

# Loyalty Programs and Their Importance

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**Abstract:** In today's world, it is considered of great importance to retain customers as they are only loyal to their convenience. The launch of the loyalty programs was a result of the dynamic environment of the Indian retail market which forced the retail agencies to focus largely on customer retention. A company offers its loyal customers with rewards programs which includes incentives such as entry into exclusive events, free merchandise, discounts, coupons, points, etc. to increase their customer base as well as enhance customer retention. The goal of this study is to obtain a deep understanding of the ideologies used by Indian companies such as Van Heusen, Westside India and Pantaloons India Ltd. while developing their loyalty programs and also understand the techniques used for developing them. The importance of the loyalty programs has also been determined. **Aim or Need of Study:** The purpose of the paper is to study about the different types of loyalty programs introduced by various brands like Van Heusen, Westside India and Pantaloons and thus determine the importance of these loyalty programs. **Methodology:** To achieve the objectives of the study, secondary data in the form of news reports, case articles and research papers were consulted and existing literature on the subject was thoroughly reviewed. **Results:** The study revealed that loyalty programs have become a crucial part of customer retention and have become an expected part of consumer experience. They also help to attract new customers either through the good word of mouth spread by the existing customers or by the unique loyalty programs they offer which catches the eyes of the customers. This has a major contribution in achieving the main objective of business i.e. maximising the profits.

**Keywords:** Loyalty Programs, customers, Customer Retention

## 1. Introduction

Loyalty programs are rewards programs put in place by the owners of an establishment to encourage customers to return. These programs are extremely popular in businesses where customers make frequent purchases. Every rewards program is unique to the company who implements it, but they operate on roughly the same premise: The more a customer shops at your establishment, the more rewards they receive, and the more incentive they have to come back and continue shopping at your place of business. (Cranston, 2017)

There are two main aims of loyalty programs. One is to increase sales revenues by raising purchase/usage levels, and/or increasing the range of products bought from the supplier. A second aim is more defensive – by building a closer bond between the brand and current customers it is hoped to maintain the current customer base. The popularity of these programs is based on the argument that profits can be increased significantly by achieving either of these aims. (D.Uncles, 2003)

## 2. History of Loyalty Programs

In 1793, some U.S merchants began to give their customers copper tokens to redeem in future purchases. This idea of giving customers some rewards to attract them to come back soon flamed up and caught lots of shopkeepers' eyes which led to many of them implementing this kind of copper token loyalty programs to offer to their customers. (Ta-Yao, 2018) Soon after, merchants realized that it was too costly to offer copper tokens as the means of loyalty program redemption. In 1896, S&H company started providing printed stamps known as *S&H Green Stamps* to various other businesses to use as a means to offer rewards to their loyal customers. Customers would receive S&H Green Stamps at the checkout counter in various stores from department stores to small retails. With these stamps, customers with enough green stamps could redeem products from S&H redemption center. (Sherry, 2010)

During early 20th century, many companies tried to introduce new ways of implementing customer loyalty programs to the market. Box tops, the coupon printed on the package, was an individual loyalty program that Betty Crocker started to offer to its customers in 1929. These box tops coupons could later be redeemed for items that were listed on Betty Crocker's rewards catalog. This program gained a lot of attention and finally ended in 2006 with many years of success. (Wilcoxon, 2006) In 1981, American Airlines introduced the very first frequent flier program, AAdvantage, to loyal customers. This frequent flier program was considered one of the most modern and comprehensive type of loyalty programs at that time. It provided customers with brand new experiences on board their flights and was recognized for its innovative approach. Soon United Airlines followed up by introducing its own loyalty program, Mileage Plus, to the market. (Ta-Yao, 2018)

Nowadays, most of the stores from small coffee shops to all kind of businesses provide membership cards or other types of loyalty cards to retain customers. Card based programs has been popular and widely used means of customer loyalty programs since 1990s. With the rise of ecommerce and digital payment infrastructure, it is now possible for anyone to start a reward/loyalty program for their store or site.

A loyalty program is no longer reserved for the power players in the retail space — in fact, many of the most successful programs are online and on mobile. (McEachern, 2018) Throughout history and in a modern context, loyalty programs have always been about moving customers along their "customer journey". The customer journey describes a series of steps the average customer moves through in their interaction with your store, and your loyalty program should be designed to offer rewards and incentives that move them along. (McEachern, 2018)

## 3. Types of Loyalty Programs

1) **Cash Back or Rebate Program:** Customers earn money back from their purchases. Once they reach a certain

dollar amount or a certain time limit has been reached, they can redeem their rewards for cash. The rebate is usually based off of a percentage of the total purchases during the time period in question. This type of program is easy to understand but it lacks the element of instant gratification for your customers and it can also be expensive to implement.

- 2) *Discount Program*: This system offers a discount off the original price of any given item that can be applied to customers at the checkout counter. Discount programs are easy to understand and process but may give customers the impression that your regular prices are too high
- 3) *Frequency Programs*: Many of the businesses that use this type of rewards program employ paper punch cards to keep track of their customers visits. (Buy 5 subs and the 6th is on us!) While these punch cards are low cost, they don't track any customer information and are more open to fraud.
- 4) *Points Programs*: With these rewards programs, customers are given points, often in exchange for the amount they spend in your store. The point system is a great way to avoid discounting your merchandise, but you may need to find a way to remind your customers of their status in the rewards program.
- 5) *Tier System*: This sort of rewards program is great for keeping customers engaged on a consistent basis. To join the system, a customer must make a simple purchase. The more frequently a customer makes purchases and the cost of those purchases will determine the level of rewards they receive. This sort of program works really well for businesses with expensive merchandise. Different loyalty systems can be mixed and matched together to create your own unique loyalty program that works best for your specific business and customer needs.

#### 4. Loyalty Programs of Leading Indian Retailers

##### a) Van Heusen's 'Power Club' and 'Diva club'

The Power Club is a loyalty program with three levels of membership- Classic, Silver and Gold levels depending on shopping profile. A single purchase of Rs 3,000, Rs 7000 and Rs 15,000 makes a customer entitled to Classic, Silver and Gold Cards respectively. All Members can earn reward points based on the value of their purchase and are entitled to benefits like in-store personal assistance, valet facilities at select locations and advice from in-store stylists on special occasions. While Classic members earn 3 points, Silver members earn 5 points and Gold members earn 7 points for every Rs. 100 spent at any Van Heusen store in India. Silver and Gold members have privileges of access to exclusive sales previews, invitations to fashion evenings, and home delivery of altered garments. Gold members are entitled to exclusive privileges like exclusive trial rooms, Pickup and drop facility for garment exchanges and alerts plus exclusive preview of new collections Van Heusen has another loyalty program 'Diva club' exclusively for women. A Diva Club member can avail a 10% off on all Van Heusen Woman purchases. The other benefits of the program are Alerts/ Exclusive previews of new collections, Exclusive End of

Season Sale previews and Special invites to Fashion evenings and private parties. (Kadam, 2017)

##### b) Westside's 'Club West'

ClubWest is an exclusive loyalty program of Tata group's department store chain. This is a two-tier program - 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. Members can earn reward points on every purchase - Classic members can earn one point for every Rs 100 spent and Gold members can earn one point for every Rs 80 spent at any of the stores. Apart from this, all members are entitled to a range of benefits like dedicated customer help 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. (Rahman, 2013)

##### c) Pantaloons

Pantaloons has a customer loyalty program which contributes approximately 6.5% in profitability of Pantaloons across country. Pantaloons maintains a customer of 33 lakh across India.

##### Pantaloons Green Card Program

##### Initial Steps

- Informing the customer about the loyalty program
- To become a green card member
- Filling of form
- Enrollment of payment of Rs 100
- While filling the form various customer details like
  - Name
  - Address
  - Date Of Birth
  - Phone No
  - Email ID
  - Income
  - Relationship Status

Are collected to form the customer database  
Special Benefits on Enrollment

- 200 Gift Voucher
- Friday 5%
- Pizza Hut 20%

And many more initial benefits are provided by pantaloons stores for retaining the customer

##### Pantaloons Green Card Program

- Instant discount for every time we shop at Pantaloons
- Exclusive shopping days to get hold of latest merchandise
- Regular updates on collection and promos via catalogues, sms and email
- Special Invites to the most happening events
- Extended exchange periods and complimentary drops for alteration
- Exclusive billing counters and much more

## Categories Valid for Green Card Discounts

Apparels, Perfumes, & cosmetics, toys, bluesky, depot, planet sports & accessories, also valid at standalone blue sky and all stores

**Shop with green card, get rewarded instantly**

Online purchases are currently not eligible for green card discounts or counted in purchase. This feature would be available in the near future.

Benefits	3 Stars	5 Stars	7 Star
Instant Discount	5%	8%	10%
Add on Card	1	2	3
Green Offers and Promotion	Yes	Yes	Yes
Green Service Desk	Yes	Yes	Yes
Green Exchange	60 days	60 days	90 days
Complementary Home Delivery	Yes	Yes	Yes
Complementary Home Drop	No	(Except Sales Preview)	Yes (Around the Year)

Pantaloon's success and continuous growth in the Indian organized Retail market can be attributed to a number of factors, some of which have been derived from the strategies of large retailers in the west, while others are completely tailor-made for the Indian market. Pantaloon has experimented with every retail format possible. Most of their experiments have proven to be successful and Pantaloon continues to experiment while expanding existing ventures. However, the real reward of these experiments is the knowledge and experience gained- This was most elusive in a previously untouched and unknown organized retail sector. This is an example of Pantaloon adapting itself to the Indian market rather than attempting to copy a Wal-Mart. The experimentation process did not end with testing different store formats alone: Pantaloon is also experimenting with a variety of products. From men's wear the company has moved on to introduce furniture, sportswear, kitchen appliances, food, electronics and children's apparel. Again, it seems to know what works and what doesn't in the Indian market, something that would not have been this apparent even 1 decade ago. (Mishra, 2010)

**5. Importance**

Loyalty programs came into existence when companies realized that the competitive advantage that they once experienced due to product differentiation no longer holds good due to a proliferation of similar looking and "me too" products. In such an environment, having loyal customers became more important and more difficult. These Loyalty programs have been given new recognition in recent years for several reasons. First, because customer loyalty programs have a variety of benefits for companies, but also because they have become an expected part of the consumer experience. However, in today's market, simply having a traditional loyalty program is not enough. In fact, a 2015 survey found that 42% of Americans will stop shopping with a brand that they are loyal to after two bad experiences.

**1) Customer Retention**

The primary motive behind a loyalty program is to retain customers by rewarding them for their repeat purchase behaviour. In fact, the customer loyalty program is a tool to retain customers by giving them a powerful motive to buy again from the company and establishing habits.

There are many studies which have explained this relationship between loyalty program and retention rate. One European study found that customers' relationship perception of a Dutch financial services company's loyalty program explained about 10% of the total variation in customer retention and customer share. Annex Cloud's- have shown that a well-implemented loyalty program can achieve the following:

- Loyalty programs increase overall revenue by 5-10%.
- Loyalty members spend 5-20% than non-members on average.
- Loyalty program members buy 5-20% more frequently than non-members.

A business with a 60% customer retention rate is losing 3-4 times as many customers a business with 80% retention rates. Besides, increasing customer retention by just 5% boosts profits by 25 to 95%, according to the advisory firm Bain & Co.

**2) Relevant Customer Data and Consumer Trends**

The consumer's data gets recorded in the company's database as soon as he/she registers for a loyalty program. Companies can use this data for profiling their best customers and tailoring their offerings to specific groups of consumers. As loyalty program data gives the company a complete view of customer behaviour, purchase habits, and preferences. The company can use this information to invigorate its inventory management, pricing, and promotional planning.

**3) Higher Cart Value**

As explained in the above point, a company can use collected data to cross-sell and up-sell. It can offer extended warranties after an item is purchased, suggest accessories that go well with the purchased item, and provide discounts on related purchases. Moreover, the loyalty program can also bring relief by increasing demand in slow seasons. Its best example is an airline mileage program that is available only on selected flights. Due to less wastage, such targeted promotions are prone to yield more satisfactory results.

**4) Reducing Unprofitable Customers**

A well-designed loyalty program allows companies to segment customers and discover profitable and unprofitable customers. It helps them in dropping off the customers who only buy the discounted lines and avoid premium range almost on a regular basis. These customer profiles can cost more money than they generate. Through a loyalty program, companies can reward the better customers only and thereby minimize the payout to not so profitable customers. Without any doubt, this is the most efficient way to retain the customers from whom the company generates the most profit.

## 6. Conclusion

Our study includes a comprehensive assessment of importance of loyalty programs in India. The review of the same clearly shows that loyalty programs are crucial for almost every brand today to retain the profitable customers as well as attract the new ones. It also assists the company in determining the habits and preferences of specific customers who have registered for the loyalty programs and thus serve them better and improve customer satisfaction. Following this the cases of three popular India brands – Van Heusen, Westside India and Pantaloons were studied to understand the concept behind their loyalty programs and what makes the loyalty program of each different from other.

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