Rewards Programs have been introduced by several retailers in India, in the recent years. The programs remain purely motivational in nature, as yet, even though they have progressed to engaging designs in the more matured markets in the west. With time, however, the programs in India will also need to evolve to higher value offerings in terms of personalization and customization so as to be able to better connect with customers and move towards mutually beneficial relational behavior.

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SPECIAL SESSION SUMMARY

Reward Programs and Loyalty Behaviour in The Indian Retail Sector
Session Chair: Alok Saklani, Apeejay School of Management, New Delhi, India

SPECIAL SESSION SUMMARY

The objective of the session is to delve into the issues impacting customer loyalty in retail sector, especially as it relates to reward programs. The topic is very relevant considering that even though Indian retail industry is in a very nascent stage, it is growing at over 10%. As more and more players are entering the market with loyalty strategies picked up from the more matured and culturally different markets in the west, customer characteristics in India need to be understood. Consumer researchers, especially those interested in retail sector, would find the session very current and relevant given the controversy the rewards programs seem to be undergoing in the recent years, in the west.

Rewards schemes to promote consumer repeat purchase have been used by retailers for long in markets world over. In India too, the last decade has witnessed the launch of several (formal) reward programs in retail stores, auto, oil, movie theatres, pharmaceuticals, hotels, etc. However, on the one hand, membership is still low and many customers do not really understand how they (programs) work, on the other, the program design and its quality of management also needs to evolve.

According to a McKinsey & CII report, Indian organized retail has a huge potential; US $180 billion. This holds a great promise for the (reward) programs market. But how do the existing program designs compare with those in the west, where they have matured? How are the customers going to respond to such schemes? Will their behavior be similar to those (customers) in the west or differ owing to their age old (set) buying habits and culture? One may also ask whether the apparent (though controversial) impact of programs has been understood at all? And whether explanations would be different for eastern cultures?

The first session discusses the status and design of reward programs in India comparing it with that in the matured markets. The second session addresses the need to understand other processes and behaviors, which impact responses to reward programs, and proposes a model incorporating regional culture and behaviour. The third session discusses the buying behavior of the Indian customer with respect to the retail sector, focusing on the need for, and sharing conclusions of, research specific to the Indian context.

STRUCTURE AND DESIGN OF REWARD PROGRAMS IN INDIA

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ABSTRACT

Several retailers in India have introduced rewards Programs, in the recent years. The programs remain purely motivational in nature, as yet, even though they have progressed to engaging designs in the more matured markets in the West. With time, however, the programs in India will also need to evolve to higher value offerings in terms of personalization and customization so as to be able to better connect with customers and move towards mutually beneficial relational behavior.

Reward programs started way back, though in a somewhat unstructured form, in the 1890s, in the form of trading stamps. Trading stamps were small paper coupons given to customers by merchants. These stamps had no value individually, but a customer could exchange them for other merchandise after saving a certain quantity. At first given only to customers who paid for purchases in cash, and not credit, it grew with the spread of chain gasoline stations in the early 1910s and then the new chain supermarkets in the 1920s, such that merchants found it more profitable to award them to all customers. Trading stamps were most popular from the 1930s through the 1960s.

In the United States, the most popular brand of trading stamps was “S&H Green Stamps”, sometimes informally referred to as “Green Stamps”. Other larger brands included “Top Value Stamps”, “Gold Bond Stamps”, “Plaid Stamps”, “Blue Chip Stamps”, and “Gold Strike Stamps”. Gold Bond trading stamps were dispensed in strips at the time of purchase and pasted onto books for saving.

S&H Green Stamps are considered precursor of reward programs. Under this program, customers were given redeemable Green Stamps based on how much they bought. At the start of the 1960s, the S&H Green Stamps company boasted that it printed more of its stamps each year than the number of postage stamps printed by the US government. By the 1960s, trading stamps had spread to other countries.

As a result of serious inflation starting in the 1970s trading stamps became less common as merchants discontinued offering them to cut costs. Their role has been subsumed by reward programs offered by credit card companies and others, such as groceries (“Preferred Customer” cards). Subsequently, of course, American Airlines developed their Advantage Program in 1981 with miles as a currency. Since then, the designs of reward programs have changed drastically all over the world.

India too had its own version of a stamp-based retail FMCG program called “Ramon Bonus Stamps” in the early to mid 70s, pioneered by Mr HK Shah – it was modeled on the S&H Green Stamps of the US.

With the arrival of point-of-sale scanners and other means of collecting and storing consumer purchase histories in computerized data-bases, card-based reward programs have been growing in popularity during the 1990s (Karolefski, 1998). In the Indian retail landscape it became more prominent in early 2000s. Card-based programs normally require shoppers to obtain an individualized plastic card that is scanned during shopper checkout. The scanner records customer identity and all purchases. Consumers usually do not pay a fee to obtain the card but must supply some limited personal information that normally includes name, address, phone number, and the number of household members.

STRUCTURE AND DESIGN

In India, many companies (across industries) have launched reward programs. Department stores such as Pantaloons (‘Green Card’), and Shoppers Stop (‘First Citizen’) all aim to woo the customer with these programs. The competition being intense, even value retailers such as Vishal Megamart and Subhiksha, for instance - have introduced such programs. Business conglomerates such as the Future Group (Future Card), Tata Sons (Empower), and Reliance Retail (Reliance One) have also launched their reward programs wherein the points can be collected and redeemed...
across different outlet brands of the organization. An interesting development in the Indian reward programs landscape started with NetCarrots in 2000-01, albeit focused on the nascent net surfing audience. The model differed from other reward programs in a way that it was offered and managed by a third party loyalty management company, modeled along the lines of mypoints.com, beanz.com, etc., though the fortunes of NetCarrots suffered with the dotbust of late 1990s. More recently iMint, launched with the backing of ICICI Bank and three other anchor partners, a more sustainable program based on "Nectar", a popular and successful coalition program in UK.

Reward programs in India are still at a very nascent stage though the program market, as against that in the west, is growing at a faster rate. Whereas in mature markets, the rewards are more need-based, customized and experiential, the rewards in India are more standardized and confined to discounts. Perhaps a reflection of the pressing customer acquisition needs of the growing organized retail sector, in most cases, companies have adopted a motivational approach, though they will gradually need to evolve to the second level i.e. creating real relationships between customers and brands, as is the trend in mature markets. In India, reward programs in banking, airlines, and hospitality sector are more sophisticated as compared to those in the retail sector. For example, while in airlines, and hospitality value proposition include a business center facility, massage parlour and snooze zones, exclusive check-in and treatment, etc. In retail soft benefits are virtually missing: small gifts and discounts are the usual benefits with some add-on such as parking facilities, exclusive shopping hours, and separate check-out lanes.

According to a research study (Bhatty et al 2001), there are many drivers for achieving loyalty. The contribution of reward programs in achieving loyalty in the apparel and grocery retail is mere 3.6%, while, other drivers such as staff attitude, favorable return policy, etc. influence loyalty to a much greater extent. Interestingly, newer reward program designs include many drivers (relational in nature) that were also found to affect loyalty in the (above) research, such as, promotion activities, understanding customers’ needs, meeting expectations, exclusive business hours benefits, personal service, reduced transaction time, treating customers as valued individuals, and favorable return policy.

Reward program, especially in the retail sector, is a crucial first step to providing customer insights, which in turn provide the aforementioned benefits of understanding customers’ needs and meeting expectations. In addition, a reward program provides the ideal platform to effectively and efficiently deliver some of the aforementioned benefits such as promotion activities, exclusive business hours benefits, personal service, and treating customers as valued individuals.

**ICEBERG METAPHOR FOR REWARD PROGRAMS’ STRUCTURE IN INDIA**

One can use the metaphor of an iceberg (Figure 1) to help gain an understanding of the structure of reward programs in India. Only 10% of an iceberg is "visible" (above the surface) whereas the remaining 90% remains "beneath" the water (below the surface). Above the surface attributes viz., target audience, branding, earning & redemption, renewal/replacement etc. are apparent whereas below the surface attributes viz., objectives, approaches, design, technology, training etc. form the substructure of the reward programs, hence remain in the background. Further research is required on the ability to extend this iceberg model to a program’s resource allocation as well – that above the surface should be allotted approximately 10%-15% of resources whereas below the surface would be allotted 85%-90% of it.

**Above the surface**

This part of the iceberg model includes those variables that are visible to the members.

These variables are mentioned below:

- **Target Audience.** Market for reward programs is generally segmented as light users, medium users, and heavy users. The design of the reward program is subject to the choice of the target audience. When selecting their audiences, companies make a choice of whether they are going to focus on medium and heavy user segments or they are going to cater to all three segments.
Value Proposition. A good way to understand the various propositions on offer for customers to join a Program is to segment it into three forms: a. Eco (nomadic) Benefits; b. Ego Benefits; c. Emo (tional) Benefits. Eco Benefits make up the bulk of the proposition in most cases – it is typically in the form of delayed gratifications, i.e., Reward Points, except in some stores such as Pantaloons, where the gratification is instant in the form of discounts. In addition, discounts and privileges at listed partner restaurants and other non-competing outlets add to the value-basket.

Most of the stores offer Ego Benefits (members-only privileges) in the form of advance intimation of all in-store promotions, exclusive previews of merchandise on sale, exclusive shopping hours. Some of them, in addition to all this provide exclusive benefits such as special cash counters, free home delivery of altered garments, gift vouchers, exclusive exchange policy, valet and free parking, bonus reward points on preferred brands, exclusive invites to events, and complimentary beverages. In India, reward points, depending upon the category of stores, can be earned up to one (point) for each Rs.50 to Rs.150 spent. With one point worth around Re.1 at the time of redemption, the extent of ‘plough-back’ ranges from 0.67% – 2.0%.

Branding. The objective of branding the reward program is to develop an emotional connect between the customer and the program. With a view to support the value proposition of the program and provide it with a distinctive image, most establishments have branded their program. While typical brand names cue the obvious benefits, i.e., XYZ Club, ABC Privileges, PQR Rewards, many brands have employed more sophisticated branding, i.e., Tata Empower, Pantaloons Green Card, Lifestyle Inner Circle, Shopper’s Stop First Citizen.

However in India, (reward) program managers are yet to team up with their brand manager colleagues in treating the reward program brand as any other sub-brand of the retail establishment. Program brands, like any other brands (more so in a fast evolving market scenario), also follow a typical brand life-cycle. Therefore, these reward brands should be evaluated regularly in terms of their ability to reflect not only the evolving proposition of the retail brand they serve but also the evolving value expectations of its members.

Device. In India, most of the sectors use plastic cards as a device for their reward programs. These cards can be classified either on how the membership number is captured in the Point of Sale System at the time of a transaction, or whether it is personalized or not. While some programs still require the sales clerk to read the membership number embossed or printed on the card and manually punch it on his system, bar codes, magnetic strips, and even Smart Chips are increasingly being employed to reduce error and increase efficiencies.

i. Bar Code: It also consists of static information, which is typically a membership number, e.g., Westside (ClubWest), Lifestyle (Inner Circle). These cards are known for their accuracy and swiftness.

ii. Magnetic Strip: This card provides swipe facility. It consists of static information of around 3 fields – Member Name, Membership Number, Phone number, etc., e.g., Shoppers Stop (First Citizen)

iii. Chip (Smart) card: This card is capable of storing information related to point collection and redemption. It requires real time connectivity, e.g., Snowhite; BPCL PetroCard.

However, certain brands do not use a device for their reward programs. They rather manage the reward program by using a unique identification number, which may be their telephone number, or a unique three-to-five digit code. It is believed that providing a card facilitates in developing and building an emotional association with the brand.

Communication. A key constituent of nurturing any relationship, communications related to reward program, can be classified into three types:

i. Proactive: Where information from the reward program database on member profile, product usage, purchasing habits, and attitudes is used to communicate customized offers to cater to the specific needs of members. It is analogous to making the right-offer, to the right customer, at the right time. Proactive communication consists of advance intimation of in-store promotions and exclusive offers, invites to get-togethers and events, and exclusive preview of merchandise.

ii. Reactive: Where topical information on member profile and reward point accrual and redemption behaviour is used to communicate further promotional programs. It is also aimed at reducing attrition, and increasing member purchases. An example of a reactive communication could be a spot offer for a discount on next purchase when a member point’s balance is reduced to zero – the idea is to prevent attrition. Such communications are also enabled by customer feedback, and satisfaction surveys.

iii. Housekeeping: Where information on reward points accumulated/redeemed, redemption rules, notification about validity and expiry of reward points, and information on processing and delivery of rewards is communicated to members on a routine basis. It also supports collection of profile capturing of the members and if the membership data is collected genuinely and suitably, it leads to enriched data, which can help in improving the quality of market research.

Redemption Process. The core role of this process is to fulfill the key proposition – Economic Benefits, of the program. While the core thought behind this exercise is the more-a-member-redeems-the-more-she-buys, many a program end up making the process complicated which prevents members from benefiting from the program. For many people, points never seem to add up under one program to afford that “free” vacation advertised in all of the enrollment brochures, and loyalty wanes. The idea is to strike a balance between compliance with internal financial processes/risk management and compliance with the promise of the initial proposition of rewards.

The following ‘Terms and Conditions’, when used in moderation can go a long way in making the program a win:win play between retailer and member:

i. Lock-in time: The number of months/weeks from date of initial membership before a members can start redeeming her points

ii. Expiration dates: The date when the membership expires and before which it has to be renewed in order to continue enjoying its benefits.

iii. Average time taken for uploading points on the membership card. E.g. i-mint takes 7 days for points to get credited to i-mint membership account.
iv. Validity and expiry of points - The date when reward points earned during a certain period of time are ‘expired’ – when a member can no longer use those points.

v. Cost incurred by customers (time, psyche, energy, monetary) while redeeming the points.

Renewal/Replacement. Defining a fixed period of membership allows a program manager to define the strategic, financial and accounting boundaries of a program. Among other things, objectives have to be met over x number of quarters, investments into a program have to yield returns (ROI) over a defined period, un-redeemed points typically are carried on the books as contingent liability, inactive members need to be pruned to prevent wasted efforts, and so on. To this end, programs require memberships to be renewed every one or two years. While some programs auto-renew active members, others seek a certain minimum level of purchase activity to allow free renewal. However, i-mint card is valid for a period of 10 years from the date of issuance - its membership is valid for life, unless it expires under the terms and conditions of the program.

Tiers and Upgrades. To deliver differentiated and relevant benefits to members, programs typically have 1 to 5 tiers of membership. This serves to not only offer recognition and badge-value to members, but also to drive desired behavior (typically leading to incremental sales) by creating an aspiration among members to upgrade to the next tier. While members at lower tier(s) receive predominantly Eco and baseline Ego benefits, higher tiers receive additional Eco and Ego benefits. Emo benefits are limited to the top tier(s) only. While some programs allow for easy upgrades, others prefer having some degree of complexity in how they measure desired behavior at each level of upgrade.

Below the Surface

This part of the iceberg model includes those variables that are invisible to the members. These variables can further be classified into two categories - i) invisible but felt by members ii) invisible and not felt by members. These variables are mentioned below:

Objectives. Benefits offered have different purposes in different programs. It could be aimed at customer acquisition, activation, retention, enhancement (increasing share of wallet and basket size), or woo-back. Some programs (typically in the early life stage of a brand) use a program to procure information from customers in order to build a marketing database and generate insight. Strategies of the reward program come from the objectives, which the company seeks to achieve through these reward programs.

Approaches. Presently, there are two broad approaches to reward programs: i. Motivational – typically discounts and redeemable points programs that provide incentives to customers willing to repeat purchases, and ii. Relational - bond-creating programs, which deepen the association between the customer and the brand. This approach is to be found more in mature markets. Following figure (Fig 2) depicts the options available under reward program.

Figure 2
Options for the Reward Program

Rewards
• Awards points for purchases
• Points exchanged for rewards unrelated to the brand

Affinity
• Special communications
• Value added benefits
• Recognition

Partnership
• Awards points for purchases
• Points can be exchanged for partner company’s products or services

Options for a Program

Rebate
• Awards a gift certificate on reaching a spending threshold
• Redeemable against new purchases

Appreciation
• Awards points for purchases
• Points can be exchanged for selection of company’s products & services

Hygiene factors. Rewards make a difference only when the hygiene factors are taken care of - if customers are not happy with the product or service and/or with the way in which a company is treating them, no level of rewards will make them stay. Whatever the reward, it must be something which the customer feels is worth collecting for.

Design. Indian programs can broadly be classified into two types based on the types of cards issued: retail loyalty card and a loyalty-credit card. Retail loyalty cards are offered by retailers to their members for collecting and redeeming points, for example Shoppers Stop (First Citizen), Westside (Club west), Pantaloon (Green Card). Loyalty-credit cards, are of two kinds-white label credit card and co-branded credit card. A white label credit card does not carry the brand of the issuing bank on its face, for example, Tata Empower Program’s credit card. The co-branded credit card is a credit card with retail reward points that can be
redeemed at leading retail outlets like Shoppers Stop, Lifestyle, Big Bazaar, Mega Mart, Trinethra, and More etc. and bears the logos of the alliance partners, the retailer and the issuing bank. Eg: ICICI Megamart Credit Card, First Citizen CitiBank Credit Card etc.

**PHD Model (member Profile, History of transaction and Desired behaviour).** Under this model the customer’s profile, history of each transaction, and desired behaviour is integrated for the construct of the reward program (Fig 3). A member profile provides a clear picture of - the member (target market), what are his needs and desires (purchase motivation), and what do we know about him (lifestyle preferences). The transaction history provides details on length of association, ticket size, frequency of transaction, customer involvement, and number of categories the member buys. The reward program managers generally define strategic objectives of the program, decide for the channel partners, and develop the brand promise using this integrated information.

**Figure 3**

**PHD Model**

- Profile of Customer: Who are they? What do we know about them? What do they want to accomplish?
- History of Transaction: Length of Association, Ticket Size, Frequency of transactions, Customer Involvement, Numbers of Categories
- Desired Behavior: Strategic objectives, Channels, Brand Promise
- Relationship Program construct

**Training.** Training is an integral part of any process. Similarly, for a program to be effective, all staff at various customer touch-points need to be adequately trained on the program. Three aspects make for a comprehensive training package: i. Concept – where the staff gets to understand the strategic reason behind the program; ii. Skills – where the staff learns to handle the processes of the program relevant to his/her function; iii. 7Attitude: where the staff get to learn the softer skills required to handle members (especially those in higher tiers) of the program.

**Technology.** One of the most confusing elements for un-savvy program managers who get taken in by the high-decibel pitches of cash-rich software/tech companies is technology. Any amount of words will not be enough to do justice to this section but a simple point holds good across all successful programs – the cart should be placed behind the horse and not vice-versa. Technology is an enabler of business objectives and processes of the program and not the driver.

**Tracking.** For a reward program to be effective, it is important to determine what information to gather. In India, most of the reward programs generally track what is the current buying behavior by: time and day, existing customer segment, brand or price consciousness, etc. However, the essence of an effective reward program rests in critically evaluating why do customers buy this brand, and why are customers dissatisfied. We see this as three different levels of activities (Fig 4). Senior management focuses on analytics; middle level management concentrates on outcomes whereas junior level management works on the operations.

![Figure 4](image)

**Figure 4**

**Levels of activities in Tracking**

i. Operations MIS: Typically tracks the operational health of a program such as on-time and on-budget achievements of various tasks and processes

ii. Outcomes Measurement: Tracks the various campaigns that ride on a program, helps assign ROI at campaign, segment, or overall program levels.

iii. Analytics: It is a higher order process requiring not just analytical skills but also skills to define and interpret the analysis. It is the most misused word after ‘Strategy’ and ‘Leverage’ these days. If done well (analyze all that you capture, capture only that you can analyze), it provides valuable customer and organizational insights, which can provide severe competitive advantage.

**CONCLUSION**

The Indian loyalty ‘industry’ is still in its infancy as most programs are actually standalone, points-driven, or, discounting schemes. The reward programs here are yet to be innovative in their use of information and technology solutions. Especially in the collection of consumption data on a significant proportion of the Indian population on regular basis, integrating customer interaction across both click and brick channels, engaging with a large number of corporate partners in relation to the earning and delivery of rewards, and developing/using analytical models for competitive advantage. For the reward programs to be more effective in India, one needs to look below the surface at the base of the iceberg. The challenge for the reward programs in India is to move beyond the conventional thinking i.e. from the quick hits that drive immediate sales to creating emotional bonds that translate into customer loyalty.

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Introduction

Customer loyalty is seen to be a prime business objective. The realization that serving an old customer is much cheaper than a new one, has driven companies to focus on ‘retention’ than mere acquisition. Loyal customers have further been found to bond stronger with business, drawing company attention to failures in goods/service delivery when experienced, resistant to competitors’ promotional efforts, as also, ready to pay more for premium products. Besides, at times, playing the role of advocates/referrals for the organisation. With relationship marketing and customer relationship management (CRM) proving to be worthy strategies, greater attention is now given to retention policies and tools, which provide a base for the same. One such tool is (loyalty) rewards program.

Reward Programs

Reward programs function such that when a customer buys a product and enrolls in a company’s loyalty scheme, s/he is awarded certain points which are redeemable by way of a gift or adjustment against future purchases. It has been defined “as a program that allows customers to accumulate free rewards when they make repeated purchases with a firm”; the purpose of such strategies is to build long term “personalized relationships” with the customer. The program may not benefit the customer in a single purchase, but is “intended to foster customer loyalty over time”. Thus, one time scratch cards or discount coupons would not be covered under the category of a loyalty program (Liu 2007, Waarden 2008).

As points accumulate, a bonus may also become due, thus making points accumulation a fruitful exercise. Since even the redemption is generally in a fixed ‘currency’ (or points) a certain balance would always remain. Thus the customer has a stake in the company which acts as a barrier to exit (Duffy 1998). Besides the economic gains, other soft benefits by way of exclusive personalized services (separate check in, special offers/services, personalization, select sales, upgrades) may also accompany the rewards program.

Business hopes that given the benefits, customers would like to make all/most of their category (dealt with by the store) purchases with it rather than sharing the wallet with other competitors. Thus, enrolment in a rewards program is believed to result in increase in both frequency of visits, as well as, basket size.

Trends in Loyalty Industry

Rewards programs have been used as a tool to encourage customers to make repeat purchases, for more than fifty years. During the 50s–60s supermarkets have been known to use “merchandise set collection promotions” (dinner ware, cutlery sets etc) with different items gifted across different weeks so as to encourage customers to come again, make some purchases, and complete the entire set. Airlines, which have received much credit for such (reward) schemes, introduced their versions only later. In the 70s, Southwest Airlines launched the “Sweetheart Stamps” promotion providing business travelers with a free ticket to take a companion along on accumulated credits (Bellizi and Bristol 2004, Gilbert 1996, O’Malley 1998). However, the first formal and structured reward format (AAdvantage, the frequent flier program) was set up by American Airlines in 1981, at a time when airlines faced initial turbulence, subsequent to the U.S. Airline Deregulation. United Airlines followed soon after with its Mileage Plus program. Subsequently, the number of companies introducing such programs increased with leaps and bounds across most service sectors/industries viz. retail, hospitality, medical care, telecom, banking, pharmaceuticals, etc.

There are over 400 reward programs in USA (including 40 national consolidated schemes) having “...more than 1.3 billion memberships in US loyalty programs...” with about 90 million fliers enrolled in frequent flier programs. More than three-fourths of families participate in such programs; average household memberships at 12 with almost 40% “active” memberships (Colloquy 2007) and average membership of more than four programs per adult (Mollet 2004, Capizzi & Ferguson 2005). Four out of every 5 grocery retailers in USA offer reward points. Similar observations have been made in Canada with about 70% households participating in at least one program. Such loyalty schemes are popular across Europe as well, though the numbers may be somewhat lower. For example, there are about 100 (rewards) programs in Germany with more than 40% families participating in them; average enrolment of a family in the (loyalty) schemes is about 1.74 (Garcia et al 2006). Even small business owners are tied with one program or the other with their suppliers with the average participation over 2.3 (Capizzi & Ferguson 2005).

Customer Loyalty: Twin dimensions

While repeat behaviour is often seen as a strong indicator of loyalty, a large body of researchers view it as an interplay of both objective behavior (repurchase frequency and transaction value) and the affective (satisfaction, trust, commitment). Several authors hold the view that “loyalty based on only repeat behavior is fragile”; it is ‘true loyalty’ only when both the dimensions are
present (Dick & Basu 1994, Trinquecoste 1996). Oliver (1999) has also included these factors as indicators of consumer loyalty (“...commitment to buy or repatronize...”). While some recent studies on impact of reward programs on loyalty behavior (viz. Noordhoff et al 2004, Gomez et al 2006) have been carried out incorporating the two factors of “true loyalty”, most continue to focus on repurchase behaviour (mean basket value, frequency, intervals between two visits, etc). In fact, most rewards programs are simply (“me too”) imitations, especially in the retail sector, where unlike air travel, a lack of soft benefits has rendered programs as a means to economic utility (alone). Thus when a membership is offered (or promoted) to a customer one signs up even though his involvement level in the program may not necessarily be high. In fact, a recent study (Gustafsson 2004) found customers, who enrolled in a program with respect to telecom, reporting that it is solely due to “practical reasons”. “I don’t want any club feeling, I want to have the best deals. I feel no loyalty for the company...”. It seems like a transactional benefit, you purchase, collect some points, redeem it one day as a kind of a discount or a gift. The motive appears to be purely monetary. Thus, contrary to proponents of rewards programs, the touchstone (for a rewards program) continues to be behavioral loyalty or transactional growth (frequency and mean basket size), presently.

**Downside in Rewards Programs Market?**

Growth in memberships across programs was recorded at about 30% between 1996 and 2000 in USA slowing down to 8% in 2001. Subsequently, annual growth came down to 4% (in USA) with parts of Europe and Australia reporting similar trends. Active members (those earning/redeeming points within a period of past 12 months) was also low at 25% (Capizzi & Ferguson 2005). It is believed that presently there are billions of dollars worth of accumulated points with customers, especially the frequent fliers, with United Airlines alone having a liability of over (US) $700 million in terms of loyalty rewards (Waarden 2008). While at one end, investing in establishment and maintenance of such programs costs millions to business, on the other, customers have begun to show apathy to them. Research shows that even though the number of people enrolling in the programs is high, not many understand the intricacies of the points system and fewer still, use them. Proliferation of programs having similar offerings have rendered them unattractive to the customer (Capizzi & Ferguson 2005, Bellizi & Bristol 2004).

**IMPACT OF REWARDS PROGRAMS ON CUSTOMER LOYALTY**

Several studies do indicate that at an average, members purchase more in dollar terms, with a higher frequency of purchase, as well (Bolton et al 2000, Benavent et al 2000; Dowling & Uncle 1997; Dreze & Hoch, 1998; Lewis 2004, Matilla 2001; Meyer & Warden, 2002; Melloy & Bennett 2000; Vorhoeff 2003). Another recent research (Gomez et al 2006) also suggests significant differences between members and non-members with the former showing greater behavioral (as well as, affective) loyalty; though the members claim not to have increased their spending with the firm after enrolling in the program.

However, several other authors report mixed results. For example, Sharp & Sharp (1997) failed to find significant increases in repeat buying across stores. Leenheer et al (2003) found that rewards programs in stores raised wallet-share of customers (though it was observed in only 4 out of the 7 programs studied). Studies by Magi (2003) also revealed that while both wallet-share and store visits increased with membership though at the chain level (as against a store), that with competitors went down. Meyer-Waarden & Benevent (2006) who carried out a survey among grocery stores in France, also came up with mixed results.

Some authors (O’Mally, 1998; Whyte, 2004, et) suggest that the programs may only bring about spurious loyalty which would not translate into commitment while some others (authors) have even demonstrated virtually no differences between their buying patterns (Bell & Lall, 2002; Benavent, 2000; Meyer & Warden, 2002; Sharp & Sharp 1997; Wright & Sparks, 1999, etc). Bellizi & Bristol (2004) who carried out a mail survey in a metropolitan in USA on membership and behaviour with respect to grocery stores, in fact, even found an inverse relationship between supermarket loyalty and card ownership, as also, between frequency of card use and supermarket loyalty. Walsh et al (2008) have also reported behaviour: “...card membership negatively influences the relationship between customer satisfaction and customer loyalty...”.

**Cross-sectional Vs Longitudinal Studies**

As obvious, not much is understood about the impact of reward memberships upon consumer spending. One view put forth by researchers is that the while the programs may not enhance repeat behavior, “...its main contribution is retaining the already loyal customers” (Gomez et al 2006). It has been argued by some others that since findings, in general, so far, have emanated from only cross sectional studies, which are subject to “self-selection bias” (frequent buyers find program enrolment more beneficial, thus differences exist right at the very beginning), it would be meaningful to study dynamic behavior change over time (Leenheer et al, 2003; Verhoef, 2003). Among the few longitudinal studies, Allaway et al (2006) found that “only a small group of members demonstrate behaviors that can be considered truly loyal...” with a prominent effect of geographical factors. Another study (Lewis 2004) found that post reward (increased) buying reflected behavioral loyalty.

Very recently, Liu (2007), based on a (long term) longitudinal research, has also reported impact of programs upon behavioral loyalty. Even though he found the same among only one category of customers, he was able to partly explain why previous studies have showed mixed effects. The researcher classified members under three categories- heavy users, moderate users, and low users and on studying their buying patterns over a period of time found that it were only the moderate users who significantly raised their buying pattern, while the other two categories did not (due to varying utility of raising purchases). In another recent longitudinal study, Waarden (2008) has also demonstrated direct effects of memberships on buying behaviour and pattern (higher “mean and total store basket values, purchase frequency and share of category purchases, lower inter-purchase time...”, and decreased store switching) across a three year period. However, the author has not reported segment-wise analyses which could have provided a deeper understanding into the likely causes behind variations in buyer behavior (as carried out by Liu, above).

**Efficacy of Rewards Programs**

Loyalty researchers, evaluating the impact of various reward programs on consumer spending patterns, proceed with a presumption that given a strategy based on points, earned on purchases (with various rewards placed at certain milestones), consumers would flock in to buy more frequently and in greater quantities.

However, while it may make (economic) sense to business, does the customer also find any worthwhile benefit in responding to such programs by way of investing his loyalty with one goods/
service provider? Sheth & Parvatiyar (2000) argue that consumers have so far learnt that exercising ‘market choices’ has always been beneficial; it has been one of the basic tenets of competition in favor of the customer. Thus why should s/he purposefully reduce those choices (foregoing the opportunity to buy from other marketers) and restrict himself to one provider? The authors believe that if at all customers engage in relational behavior it would be “…to reduce the task of information processing, more cognitive consistency…and to reduce the perceived risk associated with future choices” among other reasons, such as family norms, peer groups, and employer influences.

Taking the discussion ahead, Bolton & Bhattacharya (2000), who proposed a model explaining when a customer would choose to forge a relationship with business -whether to withdraw from, maintain (at same level) or build (raise) the relationship further—depends on a host of factors which may function in a set hierarchy/ at tandem. That is, product satisfaction, relational efforts, switching costs/risks, customer attitudes, trust, and the value of carrying on the relationship would be major determinants in the final outcome. Hence, it would be too simplistic to assume that a customer would become loyal only because he has been offered a reward scheme along with the company’s product.

**Reward Programs & Factors Affecting Consumer Spending**

Even if a customer is tempted to make most of his purchases at one store there may be several limiting factors. These factors, discussed below, could govern the response of a customer to the program.

As can be deduced from the findings of Liu (2007), when a customer is already giving his entire wallet share to the store, surely he cannot go further, subsequent to a membership. Or, while he is keen to increase his spending, the store may not carry many of the goods (within the category) he is interested in (Rowley 2007). Or for argument sake, even when both the above conditions are met, he is not happy with the store processes/ the overall experience (Wong and Sohal 2006). And so forth. Thus, he can not increase his basket size beyond a limit.

One, therefore, needs to consider whether, for example- i) this store meets his needs across all category goods, ii) (if so) he sees value in the products he finds here, iii) the shopping experience is pleasant enough, iv) the program provides him the value he is looking for from the association, iv) he can conclude that overall, it is worth sharing more of his wallet with this store (as against another) in the product category.

**Proposed schema to assess rewards impact**

Possibly, several factors at tandem, help a customer decide whether it is worth buying more from a store (behavior loyalty). These can be categorized as (Figure 1). 1. the preconditions to increase in behavioral loyalty (micro factors), 2. motivating variable (rewards), and 3. other moderating backdrop (macro factors).

1. **Micro factors (Store and scheme adequacy) as Primary preconditions.** It has been opined that like business, customers also segment stores even within the same product category since “no one business” meets with all their needs (Rowley 2007). That customer are polygamous (multi-store membership and loyalty) is well documented in loyalty literature. The probability of being polygamous is higher and obvious if category needs are not fully met in one store. This being the case, a higher wallet share expectation may not always be met. Thus-

Customer perception of (extent of) category needs offerings in a store is relevant in his loyalty decisions.

As mentioned earlier in the paper, Liu’s research (2007) revealed that purchase patterns increased for only those customers whose pre-membership purchase level was moderate; where the room for growth existed and benefits were perceived to be just round the corner (customers being already close to point threshold levels where real benefits start flowing in). Thus-

Existing purchase levels would be important here. What about the experience (other than goods) in the store? It has been observed (in a retail environment) that service quality factors such as customer-employee contact, courtesy, instilling confidence, handling complaints, etc contribute to customer commitment. Other studies (Sivadas and Baker-Prewitt 2000, Wong & Sohal 2006) also indicate the same. Bellizzi and Bristol (2004) further found that certain other factors such as faster check out lanes or even a greater variety of produce could be more important than reward schemes, in the case of supermarkets. Even though it is held that the low point accumulation rates in retail stores (as against airlines where large numbers of points get generated in a single trip) may not be sufficient to bring about long term commitment (affective behaviour), satisfaction with the overall store experience will have to be a basic prerequisite, though not a sufficient condition to behavioral loyalty. Thus-

Store processes and the entire shopping experience have a direct bearing on loyalty behavior.

2. **Rewards benefits as a motivator to improve purchase patterns.** With multi-card membership a living reality, business must understand that customers will compare the benefits of one scheme against another (Bowman and Narayandas, 2001; Yi and Jeon, 2003). Therefore, scheme design as also its administration would affect loyalty of a member. There is evidence that rewards unrelated to the store (product category) do not motivate them (Liu 2008, Kivetz 2005). Besides, customers may prefer exclusive service (fresh stocks, sale, timings) to more discounts. Further, customers may become unhappy when they find that the schemes are not structured to extend meaningful rewards/benefit to them. Hence, do the rewards hold enough value to the customer? In fact, there is even growing literature on consumer frustrations with rewards schemes (Stauss et al 2005, Lacey & Sneath 2006, Wendlandt & Schrader 2007). Thus-

Customer perceptions about program value, considering how it is designed and managed, will influence his purchase patterns.

3. **Macro (socio-cultural) factors as influencing backdrop.** Will customers within /across societies respond similarly to a program? What about emerging economies in the east? Countries such as India are witnessing fast growth of organized retail as also, introduction of rewards programs in the country. Customers so far, have been used to buying from smaller retailers who understand them closely and have been giving them personal attention. Many such customers may feel uncomfortable in bigger (organized), impersonalized retail outlets. While the concepts are new to both the young and the older customers, will the former respond more favorably?
Ample information on impact of demographics on rewards programs response is not available. Two recent studies found young customers more comfortable with reward programs (Pattersen 2007, Ferguson & Hlavinka 2008). It has also been reported that younger customers, as also, those from lower income groups are more loyal (Pattersen 2007). Ferguson & Hlavinka (2008) also found varying responses to rewards preferences among customers from different income and age groups. Though Walsh et al (2008) did not find effects of gender and age, income did act as a moderator in the relationship between satisfaction and loyalty. Thus-

Customer demographics would impact loyalty behavior.

### CONCLUSIONS

It is important to ascertain the outcome of a rewards program considering that millions of dollars are invested in setting it up and maintaining the same. Numerous efforts have, thus been made over the years to determine whether, and to what extent, reward programs affect consumer spending subsequent to membership. Cross sectional studies came up with mixed results, thus longitudinal researches were carried out in the recent years. While some of these (latter) studies succeeded, unto some extent, in uncovering the reasons for clouding of results in the previous researches (such as usage levels in the research conducted by Liu), a clear understanding is yet to come. In order to assess impact of rewards programs and better comprehend the dynamics therein, one may need to sift through the layers of customer data; it would be incorrect to measure effects of a rewards program among all sets of customers. With memberships coming in free, customers’ involvement in the enrolment is low, which is also indicated in the majority being generally inactive. Therefore, as suggested in this paper, one ought to first identify customers among whom an impact can be theoretically expected. Hence, one would begin with those customers who qualify at the micro (hygiene) factors stage. Further, among them, only those customers who find value in the rewards program benefits, are relevant, thus can be expected to raise post membership purchases; others may merely maintain or even lower their purchases if a competitor offers better value. Across this customer base, the macro factors could further moderate post membership purchase responses.

### REFERENCES


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**Figure 1**

Purchase Pattern As A Response To Rewards & Other Factors

Hitherto, almost all of these researches have been carried out amongst western societies. Would customers in east respond to rewards as did those in the west? Noordhoff et al (2004) who compared the loyalty behaviour of customers in differing cultures report that both affective and behavioral components of loyalty were higher among customers in Singapore (East) as against those in Netherlands (West). The authors attributed this behavior to the collectivist nature of the eastern societies. Straughan & Miller (2000) also found that collectivist societies tend to act as a bureaucratic structure barrier to change, when (“foreign”) retailers step in, concluding that culture is an important indicator to (domestic) store loyalty. Choi & Kim (2008) further found different responses to promotional schemes between customers in Canada and Korea. Thus-

Loyalty responses to reward schemes are subject to cultural factors;

- what may work in one society, may not necessarily work, elsewhere.

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RESEARCH PERSPECTIVES ON INDIAN RETAIL LOYALTY PROGRAMS

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ABSTRACT

The Indian retail scene is rapidly evolving. Even though the base is huge, it is yet to develop just as the retail industry is to evolve. Large format stores provide a certain value to a customer, and a benefit based on a given pattern of shopping, such that, it enhances their total spend or category share. On the contrary, surveys on Indian customers have revealed many interesting facets of shopping behaviour that may not be amenable to change using the rewards commonly used. For customers to change their habits, it may need specific values from the loyalty programs.

Loyalty programs thrive on changing or maintaining buying patterns and retaining customers on the basis of the given format and retail brand driven value propositions. Cross-selling programs work on the shopping basket of customers trying to get a larger share of goods purchased. Of course, promotional means such as
price offs, discounts, etc. are rather popular, but going through the loyalty route has also proved profitable in certain Indian operations such as Shoppers Stop, Ansal Plaza, and so on. It is a common practice to give the loyalty card membership base a first look (preference) on certain occasions (such as special offers) in order to give a feeling of better value and privileged treatment.

Such molding of behaviour through loyalty incentives seen in card programs or air miles in India, may also be found in particular product retail sectors; petro-products, financial sector, housing (sector), and stores (Shoppers stop, malls such as Ansal Plaza etc in Delhi). Since the format will probably evolve with features unique to the Indian culture and market scenario, it will probably involve a model that requires unique drivers of revenue and margin, based on specific customer purchase drivers and patterns.

CHALLENGES FOR LOYALTY PROGRAMS IN INDIAN RETAIL

Indian retail, traditionally has been very strong on the relationship front. As a country rated high on the collectivism, and masculinity dimensions on the Hoffstede scales, it may also be surmised that such dimensions as social networks will be important in all facets of life. Local retailers have been using practices such as individualised credit systems, which take note of the buyer’s status.

Given this predilection for high customer intimacy, very specific credit and service terms, customization of retail offer to family level buying units, the traditional retailers’ value proposition and relationship strength and modes of maintaining them, will affect the value proposition and relationships generated by large format stores. The affect on the kind of loyalty programs and their loyalty miles and per dollar returns to customer and company, is likely to differ significantly from international retail loyalty programs, due to this reason.

The programs aside, “real” loyalty, and effects such as wallet share, shopping baskets, and other value drivers for stores, will be affected by the overall shopping value provided by the formats and store brands. Competing with the typical traditional retail in this culture and socio-economic milieu may not be an easy task with the standard loyalty program type customer value delivered, such as miles programs and privileges. Thus the common drivers of lifetime such as retention value may not create much revenue streams for stores, given that individual customer purchases at a store might be very small, with most buying spread over separate stores, where loyalty runs generations.

RETAIL CUSTOMER’S BUYING BEHAVIOR IN INDIA

In this scenario, a recent survey of over eight hundred shoppers across different types of shopping centres located within the National Capital Region of India (NCR) shows that the customers in metro areas such as New Delhi, on an average, shop for between one and two hours on most shopping occasions. The survey captured opinions and habits of the shoppers across income, education, and shopping location preferences, also focusing at typical shopping spends, categories, and shopping activity characteristics.

The reported intention and readiness to change the current shopping behaviors and habits, was evident for some aspects which supported the typical large formats such as hyper markets – the readiness to travel longer distances to shop for greater price oriented value, the readiness to stock up for a week or month rather than shop daily or when needed, to explore newer options, and shop for all things at one place. However to drive this intention to sufficient scale among customers and actually changing their habits may need specific value(s) from the loyalty programs that miles and points rewards programs may not enable, as was also brought out in the survey results, discussed ahead.

In a similar fashion, surveys have revealed many interesting facets of shopping behaviour that may not be amenable to change using the rewards that are commonly used. It would be necessary to develop and use a research based framework for rewards and shaping mechanisms unique to India to create and manage loyalty programs in the country, successfully.

Research issues for loyalty program design in Indian retailing

The following areas need to be explored through greater research for allowing retail loyalty efforts to become more effective.

1. The effect of retail formats on perceptions of value, and resultant influence of loyalty programs on these shopping patterns. Shopping for different categories is often influenced by store image, and store format. The large versus traditional store formats is an issue that influences the way shopping is done, as mentioned earlier, and would determine what value is being sought by the customer, and whether the loyalty program delivers relevant and aligned value that will lead to desired behaviors. If for instance, the shopper selects large format departmental stores due to perceptions of variety and quality of selection, and is not governed by prices to a significant level, then a price discount based loyalty program may not provide monetary incentives significant enough to draw visitors to a different format. This is borne out by the survey which discovered that visitors to departmental stores choose stores primarily on format characteristics such as variety in selection, and are not drawn to other formats by price incentives. This is significant in India particularly due to the emergence of new formats in the shopping mainstream: especially large format stores, and chain stores with a unique value proposition. Format evolution to a great extent defines the consumer value proposition at the broad levels, say value driven versus premium, quality, and feature driven offers at higher prices. It defines shopping behavior more than just location and format of choice – it would include choices such as destination shopping over local convenience stores and supermarkets of the neighborhood; leisure cum shopping; shopping cycles and shopping baskets, and stocking up versus daily buys.

2. The effect of specific category shopping preferences, in terms of store and product brand choice patterns, on store loyalty. For instance, cross selling of categories and within category products, or up-selling would depend on whether the customers shop for the categories from the same store and at the same frequency. Category shopping patterns vary across category to quite an extent; where shoppers may personally visit stores for some categories they may have family care-providers shop for groceries and other items. Further, the shopping may be done on credit at store level, or in cash, or on credit cards/loyalty cards, depending on who visits the store, which then becomes category dependant. The kind of incentive that works in shaping desired behaviors would need to consider this aspect.

3. The relationship practices of existing retailers in the traditional context, would determine the effectiveness of
loyalty program rewards, methods and medium. The value obtained by shoppers from such relationship practices would be one issue. For shoppers already loyal to existing retailers in the traditional sector for various categories of products, additional loyalty rewards, to overcome the switching barriers, would be required. Secondly, behaviour patterns would in most cases have become habitual over time, and shaping shopping behaviours enmeshed in the lifestyles and activity patterns of individuals and families may raise more issues typically encountered by loyalty programs attempting to change habits. This becomes important in the context of a tradition-rich society, as well as one in which lifestyles are evolving due to various pressures of modern life. Third, the mode of relationship building in the two sets of practices – loyalty programs based on rewards, and traditional retailer’s practices related to credit, customization & personalized services, and socio-psychological binding would present interesting interactions in their influence on a customer’s shopping behaviour. In this context, the survey reveals, over 77% consumers prefer to pay in cash, and 26% percent still prefer the typical 30 day credit given by the traditional neighbourhood retailer to families within the nearby residential areas. Just over 23% percent report using cards regularly for purchase, and this percentage of buyers is seen as coming from the higher income strata. However the users of retailer credit for 30 days, come from across income, education, and age strata thus indicating that such credit mode preferences are particularly strongly rooted in the culture and traditions; card users also use the store’s monthly credit facilities.

4. The cultural norms related to shopping in India, vis-à-vis loyalty program targeted shopping behaviours. The survey found that those who have high spends, and use credit cards in general, come from the higher income and educational strata, and do not seem to prefer the card based benefits they would garner from higher total spends on the cards – majority still uses cash. Such preference for cash may be unique to the Indian socio-economic regime, since there are various connotations of using plastic money in India. Card based programs may thus need to change the acceptance level of plastic for shopping- even amongst those who do use cards, the acceptance of a separate loyalty card, and further, to use the card across categories with a single retailer where they may not shop for such categories, traditionally. Users of retailer credit for 30 days, come from across various age strata, showing that such credit preferences have been transferred to the new generation from the old, and are particularly ingrained in the society. The particular behaviour of their customer base, desired by stores, becomes a rather standardized pattern in mature markets. Large format stores of a particular type draw customers looking for specific value proposition associated with that business model, and would benefit from a particular pattern of shopping from their customers. Establishing that pattern may face challenges due to such cultural or socio-economic norms.

5. Segment differences in loyalty reward effectiveness, and feasibility of targeted behaviour change. The Indian market includes many socio-cultural and geographic groupings leading to diversity in norms and patterns of shopping, as well as, lifestyles and products, markets and stores. There are two issues here – the store chain loyalty program will have to accommodate many such diverse groups’ norms, preferences and feasible loyalty behaviours in their program, across regions, communities, and geographies, as well as, categories of products. Further, the program would have to consider that for the same store and same product category there are very different behaviours likely to enhance profitability, across such segments and hence face the risk of conflict within. The demographic differences within the urban setting are captured in the survey mentioned above – card usage versus use of credit from small neighbourhood stores directly, versus cash is one example. But spend levels differ distinctly, across income and education and so does readiness to change. Preferences for the value proposition of different large format stores also differ across consumer income and education strata.

Over 30% of respondents stated they usually shop for less than an hour for most categories such as groceries, apparel, etc. and they may not be amenable to destination shopping, and may not be lured easily by loyalty programs to change this behavior, so necessary for up-selling and cross-selling – the time to make a sales pitch, and to explore a larger number of items for the shopping cart. It also revealed that around 12 percent spend more than two hours on shopping in general, and may be good targets for leisure shopping and related loyalty program maneuvers. Further, three quarters of customer travel more than 2 kilometres to buy occasional goods such as apparel and durables, and a good 29 percent travel more than 10 kilometres for the same. On the other hand, nearly 55% respondents surveyed, reported moving less than 2 kilometres when buying FMCG and grocery products, though over four percent did report traveling more than 10 kilometres for the same. The latter in both cases turned out to be from the higher income and educational strata. However the mix of customers who reported lower to moderate travel distances for both types of products, were seen to come from a variety of socio-economic strata, reflecting a value orientation leaning towards local supermarkets and convenience stores. As such, this trend would need to be changed by large format stores, and may become a part of the behaviour change sought by programs based on cards or other typical “loyalty” programs.

6. The segment differences would also come from the rural – urban divide in India. Of the over ten million stores, the majority are in smaller towns and villages. Shoppers in villages traditionally shop for small items and in small quantities from village stores, are brand loyal, but use mostly unbranded goods (Tuli et al, 2003). They buy in larger quantities from towns, and haats (temporary markets set up on a regular basis usually catering to several villages, on predetermined days of the week or month). They present a large retail target, and ventures such as the ITC’s E-chaupal, the Haryali Bazaar, and other store chains have started tapping this market. Store branding is important and loyalty to brands is strong in rural areas.

It is however likely that the loyalty drivers in the rural context will differ from the urban context, due to the factors affecting value perceptions, as also due to the way shopping is done, and the stores involved. Further, as the rural shopping pattern differs and the profitability driver may also vary, setting up a program differing in both rewards and targeted behaviour