

## A STUDY OF CHANGING TRENDS IN CUSTOMER LOYALTY PROGRAMS IN INDIA

Syed Tabrez Hassan\*

### Abstract:

As we see in current scenario, retail business is getting excessive competitive. Even though retailers and business firms differentiate on basis of products and price but still these strategies remain imitable. In search of warding off the competition, firms focus on keeping their old customers intact rather than searching and spending on strategies for new customers always. A customer loyalty program is such tool which gives a reason for customers to stay loyal to your company if it has been devised in a proper way. With the advent of new trends among customers and the new technology adaptation, customer loyalty programs also have undergone lots of change and for good. In this paper we tried to understand these changing trends and its impact on business in Indian context.

\* School of Business, Lovely Professional University, Delhi-Jalandhar Highway (NH-1), Phagwara, Punjab, India

A Monthly Double-Blind Peer Reviewed Refereed Open Access International e-Journal - Included in the International Serial Directories Indexed & Listed at: Ulrich's Periodicals Directory ©, U.S.A., Open J-Gate as well as in Cabell's Directories of Publishing Opportunities, U.S.A.

**International Journal of Management, IT and Engineering**  
<http://www.ijmra.us>

**Intoduction:**

A loyalty program is a business initiative taken by most of the business house for developing long lasting relation with most valuable customers. One of the important issues to most of the business entity is whether to place more focus on customer acquisition or go with the customer retention. Definitely, both are extremely important to making any business a success, however, if a company doesn't care what happens to a customer after they are with your business, the company will have a high attrition rate and not do well in long-term. Going with simple Pareto's optimality– "80% of sales are generated by 20% of the customers."<sup>1</sup>

So, the basic idea behind a customer loyalty program is to gain a bigger share of customer spending by rewarding them for shopping at your store. The more money a customer spends, the greater is the reward. Sometimes rewards come in the form of discounts on products in the store. Other loyalty programs allow members to accumulate reward 'points', which they can then redeem for a variety of 'free' goods or services. There are various way of rewarding the customers, but the concept remains the same that how we can make our customers to come to our store again and again.<sup>2</sup>

**Origin of Loyalty Programs in business:**

Loyalty programs have been used in business for many years. But it is said to be originated in Germany where price based competition was disallowed by governmental restrictions in certain industries. Companies were planning with new ideas where they can attract more and more customers without having the price war among them. In the 1950s, a company called Sperry and Hutchins(S&H) issued S&H Green Stamps. Retailer used to buy these stamps and reward it to their customers for their purchases. These Stamps carried certain points and after accumulating certain points, customers were free to redeem it at grocery stores, petrol pumps and home appliances store (*Exhibit 1*). 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.<sup>3</sup>

**What data they collect and how it is used?**

For offering a loyalty program offer to their customers, company generally captures following data –

- Age and gender

- Location – e.g. home address, most visited/highest value store
- Products purchased – by category, brand
- Frequency of purchase – e.g. every week, last six months
- Transaction value – e.g. average basket size, average category purchase
- Basket analysis – which product purchases correlate with other characteristics (Such as gender/age/cross-promotions)
- Customer behaviour – response to promotional offers and other marketing<sup>4</sup>

After having a database of information, a company can send a promotional offer to all of them about any offers for product awareness. Or, let's say, women are thought to respond for cosmetic products more likely than men, so an offer for a cosmetic product can be sent only to women by filtering the "gender" among its database and can save certain promotional cost. The "currency" offered on a loyalty programs are rebate programs/cash back offers, discount programs, or point programs.<sup>5</sup>

#### **Benefits of the loyalty programs:**

The major benefit that any company looks forward to is retaining the customer for a longer time. The cost of acquisition of customers occurs only at the beginning of a relationship, the longer the relationship, the lower the retention cost. Long term customers may initiate free word of mouth promotions and referrals. They tend to be satisfied with their relationship with the company and are less likely to switch to competitors. Also, they tend to be less expensive to service because they are familiar with the day to day processes involved in a certain business.<sup>6</sup>

#### **Indian Scenario: Changing Trends**

Loyalty programs have been active in India since 1995, when British Airways launched the south Asia version of its Executive Club frequent-flyer program in India. That year, Shoppers Stop, launched its First Citizen Club, one of India's best known loyalty programs. (Exhibit 2)

Today, loyalty efforts have penetrated every major vertical, like, hospitality, travel, retail, telecoms, media outlets and consumables. Generally, in Indian context, we presume a "loyalty program" as a retailers' program which is tracked by an ATM like card given to the customers. But, there are lots of flagship loyalty program which has changed the course of the business. There are examples like, bank's credit and debit cards which let you to accumulate points everytime you shop and these points can be redeem later. Hero Honda (now Hero MotoCorp) came with Hero Honda Passport program. Also, company like i-Mint came with different loyalty

program tied up with various companies. BPCL PetroBonus fuel card, Maruti Suzuki Autocard, Kingfisher airlines FFP King club, Lifestyle Innercircle, HyperCity Discovery Club are the other prominent examples. We have also seen magazine companies offering free gifts or holidays for its long term subscription.

One example worth mentioning is “T24 Unpaid Mobile offered by Future group”. Future Group with the help of Tata Telecom has launched this mobile connection. The main highlight of this mobile service is that customers will be rewarded with free talk time for shopping in Big Bazaars or Pantaloon stores at certain price levels.

For example, if a customer spends Rs 2,001 in Big Bazaar, he/she would gain Rs 150 worth free talk time. Even if the purchasing ticket size is as low as Rs. 251, customers get a minimum recharge of Rs.10 on their T24 mobile connection. Customers will also be rewarded with special deals and promotional schemes at Future Group stores every time they buy paid recharge. Thus, it is a out-of-the-box way of retaining customers and adding a loyalty program for your business.<sup>7</sup> (Exhibit 3)

#### **Loyalty programs goes Hi-Tech :**

With the advent of technologies and smartphones, Loyalty programs are vastly becoming “card-less”. Some mobile phone apps, like CardStar and CardBank, stores existing loyalty cards on cellphones with scanable barcodes. And companies including Motorola and a start-up called mFoundry are providing retailers with the technology to build cellphone loyalty cards.

Loopt is one of several start-ups — including Foursquare, Shopkick and Gowalla — that are experimenting with ways to use cellphones to bridge the digital and physical worlds and turn the tasks of everyday life, like buying coffee, into a game. Loopt, one of the first services to let people use cellphones to share their location with friends, is taking its concept a step further by introducing Loopt Star, a mobile game that rewards people for frequently checking in to particular places. People will compete to earn “achievements” and become “boss” of certain locations, and Gap, Burger King and Universal Music plan to use Loopt Star to reward loyal customers. Starbucks has its own iPhone loyalty card, built by mFoundry. Customers collect stars in a cup on their phones every time they make a purchase and get a free drink every 15 visits<sup>8</sup>

### Conclusion

In general, loyalty programs are often developed with good intentions but sometime, if it doesn't deliver the companies' objective it better be scrapped or upgraded as per existing trend. While retail loyalty programs have many purposes, the greatest value that is created for retailers is the ability to identify individual customers and to measure and understand their individual behaviors. This consumer behavior data is much more important than the "currency" value which is provided to the costumers. With the fierce competitions growing up day by day, companies are flexing there minds to come with new ideas in loyalty program and add value to their customers and retain them for longer period of time.





Exhibit 1

S&H Green Stamps<sup>2</sup>



**Exhibit 2**

First Citizen Club<sup>10</sup>



**Exhibit 3**

Recharge Value with every purchase<sup>11</sup>

T24: Shop More, Talk More Plans (in Rs)					
Big Bazaar & Food Bazaar		Pantaloan, Central & Brand Factory		Ezone & Home Town	
Bill Amount	Free Talk Time	Bill Amount	Free Talk Time	Bill Amount	Free Talk Time
251 - 500	10	501 - 1000	20	1000 - 5000	50
501 - 1000	20	1001 - 3000	50	5001 - 10000	100
1001 - 1500	50	3001 - 5000	180	10001 - 20000	250
1501 - 2000	90	Above 5000	350	Above 20000	500
Above 2000	150				

<sup>1</sup> <http://www.costpernews.com/archives/customer-acquisition-vs-customer-retention-which-is-more-important/> accessed on 10 June 2013

<sup>2</sup> <http://www.buseco.monash.edu.au/centres/acrs/research/whitepapers/hidden-side-of-loyalty.pdf> accessed on 16 June 2013

<sup>3</sup> <http://www.crm-trends.com/loyalty.html> accessed on 17 June 2013

<sup>4</sup> <http://www.buseco.monash.edu.au/centres/acrs/research/whitepapers/hidden-side-of-loyalty.pdf> accessed on 16 June 2012

<sup>5</sup> <http://www.crm-trends.com/loyalty.html> accessed on 13 Mar 2013

<sup>6</sup> Buchanan, R. and Gilles, C. (1990) "Value managed relationship: The key to customer retention and profitability", *European Management Journal*, vol 8,

<sup>7</sup> [http://articles.economic-times.indiatimes.com/2011-02-10/news/28432018\\_1\\_mobile-service-t24-mayur-toshniwal](http://articles.economic-times.indiatimes.com/2011-02-10/news/28432018_1_mobile-service-t24-mayur-toshniwal) accessed on 18 May 2013

<sup>8</sup> <http://www.nytimes.com/2010/06/01/technology/01loopt.html?hpw> accessed on 16 May 2013

<sup>9</sup> <http://www.postagestampsidea.com/tag/sh-green-stamps/> accessed on 10 Feb 2013

<sup>10</sup> <http://www.squidoo.com/loyaltycards> accessed on 10 Feb 2013

<sup>11</sup> <http://www.medianama.com/2010/06/223-selling-mobile-numbers-like-credit-cards-tata-launches-retail-telecom-brand-t24-with-future-group/> accessed on 10 Feb 2013