

STUDY ON THE IMPACT OF RETAIL LOYALTY PROGRAMS ON CONSUMERS' BUYING BEHAVIOUR

Jyothi Kumar*

Malabika Purkayastha*

ABSTRACT

This research study intends to examine the mechanism in which retail loyalty schemes influence consumers buying behaviour. Loyalty cards or membership cards are one of the most popular tools of consumer loyalty programs. As marketers grapple with ways to multiply their customer base and prevent customer defection, they tend to show increasing affinity towards the reward programs to retain and reinforce their loyal customers. This is more visible in the retail sector where the issuance of membership cards to the shoppers has become a common feature. This paper seeks to provide a conceptual understanding of the loyalty structure in organized retailing. It provides a glimpse into the historical perspective in the development of loyalty programs and outlines the different factors affecting consumers' loyalty decisions. A scrutiny of the relationship between behavioural loyalty and attitudinal loyalty helps in getting a clearer understanding about the performance of the loyalty schemes. The managerial implication of the research work is that it facilitates enhanced appreciation of the dynamics of the varied loyalty plans. The areas of improvement can be better identified and addressed resulting into more effective and customer driven retail loyalty programs.

Keywords: *loyalty program, loyalty card, behavioural loyalty, attitudinal loyalty, customer retention*

*Christ University, Bangalore, India

INTRODUCTION:

Marketing is a highly dynamic field that offers plethora of intricate challenges and opportunities to the managers and marketing practitioners. This ever emerging domain witnessed a major shift in focus from the traditional transaction based customer orientation to relationship based customer orientation. Businesses now vouch for customer share along with market share. Alternative definitions of marketing have been forwarded which accommodates both transactional and relational aspects of marketing. Francis Buttle in his book quotes Goonroos, "Marketing is to establish, maintain and enhance relationships with customers and other partners at a profit so that the objectives of the parties involved are met." Relationship Marketing is being considered as the touchstone in the present day business. Customer retention and customer loyalty is at the core of all relationship marketing initiatives and business houses relentlessly try to contrive innovative strategies towards this customer retention goal. One such retention practice to encourage sustained customer loyalty has been in the form of loyalty programmes and reward programmes which has become a universal phenomenon today especially in the retailing industry.

LOYALTY- MEANING AND INTERPRETATION

The term 'Loyalty' does not have any single standard definition. It has been variously defined at different points of time. Preetha Vyas and Piyush Sinha (2008) in their paper cited that Jacoby and Chestnut (1978) could identify 53 definitions of the term 'loyalty'. To quote Jacoby, loyalty is the "biased behaviour response expressed over time by some decision making units with respect to one or more alternatives out of a set of such brands and is a function of psychological process." Vyas and Sinha in their article referred to Oliver's (1993) four model of loyalty that starts with the 'cognitive loyalty', subsequently transforming into 'affective loyalty' followed by 'conative loyalty' and culminating to 'action loyalty'. Consumer loyalty is a multidimensional construct but most of the theorists have concentrated on the behavioural and attitudinal aspects of it. Andres Kuusik (2007) reckons that till 1970, the major focus of the researchers were on the behavioural manifestation of loyalty gauged mainly through customers' share of wallet and repurchase frequency. He observes that Day for the first time stressed on the need for two dimensional aspects of loyalty study in 1969 which embraced attitudinal loyalty along with behavioural loyalty. Subsequent research in the area of customer retention concludes that attitudinal loyalty builds stronger psychological bonding with a brand or a store and has a far long term loyalty impact on customers rather than the objectively measurable behavioural loyalty variables. Jones and Sasser called these

two types of loyalty as 'true loyalty' and 'false loyalty'. For emotional loyalty to develop in a commercial setting, the quality of relationship shared between the two parties is of surmount importance. Authors like Levitt (1983); Dwyer et al. (1987); Gummesson (1998); Hoffmeyr et al (2000) have drawn an analogy between loyalty and marriage. Just as successful marriages stands on the bedrock of involvement, trust and commitment, similarly true loyalty can stem only if supported by mutual involvement and commitment.

FACTORS AFFECTING LOYALTY:

There is little doubt that loyalty is based on consumer satisfaction but oddly it is beyond customer satisfaction. Kuusik (2007) reiterates this point by turning to the findings of Reichheld et al (2000:137) which states that sixty to eighty percent of customers who left their supplier or their brand in favour of its competitor reported that they were satisfied or very satisfied just before defection. Helena Nemeč Rudez (2010) in her work, talks about Jones and Sasser (1995) who surmised that 'loyalty is much more present among very satisfied than only satisfied customers.' These findings strongly indicate that loyalty even though relates positively to the level of satisfaction, nevertheless is governed by other factors as well. Although companies and retail firms are making huge outlays on rewards and loyalty programmes, statistics fail to reveal very bright perspective on their impact. It has also been commented that loyalty schemes add to customer liabilities than customer assets.

Customers are intrinsically value driven in their approach and they will be willing to devote their resource and effort to a brand or store consistently only if they receive sustained superior value from it. Noteworthy that depending on one's demographic and socio-cultural attribute, the interpretation of value may differ. While one customer may give utmost importance to hedonic and symbolic value of a purchase, another customer decision may be based on utilitarian value or functional value. Trust, reciprocity, involvement and commitment are some of the basic requisites for customer loyalty. Past research works have laid down several other major factors contributing towards long term customer loyalty. Rihadi (2011) in his exposition of repeat consumption behaviour mentions the works of Ray and Chiagouris (2008) who have focussed on the magnitude of store antecedents like store atmosphere, uniqueness and store familiarity in fostering store loyalty. He further insists on the works of W. Mullins, C. Walker Jr., & W. Boyd Jr., (2008) to bring home the relevance of social factors like influence of family, culture, and reference group on store selection and eventually store loyalty. Product factors like product variety and product distinctiveness, situational factors like product availability, store accessibility, deals and promotions and

personal factors like special treatment given or provision of customisation and personalisation are additional factors influencing consumers' repeat purchase decision.

LOYALTY PROGRAMS & MEMBERSHIP CARDS

Giving rewards in the form of free gifts, discounts, extended credit to special customers for their high frequency repeat purchase and on the size of purchase had been in practice even in the earlier days. The genesis of loyalty programs can be traced back to the eighteenth and nineteenth century in United States. Stories say that redemption programs started as early as 1793 when accumulated copper tokens could be redeemed for store merchandise. Sperry & Hutchinson (S&H) company's Green Shield stamps introduced in the nineteenth century were one of the first type of retail loyalty program that allowed customers to earn redeemable stamps depending on their volume of purchase. However the modern version of loyalty program as we understand it in contemporary time started much later in 1981 with American Airlines Frequent Flier Program.

Helena Rudez (2010) in her work quotes Shoemaker et al. (2007, 91) definition of loyalty marketing as "an ongoing process of identifying and creating new value for individual customers for mutual value benefits and then sharing the benefits from this over a lifetime of association." Loyalty programs unlike sales promotion deals do not reward customers immediately but compensate the participants in the form of redemption benefits for their sustained patronage over an extended period of time.

Loyalty programs can be classified into different categories on the basis of rewards or on the basis of its target membership group. Open loyalty programs do not entail any membership criteria but is accessible for all whereas limited loyalty program is meant for a specific target group and therefore requires the fulfilment of certain pre-membership criteria. The latter is the type which is predominantly available in most of the repeat purchase low involvement markets including grocery retailing. Sanjay K. Parahoo (2012) reiterated the works of Ho et al (2009) on the ideal characteristics of any effective loyalty program - easily comprehensible, progressively rewarding in design, having the provision for special rewards and the rewards with high aspirational value.

Loyalty cards or memberships cards are the most usual and familiar means of exercising loyalty programmes. Preetha Vyas and Piyush Sinha (2008) is categorical in that loyalty cards provides the easiest and cheapest ways for running the loyalty program. The loyalty cards have close resemblance to the normal plastic payment cards issued by banks. It needs to be swiped at every point of purchase making it mandatory for the card holder to self identify

at every billing point. By the action of swiping, points get accumulated on the volume of purchase which can be redeemed after attaining a threshold level for free rewards or price discounts. Jorna Leenheer, Bijmolt et al (2003) cites Dick and Basu(1994) opinion on loyalty cards that these cards serves as 'explicit token of membership' and cements the bonding of the customer with the cards issuing company.

MODUS OPERANDI OF LOYALTY CARDS

Several research studies have investigated on the features and working mechanism of loyalty cards. Leenheer (2007) hypothesised that loyalty scheme enhances the attractiveness of the focal store resulting into change in purchase behaviour in favour of the store. The effect of the reward programs on the members' buying behaviour takes place through the 'point pressure effect' as cited in Dowling, Uncles et al (2003) study on customer loyalty programs and the 'rewarded behaviour effect'. It is argued that point pressure effect tend to have transitory sales promotion like effect that motivates the members to accelerate their spending just before reaching the threshold limit but eventually the effect disappears once the reward is gained. Lars Meyer Warden contradicts this view when she remarks that even the rewarded behaviour effect may be fleeting if consumers switch to more attractive reward schemes. The real crux is to transform a behaviourally loyal customer into an emotionally charged attitudinal loyalist who cannot be moved by any of competitors' offers and switching strategies. Jie Zhang and Els Breugelmans (2012) join the bandwagon of authors like Kivetz and Simonson (2002); Roehm, Pullings and Roehm (2002); Yi and Jeon (2003) when they claim that the loyalty program design is another critical issue determining the effectiveness of any loyalty program. Leenheer et al (2003) supports Yi and Jeon's (2003) views that there are two strategic loyalty program design elements , the saving features and the discount or the promotion feature. Leenheer et al(2003) refers to the writers Dreze and Hoch(1998) who have articulated the distinction between the two features when he concludes that the saving feature essentially rewards the loyalty program members for their procrastination of redemption benefits whereas the promotion and discount feature encourages people to loosen their budget strings and spend more on promotional items. On the relative effectiveness and desirability of the features, Leenheer et al cites Yi and Jeon(2003) who supported the promotion feature as he theorises that customers prefer immediate rewards to delayed rewards. This is opposes the views forwarded by Ken and Lee(2006) as reported by Velentina Melanyk and Stijn M J Van(2012) that "delayed rewards of higher value are preferred to immediate but smaller rewards." Leenheer et al(2006) delves into the cost aspect of both the features and based on

their research findings concludes that incorporating discount feature in the loyalty program is four times more expensive than incorporating the savings feature.

DOWNSIDES OF LOYALTY PROGRAM

Marketers across the industry vie to control customer defection and win customer loyalty by introducing loyalty programs with innovative and improvised features but the results of these initiatives are not always impressive. Uncles, Dowlin et al(2003) in their research paper alludes to Peppers and Rogers(1997) when they point that loyalty programmes can act towards increasing the share of wallet of existing customers but without much change in the overall market share. Vyas and Sinha (1998) expresses their solidarity with the views of Stauss, Bernd; Schmidt, Maxie; Schoeler, Andreas,(2005), when they present their outlook that loyalty programmes instead of kindling enthusiasm and excitement in buyers towards program, may actually be the cause of frustration among them. Complexity in the loyalty program terms and condition may be a potential snag in loyalty program adoption or at the time of redeeming the points. And most importantly, many shoppers are uneasy and reluctant to reveal their personal information at the time of filling the loyalty program application form. The absurdity of the entire matter becomes even more glaring when excessive unwieldy data gets collected at the point of sale. (Mark Uncles , Dowling et al, 2003).Loyalty subscription forms generally contain self identifying demographic information and the records of subsequent transactions provides a huge database on the members purchase pattern. Such personal information is usually inadequate to analyse the difference in attitudinal and behavioural disposition between members and non members.

Empirical research as the one undertaken by Vyas and Sinha (2008) brings forth the unplugged loopholes in the loyalty schemes as especially relevant in the Indian context. Lack of co-ordination in the execution of loyalty programs, absence of strategic commitment, unwillingness of consumers to reveal authentic information to name a few. The front end employees who are the crucial interface between the company and the customers are many times ignorant and dispassionate towards the program. The situation is worsened when there is high employee attrition at the shop floor level which makes it difficult for the management to get back the dividends of its costly manpower training.

MAJOR RESEARCH FINDINGS:

From our literature review, it can be discerned that there are two opposing views with regard to the impact and effectiveness of the loyalty programmes. Uncles, Dowling, Hammond et at(2003) concludes that loyalty schemes and reward programmes do not substantially

increase the market share of any brand or firm nor is it very likely to result into single brand exclusive loyalty. They are sceptical about the effect of any loyalty program in substantially changing the consumer buying behaviour. Magi(2003) and Leenheer et al (2007) displayed mixed feelings towards the outcome of reward programmes on buyers SOW. Investigators like Reinartz, 1999; Sharp and Sharp, 2007 have shown reservations against the long term impact of these programmes on their members. In the absence of meaningful differentiation between the loyalty schemes and the increasing commoditisation of the membership programmes, it is improbable that exclusive single chain loyalty can be impelled through the loyalty cards. However some scholars through their research are convinced on the positive impact of loyalty programs in building long term committed relationships. Yuping Liu (2007) in his study has reinforced the views of O'Brien and Jones, 1997 that loyalty schemes can successfully extend the loyalty lifecycle and transform buyers into profitable customers over time. Another area of focus in the study of loyalty programs has been on the issue of self selection. Jorna Leenheer, Bijmolt et al (2006) concentrated extensively on the consequences and the concerned issues of self selection in loyalty program enrolment. Most of the customers opting for loyalty cards are already the highest spenders and the clients of that retail chain. The fallout of the matter is that it leads to exaggerated estimation of the loyalty program impact. The impact of loyalty program is felt maximum on the medium and lowest spenders of the outlet, but bulk of the redemption demand comes from the highest spenders for whom buying behavioural change is the least (Yuping Liu, 2007). In this context we can cite David Bell and Rajiv Lal (2002) who says it gives way to skewed expenditure on the firm's best customers even though profit accrues from its least attractive customers.

CONCLUSION:

Loyalty programs and loyalty cards are a regular feature in contemporary retailing. This trend has become remarkably prominent with the arrival of the organised multi store chain based retailing system. Retailers across the industry have been widely using this tool in their endeavour to develop long term customer loyalty. However, the disquieting fact is that empirical data do not project a very optimistic picture on the success of these reward schemes. In the absence of membership fees, the majority of these loyalty cards can albeit find their way to customers' wallet, but the litmus test of these membership cards hinges not on the number of cards issued but on the frequency at which these cards are swiped at the point-of-sale enthusiastically. The ubiquitous membership cards should not simply be a 'me

too' marketing appendage in the hands of a retailer but a strategic instrument that supplements the firm's overall initiative towards building customer evangelists.

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