

*Customer Loyalty Programs - A study on Customer Awareness in Bangalore City*

Ms. Kalavathy K.S.  
Dr. Anitha Ramachander

**Abstract**

The objective of CRM, customer loyalty, is more than having customers make repeat visits to a retailer and being satisfied with their experiences. Customer loyalty is an important strategic objective of managers around the world. Customer loyalty developments begins with the building of program members and evolve overtime into a customer relationship platform that can be used to communicate with customers, drive sale and gather data on purchasing behaviour and customer preferences. This paper gives an insight into the awareness of customers towards loyalty programs and the reasons for joining the same. The analysis reveals that though majority of the customers are aware of the loyalty programs, there is still a segment which is not aware. Communicated effort is critical to aggressively introduce the customer loyalty incentive program and clearly define the programs' structure and the company's expectations for it.

**Introduction**

"Listening to customers must become everyone's business, with most competitors moving ever faster, the race will go to those who listen and respond most intently". Tom Peters, Thriving on chaos.

To know what exactly customers want, marketers have to build a relationship with customers and tailor their strategies to nurture this relationship. Loyalty programs are structured marketing efforts that reward and therefore encourage, loyal buying behaviour which is potentially beneficial to the firm. Customer loyalty development begins with the building of program members and evolves over time into a customer relationship platform that can be used to communicate with customers, drive sales and gather data on purchasing behaviour and customer Preferences, establish a promotional platform to drive marketing campaigns and support brand building initiatives by linking highly perceived and complimentary lifestyle rewards to a brand. Building customer loyalty is a business strategy, not just marketing program and all businesses should seek to boost loyalty and maximize share of customer. The pursuit of customer loyalty is a perpetual one more of a journey than a destination.

A well executed customer loyalty program can deliver a substantial array of strategic benefits. In the present environment of rapid changes, the choice of products and services has increased so much that today's customers are always having an alternative. It is therefore of absolute importance and necessity for the marketer to look for ways and means to stop the customer from switching over to the competing products and services. Companies try to outsmart their competitors through a variety of marketing strategies and tactics- one being 'loyalty program'. The primary motive behind a loyalty program is rewarding customers for their repeat purchase behaviour, encouraging, maintaining and subsequently enhancing the level of loyalty by providing the customers with targets at which various benefits can be earned by them. A customer loyalty program is defined as a planned program for a group of existing and prospective customers who fulfil criteria set by the provider and who make a sacrifice of time, money or other resource to qualify for or join the program and receive benefits reserved for this group. Loyalty programs provide two key functions:

Ms. Kalavathy K.S.  
Associate Professor  
The Oxford College of  
Business Management  
HSR Layout  
Bangalore

Dr. Anitha Ramachander  
Professor and Director  
Dept. of PG Studies  
SRN Adarsh Institute of  
Management &  
Information Technology  
Chamarajapet  
Bangalore

they give customers rewards for brand loyalty and they provide the issuing company with a wealth of consumer information. While companies can evaluate anonymous purchases, the use of a loyalty program gives additional information about the type of products that may be purchased together, and whether certain offers are more effective than others.

The basic idea behind a loyalty program is to gain a bigger share of customer spending by rewarding individuals for shopping at a particular store or group of stores. The more money that a customer spends, the greater the rewards. Sometimes rewards come in the form of discounts on products in the store. Other loyalty programs allow members to accumulate rewards 'points', which they can then redeem for a variety of 'free' goods or services.

Today's consumers are presented with a wide variety of choices and a low switching barrier. It is easy for consumers to switch between brands/ firms and this poses a significant threat to customer relationships because consumers are unlikely to commit to a single brand or firm. Loyalty programmes raise switching costs for consumers and alleviate the lack of commitment and reduce customer defection. This occurs because loyalty programmes reward customers for their repeated patronage and, therefore, consumers tend to focus their purchases in one programme to maximize the benefits they receive. Consumers develop a vested interest in the programme and this makes it difficult for competitors to entice them away.

### **Objectives of the Study**

The main objective of the research is to study the awareness level of customers about loyalty programs and to find out the reasons which influence them to join loyalty programs.

### **Review of Literature**

Loyalty programs have been around for a long time. It was in the 1920s that General Mills first started a program known as Betty crockery point. Purchasers received points. When buying various General Mills products like cereal and newly launched Gold Medal flour. Betty crockery points could be redeemed for kitchen utensils or other domestic products. In the

1950s, American tobacco companies launched loyalty programs which involved pleasing coupons on the back of cigarette packs the could be redeemed for catalogue items (Thomaselli 2005).

Customer Loyalty programs are tools for decreasing switching that are used in all fields of retailing and consumer services. Reasons for the emergence of loyalty programs have been found in industry and service structures. They are prevalent in cases of virtual parity i.e. when there is little difference between prices or service content, in low involvement decisions, when there is intense competition among few competitors' when there are high fixed and low variable costs, and where idle capacity makes it possible to give away free services (Duffy 1997).

Situations in which a customer loyalty program is claimed to be helpful are when the scheme directly supports customer's value propositions, when relationship building adds to perceived value, when life time customer value is high and when customer retention costs are less than acquisition costs (Dowling and Uncles 1997).

Johnson (1998) uses the term loyalty program to describe any marketing program designed to increase the life time value of current customers through a long term interactive relationship. A typical loyalty program thus includes five elements namely a database, an enrolment process, rewards, value-added or soft benefits and customer recognition. The other retention programs include membership benefits, customer recognition, key accounts and frequency marketing plans (Pepper and Rogers 1997).

O' Brien and Jones (1995) maintain that reward programs do work provided that the company takes a strategic, long term approach. The goal should be to share value with the customers in a way that is relative to the value that the customer creates for the company. This goal could be reached by educating the customers about the rewards and thus motivating them.

Firms are more interested in loyalty programs that tap consumers' underlying psychological processes leading to repeat and more frequent purchases, in addition to increasing switching barriers and reducing price sensitivity (Nunes and Dreze, 2006).

Customer Loyalty programs are generally viewed as long term endeavors in which consumers can accumulate some type of an investment that can later be redeemed for free merchandise, services or discounts applied to a future purchase. The more value that merchandise or services has for customers, the more attractive the program and the more likely customers will participate (Liu and Yang 2009).

### Statement of the Problem

Retailing which accounts for 20 percent of the world wide labour force and includes every living individual as a customer ,is the largest single industry in most nations and is currently undergoing many exciting changes. This growth is driven by a number of factors-increase in disposable income, new occasions for purchase, rapid urbanization, continued rise of organized retail and fashion, which has increasingly become a form of self-expression. Rapid growth and rising urbanization have spawned a new class of consumers with more money to spend. . These changes will have far reaching implications for manufacturers and retailers. (Success in India will depend on getting many things right at once-finding out what customers want and developing a profitable retail concept, to attract the retail customer). Loyalty programs have become a key component of Customer Relationship Management (CRM) serving a critical role of developing relationships, stimulating product and service usage and retaining customers.

Customer Loyalty Programs have been in existence since 1980s. The Indian loyalty market is presently valued at Rs 5000cr and is set to grow even further. Though there is availability of voluminous literature on customer loyalty, studies that focus on customer loyalty programs in the Indian context have been limited. Given this context, it is imperative that in India the efficiency and impact of customer loyalty programs need to be investigated. Hence the statement of the problem - "Customer Loyalty Programs-A study on customer awareness in Bangalore city."

### Research Methodology

The study is descriptive in nature. Descriptive research is essentially a fact finding approach related

largely to the present and abstract generalisations by the cross sectional study of the current situation. Respondents were selected for the study using non probability method, convenient sampling method in Bangalore city. Primary data was collected with the help of a questionnaire .Secondary data was collected through journals, books and magazines .Chi square method was used for statistical analysis.

### Sample Description

The demographic characteristics of the sample are given below:

- 67% of the respondents are male and 33% are female respondents.
- The majority (56%) of the respondents belong to the age group of 21-30 yrs, 29% of the respondents belong to 31-40 yrs, 9% are less than 20yrs and 6% greater than 40yrs.
- The majority of the respondents (32%) earn Rs.20k-30k per month 20% of the respondents earn Rs.5k-10k per month. 15% earn more than Rs.40k per month, 15% respondents earn Rs.10-20k per month and 18% earn Rs.30-40k per month.

### Data Analysis and Interpretation

- 36% of the respondents have visited Big bazaar, 23% have visited Bangalore Central, 15% have visited Total mall, 9% have visited More, 6% have visited Spar and 12% have visited other retail outlets.
- The majority of respondents have visited Big bazaar followed by central and total. Hence it shows maximum respondents have purchased from Big bazaar because it has its branches all over the city.
- The maximum numbers of respondents (72%) are aware of loyalty programmes offered by organised retailers and 28% of the respondents are not aware of the loyalty programmes offered by retailers. The majority of the respondents know about the loyalty programmes offered by organised retailers through internet, catalogues and pamphlets.

- 66% respondents are members of CLP and 34% respondents are non members. Out of the total number of respondents who are aware of loyalty program 46% are male and 20% are female.
- Most of non-members i.e. 74% would like to join Customer Loyalty Programs in the future, while the remaining 26% do not want to join any Customer Loyalty Programs in the future.
- The majority of respondents want to join the CLP in the future. Hence it shows the demand for the CLP will increase in the future and the retailers will have to introduce new and innovative CLPs to attract more customers.
- Out of the total number of respondents who are aware of customer loyalty programs 66% have customer loyalty program membership and 34% do not have membership, but are aware about the benefits and rewards derived from them. Hence it shows that 34% of the members who are aware of the loyalty programs are not members.
- Most of Loyalty Programme members (35%) join Customer Loyalty Programs to get rewards and perks, 20% members have joined so as to be informed on time about special Promotions, 18% members joined to be given first preference. 15% joined to be treated uniquely 9% just joined Loyalty programme because it was being offered at the store, and 9% members joined to support a good cause. Since majority of the respondents have joined the Customer Loyalty Programs to get rewards, the benefits extended to the customers should be substantial to satisfy the customers.

### CHI Square Analysis

Table I shows that 82% of the male respondents are aware of CLPs while only 13% of the female respondents are aware of CLPs.

$H_0$ : There is no relationship between gender and customer awareness.

$H_1$ : There is relationship between gender and customer awareness.

At 5% significance level the table value is (degree of freedom = 1) = 3.8416

Since calculated value i.e, 23.929 is greater than table value,  $H_0$  is rejected and  $H_1$  is accepted.

Therefore there is Relationship between Gender and Awareness of Customer Loyalty Programs.

Table II shows that 29% of the respondents in the income group 21k – 30k are aware of CLPs, 23% in the income group 31 – 40k, 20% in the income group >40k, 12% in the income group <10k and 7% in the income group 11k – 20k are aware of the loyalty programs.

$H_0$ : There is no relationship between income group and awareness level.

$H_1$ : There is relationship between income group and awareness level.

At 5% significance level table value = 9.487

Since calculated value 13.7 is greater than table value,  $H_0$  is rejected.

Therefore there is relationship between income group and awareness level.

Table II shows that 37% of the respondents in the age group 21 – 30yrs, 20% in the age group 31 – 40 years, 5% in the age group <20 yrs and 4% in the age group >40 yrs are aware of the loyalty programs.

$H_0$ : There is no relationship between age group and awareness of loyalty programs.

$H_1$ : There is relationship between age group and awareness of loyalty programs.

At 5% significance level table value is 7.815

Since table value is greater than calculated value  $H_1$  is rejected. Therefore there is no relationship between age group and awareness of loyalty programs.

### Conclusion

Success of loyalty programs will depend on getting many things right at once, finding out what customers

want and developing a profitable retail concept, to attract the retail customer. Customer loyalty programs provide consumers with a way to reap benefits from their buying behaviour while simultaneously allowing retailers and service organisations to build a long term relationship with the customers.

Customer loyalty programs implemented and managed efficiently will result in the company gaining a competitive edge over the others, it is also beneficial if a loyalty program is simple and straightforward so customers can understand and relate to the reward benefits as well as be able to reap those rewards without excessive time and effort. The retailer should make additional efforts to enhance the awareness level of the customers. They should review the programs so as to give substantial benefits and better clarity to the customers.

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Table I: Gender wise Awareness of the Loyalty Programs

Gender	Yes	% age	No	% age	Total
Male	59	82	8	29	67
Female	13	18	20	71	33
Total	72		28		100

Table II: Income wise Awareness of Loyalty Programs

Income	Yes	% age	No	% age	Total
<10k	12	18	8	25	20
11k -20k	7	10	8	25	15
21k -30k	20	29	12	38	32
31k -40k	16	23	2	6	18
>40k	13	20	2	6	15
Total	68	100	32	100	100

Table III: Relationship between Age Group and Awareness

Age group	No of respondents				
	Yes	% age	No	% age	Total
< 20 Yrs	5	8	4	12	9
21 - 30 Yrs	37	56	19	56	56
31 - 40 Yrs	20	30	9	26	29
>40 yrs	4	6	2	6	6
Total	66	160	34	100	100