and are recognized with an accumulation scheme to receive an incentive over a long period. The relationship with the brand and the customer grows and develops with the loyalty programs.

Factors Influencing Loyalty in Retail Industry:

- Satisfaction which originates from a previous purchase experience with a retail outlet works as a motivating factor for the customer to visit the store again resulting in repeat purchase and cross selling
- When a customer becomes a part of any loyalty program, switching barriers are formed, such that if he leaves, he has to lose on any accumulated points on the prior purchases made by him. This stops the customer from switching over.

For decades, business managers focused on strategies and programs to acquire as many customers as possible without any focus on retaining them. But, businesses have now realized that their success lies in customer retention and building customer loyalty. 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. The result was the launch of 'loyalty programs' which is defined as "structured marketing efforts that reward, and therefore encourage, loyal buying behavior — behavior which is potentially of benefit to the firm." Members of these programs get loyalty card that identifies the card holder as a member in a loyalty program. These members receive a combination of attractive tangible rewards (gifts, discounts, reward points etc.) and intangible rewards (invitation to special events like fashion shows, exclusive preview of new items etc.) to invoke customer loyalty.

CUSTOMER SATISFACTION AN ANTECEDENT OF CUSTOMER LOYALTY

Customer satisfaction and retention are global issues that affect all organizations. Retailers are putting in large resources towards understanding, evaluating and implementing strategies that aim at improving customer retention and maximizing share of customers in view of the beneficial effects on the financial performance. The appearance of new competitors and technologies has enthralled retailers to create stronger bonds with customers. They are shifting resources from the goal of capturing new customers to preservation of existing ones. Acquiring new customers and retaining them is a continuous process culminating into extended loyalty base for a retailer.

Customer satisfaction is an important measurement of the ability of a retail firm to successfully meet the needs of its customers. Degree to which, match between the customers' expectation and of the actual performance exist, is defined as the customers' satisfaction. Customer Satisfaction is considered a strong predictor for behavioral variables such as repurchase intentions, word-of-mouth recommendations, or loyalty (A. Eggert and W. Ulaga, Customer perceived value: a substitute for satisfaction in business markets, Journal of Business & Industrial Marketing 17 (2002) (2–3). Customer satisfaction with a retail outlet may be viewed as an individual's emotional and cognitive reaction to his or her evaluation of the total set of experiences realized from patronizing the store.

The varied influencing factors like quality of merchandise, services, store atmosphere, pricing,

location and convenience connect to customer satisfaction and culminate into profitability, repeat visits, referrals and loyalty. Refer Figure.

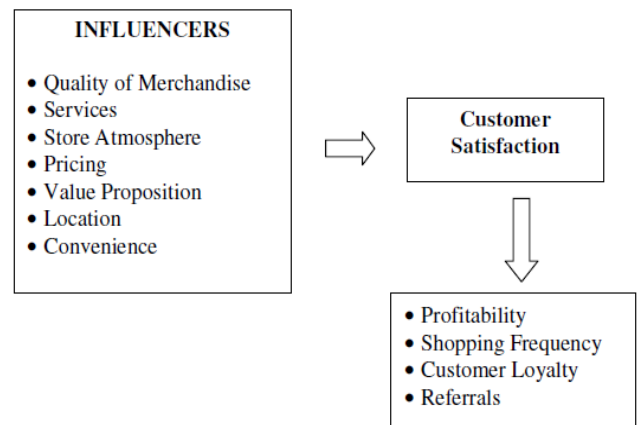


Figure : Influencers and Outcomes of Customer Satisfaction

With increasing consumer income and shopping options in terms of product categories and formats, brands per se is becoming more important at the retail store level. Mega Retail Outlets are emerging as the 'Brands' in themselves providing time, place and information utility. Retail outlets as brands, have image associations and differentiation built on various attributes like store atmospherics, merchandise assortment, location etc. It has become imperative for retailers to develop such attributes suiting to the tastes and preferences of target customers, in order to allure them for repeat visits and relying on the advice of retailers.

EVOLUTION OF LOYALTY PROGRAMMES

It is believed that in mid 1800s, co-operatives pioneered this concept. Literature mentions the famous Green Shield Stamp – a co-operative dividend programme. However, real impetus was seen in 1990s with technological developments in developed markets. Wide ranging programmes were in existence from 'save your till receipts' to sophisticated smart cards and complex coalition programmes involving huge customer base and large number of loyalty partners with greater diversity of rewards.

In US, the value of loyalty programs was worth \$6 billion in early 2000, and there were 2,250 separate loyalty programs. Recent study found that 90% of Americans actively participate in some type of loyalty programs. Forrester research study found that 54% of primary US grocery shoppers belong to 2 or more programs. Early adoption of loyalty programmes was found in airline sector. Hotels, retail, financial services, leisure sectors followed suit. FMCG sector also experimented through continuity programmes and loyalty clubs. It is observed that durable goods manufacturers, many service businesses (like entertainment businesses-multiplexes, credit card

providers) and organized retail outlets have been using varied loyalty programmes.

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. As per Images F&R research 'India retail report 2009, organized retailing in India accounts for 5.9 % (Rs. 78300 Cr) of Rs 1330000 Cr total retail market. While the total retail market grew at the rate of 10.80% annually, the organized retail market grew at the rate of 42.4%, and is expected to maintain a faster growth rate in future, especially in view of the fact that major global players and Indian corporate houses are seen entering the fray in a big way.

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 (FoodWorld, 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 & Lifesyle/Fashion segements (Westside, Shoppers' Stop, Lifestyle, Pantaloon, Reebok, Koutons etc), Books/Music/Gifts (Archies, Musicworld, Crosswords, Landmark etc), Appliance & Consumer durables (Viveks, Jainsons, Vasant & Co. etc), Drugs and Pharmacy (Health & Glow, Apollo etc.).

LOYALTY IN RETAIL INDUSTRY

The organized retail in India is booming since 1991 with national and international players. The Head of Future Group Mr. Kishore Biyani states that to retain customers in retail the quality of services is the only key. The amount spent by a repeat customer is much more than the first time customers. Therefore these repeat customers must be encouraged to come back. Getting the customers back is the only purpose of the loyalty card programs. The loyalty programs offered by different retailers to pursue the customers are:

Lifestyle offers 'The Inner Circle'

- Pantaloons offers 'Green Card Reward program'
- Westside offers 'Club West'
- Shoppers' Stop offers 'First Citizen'

According to the FMI study US food retailers attribute 10 to 20 percent increase in sales to the loyalty programs. Tesco, the largest super market chain in UK attributes one third of its 6 percent volume increase in sales over six months to its newly launched Club Card.

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 & 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.

CONCLUSION

The focus of customer loyalty programs across the retail chains has been to implement point based loyalty systems making it more of a monetary incentive rather than a positive emotion-producing event. A retailer may indulge into identifying such factors that increase the feel good factor and satisfaction to provide a unified experience from loyalty programs. This involves tailoring retailer's approach to suit specific customer segments. Loyalty cannot exist in one department alone. It must have a direction with goals and processes that permeate throughout the business to ensure its execution at all points of customer interaction. Executives at each level should be given suitable training to interpret the

information to tailor the responses based on the customer data.

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.

Loyalty Programs create an emotional bond leading to high & irreversible switching costs. Loyalty Programs impact customer loyalty differently in case of high involvement and low involvement purchases. Different consumer shows different behavior towards the same loyalty program scheme due their psychological, demographical and emotional factors. The price promotion also generated excess loyalty but less than the loyalty program and the price promotion generated a greater, but temporary, market share gain.

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