

Loyalty Programs: Retaining Customers and Creating Brand Loyalty

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Abstract – Loyalty programs become a major influential factor in increasing the profit of the company. A loyalty program is an advanced marketing action system designed to make customers more loyal. These programs aimed at enhancing relationships with customers by providing high importance to profitable market segments. This improved relationship results in an increment in customer loyalty causing repeat purchase, further buying, persuading other prospective customers to initiate purchase through words of mouth, preventing existing customers from switching, causing the sales increase and thus causing overall revenue and total profit to boost. This is an article of review based on research papers.

Keywords: Loyalty Programs, Customer Retention, Perks, Loyalty

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INTRODUCTION

The customer loyalty phenomenon among various sellers, received a lot of interest (Reddy et al 2011) even customer loyalty was an issue to be addressed among most marketing companies in the 1980s and several companies spent a fortune on customer loyalty management programs (Pitta et al 2006). Over the past years lately, loyalty became pertinent due to increased competition within industries

Companies infer loyalty for having a same meaning and establish tactical marketing and advertising efforts to develop a customer-company connection (Liang 2008). Companies are designing many tactics to gain customer and increased loyalty of customers. One major such tactic is the program of loyalty. Thompson (2007) highlighted the need and requirement of having a loyalty program designed to rave and recommend the goods or service of a company and retain customers back.

Ivanauskiene & Auruskevicien (2009) quoted that programs of loyalty are almost common tactical marketing approaches in all business sectors. To manage their loyalty and retention, companies develop and implement their loyalty programs for customers. In quoting several studies, Wang & Head (2005) disclosed that loyalty programs help build relationships with certain customers. Tactics or

programs such as schemes for frequent buyers collect points and create a barrier to exit. Ivanauskiene & Auruskevicien (2009) also claimed that such loyalty programs create barriers for customers to purchase latest products and encourage purchasing reorganization.

The main motive of such loyalty programs is to reward buyers for repeated buying behaviour, preserving, promoting, and strengthening the level of loyalty by offering them with goals to gain different benefits. Loyalty programs are extremely efficient in customer retention and they are also accepted by both brands and users (BOSE and RAO 2011).

BOSE and RAO (2011) quoting Dowling and Uncles (1997) said that these are important in enhancing the total worth of loyalty programs as they influence loyal consumers to make their next buys.

Ivanauskiene & Auruskevicien (2009) said rewards-based loyalty programs should boost customer loyalty and product sales, reduced customer price sensitivity, and encourage change in behaviour. Some loyalty programs, though, reward membership and not loyalty alone. Excellently-maintained loyalty program helps the management to get comprehensive customer behavior

information and help create customized interaction and offers.

REVIEW OF LITERATURE:

Loyalty Programs and its significance

Ivanauskiene & Auruskevicien (2009) citing literature claimed that loyalty programs appreciate individuals because the buyer become loyal to the brand stressed the benefits of providing all five value elements to the customer, i.e.

1. rebate or cash value,
2. the array of rewards provided,
3. aspiration value,
4. relevance and
5. convenience.

Loyalty programs offer economic advantages to product users and enhance the emotional bond between the brand and the customer. When business goals are clearly identified, an organization must build its loyalty program and it is only possible to build a proper mechanism and to analyze whether performance is adequate.

KOCOGLU (2012) cited some research that today's customers are well-aware of their market power and that all operations are being carried out for them. Consumer loyalty to goods reduces with increasing options. Companies are now making an attempt to deliver goods and services that can fully satisfy customer needs and desires at a reduced cost than their competitors, making customers more loyal.

Butscher (1998) claimed that loyalty marketing had reached a tipping point and it now had to move to the next stage, i.e. value-orientation programs of loyalty. These value based customer loyalty schemes create an emotional connection between the customer and company for long-term loyalty creation and therefore do not focus solely on easy price reductions but presents a strong hard and soft benefits package. In America, Asia and Europe, such strategy is quickly becoming popular. To a large extent, the successful implementation of loyalty programs depends on the strength of the benefits offered, which must have a highly perceived value from the customer's perspective.

Bolton et al. (2000) claimed that, in general, the ultimate objective of loyalty programs is to retain consumers in profit generating segments by offering them increased value and satisfaction, so several supermarkets are targeting their preferred buyer programs to heavy users.

Bolton et al (2000) deduced that companies offer loyalty reward programs with the faith that such programs have quite a beneficial long-term impact on customer behavior and evaluation.

Loyalty program and its benefits at large

The objective of developing and enforcing loyalty programs is to obtain customer loyalty and enhance customer relationships by offering high value to lucrative segments of the market. Gudonaviciene & Rutelione (2009) claimed that there are many advantages to enterprise strong loyalty program. Mostly loyal customers pay less constantly for the appealing product and ask for rebates. It is also hard to estimate how loyalty programs operate effectively and whether the company has customer data, loyalty programs, etc.

As per Acatrinei & Puiu (2012), the goal of customer relationship management (CRM) programs such as loyalty program is to increase repeat-purchase actions versus actual gaining market share. Thereby, loyalty programs are aimed primarily at current consumers who must show the following:

1. Reduced switching to retailers which do not offer any such program,
2. Increased allocation of wallets,
3. Higher repeat purchase rate,
4. Higher frequency of use and higher chances to be exclusively loyal.

The result of a loyalty-program may be a large increase in repeat buying behavior, with a slight increment in share of the market.

Gudonaviciene & Rutelione (2009) linked Uncles & Dowling (1997) to two loyalty programs reasons:

1. Raise profit by expansion in the number of customer purchases and expanding the supply of goods.
2. More stable, i.e., while building better customer and product relationships, the company aims to strengthen and maintain customer databases.

Murat & Cevdet (n.d) cited service enterprises such as restaurants as being able to consider loyal customers as a part-time or extended sales force and managers reward them by repeatedly recommending the business to others by providing them with price discounts that are not available to other customers ; providing them personal acknowledgement; to provide them with other types of incentives, such as extra or expanded services,

service improvements and direct compensation for those customers whose suggestions lead to new organizational customers.

Palmatier (2007) noted that professionals are bombarding clients with patronage programs and targeting clients with value-creating strategies, marketing relationships, and crucial account projects.

Liu (2007) quoting many research indicated that loyalty schemes are often considered tools of value sharing and enhance customer notions of what a company offers. This function of value expansion is important because the ability to provide better value is instrumental in initiating and retaining the customer relationship.

Wahab et al (2011) cited from studies that marketing companies have vested large amounts of their resources in developing loyalty programs. A survey examining the benefits of loyalty marketing in practice disclosed that a nicely-designed loyalty program is a crucial factor in successful loyalty marketing with strong value propositions

Bahri-Ammari (2012) penned that the goals of the loyalty program include: making profits obtained by higher customers, selling more costly, cutting costs and, by recommendation effect, free advertising. Companies boost the number of bought goods through their loyalty instruments and stretch the length of relationships with customers resulting in higher revenue generation.

TYPES OF LOYALTY PROGRAMS

Five kinds of loyalty programs have been mentioned by Jain & Singhal (2012).

1. Rewards: Purchase award points. Points for rewards can be exchanged. When a company wants to capture new consumers and differentiate the brand from the competitors, this type of loyalty program is used.
2. Rebate: Award a redeemable gift coupon for the next buy when a certain level of expenditure or shopping is reached by the consumer. If companies have a wide range of products, this reward can be used as the program to motivate new exponential sales.
3. Appreciation: Incremental visits and sales will be resulting in offering a rebate, not the cash. Consumers are offered in this type with the same company's appreciation reward. Airlines, hotels, telephone companies use this to gain points in their own brand for additional services such as seat expansions, free or reduced tickets, hotel stays at various locations, etc.

4. Partnership: Reward and offer the customer with service partner's product.
5. Affinity: Special communications are offered by an affinity program; value added and perks and recognition as a appreciated consumer. It is used when there is no longer a need for rewards to grow, a long-lasting relationship, just as a wakeup call to learn better about others

As per Oracle Corporation (2005), many loyalty programs can not generate sufficiently high switching costs for members and companies use their loyalty programs to generate switching costs.

- Making use of in-depth membership profiles and transaction data to create custom offers and goods and services that a rival who is not as familiar with the member cannot match.
- Providing consistently aimed service in all networks

By using their loyalty program's customized information, companies produce a win - win partnership with their members that is not easily replicated or copied.

CONCLUSION/ IMPLICATIONS:

With the above-mentioned literature, it can be deduced that loyalty programs result in an increment in customer loyalty or retention housing due to repeated purchase, current customers abstain from switching expenses, convince others to buy by word of mouth. This leads to an increase in sales and ultimately to an increase in total income and profit.

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