

INTRODUCTION TO LOYALTY PROGRAMS

The fierce competitive marketing environment has forced business managers to think of and implement innovative strategies to acquire and retain customers in any business. As acquiring new customers is getting costlier day by day, business organizations have offered loyalty programs to retain/reward existing customers and maintain relationships.

Loyalty programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior — behavior which is potentially of benefit to the firm.

Loyalty programs have been used in commerce for many years. But, the modern day loyalty program was launched in 1981 by American Airlines, and was quickly duplicated by other airlines and other hospitality industries including hotels, car rental companies, and credit card organizations. Recently, loyalty rewards programs have become prevalent across a variety of service industries including retailing.

Retail loyalty programs evolved when progressive retailers recognized that without a "customer identification tool," they were unable to recognize individual customers and reward them for desired behavior. So, retailers started issuing a loyalty card to a consumer (who become a member of any loyalty program), who can then use it as a form of identification when dealing with that retailer. By presenting the card, the purchaser is typically entitled to either a discount on the current purchase, or an allotment of points that can be used for future purchases.

In developed countries like USA, retailers have been implementing loyalty programs aggressively. It is estimated by Colloquy (2009) that there are 1.807 billion loyalty program memberships in the US (a 25% increase from their 2006 census) - with the average US household participating in 14.1 programs. Approximately 56% of those memberships were inactive (defined as no engagement within a 12 month period), bringing the average household active participation to 6.2 programs.

Both businesses and consumers have recognized the value of loyalty programs. Only 12% - 15% of customers are loyal to a single retailer, according to the Center for Retail Management at Northwestern University. But that small cadre of shoppers generate between 55% - 70% of company sales. Some food retailers find that as much as 65% - 95% of their sales go to members of loyalty programs (53% of food retailers offer loyalty programs with 3/4 of program customers using their loyalty cards at least weekly and 88% at least once a month).

In India, since organized retailing is in the initial stage, loyalty programs are at the nascent stage and consumers are learning to taste the benefits of these programs. But, as the share organized retail sector is growing sharply, these programs are becoming popular and are considered as an effective tool to build and manage long-term relationship with existing customers.

2. PRESENT RETAILING SCENARIO IN INDIA

The retailing industry has been present across the globe through history and is considered as one of the largest sectors in the Indian economy, contributing to around 14% to the GDP and employing around 8% of the total population. As per a study conducted by the Indian Council for Research on International Economic Relations (ICRIER), the retail sector is expected to contribute to 22 per cent of India's GDP by 2010. For decades, retailing in India has been highly fragmented i.e. unorganized, due to the presence of huge no. of small mom-n-pop stores. India has the highest shop density in the world, with 11 outlets per 1000 people much higher than the countries like USA, UK, France, Singapore etc. It is estimated that India has one store for every 20-25 families, while in Delhi it is estimated that there are close to 45 shops for every 1000 persons. The study was conducted by FICCI, which also estimates that of the 12 million retail stores in India, 96% are less than 500 sq ft.

Table 1
INDIA RETAIL MARKET (at prevailing market prices)

INDIAN RETAIL MARKET (Rs. Crore) SOURCE: Images F&R Research					ORGANISED RETAIL (Rs. Crore)	
Retail Segments	2006	2007	Growth 2007 > 2006 (%)	2006	2007	Growth 2007 > 2006 (%)
Clothing, Textiles & Fashion Accessories	113,500	131,300	15.7	21,400	29,800	39.3
Jewellery	60,200	69,400	15.3	1,680	2,300	36.9
Watches	3,950	4,400	11.4	1,800	2,150	19.4
Health & Beauty Care Services	3,800	4,600	21.1	400	660	65.0
Pharmaceuticals	42,200	48,800	15.6	1,100	1,540	40.0
Consumer Durables, Home Appliances/equipments	48,100	57,500	19.5	5,000	7,100	42.0
Mobile handsets. Accessories & Services	21,650	27,200	25.6	1,740	2,700	55.2
Furnishings, Utensils, Furniture-Home & Office	40,650	45,500	11.9	3,700	5,000	35.1
Food & Grocery	743,900	792,000	6.5	5,800	9,000	55.2
Out-of-Home Food (Catering) Services	57,000	71,300	25.1	3,940	5,700	44.7
Books, Music & Gifts	13,300	16,400	23.3	1,680	2,200	30.9
Entertainment	38,000	45,600	20.0	1,560	2,400	53.8
TOTAL	1,200,000	1,330,000	10.8	55,000	78,300	42.4

As per Images F&R research 'India retail report 2009, organized retailing in India accounts for 5.9% (Rs. 78300 Cr) of Rs 1330000 Cr total retail market in 2007. While the total retail market grew at the rate of 10.80% annually, the organized retail market grew at the rate of 42.4 per cent in 2007, and is expected to maintain a faster growth rate over the next three years, especially in view of the fact that major global players and Indian corporate houses are seen entering the fray in a big way. Even at the going rate, organised retail is expected to touch Rs.2,30,000 cr by 2010, constituting roughly 13 per cent of the total retail market. The share of organized retail grew almost 100% during 2004-07

SHARE OF ORGANISED RETAIL TO TOTAL MARKET

Retail Segments	% Organised			
	2004	2005	2006	2007
Clothing, Textiles & Fashion Accessories	13.6%	15.8%	18.9%	22.7%
Jewellery	2.0%	2.3%	2.8%	3.3%
Watches	39.6%	43.5%	45.6%	48.9%
Footwear	25.0%	30.3%	37.8%	48.4%
Health & Beauty Care Services	6.0%	7.6%	10.6%	14.3%
Pharmaceuticals	1.8%	2.2%	2.6%	3.2%
Consumer Durables, Home Appliances/equipments	7.8%	8.8%	10.4%	12.3%
Mobile handsets. Accessories & Services	6.5%	7.0%	8.0%	9.9%
Furnishings, Utensils, Furniture-Home & Office	6.7%	7.6%	9.1%	11.0%

Food & Grocery	0.5%	0.6%	0.8%	1.1%
Out-of-Home Food (Catering) Services	5.7%	5.8%	6.9%	8.0%
Books, Music & Gifts	9.8%	11.7%	12.6%	13.4%
Entertainment	2.6%	3.3%	4.1%	5.3%
TOTAL	3.0%	3.6%	4.6%	5.9%

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A decade ago, retailers were seen merely as the last element in the supply chain with a function to make a wide range of manufacturer's products available to the final consumers. They were totally dependent on and so dominated by reputed manufacturers with no option left other than to stock manufacturer's brands and push them forward to the consumers, even at lower profit and terms & conditions dictated by the manufacturer. Moreover, Retailing was not considered as a prestigious sector enough to attract reputed business organizations.

While retailing industry is probably as old as Indus valley civilization, it is only in the recent past that it has witnessed so much dynamism and corporate attention. It is the latest bandwagon that has witnessed hordes of big players like Tata, Birla, Reliance, Pantaloons groups etc. leaping into it. The entry of big players in retailing has caused a major revolution in its marketing strategies and innovations. Now Retail sector, being considered as the most dynamic and attractive sector in India, is going through a transition phase. For a long time the small stores were the only choice available to the consumer. This slowly is giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of Hypermarkets/supermarkets/grocery chains (FoodWorld, Apna Bazaar, Food bazaar, Reliance fresh etc.) and fast food chains (McDonalds, Dominos etc.).

However it is in the Non-food segment that the foray has been made into a variety of new sectors. These include Apparel & Lifesyle/Fashion segements (Westside, Shoppers' Stop, Lifestyle, Pantaloons, Reebok, Koutons etc), Books/Music/Gifts (Archies, Musicworld, Crosswords, Landmark etc), Appliance & Consumer durables (Viveks, Jainsons, Vasant & Co. etc), Drugs and Pharmacy (Health & Glow, Apollo etc.).

India's organised retail sector is gearing up for an exciting phase even in the infrastructural front. It is striving to rise above the traditional retail formats. From only 03 malls in the year 2000, to 25 malls in 2003, the country has 172 malls offering just over 52 million square of space in 2009. IMAGES F&R research study reveals that by the first quarter of 2011, India can expect to have nearly 120 million square feet of total mall space available through about 350 malls

3. LOYALTY PROGRAMS IN INDIAN RETAIL SECTOR

It is only in the recent past that loyalty programs, as a part of customer relationship practices, have been implemented in organized retail sector as a tool to build and manage long-term relationship with existing customers. Now, retailers like Pantaloons, Westside, Shoppers stop, Subhiksha etc. have started concentrating on providing more value to their valuable customers using targeted promotions and services to increase their share of wallet - the percentage of the customers' purchases made from these retailers – with these customers.

Most of them have developed and implemented Loyalty programs i.e. Frequent shoppers program based on the concept of rewarding existing customers for continuing patronage through a combination of priority services, price-offs or discounts, product reviews and so on. These programs based transaction data helps the retailer offer more focused productive-mix, so that the slow moving SKUs is substituted with faster-moving ones. Examples of such programs offered by some retailers are illustrated below.

3.1 PANTALOONS "GREEN CARD"

Green card provides membership plus has a provision of 12-months purchase based upgrading system. It is divided hierarchically into 1 star, 3 star, 5 star and an exclusive 7 star. Getting a green card issued is quite easy but for retaining one star status, one has to make a purchase of Rs 7500 within two years of card issue date. 1 Star status can be upgraded to a 3 star, 5star and 7 star status by shopping for Rs. 7500, Rs. 15,000 and Rs. 40,000 respectively immediately preceding 12 months of current shopping date. All are entitled to a range of benefits and privileges.

1 star members gets a gift voucher of Rs. 150 on new enrolment, while 3star, 5star, and 7star members get a discount of 5%, 7.5% and 10% respectively. All members get special privilege of End of season Sale preview, special billing counter during End of Season sale, special service desk for handling all queries and providing information, free car parking (Except 1 star members), exclusive shopping offers

sent to members on a regular basis through SMSes, e-mails, and telephones and exchange of products within 60 days of purchase (90 days for Seven Star members). 5 star and 7 star members get an exclusive privilege of free home delivery of purchases around the year. Beside this, 5 star earn one reward point for every Rs 25 purchases as against Rs 50 spent at entry level i.e. 1 star.

3.2 WESTSIDE'S "CLUB WEST"

ClubWest is a two-tier rewards program, which comprises Clubwest **Classic** and **Clubwest Gold**. A purchase of Rs 2000 and Rs 5000 on the same day entitles a customer to a complimentary membership into Clubwest Classic and ClubWest Gold respectively. Alternately, one can enroll into Clubwest Classic by paying a nominal one-time fee of Rs 150. All members are entitled to a range of benefits like dedicated Clubwest desk for a member's assistance at each of the stores, Exclusive shopping hours only for members during sales, Advance intimation of all in-store promotions and special offers through direct mailers, and a special discount on dining at select restaurants round the year. Besides these benefits, members can earn reward points on every purchase. Classic members can earn one point for every Rs 50 spent and Gold members can earn one point for every Rs 50 spent at any of the stores.

CONCLUSION

This is to conclude that the organized retailing in India is progressing towards a tough competitive environment where only those retailers would survive who can understand their customers and develop a strong bond with them by developing and implementing appropriate loyalty programs effectively. Effective implementation of loyalty will definitely help in increasing the number of visits by customers and revenue per customer visit, increasing the retailer's share of wallet of customers, increasing cross-selling and up-selling opportunities through bundling of products across categories and improving the efficiency of supply chain management and forecasting. Hence, in the time to come, loyalty program is going to be the most dominant marketing tool to enhance the customer loyalty and overall retailer performance.

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