



Loyalty Programmes: Practices, Avenues and Challenges

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Abstract

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).

This paper, exploratory in nature, attempts to provide a conceptual overview of Loyalty in organized retail sector, outlines practices of grocery retail outlets in Ahmedabad, the largest city in the state of Gujarat and the seventh-largest urban agglomeration in India, with a population of 56 lakhs (5.6 million). It also throws light on consumer expectations, perceptions and problems faced through indepth exploration. Based on literature review and environment in India, an emerging economy, it attempts to predict future of such programmes specifically in Indian organised retail sector and discusses managerial challenges of managing loyalty programmes and provides agenda for future research directions.

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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 efforts¹. (Yuping Liu, 2007). Modern retailers supplement traditional competitive initiatives like stocking national & international famous brands, providing customer service, competitive price, wide merchandise range, product promotions and location, through loyalty schemes.

This paper attempts to provide a conceptual overview of Loyalty in organized retail sector, outlines practices of grocery retail outlets in Ahmedabad, the largest city in the state of Gujarat and the seventh-largest urban agglomeration in India, with a population of 56 lakhs (5.6 million), outlines future outlook and research agenda, and points out managerial challenges of managing loyalty programmes specifically in grocery sector.

Definition:

“Loyalty Programme” can be defined as a programme that allows consumers to accumulate free rewards when they make repeated purchases with a firm².(Yuping Liu, 2007).

Oliver (1999)³ 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.” According to four stage loyalty model proposed by Oliver, loyalty consists of belief, affect, intentions and action. It is implied that loyalty develops over time and consumer moves through the above four stages. At the first stage which is cognitive, loyalty is determined by the information about the offer i.e. price and quality. It is largely influenced by consumer’s evaluative response of the value perceived of an offer-a loyalty programme. The second stage which is affective loyalty, relates to a favourable attitude towards an object. Based on value perception and experience, the consumer develops feelings resulting into like or dislike. Conative loyalty which is the third stage, implies that attitudinal loyalty must lead to a desire to intend an action e.g. revisit the store, repurchase a brand. Once intentions transform into action, it results into action loyalty. The previous three stages may result in a readiness to act. This readiness is accompanied by consumer’s willingness to search for the favourite offering despite considerable effort necessary to do so.

Jacoby⁴ 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)⁵ 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 restrict defection. Knox & Maclan (1998)⁶ 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.⁷

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.

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.

Evolution of Loyalty Programmes

It is believed that in mid 1800s, co-operatives pioneered this concept.⁸ 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 US⁹, 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.

In UK, 92% of UK consumers participated in a loyalty program of which 72% were members of 2 or more programs. According to a study by Byrom et al. (2001)¹⁰, there were 150 schemes in operation resulting in the circulation of more than 40 million cards.

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.

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 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.¹¹

Benefits to the firm:

Loyalty programs yield benefits¹² 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)¹³. 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 groups. Long term relationships can be built through such programs.

Benefits to Consumers:

Consumers benefit 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 participation¹⁴.

Types of Loyalty Programmes

Berry Berman (2006)¹⁵ has provided a typology of loyalty programs as shown in Table-1 below based on characteristics of the programme. As seen from the Table-1, in case of Type IV programs, it is possible to offer individual members a specialized, personalized communications, promotions and rewards based on their purchase history and preferences. Such programmes go beyond offering discounts based on past purchase history and try to establish an emotional connect which in turn generate loyal behaviour. The firm's commitment in Type IV program is quite high and such programs form an important element of their marketing strategy. They have a good database and through data mining abilities offer complex reward and communication programs. Advancements in technology have facilitated development of more sophisticated loyalty/reward programmes. (Shugan 2004).¹⁶

Dick & Basu (1996)¹⁷ have categorized loyalty in four different types based on preferences and the level of patronage (repeat purchase) observed through the data. He suggests that consumers may demonstrate **spurious loyalty** if they show high repeat patronage but low preference; **latent loyalty** wherein there is low repeat patronage but high preference; **sustainable loyalty** if there is high repeat patronage and high preference and no loyalty, if there is low repeat patronage and low preference.

As the firm builds a relationship with the customer he moves from being a prospect to finally a stage where he advocates to others. This may be in the context of a brand or a store. The key to move a customer through these different stages is the ability of a loyalty programme to create a bond through reward structure which encourages him to stay loyal, get involved and strengthen the relationship.

Table-1: A Typology of Loyalty Program

<u>Program type</u>	<u>Characteristics of program</u>	<u>Example</u>
Type-I Members receive additional discount at register	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Membership open to all • No customer database linking purchases to specific customer 	Local car wash, Airport fastpark
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
Type-IV Members receive targeted offers and mailings	<ul style="list-style-type: none"> • Members divided into segments based on purchase history • Requires comprehensive database of demographics & purchase history 	Tesco

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

Database for Loyalty Programmes:

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 behaviour¹⁸. Thus, Product-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. Relevance of rewards to whom analysis can be performed by analyzing the preferences of different reward options. 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.

Before rushing into database of names & preferences, firms collecting data need to explore who else would be interested and hence may buy a database. Thus how to market such database to cover costs can be planned¹⁹. With careful & systematic planning, data can be converted into consumer knowledge embedded in business and organisational processes.

Data gathered through loyalty programmes can be put to use in the decision areas ranging from segmentation, corporate planning, store portfolio, brand management, merchandising, promotional and media activity, direct marketing, inventory management, pricing and store layout.

Consumer Behaviour and Loyalty:

Consumers show committed behaviour due to different types of utilities²⁰ perceived by them. Functional utility by looking at price/performance equation or perception of value observed in their dealings with the firm; symbolic utility-In case of premium brands, certain segments stay loyal to prestige brands/stores as it helps self concept projection, group identification and status. Price-led loyalty: Shoppers which are price sensitive always look for price as the determinant attribute leading to loyalty. Super markets, warehouse stores offer cheapest price as a critical value. Insensitivity to competitive offers: Once consumers commit themselves to a store, bond gets created which make them insensitive to competitive offers. The willingness to sign in any loyalty programme emanates from the requirements of personal data to participate in the programme; participation costs (if any); buying volume and frequency; exclusivity of the programme and participation efforts. As against these, programme rewards and duration of the programme are weighed. After careful consideration of the above factors²¹, consumers sign up such programmes and remain active. However, risk/value perception varies across different consumers. Research shows that some consumers may prefer promotional drives, while others may prefer hedonistic, functional & relational gratification²². Thus rewards which are economic, psychological and sociological in nature lead to greater trust, commitment and development of long term relations. They create an emotional bond leading to high & irreversible switching costs.

Even though loyalty programmes have various benefits, various aspects of programs trigger frustration sensations among consumers.²³ Thus if customers find the programme inaccessible, worthless, having a qualification barrier, redemption costs being too high, discriminating and having lack of focus, the frustration triggers. Such eventualities bring about outcomes like protest, avoidance, negative perceptions of the relationship with the firm and adverse word of mouth. While designing such program, a manager needs to consider above aspects to avoid such frustrations or at best negative word of mouth.

In order to develop, implement and control an effective Loyalty Program²⁴, following steps are suggested to be pursued:

1. Outline objectives of loyalty program. Objectives should be quantified as far as possible.

2. Develop budget so that top management agree to apportion budget to undertake the activities under the program.
3. Determine eligibility for program: Qualification criteria need to be decided upfront so that it becomes self sustaining and not a drain on bottom line.
4. Select rewards: Careful mix of rewards tangible and intangible, price cut and value added, experiential and aspirational; will ensure involvement of various consumers.
5. Explore partnerships with others so that costs can be shared.
6. Build an appropriate organization to carry out administration of the program. Dedicated/sustaining efforts will bring results which may not be very evident in short term.
7. Plan for development, maintenance and possible marketing of database to share its costs.
8. Plan for managing data warehouse & data mining capacity either internally or through outsourcing.
9. Monitoring: Evaluate success or failure of a program once launched.
10. Take corrective action.

Elements contributing value to loyalty scheme are its cash value in terms of how much the reward represents as a proportion of spend, choice of redemption options or range of rewards, aspirational value i.e. rewards fulfilling aspirations/ambitions of consumer, relevance of rewards to target customers i.e. extent to which rewards are relevant/achievable/attainable, and convenience (ease of participation)-ease of qualification criteria and effort levels.²⁵ For developing the loyalty strategy following elements may be considered.²⁶

1. Build a superior customer value proposition
2. Find the right customers
3. Earn customer loyalty
4. Find the right employees
5. Earn employee loyalty
6. Gain cost advantage through superior productivity
7. Find the right investors
8. Earn investor loyalty

Loyalty Cards

Loyalty cards are the easiest and cheap ways for running the loyalty programme. Its applications are most common in retailing. Specially coded credit/debit cards or other special scanner-readable cards are issued which are “swiped” at point of sale. It is a “mechanism for identifying and rewarding loyal customers”.²⁷ They resemble to debit and credit cards of banks yielding credibility and value. They are durable, cheap and versatile. Card are of various types: point cards, coalition/multi retailer cards, co-branded cards, store cards etc. Loyalty card scheme operates by awarding points according to customer spend on each transaction. These points are used for giving discounts for future/current purchase at store where earned, Gifts, member-only deals, rebates at some threshold level of spending and /or eligibility to participate in lucky draw, contests.

Rewards

The rewards attached to a loyalty programme may be categorized into tangible and intangible rewards²⁸. Some of the tangible rewards are personal tangibles like gifts, utilitarian tangibles like household appliances, and amusement tangibles like music system, video game or economic rewards like discounts. Intangible rewards may vary in the form of CSR (corporate social responsibility activities), amusement intangibles like invitation to a music, fashion show, free packaged tours, information in the form of news letters, leisure related services like boating, golf, exclusive preview of new items or ecological activities like preserve wild life, no to plastics campaign etc.

Practices of Loyalty Card Schemes in Indian Retail Grocery Sector:

Organised retailing contributes 2% to the total Indian retail sector and expected to increase to 5%, by 2010. Retail sector forms 10-11% of GDP³. It is attractive in terms of investment, employment opportunity, and usage of technology. Indian organised retail industry was worth Rs. 13,000 crore in the year 2000 and grew by 30 per cent in the next

³ Retail Management: Text and Cases, Piyush Kumar Sinha and Dwarika Prasad Uniyal, Oxford University Press, 2008.

five years touching Rs. 45,000 crore in 2005.⁴ Food and personal care amounted to Rs. 1000 crore in 2000.

Grocery retail poses peculiar challenges for running loyalty card programme. With the advent of organized retail at least in urban areas more and more stores are opened which slowly take away clients from traditional neighborhood provision stores. However most studies indicate that organized retail in grocery sector form only small share of wallet of a consumer. Proximity, need for frequent purchase, limited carrying capacity as most middle class urban households own two wheelers in India, time pressures, home delivery, credit and personal relations offered by traditional outlets; are the reasons which inhibit larger portion of consumer spend on such organized retail stores. Thus in an environment which is constantly on flux, various stores like Big Bazaar, Star Bazaar, Subhiksha, Reliance Fresh, More have launched loyalty card programmes to encourage customers to stay loyal to the store and spend more portion of their requirements. The risk associated with the purchase of grocery items is less compared to durable goods, there is tendency of variety seeking behaviour on the part of consumer and short inter purchase cycle exhibit unique challenges for such loyalty programmes.

In order to study practices of loyalty card programs of grocery retailers, 7 retailers namely Reliance fresh, Star Bazaar, Food Bazaar of Big Bazaar, More, Subhiksha, Vishal Megamart and India Bulls (True Mart earlier) were studied by contacting the store managers in Ahmedabad market. Literature about the card was compiled. **Table – 2** gives comparison of card schemes of these different players on various dimensions such as name of the loyalty program, card type, card characteristics, communication and positioning, benefits/rewards, loyalty card membership and % of sales by loyalty card members(whenever available).

Interactions with card holders provided insights into their perceptions about the scheme. These interactions were informal and conducted in depth outside each store. Loyalty card holders were probed about expectations of the benefits of the cards, whether membership leads to greater share of their wallet, advocacy and unplanned purchase, their experience so far and problems faced.

⁴ <http://www.indiainbusiness.nic.in/india-profile/ser-retail.html>

Dimension	Reliance Fresh	More	Star Bazaar	Food Bazaar	Trumart (India Bulls)	Subhiksha	Vishal Mega mart
Name of LP	Reliance One	Club More	Star Power Rewards Program	4 diff. cards, silver and gold ICICI-Big Bazaar card, Shakti and Future card	Card-no name(taken over by India bulls)	Subhiksham card	Maha meetha offer
Card Type	Card with a bar code & a magnetic strip	Loyalty paper card	Co branded with HSBC	Co-branded with ICICI	Loyalty paper card	Simple card	co-branded with SBI
Card Characteristics	Prepaid facility; no documents, paper card no minimum purchase required	Issued to everyone- no minimum purchase criteria, lifetime	Rs.500 minimum purchase to get the card, card with magnetic strip receipt & 2 photos, photo i.d., resident proof, phone no.(mobile)	Rs. 1500 purchase in single transaction	Rs. 250 worth of minimum purchase	No minimum purchase requirement, no point system	Issued to anyone who requests
Communication	World class shopping experience, LP programme 'beyond just rewards'	More-quality, variety, convenience & value; great shopping experience	Booklet given explaining terms & conditions, leaflets distributed from the counter outside the store Card packed with features designed to suit your lifestyle & tastes	In-store counter distributing card & leaflets	NA	Bachat mera adhikar	Manufacturing to retailing, international quality goods at prices hard to match by competitors
Positioning		Neighbourhood supermarket	Hyper market, variety, value for money	Isase sasta aur kanha?	Neighbourhood store	EDLP-neighbourhood store, simple ambience	hypermarket

Dimension	Reliance Reliance Fresh	More	Star Bazaar	Food Bazaar	Trumart (India Bulls)	Subhiksha	Vishal Mega mart
Benefits/rewards	Custom made deals, bonus points accruals, add-on cards for family members, free home delivery, shop-onhome, cash-off vouchers, preview of promotions, event invitations every 100Rs spent, earning of 1 point, specific purchases, earning of bonus points, minimum 25 points to be accrued to start redemption, validity for reward points-2years	No discounts, price-offs ,privileges or preferential treatment Gifts- not being sold at outlet, no choice (juicer, mixer, grinder etc.)- make them feel special, delighted- Gifts Every 10Rs. Spent, 1 point awarded	Rs. 51 coupon for the purchase worth Rs.1000,credit of 1 month for payment, no other benefits, 48 days of free credit- Future discount(coupons-5%)	4 point per Rs. 100,EMI facility with no charge, priority payment counters for card holders, special preview day during annual sale, Shakti & future card holders slightly different terms & benefits/ Point system: points can be converted into vouchers for purchase at big bazaar, insurance cover	Point system,home delivery,credit Future discounts	Lucky draw every month & winner gets entire last month purchase free, special discounts/offers, telephone order taking & home delivery Future discounts.	11kg sugar free throughout year,Rs. 250 discount voucher, 8 reward points for Rs 100 spend,credit-Point system, gifts, discounts,credit
Membership	2.5 million members	Drive-in outlet:7000members	N.A.	N.A.	60% card holders of current clientele	N.A.	N.A.
% to total sales by LP holders	37%	N.A.	N.A.	N.A.	20% of total sales from card members expected	N.A.	N.A.

Dimension	Reliance Reliance Fresh	More	Star Bazaar	Food Bazaar	Trumart (India Bulls)	Subhiksha	Vishal Mega mart
%of grocery requirement at given store	50-75% of grocery requirement purchased by card holders,	Majority of card holders spend 25-75% requirement	80% spend 25-50% of grocery requirements at	70% spend 0-25% of grocery requirement	30% spend 50-75% of grocery requirements	25-50% of grocery requirement bought by majority of card holders	Majority spend 25-50% of grocery requirements
Consumer perceptions	Location convenient, cost saving, good ambience, benefits expected: gifts, vouchers, greater discount;	expect to get additional discounts, helps to buy more, frequent visits,	80% expect discounts, 20% gifts & credit	Majority expect discounts & not perceive credit as important benefit, able to reduce their grocery expenditure	Feeling of belongingness, benefits expected – special discounts	Expect special discounts, perceive greater benefits than non card holders	Useful, beneficial, motivating
Agreement	on gaining more benefits than noncard holders, strengthens loyalty, motivates to frequently visit, recommend to friends & relatives	More benefits than non card holders,new members attracted	Majority would stay loyal, but believe that does not lead them to buy more or more frequently, but would recommend ,fully aware of benefits , perceived as simple ,symbol of fun & enhanced image,”smart’	90% agree that having a card leads to buy more, recommend, fully aware of benefits & get more than non card holders	Agree that card makes them Feel important & wealthy, helps patronize, frequent visits, planned purchase	Not a novelty, willingness to go at distant place to avail benefits of card	Share of wallet, advocacy, sugar gift liked by everyone-useful household gift
Disagreement	Card as novelty, fully aware of benfits, willingness to travel far		Novelty factor, ‘buy things beyond budget’,gives status,fully understand terms & conditions, face difficulties	Willingness to travel, buying beyond budget,”to appear cool & fashionable,important & in control” awaress about terms	Disagree to travel to avail benefits, fully aware about benefits	Card does not make me buy more, visit more frequently, increase sense of belonging	Card as novelty & status, to appear cool & fashionable

Findings:

Lack of communication at front end: Interactions with the operational staff mainly at the check-out counters revealed that they were not fully aware of the details of the programme such as point system and commensurate rewards. Operational staff was unaware about, how information which was collected at point of sale was compiled and analysed. Typically all this information would be collated at head quarter level and analysed to formulate future strategies. Interactions with store personnel as well as consumers revealed that they were not fully aware about the role of each party in case of co-branded cards. Thus communication about full details of the programme was lacking at front end.

Varied terms and conditions for issuance of cards: Reliance Fresh permanent card was sophisticated with magnetic strip and bar code. But initially it issued a paper card and based on threshold accumulation of points (not known to most card –holders) such a lifetime card was issued which was valid at all kinds of Reliance outlets. ‘More’ also had a paper card. This probably may give impression of a half hearted approach/ or lack of long term commitment to loyalty programme. 4 out of 7 cards of More, Relaince Fresh paper card, Subheeksha and Vishal Mega Mart are issued to everyone as there are no conditions for minimum purchase requirements. Thus with one visit to the store & purchase of any amount would permit anyone to get the card.

Rewards: Star Bazaar and Vishal Mega Mart loyalty cards are rewarding in terms of future discount for the purchase at the store, Subhiksha’s card has an element of excitement by offering a lucky draw every month but no discount vouchers whereas other cards are offering beyond just future discount; like special preview, invitation to special event etc thereby creating an emotional bond with loyal customers. More has a gift system wherein customers cannot exercise their choice for gifts. Gifts are not that innovative hence not that attractive to a housewife. Comparison of types of rewards across stores indicate lack of innovativeness. Irrelevant reward offerings across the board results in some members ignoring and remaining inactive, and at times either adverse word of mouth or does not trigger buzz.

Expectations of rewards: Card holders revealed that they expected discounts as reward for loyalty. Only few expected benefits beyond future discounts.

Proportion of grocery spend: Card holders indicated that they were buying 25-50% of their grocery spends from their chosen stores which exhibit good scope for the outlets to encourage them to spend more.

Involvement and commitment: Lack of involvement and commitment was evident from the fact that majority of them believed that having a card did not result in to the increase in share of wallet, make them purchase more or make unplanned, impulsive purchases. Such a response could be due to giving a socially accepted answer & portraying self not as weak to be lured by gimmicks! Loyalty card as novelty was denied by majority of respondents.

A study²⁹ by Lars Meyer-Waarden indicates that multiple loyalty card memberships of geographically close retailers reduce lifetime duration. Furthermore, the higher the share of consumer expenditures in a store, the longer is the lifetime duration for that store. With the growing number of neighbourhood stores it may be expected that consumers with multiple loyalty cards may show signs of split loyalty .Proximity- distance to be traveled will ultimately determine long term loyalty/relationship. Loyalty programs do not substantially change market structures when all companies have loyalty programs. Perceptions of store managers reveal that at least loyalty Programme helps reduce defection helps strengthen loyalty towards store. It was found that all card holders had more than one card. This probably corroborated the fact that it was no longer a novelty, and it did not result in buying more or visiting the store often!

Problems faced by cardholders: The only problem card holder stated was that they needed to carry every time they visit the store. If different members of the family visits and forget to carry card then they may lose reward for that occasion. One frequent shopper denied to sign up loyalty card programme as he feared encroachment to personal details as store can track his behaviour and denied to give his mobile number as he may receive unwanted SMS and calls once he signs such programme. Lack of literature explaining in full the benefits of the programmes also gave some amount of distrust among a few cardholders particularly among dual partners of the programmes. Few non card holders perceived loyalty card as invasion of privacy.

Perceptions: Among card holders the perception of value enhancement did prevail and feeling of getting something more than non-members. This was based on the fact that the card holders felt that they received economic benefits in terms of free gifts, additional future discounts etc. and psychological benefit of fruitful association.

Lack of targeted communications: It can be inferred from the study that currently the firms are following Type I and Type II programme, as the communications were not found to be customized for loyalty card members. Except for special invitation for a preview, no efforts were made to target different segments with different messages. With the database available, there exists potential to identify different segments and based on their preferences for rewards, customized strategies can be employed to activate them. Bombarding of communication across the board without customizing may result in wastage and inactivity by few members. Even though lot of potential does exist to mine the data and customize rewards, lack of managerial time, lack of investment in technology limits the use such rich data to the fullest. The volume of data available at point of sale is so huge that unless powerful hardware and software is used analysis is not possible in real time.

Discussion

Managers need to exploit potential for segmentation within loyalty program, the strength and drivers of differences among segments.³⁰ Careful basket analysis and matching purchases with other demographic and psychographic data may yield different segments which can be catered differently by varied reward structure most appealing to them.

In order to make loyalty programmes effective, managers need to design rewards in such a way to provide combination of tangible and soft rewards. They should provide emotionally engaging experience during redemption process. The success of a loyalty programme will depend on improving the perceived value of the rewards offered. Possibility of obtaining a reward should not be so remote that a consumer loses interest in the programme. Effort levels required to participate in the programme should be commensurate with the rewards. Perceptions of reasonableness and fairness should prevail.

Top management commitment is a necessary prerequisite for any program's success. Both financial and philosophical commitment by top management provides constant motivation for those who are managing such programmes. Loyalty programme needs to be viewed as a business strategy which requires long term commitment. Investments made will reap benefits only in the long run. Technological and managerial support both are needed to make the programme successful.

Knowing expectation of customers will help in establishing long-term bonds and enhancing value of the programs. Stores need to tie an emotional bond, an affiliation so that consumer expectations move away from price and discounts. This again reinforces the fact that in order to differentiate the loyalty programme and create a bond so that loyal customers do not defect, rewards need to be carefully planned.

Operationalisation of loyalty program should consider long term strategic perspective. It is advocated that transaction oriented and promotion oriented perspective will be tactical in nature and not yield desired outcome. Clear, unambiguous design and one to one communication is desirable to create an attitudinal loyalty. Rewards should be commensurate with the efforts and relevant to target audience. Members should perceive the program to be fair and not too discriminatory.

Stone et al. (2004)³¹ quote an IBM study of retailers which found that technical obstacles were the main challenge faced. Outdated point-of-sale (POS) systems, competing organizational priorities and budget constraints were the challenges for improving shopping experience. In food retailing, convenient location is a stronger motivation for consumers to develop loyalty. Hence, strategies designed to encourage repeat purchase behaviour is more beneficial to a store than costly, interactive, relational strategies. Continual reassurance and frequent comparison may be required to ensure customer satisfaction and in turn loyalty. Thus a manager needs to be vigilant about competitive offers and has to strive for offering greater value to loyal customers. The volume of transactions particularly in food and grocery retailing is such which inhibits continuous analysis. Managing day to day operations and

trouble shooting leaves little time for a manager to focus on understanding the data compiled and device strategies.

In India, employee turnover in retailing sector is a perennial problem which results in high training costs. On a shop floor the imperfect knowledge about any promotional scheme results in customer dissatisfaction which in turn affects loyalty to a particular retail store. The manager confronts challenges like retaining, motivating and educating retail employees about the loyalty card schemes. It has been observed that managers find difficulty in assessing long term impact of loyalty program on profits. Few indicators like level of take-up among customers, redemption rates, level of dialogue with customers, longevity of programme, contribution to co.'s knowledge base, ability of the program to segment its customers may help assess its impact.

Proper estimation of costs of loyalty programme particularly the costs of managing the database and costs of rewards allows correct estimation of ROI of loyalty efforts. Managers need to innovatively build trust by building consistent store image, providing hedonic values, developing symbolic cues which are culturally meaningful, cultivating ethical problem solving culture, transparency in awarding points, clarity in communications and building on clear return policy. This would insulate a shopper from store switching behaviour and reinforce patronage intentions.

In developed world³², 25 years of loyalty marketing have turned it to be the strategic marketing activities. The outcome of these strategies are: ever sophisticated value propositions, databases, analytical models, dialogue campaigns, virtual communities that have helped turn promiscuous customers into advocates. In modern parity era, brands need to build profitable customer relationships which will focus on life time value of customer. As today's consumer is more discerning and a value seeker, it is a challenge for a marketer to build superior value through such programs. Enabling technologies like chip based smart cards, RFID, real time point of sale, world wide web, third generation of loyalty 'rule engines'-biometrics, wireless e-tags, PSAs (personal shopping assistants) have evolved and provided technical support to such strategies. In many sectors, coalition programs have been

more advantageous. In order to attract consumers to its loyalty program it is considered that the program should have wow factor; something which is so attractive and lucrative that consumer does not want to give away. This gives a very strong reason to stay loyal and advocate. Analysis is the key to success to the performance of the programme. However with proliferation of loyalty cards it is expected that too many me-too cards may result in lack of its novel appeal. Rewards may not appeal to loyalty card holders they may refuse to carry them while shopping and may show split loyalty. Convenience particularly in grocery sector may be an overriding factor than loyalty. Consumers may refuse a loyalty card on following grounds: Already too many cards hence refuse to sign a new loyalty card programme, credit related factors; some consumers particularly in India prefer cash transactions, inconvenience in completion of forms- and hassle to remember to carry, some may be suspicious about tracking of their information/ behaviour and fear of misuse of data, perception of a gimmick, seemingly with no perceived benefit.

Firms trying to win loyalty of their customers evolve innovative strategies to create various switching barriers³³ viz. economic (trying to lure customers by attractive discounts or gifts), psychological (by arousing sense of belonging due to preferential treatment), social (by inviting to special previews) and relational;(by nurturing community feelings). India, an emerging market both for organized retail as well as loyalty programs is witnessing promotion led environment in many product markets, growing competition and emergence of loyalty card programmes. I-mint one of the pioneer coalition loyalty programme is operational having partners from banking, petroleum, travel and many other sectors. With growing programmes in various sectors it will be a challenge for a manager to constantly evolve a programme which is engaging enough to hold loyal customers and is able to extract more value from them. It is hoped that organizations which build strategies to foster and reward continued patronage from existing customers gain competitive advantage and are able to withhold severe existing and emerging competition.

Future Research Agenda

The present study being exploratory in nature throws up several interesting research questions which can be taken up by future studies. How to measure impact of loyalty card holders? What are the preferences with respect to rewards and do they differ across gender and other demographic and lifestyle variables? Is it possible to replicate/ scale up success of programme in one store to other stores in a chain of stores? What strategies need to be employed to activate loyalty card members? Should loyalty programmes be different for Metros and non metros or single/stand alone store or a multiproduct/ multiformat store or emerging and developed economy? With the evolutionary nature of Indian retail industry, the role of loyalty programmes needs to be evaluated, especially when players have already got involved in high promotion led warfare.

Endnotes

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