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5.9 Management and information systems (HL)

Customer loyalty programmes

Do you have a favourite business – maybe a supermarket, restaurant or museum – that you go to again and again? Those businesses rely on your repeated purchases and want to keep you as a customer. Customer loyalty is an extremely valuable asset for a business. It is easier, less time-consuming and less costly for businesses to retain existing customers than it is for them to replace leaving customers or acquire new customers. Customer loyalty is essential for business revenues.

Figure 1. Building customer loyalty ensures repeat business.

Uses of consumer loyalty programmes

A customer loyalty programme rewards customers that repeatedly purchase products from a business. Loyalty programmes can be as simple as a paper card that gets stamped with each purchase. An ice cream parlour, for example, could stamp a customer's card with every ice cream purchase that the customer makes, and provide that customer with a free ice cream after 10 purchases.

New technologies enable even more sophisticated loyalty programmes. Using a card or an app, businesses can collect data about consumers and their purchases. This data can then be analysed and used to target customers through below the line promotion or rewards that are personalised to their tastes and preferences. You may have seen such programmes in action at a supermarket or restaurant. Hotels and airlines usually have such loyalty programmes in place because they are especially reliant on repeat business.

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Figure 2. Customer loyalty programmes provide rewards for repeat purchases.

Credit: andresr, Getty Images

Digitalisation has improved the efficiency of customer loyalty programmes. The mining of data and data analytics enable businesses to make more accurate sales forecasts from consumer buying patterns. They can also be used to analyse the effectiveness of different promotional strategies to improve marketing. Loyalty programmes can become an essential part of the marketing plan (Subtopic 4.2 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/the-big-picture-id-37443)).

Limitations and risks of consumer loyalty programmes

Loyalty programmes are not guaranteed to work, however, and may not always be appropriate. Many businesses cannot afford sophisticated loyalty programmes. And for companies that do not see much repeat business, a loyalty programme would not be very useful for driving sales. Also, because so many businesses now offer loyalty programmes, providing such a programme may not always be an effective way for a company to differentiate itself from its competitors.

Furthermore, the interpretation and use of customer loyalty data has created some ethical concerns. Loyalty cards support consumer profiling, so the data collected may influence the types of products or services available to certain consumers. For example, businesses could use the data to charge different consumers different prices for goods and services, as commonly occurs in the air travel industry. While this practice does not

always raise ethical alarms, other uses of data for offers are more problematic. Supermarkets, for example, could use data from customer loyalty programmes to promote unhealthy foods to consumers who have shown a willingness to buy such products in the past. Promotions could entice some customers to buy products they do not need.

In general, as you learned in Section 5.9.1 (/study/app/y12-business-management-a-hl-may-2024/sid-351-cid-174702/book/critical-infrastructures-id-39509), the collection, storage and processing of people's data raises significant ethical concerns. While the data could improve consumer satisfaction and business revenues, there are dangers related to consumer manipulation, privacy and security.

Theory of Knowledge

Consider the kind of purchasing data that is gathered through customer loyalty programmes and how that data is used to convince customers to continue purchasing products from a business, or to promote other products that the business wants the consumer to buy.

- How might prejudices, biases and inequality become 'coded into' customer loyalty programmes? (IBDP Business Management guide)

Case study

Checkers Sixty60 is the number one grocery app in South Africa. The app is popular because it provides a convenient and speedy delivery service. The company also now uses the Shoprite Xtra Savings loyalty reward scheme, one of the fastest growing reward schemes in South Africa.

The integration of the Sixty60 app with the Shoprite Xtra Savings card is designed to make it more convenient to save on groceries. By linking the two systems, shoppers using the Sixty60 app can benefit from personalised deals and promotions.

The Shoprite Xtra Savings programme provides customers with discounts up to 40% and can be used across all of the Shoprite groups stores. This customer loyalty programme now has over 22 million members.

The loyalty programme is popular with customers across South Africa, offering plenty of savings for customers. A spokesperson for Checkers Sixty60 stated that 'the loyalty programme, combined with online shopping, provides detailed customer data, enabling targeted promotions that are unique to customers … improving customer experience'.

Shoprite has also launched a mobile network called K'nect, which offers rewards such as free airtime and data for Shoprite customers as well as extra rewards for Shoprite Xtra members.

Questions

1. Define customer loyalty programme. [2 marks]

2. Analyse **two** benefits for Checkers Sixty60 of using a customer loyalty programme. [4 marks]

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