

# Customer Loyalty Programs in Retail Environment

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## Abstract

*Customer loyalty programs are almost integral part of any retail marketing strategy. It is a readymade concept rather customized. Paid or unpaid, better to say most of the industries copied and cooked the concept from one another without establishing the objectives and outcome measurement. It is well quoted that, 'what you can't measure, you cannot manage'. Loyalty is a sustainable commitment shown by the customer by his buying behavior. There are various types of loyalty programs but their features are almost similar. The size of loyalty program is significant but how they are effective in achieving objectives need to be evaluated.*

**Key Words:** Customer Loyalty Programs, CRM, CEM, Regression Analysis, and Satisfaction with Retail outlets

## I. Introduction

Competition has forced retail businesses to focus on customer retention rather than customer acquisition. As an outcome of it, many retail businesses introduced the concept of loyalty programs offering a range of benefits and rewards to their loyal customers. The loyalty programs are aimed at identifying and strengthening the relationship with the potential customers.

### Indian Retail Sector and Loyalty Programs

Retail business in India is highly fragmented. Due to the presence of millions of small retail stores in India which has created intense competition for large players during entry. Currently, there is only 6% market share enjoyed by organized modern retail. Although the growth rate of organized retail sector is much faster than the overall growth rate of the industry. It was the time when modern retail entered into food and beverages category with the entry of so many players in this segment like McDonalds, Dominos and Pizza Hut. It has changed the retail format and infrastructure requirements in India. However in the non-food segment, retail industry has witnessed a sea change with the entry of Westside, Shopper's Stop, Lifestyle, Pantaloons, Reebok, Koutons etc. This study is

focused on non-food category especially Apparel and Lifestyle and their customer retention tactics.

### Loyalty programs of Leading Retailers

- Van Heusen's "Power Club" and "Diva Club": this loyalty program is with three-level membership – Classic, Silver and Gold levels depending on shopping profile. Diva club loyalty program is exclusively for women.
- Westside's "Club West": This is a two level loyalty program- Club West Classic and Club West Gold.
- Shoppers' Stop "First citizen club": It is three level loyalty program – Classic moments, Silver Edge and Golden Glow cards.
- Lifestyle's Loyalty program: Two level loyalty program- Gold and Platinum
- Central Retail Loyalty program: Two level loyalty program with Basic initial membership and the other one is Premium.

## II. Literature Review

A detailed literature review was done on customer loyalty programs in the retail sector which underline and quote the following work.

According to Arnamlvieet.al. (2013), retailers are exploring how to leverage technology to uncover subtle buying patterns and identify customers. Earlier shopkeepers used to know their customers personally and were able to identify their needs. But due to large formats and changing workforce in stores, technology is the only tool playing the same role. Rahman (2013) in his research “loyalty programs and retail performance” identified that in a highly competitive environment retailers will survive and excel if and only if they know their customers and customers have a strong bond with them. Mathur (2015) re-endorsed what Rahman identified in his research. Jain et. al. (2012) in their study identified that loyalty programs are having a positive impact on the profitability of retail business. Different consumer show different behavior towards the same loyalty program schemes due to their psychological, demographical and emotional factors.

### III. Methodology

This study is focused on the evaluation of loyalty programs which were run by various premium retail chains, especially in Apparels and Lifestyle segment. Three major brands were chosen to get the insight and comparison of their loyalty programs. Here, descriptive research design has been employed for the study with cross-sectional research as the category. The survey instrument has been a close ended questionnaire. The questionnaire has been prepared to examine the satisfaction level as well as the perception of loyalty card subscribers towards organized retailing. Questionnaire has been finalized after exploratory research design employing secondary survey of the literature, experience surveys with store managers and retail store employees and then focus group interviews with retail-stores customers was conducted. Questionnaire was pre-tested with a pilot survey of 22 respondents to check the performance of the survey instrument vis-à-vis the efficiency of effective information collection through the questionnaire and the

questionnaire has been modified/updated as per the responses of the pilot survey. Sample size of 200 respondents has been taken using quota sampling and shopping mall intercept sampling. Respondents have been selected for the survey instrument from different organized retail stores as per the quota decided to make sample representative of the population of customers.

### Hypothesis

Two hypotheses were formulated to test the objective of study which are as follows.

H<sub>01</sub>: Loyalty programs do not have significant impact on customer purchase behavior

H<sub>a1</sub>: Loyalty programs have a significant impact on customer purchase behavior.

H<sub>02</sub>: Loyalty programs do not contribute significantly to retail outlet performance

H<sub>a2</sub>: Loyalty programs contribute significantly to retail outlet performance

These two hypotheses were tested using statistical tools to understand the reality of loyalty cards towards revenue generation and its significance as CRM tool.

### IV. Analysis and Interpretation

Regression analysis has been employed to examine the relationship between Loyalty Card Benefits, Price, Quality, Convenience, Variety and Offers as predictors and Satisfaction with the organized retail outlet as the dependent variable. As per the ANOVA results, the relationship was found to be significant (sig. =.000<.05), implying that these predictors have a significant impact on the satisfaction. Further, the high value of Adjusted R Square (=0.641) indicate that degree of the relationship is strong with these considered predictors may be able to explain 64% of the variation in satisfaction with a retail outlet.

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	62.836	6	10.473	60.257	.000 <sup>b</sup>
	Residual	33.544	193	.174		
	Total	96.380	199			
a. Dependent Variable: Satisfaction						
b. Predictors: (Constant), Loyalty Card Benefits, Price, Quality, Convenience, Variety, Offers						
Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.807 <sup>a</sup>	.652	.641	.417		
a. Predictors: (Constant), Loyalty Card Benefits, Price, Quality, Convenience, Variety, Offers						

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.337	.180		1.879	.062
	Quality	.297	.069	.313	4.328	.000
	Convenience	.386	.079	.372	4.906	.000
	Price	.122	.087	.126	1.397	.164
	Variety	-.126	.070	-.162	-1.802	.073
	Offers	.076	.080	.087	.956	.340
	Loyalty Card benefits	.168	.074	.167	2.258	.025

Upon examining the 'coefficients' table, we have found out that the predictors 'quality' (sig. =0.000), 'convenience' (sig. =0.000), 'loyalty card benefits' (sig. =0.025) have been found to be significant at 5% level of significance i.e. these predictors have significant impact on the 'satisfaction with the store'. Further, the hierarchy of significant predictors can

be suggested as: 'convenience' (Beta =0.372) then 'quality' (Beta =0.313) and lastly 'loyalty card benefits' (Beta =0.167)

Regression analysis has again been employed to examine the associative relationship between 'satisfaction with the

organized retail outlet' as the dependent variable and 'info related to sales', 'convenience to shop' and 'info related to offers' as explanatory variables. ANOVA results suggest the proposed regression model was significant (sig. =  $0.000 < 0.05$ ). So these independent variables on a whole affect respondent's perceived satisfaction with the organized

retail store. Adjusted R Square has been obtained as 0.524, indicating a moderate relationship with the considered predictors that may be able to explain 52.4% of the variation of the dependent variable 'satisfaction with the organized retail outlet'.

ANOVA <sup>a</sup>						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	51.190	3	17.063	74.008	.000 <sup>b</sup>
	Residual	45.190	196	.231		
	Total	96.380	199			
a. Dependent Variable: Satisfaction						
b. Predictors: (Constant), Info Related To Sales, Convenience To Shop, Info Related To Offers						
Model Summary						
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate		
1	.729 <sup>a</sup>	.531	.524	.480		
a. Predictors: (Constant), Info Related To Sales, Convenience To Shop, Info Related To Offers.						

Further, from the "coefficient" table, it can be inferred that the significant explanatory variables are 'convenience to shop' (sig. = 0.000) and 'info related to sales' (sig. = 0.046), indicating the significant role these two explanatory

variables play towards 'satisfaction'. Here, 'convenience to shop' (Beta = 0.587) has significantly higher impact on 'satisfaction' than 'info related to sales' (Beta = 0.213).

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.767	.200		3.842	.000
	Convenience To Shop	.610	.066	.587	9.220	.000
	Info Related To Offers	-.016	.103	-.017	-.155	.877
	Info Related To Sales	.210	.109	.213	1.919	.046




Non-parametric Wilcoxon Signed Rank Test has been employed to examine whether respondent visit retail stores/shopping-mall for window shopping more or to shop more, i.e. it has been examined as the prime motive of respondents in going to retail stores/shopping malls. The p-

value (Asymp. sig. = 0.637) suggests that there has been insignificant difference in between the “two” motives. So, there has been insignificant difference between the group of respondents and the footfall to these retail stores/shopping malls get converted to shoppers in equal amount.

### Wilcoxon Signed Ranks Test

Ranks				
		N	Mean Rank	Sum of Ranks
Shop More - Visit More	Negative Ranks	8 <sup>a</sup>	9.50	76.00
	Positive Ranks	10 <sup>b</sup>	9.50	95.00
	Ties	182 <sup>c</sup>		
	Total	200		
a. Shop More < Visit More				
b. Shop More > Visit More				
c. Shop More = Visit More				
Test Statistics				
		Shop More - Visit More		
Z				-.471 <sup>b</sup>
Asymp. Sig. (2-tailed)				.637
a. Wilcoxon Signed Ranks Test				
b. Based on negative ranks.				

## V. Comparison of Loyalty Programs of Major Retail Chain Stores

Features of Card	 SHOPPERS STOP START SOMETHING NEW	 CENTRAL BRAND NEW	 lifestyle YOUR STYLE. YOUR STORE.
Levels Of Cards	Classic Moments 1 point on Rs. 100 Spend	Payback is Initial Card on Rs 200 spend 3 points are given	Gold (Initial Card)- 1 point on Rs 100 spend
	Sliver Edge (on shopping of Rs. 10,000)2 points on Rs 100 spent	Priority card to shoppers above Rs 25000 thrice a month, 10% additional Discount	Platinum(on Rs 64999)- 4 points on Rs 100 spend
	Golden Glow (on shopping of Rs. 40,000)3 Points on Rs 100 spent		
Value of 1 Point	60 Paisa	25 Paisa	60 Paisa
Associate Cards	✓	X	X
Co- Branded Cards	✓	X	X
Parking	Refundable	Non Refundable	Non Refundable
Business from Loyal Customers	70% and above	50%	40%
AVG Cash Memo Size	3138	1800-2000	2100-2200
Conversion	18%to20%	16% to 18%	16%
Birthday Points	100 Points	500 points (Rs 125)	Only to Platinum card holders 300 points(Rs 180)
Points Redemption	Any amount can be redeemed	Card should have minimum balance of Rs 50	Card should have minimum balance of Rs 99
Members till now	FC-67000 Black-900	15000	11000
Online App	✓	X	X
Complimentary Vouchers	✓	X	X
Multiple Tie-ups	✓	✓	✓
Personal Shoppers	✓	X	X

The comparison of major loyalty programs gives following insights.

### 1. Customer Advantage

There are various advantages to loyalty customers like, home delivery of altered garments, merchandize delivery, parking charge reimbursement in the invoice

generated, tie-up facility with restaurant and saloons etc. Advantage extended to loyal customers is associate cards. Associate cards are linked cards on a membership card. A membership card holder can get an associate card made for his/her family member via which the family member can do shopping and redeem points of the main card. Associate cards are issued only to blood relations who are 18 years and above.

## 2. Retailer Advantage

The advantage of retailers is to have the complete mapping of their existing customers and their purchase behavior so that they can engage them better in future also. This customer data base helps them to define their catchment area which helps them to carve out better marketing and promotion strategy to increase and maintain store footfall. It is well said that “retaining a customer is easier and profitable than acquiring a new customer”.

The comparison of data reveals that 40-70% business comes from loyal customer segment which almost proves further the Pareto law (80% business comes from 20% customers). Second interesting aspect is 16-20% new customers are converted through loyalty programs.

### Customer value in Loyalty Programs

Features of any loyalty programs are almost similar but it is necessary to understand what values to a customer? While interviewing with the customers 82% customers pointed that it is not the cash back (rewards point redemption) but the post-purchase services (delivery of merchandise, delivery of

altering items in residence, free parking) that has value to them.

## VI. Conclusion

It is evident that competition is increasing in the retail segment and retailers need to intensify their customer relationship and customer experience practices accordingly so as to keep pace with the competition. Such type of loyalty programs and customer experience programs has a major significance in coming future.

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