

### **Declaration**

The Paper entitled “**Customer Loyalty Programs: Enlarging the Customer Base for Indian Retailers**”, is an original work and has neither been published nor under consideration for publication elsewhere.

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## **Customer Loyalty Programs: Enlarging the Customer Base for Indian Retailers**

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## **Customer Loyalty Programs: Enlarging the Customer Base for Indian Retailers**

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### **Abstract<sup>1</sup>**

*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. Managing customer information and utilizing it effectively; is likely to emerge as the key differentiator for retailers. This paper*

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*gives an overview of need for customer loyalty and differentiated loyalty programs adopted by Indian Mega Retailers.*

**Key Words:** *Organised Retailing, Customer Satisfaction, Customers Retention, Customer Loyalty Programs.*

## **Customer Loyalty Programs: Enlarging the Customer Base for Indian Retailers**

**A. Organised Retailing in India:** Retailing in India is hailed as sunshine industry of the future. It is the largest private sector industry in India and the second largest employer after agriculture accounting for 13% of GDP and employees over 8% of the total workforce<sup>1</sup>. According to a study conducted by the Associated Chambers of Commerce and Industry, the annual retail sale is \$ 6 billion and expected to reach \$ 17 billion by 2010. Organized retailing constitutes only 3% of the market; it is growing at a rate of 37% in 2007 and 42% in 2008<sup>2</sup>. Huge urban middle class and the increasing number of double income families have made it a popular destination for global retailers.

Indian consumer behaviour 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 retail market place in India. The industry is characterized by huge volumes, intense competition and dwindling customer loyalties. Today's economies are afflicted with surpluses and not shortages; translating into resemblance in offerings like merchandise assortments, value proposition, ambience and convenience.

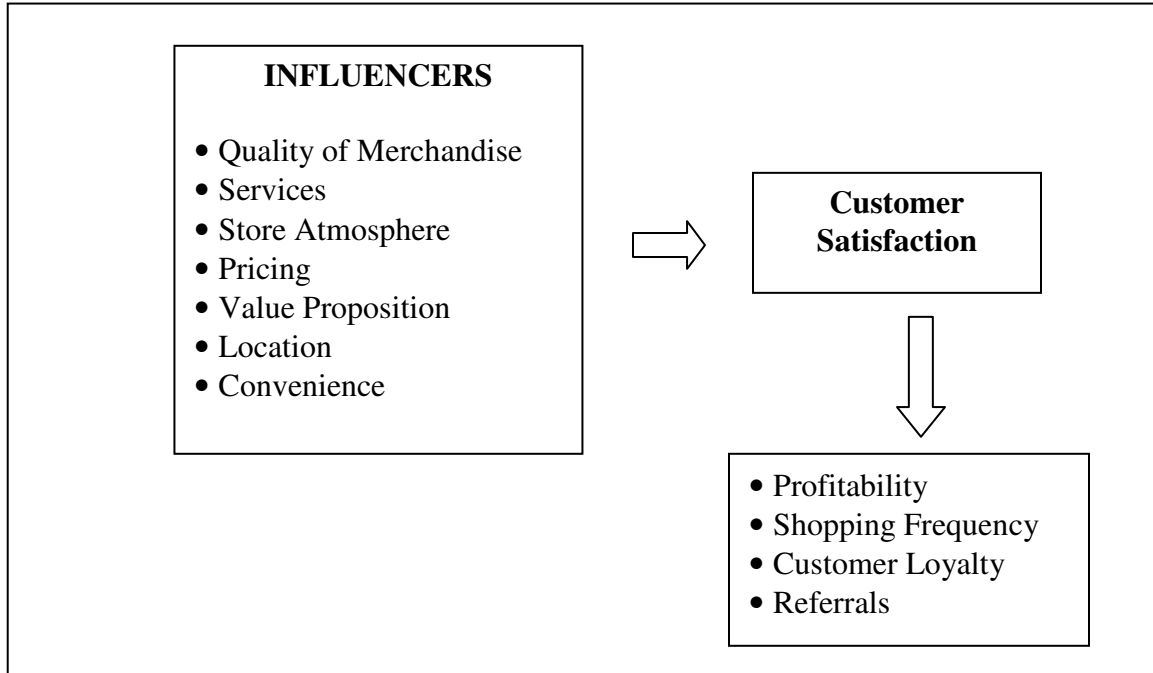
Indian retailers have focused on setting up stores, expanding their network, getting the logistics right and ensuring large number of footfalls. With increased competition and wafer thin margins, traditional differentiators like price, range and service are becoming hygiene factors, retailers are under great pressure to develop differentiating strategies, deepen the customer loyalty and generate profit growth. Managing customer information and utilizing it effectively; is likely to emerge as the key differentiator for retailers across the world.

**B. 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. (Clark John B., Hwang, Hojong, International Comparative Analysis of Customer Satisfaction with Discount Stores, *The Journal of Global Business Perspectives*, 2000)

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 Fig. 1

Figure 1 *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.

Customer retention is a cost effective and profitable strategy. According to IBM Consulting, the top 5% of retail customers generally contribute 20% to 25% of sales revenues and 25% to 45% of profits. A Harvard Business Review study has found that a 5% increase in customer retention can produce profit increases as high as 125%. The commercial benefits of loyal customers are well known by organisations. Loyal customers are also important because they provide the consistency of volume critical for stocking and managing just in time inventory



in order to maintain the consistency of customer demand. Loyal customers are also strong advocates for the store and are willing to forgive an occasional lapse. All of these are compelling reasons that retailers are on a quest for customer loyalty and are increasingly looking at implementing loyalty programs or loyalty cards of various forms.

**C. Customer Loyalty Programs:** Sophisticated technology and database equipment have made it possible for retailers to make attempts at customer retention through database marketing programs. Establishing a detailed client database may help retailers to keep track of personal information and individual preferences of their customers. This enables them to provide better service and value. With effective implementation of customer databases, retailers may re-establish contact with customers, and work successfully towards increasing customer retention, repeat sales, and customer referrals. Retailers are formulating loyalty programs to reward loyal customers and to retain them.

Being able to provide good services to loyal customers does not automatically ensure customer retention. While services can result in a customer making a purchase more than once, a well-designed customer loyalty program will ensure that they do not switch to competitors and would even recommend friends for a visit.

Certain factors that should be considered while selecting on implementation of a customer loyalty program to be effective and successful, may include;

1. **Specific measurable objectives:** Laying down specific objectives has several advantages. This will enable the retailers to design appropriate loyalty strategies and target relevant consumer segments. It simplifies the process of communicating the rationale behind the program to all concerned. Once the program is launched, the

progress can be monitored against the goals and targets, and strategic changes made if required. The program should be evaluated for attractiveness of benefits offered to the customers, and the leverages that are brought to the retailers in terms of image, competitive edge and growth of customer base.

2. **Customer should feel valued:** The objective of a customer loyalty program is to make the customer feel privileged and valued. Variety, uniqueness and attainability are among the several aspects to be considered while offering rewards. It is suggested that customer loyalty programs not only addresses the issues of rewards, redemptions and discounts, a retailer may offer uniqueness through various initiatives like customized loyalty cards, special publications such as news bulletins, cards or gifts on special occasions, organizing members-only events. For instance, members of Club West, the loyalty club of the Westside chain, receive an exclusive invitation to the bi-annual sale. They have the privilege of starting their shopping 90 minutes before the store's regular opening hour on the first day of the sale. The chain also pampers its loyalty program members with birthday cards, gift vouchers and special discounts. To ensure that the relationship is a two-way affair, Westside regularly seeks feedback from its members and ensures that complaints, if any, are dealt with promptly.
3. **Thorough research and analysis:** The customer is at the core of all loyalty-building measures. Hence, gaining a deep insight into consumer behaviour, motivation and expectations is crucial to the success of a loyalty program. The research needs to be well balanced and must contain data from various perspectives like demographic profile and socio-economic status of customers, purchase patterns, behavioural drivers, reward expectations, special interests and lifestyle factors.

4. **Usage of Technology:** Cutting-edge software and data tracking mechanisms have emerged as a distinctive features of a successful loyalty program. As with any strategic intervention, the operational aspects are as crucial to the effectiveness of a loyalty program as the concept and plans. Loyalty software that combine multiple functions like data tracking and storage, automated transactions, updating membership details, points and churn etc. can ensure that the loyalty initiative is well co-coordinated, efficient and hassle-free.
5. **Continuous communication:** Many firms make the mistake of launching a loyalty program with great fanfare, and then letting it drift. A loyalty program is not a one-time affair, and definitely cannot run on its own steam. It needs a push now and then to enliven it, and to get the customer enthused once again. The best programs maintain an active relationship with the customer by informing them of new developments, offers etc. and seeking their feedback. This last bit is tricky, for customers also expect firms to act on feedback and let them know they are taking the communication seriously.
6. **Organisational Commitment:** Customer loyalty programs need complete support and commitment from the top management in order to be successful. The program should also secure buy-in from all employees concerned by involving them in formulating the program strategy and implementation plan. Nothing could be more disastrous than a disgruntled employee unwillingly administering a loyalty program. A final word – a loyalty program reflects the values and culture of a company. The truly successful loyalty programs are not just short-term measures to expand the customer base. By aligning with the organization's strategy, mission and vision, they contribute significantly to long-term profitability, growth and competitiveness.

**D. Customer Loyalty Programs at Mega Retail Outlets in India:** The retail sector in India undergoing a transformation due to the entry of large corporate houses. Some of the prominent players in the sector issue a loyalty card as a part of customer loyalty program. A consumer can use it as a form of identification when visiting the retailer to avail the benefits of a discount on the current purchase, or an allotment of points that can be used for future purchases. They are also providing certain other benefits like exclusive hours for shopping, special events organized for members, dedicated counters for billing etc. These membership cards are issued on fulfilling certain criteria like minimum purchase of particular amount or on payment of a fee. Lack of uniqueness and differentiation in the loyalty program has led to similar kind of programs being run across the country. A brief compilation of customer loyalty programs of some of the lifestyle retailers is drawn in table no. 1

**Table 1, Customer Loyalty Programs and the Benefits of Mega Retailers in India**

<b>Name of the Retailer</b>	<b>Name of the Customer Loyalty Program</b>	<b>Criteria For Membership</b>
<b>Pantaloon's</b>	Green Card	On Purchase of Rs 2500 or above
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Instant discounts on each shopping in Pantaloon's.</li> <li>• Exclusive shopping days.</li> <li>• Regular updates on collections and promos via catalogues, sms and email.</li> <li>• Special invites to special events. s</li> <li>• Extended exchange periods and complimentary drops for alterations.</li> <li>• Exclusive billing counters.</li> </ul>	
<b>Shopper's</b>	First Citizen	

<b>Stop</b>		
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Redeemable points on each purchase</li> <li>• Exclusive Cash Counters</li> <li>• Out-store offers</li> <li>• Reserved Parking</li> <li>• Program Partner Reward Points</li> <li>• Associate Card</li> </ul>	
<b>Globus</b>	Privileged Club Card	Purchase of merchandise over Rs. 2000/- get you the most sought after card. These purchases can be spread across the first 3 months of the first purchase at Globus.
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Redeemable Points on each purchase.</li> <li>• Invites to special events arranged for members</li> <li>• New product launch privileges,</li> <li>• Exclusively shopping hours during festive seasons and other occasions</li> <li>• Exclusive offers on national / multinational brands and services available at Globus.</li> <li>• Special tie ups - avail of discounts offers and privileges at other leading outlets from time to time.</li> </ul>	
<b>Lifestyle</b>	The Inner Circle	<p>Purchase of Rs. 2500 on a single visit.</p> <p>Membership can be availed on payment of Rs.150/-</p>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Every Rs.50 spent at any of the stores, 1 point is earned.</li> <li>• For every 100 points earned, gift voucher of Rs.100 is received</li> <li>• Quarterly magazine for its Inner Circle members</li> </ul>	

Westside	Club West	<p>Purchase of Rs 2000 on the same day</p> <p>Membership can be availed paying a nominal one-time fee of Rs 150</p>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Redeemable points are earned on every purchase at Westside.</li> <li>• Dedicated Clubwest desk for a member's assistance at each of the stores.</li> <li>• Exclusive shopping hours only for members during sales.</li> <li>• Unprecedented access to a host of privileges and services through our exclusive tie-ups from time to time.</li> </ul>	
Ebony	Elite Club	<p>An applicant becomes eligible to apply for Elite Club Silver Membership when he/she has purchased merchandise worth Rs. 2000/-* or above from any Ebony store,</p> <p>or on payment of Rs. 100/- as enrolment fee.</p>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Redeemable points on each purchase.</li> <li>• Redemption of points on accumulation of 250 points</li> <li>• Option for getting add-on cards for family.</li> <li>• Elite Club rewards and benefits can be availed at EBONY stores across India.</li> <li>• Discounts at hotels and restaurants, free tickets to game arcades, etc</li> </ul>	

**E. Co-branded Cards an option for Differentiation :** The current scenario of loyalty programs offered by mega retailers shows that there is a very low proportion of customers redeeming the points, as a result of which the benefits of having such a program become negligible (about 80 per cent of the points are never redeemed)<sup>3</sup>. The retailers are adopting to co-branded loyalty cards to move from being single brand centric to variants-brands centric in order to ensure

multiple benefits to members of the program. Co-branding can be defined as two major brands converging to enhance the usefulness and image of the product or services. In case of a credit-card, it is a partnership between the issuer, say, Citibank, and a retail service-provider or a goods provider to meet customer demand more efficiently.

A card issued through a partnership between a bank and another company or organization is called a co branded card. The card would have both the bank name and the store name on it. Many co-branded cards are also rebate cards that provide the consumer with benefits such as extra services, cash or merchandise every time the card is use. The aim of the co branders is to gain market share, promote loyalty to the brand, and promote more usage. Certain co-branded cards of banks and mega retailers are mentioned in table no. 2

*Table 2: Co-branded Cards of various Banks and the Mega Retailers in India*

<b>Banks</b>	<b>Retailer</b>	<b>Benefits</b>
<b>ICICI</b>	<b>Megamart</b>	<ul style="list-style-type: none"> <li>• Earn 6 reward points for every Rs.200 spent at Megamart.</li> <li>• Free Megamart gift voucher worth Rs.200.</li> <li>• EMI offers from Megamart.</li> </ul>
	<b>Big Bazar Silver Card</b>	<ul style="list-style-type: none"> <li>• 0% Interest EMI offers at Big Bazaar.</li> <li>• Free gift voucher for Rs.250.</li> <li>• Earn 4 reward points for every Rs.100 spent at Big Bazaar.</li> <li>• Balance transfer option.</li> </ul>

	<b>Big Bazar Gold Card</b>	<ul style="list-style-type: none"> <li>• 0% Interest EMI offers at Big Bazaar.</li> <li>• Free gift voucher for Rs.250.</li> <li>• Earn 6 reward points for every Rs.100 spent at Big Bazaar.</li> <li>• Balance transfer option.</li> </ul>
	<b>Trinethra</b>	<ul style="list-style-type: none"> <li>• Earn 2 reward points for every Rs.100 spent at Trinethra.</li> <li>• Complimentary gift on purchase of Rs.800.</li> <li>• Free gift voucher for Rs.200.</li> <li>• Express check out.</li> </ul>
	<b>Ebony</b>	<ul style="list-style-type: none"> <li>• Earn 6 reward points for every Rs.100 spent at Ebony.</li> <li>• Free gift vouchers worth Rs.250.</li> <li>• EMI Offers</li> </ul>
<b>SBI</b>	<b>Lifestyle</b>	<ul style="list-style-type: none"> <li>• Earn 4 reward points for every Rs.100 spent at Lifestyle</li> <li>• Offers from Dominos Pizza</li> <li>• 0% fuel surcharge at IOC / IBP outlets</li> <li>• Discounts at Radisson hotels</li> <li>• 20% dining discounts</li> </ul>
<b>SBI</b>	<b>Vishal Megamart</b>	<ul style="list-style-type: none"> <li>• Discount voucher of Rs.250</li> <li>• Earn up to 8 reward points for every Rs.100 spent at Vishal Mega Mart</li> <li>• Balance transfer option</li> </ul>



		<ul style="list-style-type: none"> <li>• 0% fuel transaction fee at IOC/IBP outlets</li> </ul>
<b>Deutch Bank</b>	<b>Landmark (Lifestyle)</b>	<ul style="list-style-type: none"> <li>• Choose your own credit card design.</li> <li>• Welcome gift from Landmark on joining.</li> <li>• Discounts at Landmark.</li> <li>• Choose your own billing cycle.</li> <li>• Fraud transaction protection.</li> </ul>
<b>Citibank</b>	<b>Shopper's Stop</b>	<ul style="list-style-type: none"> <li>• Automatic entry to the Shoppers' Stop Loyalty program, First Citizen Club.</li> <li>• Earn up to 5 Rewards Points and redeem for great merchandise at Shoppers' Stop.</li> <li>• It's free membership to the Shoppers' Stop Loyalty program</li> </ul>

Co-branded cards offer value to customers as they are empowered with special value-added offers, such as rebates and discounts to attract new customers, encourage usage and build stronger ties. Successful co-brands have doubled the spending resulting from the rewards attraction offered to cardholders which is much more than non co-branded cards. These cards also generate higher retention of customers because of the rewards linked.

**F. 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.

Retailers should have sufficient information and reports from the analytical database to target promotions towards individual needs for example birthdays, festivals, occupation, gender etc. The customer care should be integrated suitably with other systems to display information like expenditure trends, consumption patterns, profile and preferences of each customer.

#### Footnotes

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