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DEVELOPMENT OF LOYALTY PROGRAMS: AN INTEGRAL TOOL IN THE MARKETING PROCESS

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ABSTRACT

We live in a business environment, where the only constant is change. In today's furiously paced environment, as customer needs are changing by the minute, his preferences no longer fixed, and where change has become a norm rather than an exception, Businesses are being made to revamp and innovate, or else watch other companies fly past them, and force them towards extinction. Marketers, especially in India, which boasts of the largest Middle-Class anywhere in the world, are gearing up to face this unprecedented demand by innovation, in a bid to capture the maximum 'Share of Wallet'. One of the efforts in this regard has been the launch and subsequent flood of 'Loyalty Programs' worldwide. Every company dealing with consumers, and even without it, is joining the Band-wagon of loyalty program offerings. The rush to retain the customer and coax him to spend more and more on their products and services, is becoming maddeningly obvious. Loyalty programs offer an incentive to the customer by rewarding him for spends at single entities. They also help in retention, research, new product launches, and a host of other activities. As marketers start focusing on utilizing the Loyalty Programs in numerous ways, there is a need to understand various other nuances of a loyalty program. In this study we would be looking at the Loyalty Programs from a number of perspectives, including the growing importance of such offerings, the strategic outlook of the companies launching these programs, the customer expectations from these programs, and find if any disconnect exists between the customer and company objectives that they wish to achieve from this program. We share our findings from the primary survey, and try to analyze them in light of previous research. Based on the study we also outline future line of research that can be adopted to make this study more relevant.

KEYWORDS

loyalty programmes, marketing process.

INTRODUCTION

As marketing evolved from being company and production oriented to benefits and then relationship based, novel tools were created and developed to increase customer satisfaction, which was fast becoming the new mantra for the marketers. As times changed and as the consumer got more spoilt for choices, and as the companies got more dependent on him for survival, retention of the customer fast became critical to the marketer. As the competition grew stronger, and the ability to survive became crucial, focus kept shifting on Innovative and novel ways of gaining competitive advantage. To survive in such a scenario, Marketers felt the need to stretch the boundaries and innovate to keep ahead of the competition. One of the most innovative and effective tools provided by Relationship marketing is that of Customer Loyalty Programs (CLP). Though there are various facets to the concept of Loyalty Programs. In this study I have addressed the issues of Customer expectations, and its implication on the future of Loyalty Programs as a powerful marketing tool. I have also looked at some other aspects including Redemption processes. However the Loyalty Program also needs to be studied in detail from the Company's point of view, including financial viability, process sustainability, and most importantly as a tool that actually delivers on its promise. Also, with hoards of Loyalty Programs flooding the market, with each company trying to outdo each other, further study needs to be carried out to find whether the Loyalty Program is actually providing the company with competitive advantage. Loyalty Programs have to be two-way win-win tools, and for it to be successful it is imperative that the Company also gains, both in terms of Profitability as well as Competitive superiority.

RESEARCH DESIGN

There have been a number of studies done on Loyalty Programs ranging from behavioral to the mechanics aspect of the programs. However as Loyalty programs evolve and grow in magnitude, the scope of loyalty program needs to be redefined. With huge investment being put in to ensure customer loyalty, and the bottom-line getting effected, we feel that loyalty programs have more to offer than what has been derived by the companies. Our ultimate objective is to define a framework that allows the widening of the scope and range of the loyalty programs.

This study has been undertaken to provide a ground for developing the above mentioned framework. Hence in this study we use Exploratory Research, which would help us not only get a thorough understanding of the mechanics, scope and behavior aspects of loyalty programs, but also help in identifying and formulating areas for further research, which would enable us to meet our final objective. The exploratory nature would also help us in isolating key variables and relationships for further examination, which I propose to do for my final thesis. The idea is to gain insights into the working of this marketing tool, and use them to further the defined cause.

METHODOLOGY

The primary survey was conducted in two phases, firstly through Focus Group Discussions, and then through a questionnaire survey.

FOCUS GROUP DISCUSSION

The focus group discussion was held to gain insights and find information that would help in the structuring of the questionnaire, which would be administered to a much larger audience. The focus group was made of 8 members, 6 of whom were members of at least one loyalty program and the other 2 were aspiring to be members of a loyalty card soon. Out of the 6 members who already owned a loyalty program membership, 3 held multiple memberships, and the other three had a single membership. All the group members were in the age-group of 23 to 28 years. All of them were Post Graduate students, and were spending in excess of 50 thousand rupees per annum. While this might not have been a fully representative sample of the target audience of loyalty programs, they had the advantage of belonging to the category which would be opinion leaders tomorrow. Hence these ideas would be insightful and help us further develop the research objectives

RESPONDENT SURVEY

The next step after the FGD was to design the questionnaire which could be administered to the selected respondents. The questions were based on the ideas that cropped up during the FGD. Some questions that were put in the questionnaire did not give us any meaningful insight, and would be dropped in the next phase. Some questions required more in-depth information, and would be included in the next phase.

SAMPLING

The questionnaire was sent by email to 150 potential respondents. It was also personally administered to 23 respondents. We got a total of 83 responses including the 23 personally administered ones. The sampling was random in nature, though it may not be a fully representative sample of the target audience. However all the respondents were in the target audience themselves, and hence it should not have a negative bearing on the final results. To avoid any ambiguity that the questionnaire may have, a list of instruction on answering the questions was enclosed.

THE FOCUS GROUP DISCUSSION

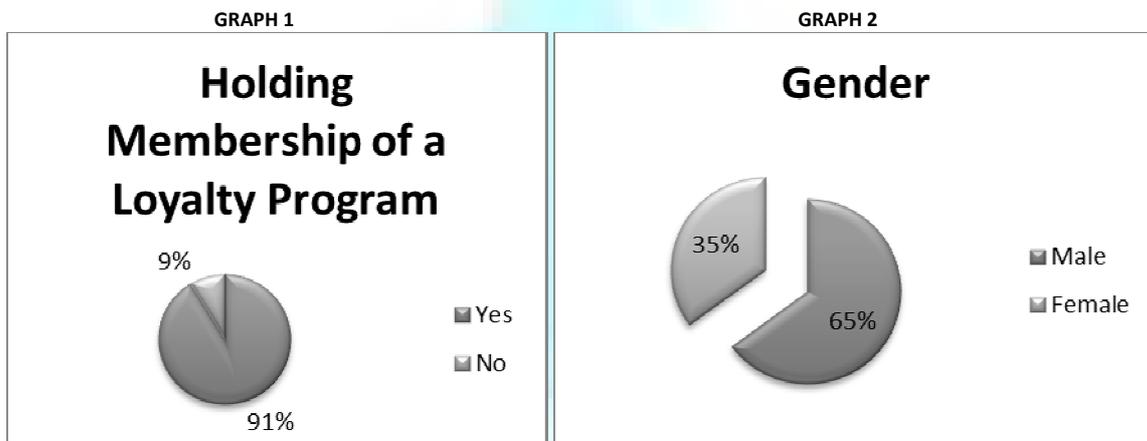
The FGD threw up some interesting observations, and helped me develop some interesting insights. It also helped develop the questionnaire which was later administered to more than 80 respondents. Some of the key points are detailed here.

✓ Most people want to own memberships of loyalty programs

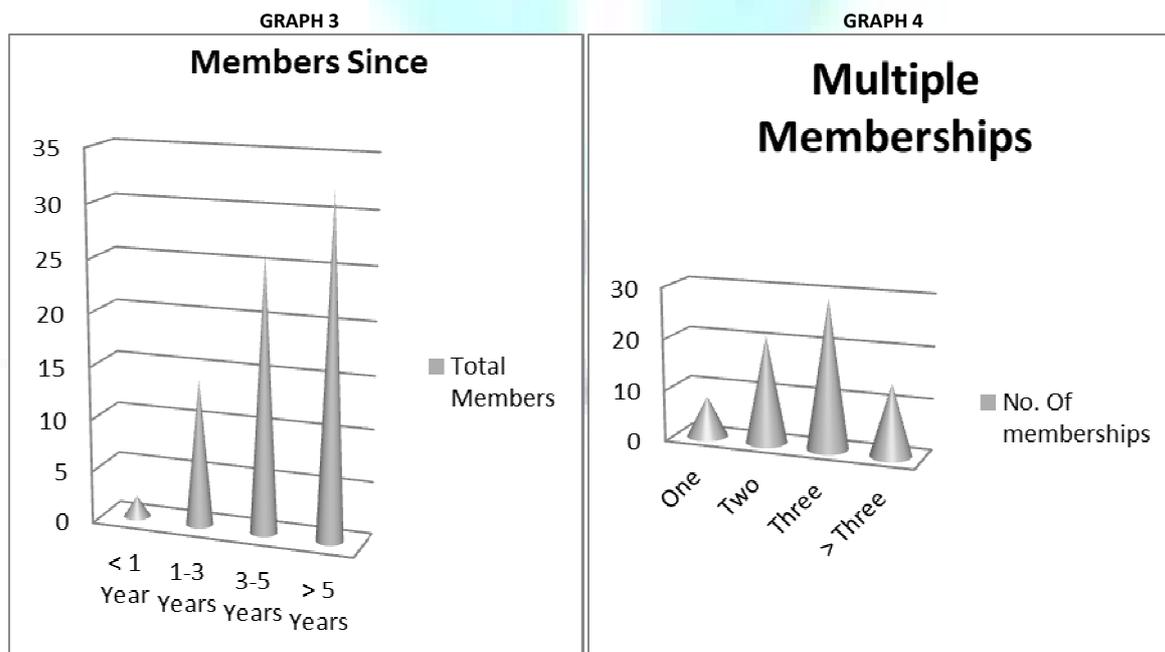
- ✓ Owning these programs gives them a sense of power, a sense of belonging
- ✓ The discounts offered help them stretch their income
- ✓ Getting special privileges gives them status symbol
- ✓ Tele-Check in and home deliveries are really convenient
- ✓ Holding multiple loyalty program is necessary, else one feels restricted for choice
- ✓ Companies take too much time to send gifts/rewards
- ✓ All redemption process must be made online for convenience
- ✓ Programs that offer exclusivity are more sought after, as compared to programs that offer discounts
- ✓ Most members were irritated with the number of calls they get from salespeople
- ✓ Sharing of databases should not be allowed
- ✓ They believe companies are contacting them for frivolous reasons
- ✓ Most members tend to throw away all written communications sent by companies, or delete them if sent by mail
- ✓ Company should only contact them in case of real worth
- ✓ Most of them felt they would never approach a company for enrolling in a program
- ✓ Inducements were not a major worry
- ✓ None of them believed in the on the spot 'Sales offers' that are provided by the retailers. They had more faith in loyalty program offerings

RESULTS (PRIMARY SURVEY)

The primary survey helped us come up with some surprising results. As expected and in keeping with today's norm, more than 90 percent of the respondents were holding a membership of at least one Loyalty Program. The gender distribution of male to female respondents suggested that loyalty programs are no longer restricted to the male population, and its acceptance is now becoming universal in nature.



One of the questions asked pertained to the duration of the membership. Again it was not really surprising to note that most members had been part of a loyalty program for at least three years. Almost 65 percent of the respondents had been members of a loyalty program for at least 3 years and just about 3 percent had become member during the last one year. This once again proves the fact that Loyalty Programs have been on the rise and are now becoming a way of life. More importantly the second graph tells us that only about 11 percent of the respondents had been holding single memberships, and that almost 90 percent of the respondents were holding multiple memberships. This is again in agreement with our secondary research which suggested that there is an overflow of loyalty programs in the market, and an overkill of the concept is fast becoming a reality.

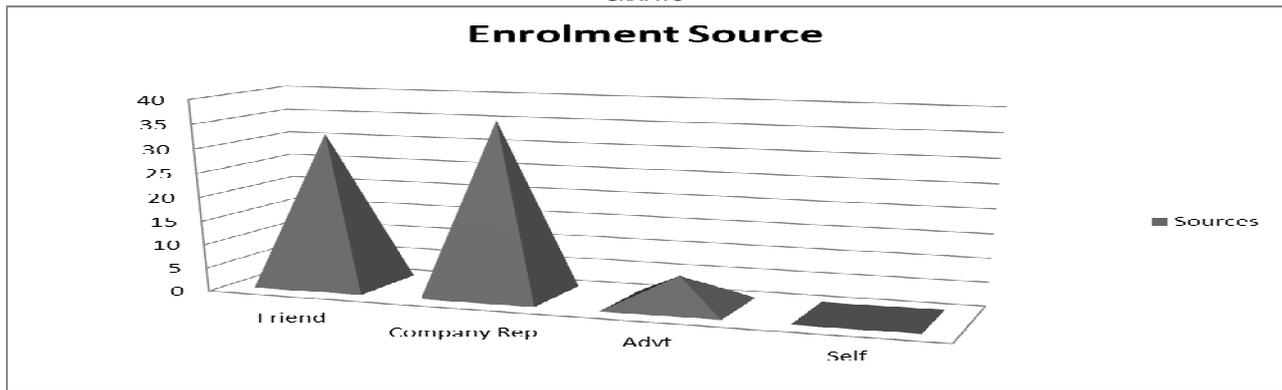


We have also been talking about the Bounded Rationality concept, and how increasingly the loyalty program industry is crossing the threshold limit of an average customer.

The membership enrollment process provided some interesting insights(Graph Nine). While it was normal to accept that company representatives would be the highest source of enrollment, the surprising result was that friend's references accounted for nearly 43 percent of the membership enrolments. This could be

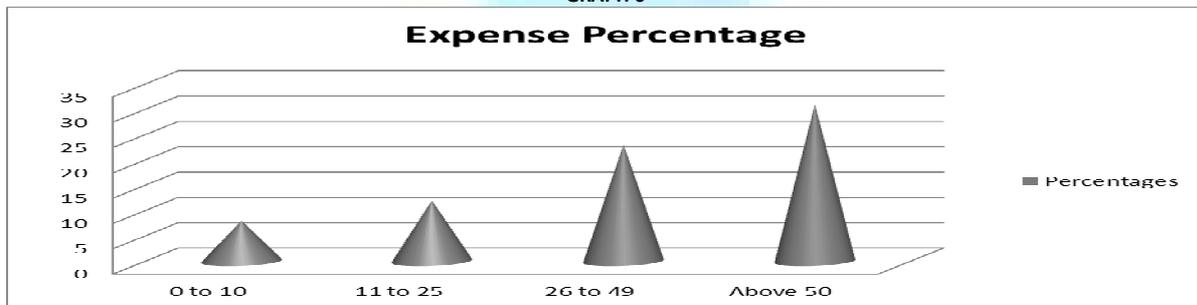
attributed to the fact that most companies have excellent referral schemes in the offering, which provide huge incentives for members in case they referred their family and friends.

GRAPH 5



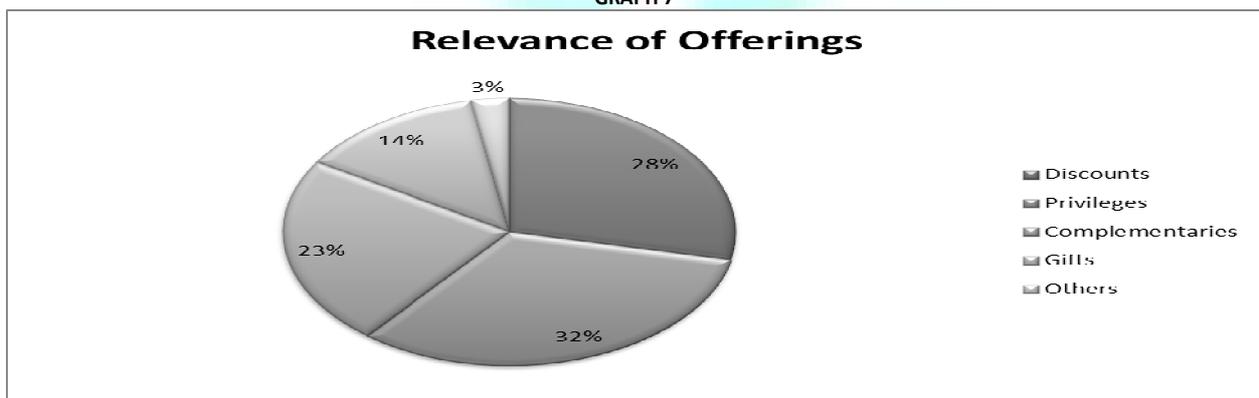
Advertisements through catalogues, magazines and other sources accounted for less than 10 percent of the total enrolment. Most of these tend to happen during in-flights or while shopping/dining when they may happen to notice a catalogue or poster or may get approached by the staff. However of all the respondents surveyed, not even one had become member of a loyalty program on his own accord, or because of self-interest. This is contrary to our finding where 100 percent of the respondents who were not a member of any loyalty program wanted to enrol in some program or other. There appears to be a disconnect between the need and the purchase process. One of the reasons could be that most of us have got desensitized due to the numerous sales calls that we receive at all times of the day. This once again is in keeping with one of the recent trends that we had earlier mentioned about customers getting put-off due to the feeling of loss of privacy. Even in our primary survey loss of privacy was the second biggest disadvantage as perceived by the respondents. There is a major lesson in this for the marketing companies. They have to ensure that the process of enrollment is as smooth as the process of maintaining loyalty programs. With loyalty programs and database marketing all set to enter a much more intense phase, maintaining customer satisfaction would be one of the biggest challenges for the companies in the future.

GRAPH 6



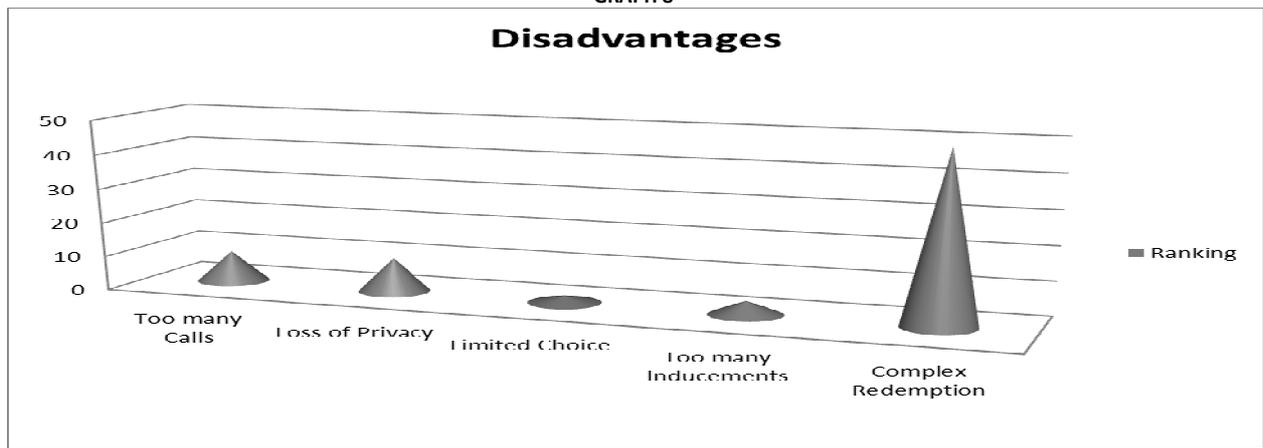
One of the important parameters of success of any loyalty program is the percentage of spend that the customer makes through the loyalty program. The objective of the marketing company is to ensure that the customer uses his loyalty program as frequently as possible, and a higher percentage would mean frequent use. More than 70 percent of the respondents used their loyalty programs for at least 26 percent of their total expenses, and almost 45 percent of the respondents used their loyalty programs for at least 50 percent of their total expenses. While these may sound good figures to the loyalty program owners, we should also remember that 65 percent of the respondents had at least three memberships and almost 90 percent of the respondents in the above 25 percent bracket were holding at least three loyalty program memberships. Even then it is clearly evident that loyalty programs are fast becoming a part and parcel of the daily life of an average customer.

GRAPH 7



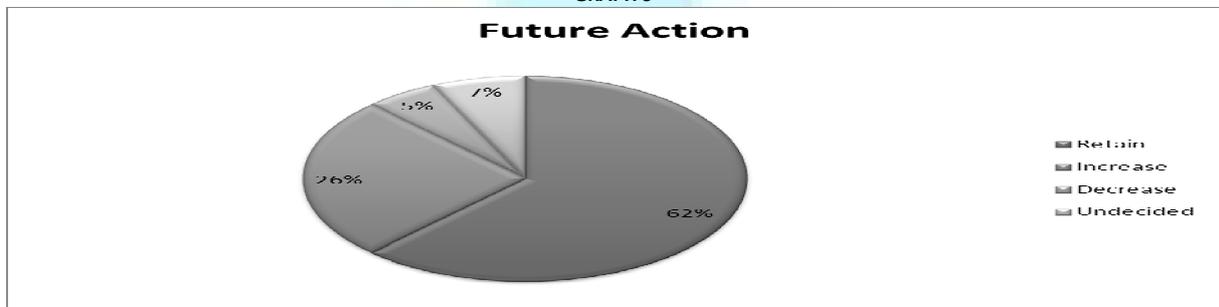
Loyalty programs today offer many more features than just plain discounts. As customer needs have evolved, companies have tried to keep pace with them and extended the nature and width of offerings through their loyalty program memberships. Monthly expense statements, expense analysis, MIS reports, tracking systems, F&F offers, and a host of other features aimed at affecting the day-to-day life of the customer. As one company started offering something different, the others had to follow suit, and we now have reached a state where an average loyalty program comes with at least 9 different features. We tried to find out in our survey as to what the customer thinks about these features, and how relevant he finds them in satisfying his daily needs. As expected the features of discounts, privileges, offers and gifts dominated the results. 97 percent of respondents perceived these offerings to be relevant. More importantly hardly anyone was enamored by the other features that accompany a loyalty program today. It is a clear message to the companies that they should concentrate on hard benefits and not unnecessary features. Another very interesting fact that the survey revealed was that more than 80 percent of the respondents who chose privileges as the most relevant offering, were actually in the bracket that spends more than 50 percent through the loyalty program. This is surprising because a good discount structure would help them save substantial amount of money, but they still get more enamored through privileges. This again is in keeping with our earlier suggestion that today's customer has an increasing propensity to spend, and status need is becoming more important to him.

GRAPH 8



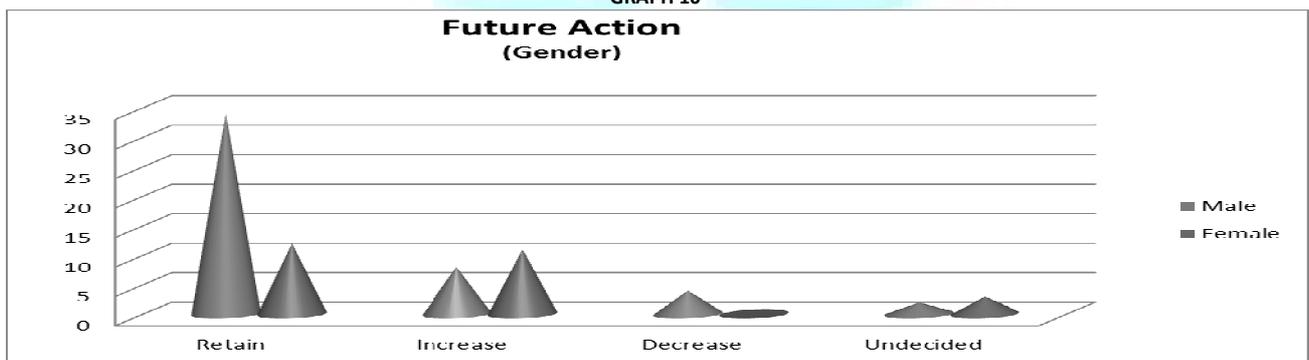
Once we have looked at the advantages, it was but natural that we also gauge customer opinion about the various negatives that come with a loyalty program. Once again the results were in keeping with our findings during the secondary survey and the literature review. Company's complex and unfriendly redemption process was one of the major sources of discontent of the customer. Two-thirds of the respondents ranked this feature as one of the biggest disadvantages of a loyalty program today. Also more than one-fourth of the respondents found numerous sales calls, and loss of privacy as the main disadvantage of loyalty programs. We have already talked about both these features in detail, and would only suggest that companies take a more serious view of these responses.

GRAPH 9

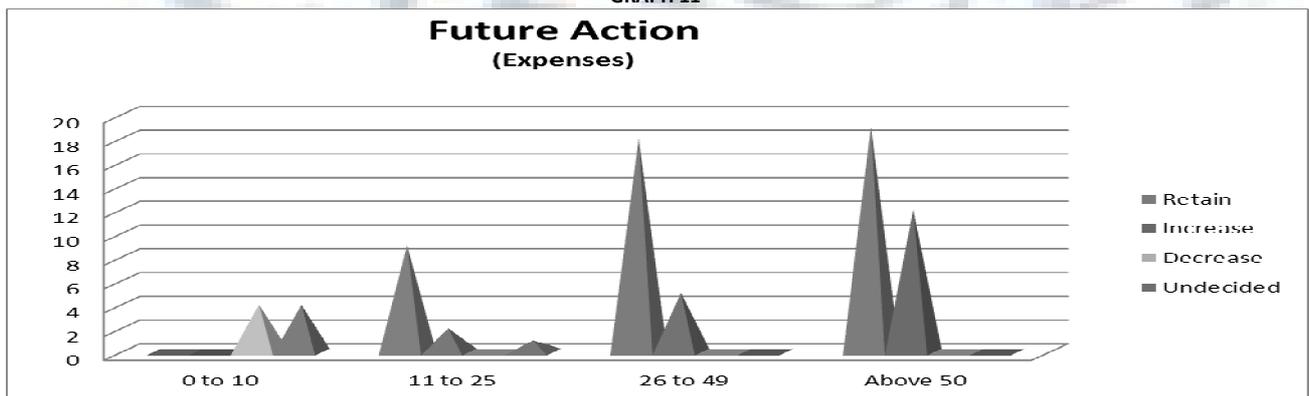


We know that because of an overflow of loyalty programs and host of other reasons that we have already outlined, customers are getting increasingly dissatisfied with loyalty programs and there is an irritation that seems to be setting in. We tried to gauge future customer responses to the loyalty programs, provided things remained the same as they are today. Despite the negatives associated with the Loyalty programs, more than 60 percent of respondents mentioned that they would be retaining their memberships and more than one-fourth of the respondents said that they would be increasing their loyalty programs memberships. This is great news for the companies owning the loyalty programs, and is in total sync with findings during the discussions with the industry experts. Just about 5 percent of the respondents wanted to decrease their memberships, and about 7 percent were undecided about the same.

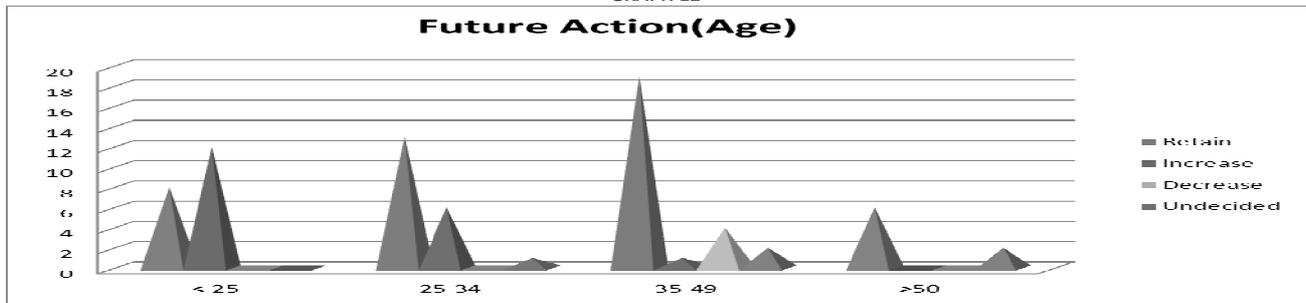
GRAPH 10



GRAPH 11



GRAPH 12



We also analyzed the results for future action further, and that gave us same interesting results. When we look at it from the gender point of view, we notice that all the respondents who wanted to decrease their memberships, and most who were undecided were male, while the Female respondents were pretty satisfied with the current state of affairs in the loyalty program industry. Looking at the future action from some other perspectives, we get some results which support our secondary survey. It is really surprising to note that more than 60 percent of the respondents who wanted to increase their memberships actually came from the category that spends more than 50 percent of their total expenses through the loyalty programs. And almost all the respondents who wanted to either decrease their memberships or were undecided, came from the category that spends less than 25 percent of their expenses through loyalty programs.

CONCLUSION

Loyal customers are the most sought after customers by the companies today. Shrinking margins, demanding shareholders and stakeholders, and increasing focus on bottom-line are making these customers crucial for a company's survival. Loyalty Programs are an integral part of the marketer's repertoire today. As competition gets tougher, and as the need for a loyal customer base increases, loyalty programs will keep gaining in relevance and importance in the company's overall marketing strategy. As a tool they not only offer competitive advantage to the company, but also opens up a host of other opportunities for the marketer. Most of those opportunities are derived from the fact that loyalty programs provide constant access to customer's habits and behavior, and companies today can build effective databases to create a comprehensive knowledge bank of the customers. These databases can help companies in improving their offerings, making them more relevant to the customer's needs, and provide further competitive advantage.

In this report we have tried to do a step by step analysis of Loyalty Programs, starting from the origins to the development and then had a critical look at the recent trends in the loyalty market. We started with a comprehensive literature review to look at the various facets of loyalty programs that helped guide this report. We did a thorough analysis of various companies' websites to understand what kind of developments are taking place in the loyalty offerings. We have talked to industry experts, to gauge an understanding of the current and future state of loyalty programs. We also conducted a primary survey to understand what the customers opine about these programs. All the research and analysis helped us arrive at the same conclusion-Loyalty programs are here to stay. Customers are finding it convenient to channel their needs through loyalty programs, and most are deriving immense advantages and benefits out of the same. There are some areas of discontent, but the companies can address them and move towards regaining customer trust. Things like respect for privacy, and over disturbance need to be looked into immediately by the companies, and they have to start looking at long term solutions now. These might be small obstacles, but they have the potential to develop into large scale calamities if not taken care of immediately. Once they can remove these seemingly small obstacles, they can derive full advantage from their customer relationships and achieve their original objectives of launching the card.

The report provides ample scope for further studies and research especially from the company's point of view. It would be important to understand the mechanics of loyalty programs from the company's financial objectives. Every tool to succeed needs to be financially viable, and a comprehensive study in that area would be really beneficial, especially from the point of view of managing customer expectations. The study could also include the mechanics of the process involved, again from the company point of view. Understanding the process, which helps design a loyalty program, would also give us an insight about the decision making authorities, and the customer understanding that the various companies possess.

Apart from the above we propose to carry this study further, wherein in-depth research could be conducted regarding the behavior of the loyalty program member. This research would focus on the behavior patterns of the customer during the buying as well the usage phase of the loyalty programs. It would help us understand the various characteristics that a customer looks for in a loyalty program, before he actually purchases it. We would also like to find out the reasons he attributes to using one loyalty program more than the other, and does that kind of behavior suggests disloyalty.

Finally our aim would be to make a comprehensive strategic and process guide for the companies. We believe that Loyalty programs could be an effective tool that can be used as part of Integrated Marketing Communication. With the amount of investment companies are putting into loyalty programs, the scope of these programs needs to be further widened in order to justify such investments. Also the programs reach out to various stakeholders of the company and have a wide audience, which would suggest that it does act as an IMC tool, even though it is not used as one. Thorough understanding of the mechanics would have far reaching consequences in achieving our objectives.

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REGRESSION RESULTS

SUMMARY OUTPUT									
<i>Regression Statistics</i>									
Multiple R	0.142759								
R Square	0.02038								
Adjusted R	-0.03589								
Standard Error	0.485815								
Observations	74								
<i>ANOVA</i>									
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>				
Regression	4	0.34371	0.085928	0.485432	0.746352				
Residual	70	16.52115	0.236016						
Total	74	16.86486							
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	
Intercept	1.5	0.171762	8.733032	8.17E-13	1.157432	1.842568	1.157432	1.842568	
0 to 10	0	0	65535	#NUM!	0	0	0	0	0
11 to 25	-0.08333	0.221743	-0.37581	0.708195	-0.52559	0.35892	-0.52559	0.35892	0.35892
26 to 49	-0.15217	0.199408	-0.76313	0.447952	-0.54988	0.245533	-0.54988	0.245533	0.245533
Above 50	-0.20968	0.192654	-1.08836	0.280168	-0.59391	0.174559	-0.59391	0.174559	0.174559

Regression Results for Gender against Percentage of Expenses

SUMMARY OUTPUT									
<i>Regression Statistics</i>									
Multiple R	0.89941								
R Square	0.808938								
Adjusted R	0.780184								
Standard Error	9.739791								
Observations	74								
<i>ANOVA</i>									
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>				
Regression	6	27311.7794	4551.963	57.58119	1.57E-24				
Residual	68	6450.720597	94.86354						
Total	74	33762.5							
	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	<i>Lower 95%</i>	<i>Upper 95%</i>	
Intercept	-5.62844	3.633160243	-1.54919	0.125979	-12.8783	1.621421	-12.8783	1.621421	
Gender	27.59099	2.81541702	9.799965	1.24E-14	21.97291	33.20907	21.97291	33.20907	
complex	0	0	65535	#NUM!	0	0	0	0	0
privacy	4.185489	0.868856556	4.817238	8.5E-06	2.451712	5.919265	2.451712	5.919265	5.919265
calls	3.808777	0.837629887	4.547088	2.3E-05	2.137313	5.480241	2.137313	5.480241	5.480241
induc	3.491077	0.923441899	3.780505	0.000332	1.648377	5.333776	1.648377	5.333776	5.333776
choice	3.420923	1.053804598	3.246259	0.001816	1.318089	5.523757	1.318089	5.523757	5.523757

Regression Results for Gender perception of Disadvantages

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