Research Perspectives on Indian Retail Loyalty Programs

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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.

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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 may need specific values from the loyalty programs. 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 Ansals 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 Hofstede 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 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...