

Are Customer Loyalty Programs Really Effective?

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ABSTRACT: Customer Loyalty is the buzz word nowadays. Lot of companies invest a lot in development of these schemes with a desire to beat the competition. But the preliminary studies show that most of these programs end up in being quite generic in nature offering similar content. Now the question arises whether customers give due weightage to loyalty programs and cards or they take this as just another gimmick. A descriptive study with a set of 5 measures was undertaken on a sample of adult shoppers from selected leading retail outlets. The study tried to work on perception of customers and figure around the question that whether they affect the buying behaviour or not. By testing the hypothesis we get clear evidence that there is a significant relation between customer loyalty and purchasing behaviour. In retail industry where there is intense competition it is being observed that shopping experience and loyalty are directly related but there is an interesting contradiction also witnessed here that customers patronize multiple stores. Loyalty scheme here plays a critical role in getting back the customers and staying them in contention as a part of invoked set.

KEYWORDS: Loyalty, Customer Relationship Management, Consumer Behaviour, Purchase Decision, Buying Behaviour, Indian Retail

INTRODUCTION

Most loyalty programs are managed as though they were just a valued part of the corporate marketing mix. Most of them offer a standardized 'take it or leave it' proposition. Every customer gets the same benefits at the same tier-level of the program, irrespective of their needs. These programs slowly became a platform over which sellers can offer their wares to members (usually with points for buying too) and buyers can search for products (and can pay with their accumulated points too). Loyalty programs are under attack from all sides. Some of the most vehement attackers are customer-centrists who think they are not customer-centric enough they do have a point. All programs base the valuation of members on their expected future behaviour. Their past behaviour is just seen as a predictive guide to the future. But most customers base their own valuation on the length and volume of business with the company in the past, not on what they expect to do in the future. The success of the loyalty program lies in providing customers with specific rewards. The intention is to reward loyal, frequent buyers more often. The distinction is made between good and bad customers with the aid of behavior registration (Peelen, 2005). As articulated by Reichheld and Saaser (1990) and Reichheld and Teal (1996), loyal customers enable firms to generate more profit over time because of various reasons; increased purchases, reduced operating costs and increased profit margin. As competition intensified during the current economic crisis, many firms are developing or improving their loyalty programs to deter customers from defecting to their competitors (Ho, Huang, Huang, Lee, Rosten & Thang, 2009). Question arises here that Customer Loyalty Programs really shows positive effect on consumer purchasing behaviour or not, is it a fusion for the shopkeepers construed both as related to store patronage dimensions (repeat purchase over time indicates loyalty Rey? Though much work has been done there is still no clear conceptualization of what store loyalty means. It has been olds, Darden, Martin p 76), as related to attitudes (brand loyalty is an attitude which may result in a purchase behavior" (Tidwell and Horgan, 1992).

Customer loyalty is defined as a program that allows consumers to accumulate free rewards when they make repeated purchases with a firm. Such a program rarely benefits consumers in one purchase but is intended to foster customer loyalty over time. is viewed as the strength of the relationship between an individual's relative attitude and repeat patronage. The relationship is mediated by social norms and situational factors. An important issue in Dutch retail planning practice is prediction of the likely impacts of new retail developments on consumer demand and assessment of the feasibility of new projects. In practice, a planning team has to decide which retail plan out of a number of alternative plans has to be implemented. A decision support system for retail planning can facilitate this decision. (Aloys Borgers, 1991)

Whether you own a mom and pop corner shop or a worldwide software consultancy, customer loyalty is very valuable to you. Customer loyalty can be loosely defined as the predisposition of any given customer to purchase your goods or services over comparable ones available in the marketplace. When speaking of products (rather than services or the broader classification which includes both) it is often referred to as "brand loyalty." Investing time and energy in promoting customer loyalty should be an integral component of any business' marketing strategy. Dynamic hazard model is estimated to obtain an understanding of the components influencing consumer purchase timing, store choice, and the competitive dynamics of retail competition. The hazard model is combined with an internal market structure analysis using a generalized factor analytic structure. We estimate a latent structure that is both store and store chain specific. This allows us to study store competition at the store chain level such as competition based on price such as EDLP versus a Hi-Lo pricing strategy and competition specific to a store due to differences in location. (Timmermansc, 2000) When business people think of "marketing" in general, they tend to focus on activities targeted at attracting new customers. While expanding your business' customer base is a crucial undertaking which you must work towards with clearly defined goals, the importance of retaining existing customers mustn't be overlooked. Working toward promoting customer loyalty (or brand loyalty) is critical to your goal for many reasons. A few of the most important reasons why customer loyalty is important are outlined below.

In the organized retailing, the food & grocery segment stood as the second largest contributor with revenues aggregating Rs.24, 273 crore during the same period. However, the organized retail penetration of other segments such as clothing & footwear, entertainment & books and furniture & furnishing surpassed that of the food & grocery segment. The Indian retail industry has witnessed rampant growth over the last decade. In spite of the said challenges, CARE Research expects the Indian retail industry to grow on the backdrop of expectant rise in the country's Gross Domestic Product (GDP) during the period FY11-FY13. The rise in income level of the Indian populace, in turn, is expected to fuel the domestic consumption ultimately resulting in higher revenues for the Indian retailers. Importantly, CARE Research expects the penetration of organized retail in the total retail pie to increase by FY13 owing to the expanding reach of the retailers to tier-II & III cities accompanied by higher consumer spend on discretionary items.

LITERATURE REVIEW

Several studies have been performed to understand the Customer Relationship through the Loyalty programs, their Pros and cons, their affects and effects on consumer buying behaviour. Marketing program designed to enhance brand loyalty by cultivating an on-going relationship between a marketer and his customer. Loyalty program tactics also include regular communication with customers such as reminder mailings, co-branding cards, cross-sell and up-sell offers, satisfaction and opinion surveys, and collection of information for member databases.

This project also includes retaining current customers as well as collecting better data on customer behaviour's. A good loyalty program can create a buzz resulting in sale and customer growth as well as profit maximization. Researches have been conducted by several companies to understand the effects of loyalty programs on customers and their role in building good relationship with customers. Peppers and Rogers (1993) stated that to build relationships with the customers, you need to sell maximum products over a long period of time and across different product lines. Loyalty programs which seek to bond customers to an organization or its products and services by offering an additional incentive pose an interesting dilemma for many organizations. Although these schemes often attract widespread customer interest, they are difficult to support from first principles.

One of the prominent authors, Byron and Anne Sharp (1997), evaluated the effect of a loyalty program in terms of its ability to alter normal repeat purchase patterns and move a brand into an excess loyalty position. In doing so they imitate the work of and extend research by examining an almost identical loyalty program but in more promotion sensitive market and where disciplinary price promotion ran in competition to the loyalty program. The loyalty program appeared to insulate the loyalty program brand from the effect of the promotion. Loyalty programs help to create an emotional bonding, thereby resulting in a lifelong customer relationship. They have gained immense popularity in the past decade. This is mainly due to the culture of entitlement, wherein the customers believe that they deserve a special treatment over the normal visitors due to their frequency in visiting the retailer. Retailers have learnt to smartly capitalize this attitude of the customers through their creative thoughts. It might cost them a little, but brings forth goodwill, and ultimately resulting in the long term relationship with them. They are now a key to revenue growth of any business. The difference in strength of impact suggests that brand and price differentiation have a strong influence on the impact of loyalty programs.

Claire Wright, Leigh Sparks (1999), drew that the creation of retail loyalty schemes has been one of the most marked features of retail marketing. Customer loyalty has become a strategic approach to improving shareholder value through development of appropriate relationships with key customers and customer segments. Proponents tend to focus on the psychological bonding that comes from membership (a customer benefit) and the enhanced customer insights that can be gained from analysing the programme database, Lars Meyer-Waarden and Christophe Benavent (2006) stated retailers are often torn between the need to stimulate customer loyalty and well established promotional techniques, which encourage customers to switch between different shops and brands. In this context, many companies view loyalty programmes as fundamental and use defensive marketing strategies to retain customers. These are based on the double conviction that holding onto customers is less expensive than acquiring new ones and that the best customers are the most profitable as core business is made up of loyal customers. According to researcher, Mark D. Grahame Dowling (2003) observed that customer loyalty presents a paradox. Many see it as primarily an attitude based phenomenon that can be influenced significantly by customer relationship management initiatives such as increasingly popular loyalty and affinity programs.

However empirical research shows that loyalty in competitive repeat purchase markets is shaped more by passive acceptance of brands than by strongly held attitudes about them. From this perspective the demand enhancing potential of loyalty programs is more limited than might be hoped. Michael Lewis (2004) find out that despite the explosion of loyalty programs in a wide range of categories there is little empirical research that focuses on measurement of such programs. The key to measure the influence of loyalty programs is that they operate as dynamic incentive schemes by providing benefits based on cumulative buying over time. As such loyalty programs encourage consumers to shift from myopic or single period decision making to multi period decision making, Smith Andrew and Sparks Leigh (2009)]wrote that retail loyalty schemes are operationalised through the use of a consumer identification mechanism, often a 'loyalty' card.

However, consumer card usage itself is highly variable. The emphasis in most retail loyalty schemes would seem to be on developing an ongoing or long-term relationship, with an expectation that redemption will occur and that redemption behaviour reinforces this relationship (or involvement) over time. Loyalty programs have become an important component of firms' relationship management strategies. There are now some industries in which numerous rival loyalty programs are offered, inducing intense competition among these programs. However, existing research on loyalty programs has often studied such programs in a non-competitive setting and has often focused on a single program in isolation.

Addressing this gap, this research examines the effect of a firm's competitive positioning and market saturation on the performance of the firm's loyalty program. Based on the analysis of firm- and individual-level data from the airline industry, the results indicate that larger firms tend to benefit more from their loyalty program offerings than smaller firms. Moreover, when the product category demand is rigid, the impact of an individual loyalty program decreases as the marketplace becomes more saturated with competing programs. However, when the product category is highly expandable, the saturation effect disappears. Under such situations, loyalty programs can help an industry gain competitive advantage over substitute offerings outside the industry, and multiple programs can effectively coexist even under a high level of market saturation. Loyalty programs are often considered value-sharing instruments and can enhance consumers' perceptions of what a firm has to offer. Lui Yuping (2007) found out the long term impact of loyalty programs on consumer purchase and loyalty. The study found out that consumers who were heavy buyers at the beginning of a loyalty program were most likely to claim their qualified rewards, but the program did not prompt them to change their purchase behaviour. In contrast consumers whose initial patronage levels were low or moderate gradually purchased more and became more loyal. For light buyers loyalty program broadened their relationship with the firm into other business areas.

Shirshendu Ganguli and B Vinoth Kumar (2009) drew that Customers are either satisfied or dissatisfied from the experience of their product or service usage, and this experience becomes the measure of satisfaction in their minds. For the purpose of this study, the variables considered for measuring customer satisfaction and loyalty are divided into three parts: overall satisfaction from usage of the service; repeat buying intention; and recommendation of service to others. The last two variables (repeat buying intention and recommendation) are considered as measures of customer loyalty.

Research Objective

1. Do loyalty programs generate true loyalty or just behaviour that looks like loyalty?
2. To study the increasing awareness level of Customer Loyalty program

Methodology

This study used a descriptive survey design. A thorough review of literature was conducted before selecting the topic of the study. In this study, we focused on exploring an understanding of customer loyalty and its effectiveness.

3.1 Instrument

A set of 5 measures were selected for the study after going through the literature. A structured questionnaire was constructed utilizing these measures with appropriate instructions for each section of the questionnaire for the collection of data on the study. The questionnaire was specifically designed to accomplish the objectives of the study. This section collected information such as usage, advantages sought after, benefits used. To assess the validity of the questionnaire, expert judgment method was applied. So, the developed questionnaire, along with explanations regarding terms and concepts were presented to five university professors, five managers each from the two organizations.

The questionnaire consisted of 16 items in which the perception of the participants is central. There were multi scaling used to analyses different questions. Data is suitable for the further study and after study it has been explore that there is the need of comparing of the mean in this study.

3.2 Sampling

The target populations of the study were 1200 from selected retail outlets belonging to a variety of demographics with ages ranging between 17 -50 years. However the total numbers of completely filled questionnaires were 300.

Convenient sampling used while study where researcher connect many people for their responses. Data has been collected from the major malls present in four metropolitan cities like Delhi, Kolkata, Mumbai and Chennai in India. Total number of structured questionnaire was 1200. Out of 1200 questionnaire, 700 returned by the respondent and then researcher started editing of the questionnaire and 540 questionnaire where filled in all aspects. Out of 540questionnaire, researcher randomly selected 300 for the further analysis.

Data Analysis:

On the basis of structured questionnaire, collected data would be analyzed with the suitable methods. Here in this case we need comparison of the mean in a sequence for the result extractions. Value of correlation is also required in that case and we can analyze it with the quantitative methodology. Two-Sample t-Test The two-sample (independent groups) t-test is used to determine whether the unknown means of two populations like true loyalty or only behavioral loyalty are different from each other based on independent samples from each population. If the two-sample means are sufficiently different from each other, then the population means are declared to be different. In an experiment designed to use the two-sample t-test, where compare means from a quantitative variable such as loyalty of the customers and level of the awareness. In other words, it should make sense to calculate the mean of the awareness and customer loyalty.

P value and statistical significance

The Two-tailed P value must be less than 0.500. By conventional criteria, this difference is considered statistically significant. Therefore, our P-value is less than 0.05 in this case; we reject our null hypothesis and accept our alternative hypothesis.

So, further it is clear that researcher may use t-test analysis for the data interpretation.

Hypothesis 1: There is a countable effect of customer loyalty program on the increasing effect on purchasing behavior of the customers.

H0: Customer Loyalty Program has no positive increasing effect on purchasing behaviour of customer.

H1: Customer Loyalty Program has positive increasing effect on purchasing behaviour of customer.

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Program & Behaviour	300	0.065	0.054

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Program & Behaviour	1.2198	300	0.14325	0.08213
		1.0214	300	0.21653	0.07176

Assume Alpha (α) = 0.05 (level of significance)

Calculated Value of t = 4.394

Probable Value (p) = 0.0239

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 1	Program & Behaviour	0.1984	0.25443	0.02133	0.11404	0.22151	4.394	299	0.0239

Interpretation:

Here the calculated value of p 0.0239 is less than the stander value of α which is .050.

Therefore researcher is failing to accept the **null hypothesis (H0)**.

Hypothesis2. Customer awareness programs reciprocate the loyalty of Customers.

H0: Customer awareness Program has no positive increasing effect on loyalty of customer.

H1: Customer awareness Program has positive increasing effect on loyalty of customer.

Paired Samples Correlations

		N	Correlation	Sig.
Pair 2	Awareness & Loyalty	300	0.086	0.054

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 2	Awareness & Loyalty	1.9325	300	0.69220	0.03461
		1.6000	300	0.63719	0.03186

Paired Samples Test

		Paired Differences					t	df	Sig. (2-tailed)
		Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference				
					Lower	Upper			
Pair 2	Awareness & Loyalty	0.33250	0.89943	0.04497	0.24409	0.42091	7.394	399	0.0237

The results from our analysis show:

Assume Alpha (α) = 0.05 (level of significance)

Calculated value of $t = 7.394$

Probable Value (p) = 0.0237

Interpretation:

As we see that once again probable value of level of significance (p) is less than the tabulated level of significance (α) that is $p > \alpha$. Calculated value of $p = 0.0237$ which is less than the stander value. Therefore researcher is failing to accept the null hypothesis (H_0).

FINDINGS AND CONCLUSION

In very first hypothesis that there is a countable effect of customer loyalty program on the increasing effect on purchasing behavior of the customers. After applying t-test it has been identified that researcher is fail to accept the null hypothesis because calculated value is less than the standard value.

Here the calculated value of p 0.0239 is less than the stander value of α which is 0.050. Hence researcher is fail to accept null hypothesis, therefore it is confirm that ccustomer Loyalty Program has positive increasing effect on purchasing behavior of customer.

In another hypothesis, Customer awareness programs reciprocate the loyalty of Customers. Here in this hypothesis the calculated value of p is 0.0237, even the standard value is 0.05. Therefore null hypothesis would be rejected and we can say that Customer awareness Program has positive increasing effect on loyalty of customer. Hence, with 95% level of confidence we conclude that there is a significant relation between customer loyalty and purchasing behavior. This work clearly showcases the importance and relevance of Loyalty Programs for the success of brands.

There is a cut throat competition in the retail sector therefore it becomes very difficult for the companies to retain their customers. It is seen that 68% respondents have a loyalty card with them. Loyalty cards are the back bone for this industry. They act as a glue to retail their customers. We can see that companies are emphasizing on long term relationship with their customers. It is much easier and less expensive to make additional sale to an existing customer than to make a new sale to new customer. India is a nascent market for loyalty programs. The people are becoming more sophisticated, exposure to modern retail formats, increasing awareness of fashion and brands. From the study we can say that shopping experience and customer loyalty are directly related. If the shopping experience is pleasant, customer's loyalty towards retail store is high and vice versa. The various activities of a retailer viz., service quality, ambience, pricing strategies and other loyalty building programs provide a pleasant shopping experience intern helps to build customer loyalty. In retailing, consumers typically patronize multiple outlets. Thus, an important issue is why consumers vary in how they divide their purchases across outlets and how outlets can get a greater share of consumer expenditures. Two potential avenues for increasing customer share are to raise customer satisfaction, and increase repeat purchase through loyalty cards. This study examines the effects of customer loyalty cards; the results provide mixed support for the impact of loyalty cards on customer behavior. It's also seen that respondents are willing to spend more to get a loyalty card. Customers look for discounts, rewards, gifts from a loyalty card. Some people also feel that loyalty card does not affect their purchasing. They will keep on buying from their favorite store even if they don't have loyalty card of it. Respondents spending pattern also increased after holding a loyalty card. The key to a successful business is a steady customer base.

After all, successful businesses typically see 80 percent of their business come from 20 percent of their customers. Too many businesses neglect this loyal customer base in pursuit of new customers. However, since the cost to attract new customers is significantly more than to maintain your relationship with existing ones, your efforts toward building customer loyalty will certainly payoff. The respondents also feel that loyalty card is beneficial for them because they get more points, rewards, gifts and additional discounts. By having a loyalty card a customer prefers to buy more of products from the store. Most of the respondents have loyalty card of Pantaloons, Shopper's Stop, Lifestyle, Globus, Marks and Spencer's. Many of the respondents visit the stores quarterly. Loyalty card has influenced many people to visit the stores more frequently. Companies give additional discount to loyalty card holders and also call them especially when sale is there. Loyalty program are an important tool with which retail companies manage relationships.

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