Loyalty Programs and Retail Performance: A Case of Indian Retailers

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Abstract – The fiercely competitive Indian retail environment has forced the retail businesses to focus extensively on customer retention of their existing customers. As a result, leading Indian retailers launched their loyalty programs offering a range of attractive tangible and intangible rewards to their customers, with an aim to retain them and enhance the retail performance. These programs not only engaged increasing number of members over the years, but also generated huge proportion of sales and profits from these members.

Keywords – Retail, Indian Retail Sector, Loyalty Programs, Performance

I INTRODUCTION

For decades, business managers focused on strategies and programs to acquire as many customers as possible without any focus on retaining them. But, businesses have now realized that their success lies in customer retention and building customer loyalty. Research findings have also supported this realization that it costs up to five times more to acquire a new customer than to retain an existing customer and a 5% reduction in the customer defection rate can increase profits by 25% to 85% depending on the industry. All these factors have forced retail managers to think of some program to develop long term value-laden relationship with their existing customers and retain them with an ultimate aim of achieving organizational goals. The result was the launch of ‘loyalty programs’ which is defined as “structured marketing efforts that reward, and therefore encourage, loyal buying behavior — behavior which is potentially of benefit to the firm.” Members of these programs get loyalty card that identifies the card holder as a member in a loyalty program. These members receive a combination of attractive tangible rewards (gifts, discounts, reward points etc.) and intangible rewards (invitation to special events like fashion shows, exclusive preview of new items etc.) to invoke customer loyalty.

II INDIAN RETAIL SECTOR AND LOYALTY PROGRAMS

For decades, retailing in India has been highly fragmented i.e. unorganized, due to the presence of huge no. of small mom-n-pop stores. Organized retailing was negligible in nineties. But, with the entry of major corporate houses in Indian retail sector, the retailing scenario in India has changed considerably. As per Images F&R research ‘India retail report 2009, organized retailing in India accounts for 5.9 % (Rs. 78300 Cr ) of Rs 1330000 Cr total retail market.
While the total retail market grew at the rate of 10.80% annually, the organized retail market grew at the rate of 42.4%, and is expected to maintain a faster growth rate in future, especially in view of the fact that major global players and Indian corporate houses are seen entering the fray in a big way[1].

Earlier, retailing was not considered as a prestigious sector much enough to attract reputed business organizations. But, in the recent past it has witnessed so much dynamism and corporate attention that big players like Tata, Birla, Reliance, Pantaloon groups etc. are leaping into it. The entry of these big players in retailing has caused a major revolution in retailing formats and infrastructural front. For a long time the small stores were the only choice available to the consumer. This slowly is giving way to international formats of retailing. The traditional food and grocery segment has seen the emergence of supermarkets/ hypermarkets/ grocery chains (FoodWorld, Apna Bazaar, Food bazaar, Reliance fresh etc.) and fast food chains (McDonalds, Dominos etc). However it is in the Non-food segment that has seen organised retailing entering a variety of retail segments. These include Apparel & Lifestyle/Fashion segments (Westside, Shoppers’ Stop, Lifestyle, Pantaloon, Reebok, Koutons etc), Books/Music/Gifts (Archies, Musicworld, Crosswords, Landmark etc), Appliance & Consumer durables (Viveks, Jainsons, Vasant & Co. etc), Drugs and Pharmacy (Health & Glow, Apollo etc.).

The entry of big corporates in retailing has also caused a major revolution its marketing strategies & programs. Retail businesses have been practicing customer relationship for decades, but the relationship was not standard and based only on trust with small customer base. But, now the implementation of loyalty programs has totally renewed the way retailers manage long-term relationship with their customers with an ultimate aim of developing loyalty. Since, organized retailing in India being in the early stage, Loyalty programs, supported by sophisticated Information Technology, is quite a new phenomenon and has emerged as an innovative tool for building customer loyalty.

While loyalty programs were popular among US and UK retailers in 1990s, these became popular among Indian retailers in 2000s i.e. a decade later. These programs are still at the nascent stage in India and consumers are learning to taste the benefits of these programs, in developed countries like USA, retailers have been implementing loyalty programs aggressively. Industry players estimate that there are about 20 million loyalty programme members in India. This is nowhere near the US where there are more than 700 million loyalty club members across retail stores, according to a study by loyalty marketing firm Colloquy [2].

As the share of organized retail sector is growing sharply, these programs are becoming popular and key relationship marketing tool as a part of customer relationship practices among Indian retailers especially organized ones. Now, almost all big retail chains like Pantaloons, Westside, Shoppers stop, Big Bazaar etc. have launched loyalty programs based on the concept of rewarding existing customers for continuing patronage through a combination of rewards.

### III LOYALTY PROGRAMS OF LEADING INDIAN RETAILERS

**A. Van Heusen’s ‘Power Club’ and ‘Diva club’**

The Power Club [3] 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 7,000 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, Pick-up 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.

**B. Westside’s ‘Club West’**

ClubWest [4] 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.

**C. Pantaloons Payback Green card program**

Pantaloons Green card program [5] is an exclusive loyalty card of the department store format of Pantaloon retail India Ltd. It provides membership plus has a provision of 12-months purchase based upgrading system. This is a 4-tier loyalty program, where tier 1 customers get 1 star status, tier 2 gets 3 star status, tier 3 gets 5 star status and the topmost tier members get an exclusive 7 star status.

Getting a green card issued is quite easy but for retaining one star status, one has to make a purchase of Rs 8,000 within two years of card issue date. 1 Star status can be upgraded to a 3 star, 5 star and 7 star status by shopping for Rs. 8000, Rs. 20,000 and Rs. 40,000 respectively immediately preceding 12 months of current shopping date. All are entitled to a range of benefits and privileges depending upon their member status.

1 star members get a gift voucher of Rs. 200 on new enrolment, while 3star, 5star, and 7star members get a discount of 5%, 7.5% and 10% respectively. All members get special privilege of End of season Sale preview, special billing counter during End of Season sale, special service desk for handling all queries and providing information, free car parking (Except 1 star members), exclusive shopping offers sent to members on a regular basis through SMSes, e-mails, and telephones and exchange of products within 60 days of purchase (90 days for Seven Star members). 5 star and 7 star members get an exclusive privilege of free car parking and free home delivery of purchases around the year.

**D. Shopper’s Stop’s ‘First Citizen Club (FCC)’ [6].**
FCC program is a three-tier loyalty program, where a member gets Classic moments card at entry level followed by the Silver Edge and Golden Glow cards. A customer can sign-in for classic card by paying a membership fee of Rs 200.

FCC members earn reward points depending on the value of the purchase and the membership status at which they are. Silver card members earn one point for every Rs 100 purchase value, while Silver card members earn a point for every Rs 50 spent and Gold card members earn a point for every Rs 34 spent. Silver and gold card holders can receive an extra points of Re 1 and Rs 2 per Rs 100 purchase of preferred brands. All members are entitled to free car parking, exclusive previews and sales, benefits of tie-ups with restaurants, gyms etc., regular updates and associate cards for family members. Golden glow members are entitled to exclusive privileges like Reserved car parking, home delivery of alterations, exclusive invitation to special events organized by the store and a free-subscription to First Update, a bi-monthly magazine on the happenings at Shopper’s Stop. In addition, members also receive special offers on occasions such as birthdays and anniversaries.

IV LOYALTY PROGRAMS ENHANCES RETAIL PERFORMANCE

In USA, small proportion (only 12% - 15%) of customers are loyal to a single retailer, but that small proportion generate between 55% - 70% of company sales, according to the Center for Retail Management at Northwestern University. Some retailers find that as much as 65% - 95% of their sales go to members of loyalty programs.[7]

Indian retailers too have also realized the benefit of implementing loyalty programs. They are deriving huge proportion of sales from their members and the proportion is growing over years. For example, Shoppers’ Stop, one of the leading lifestyle retailers, derived 65% of the sales in 2008 from its just over 1 million members. In 2011, the retailer was not only able to significantly increase its program members, but also the proportion of sales from its members. It derived 73% of the sales from its just over 2 million members and generated a total profit of 7,518 lacs.[8] Lifestyle, another leading lifestyle retailer, derived 50% of its annual revenue from about 2 million members of its 'The Inner Circle' programme.

Many other retail organizations are also generating impressive proportion of revenues from their loyal customers. While Future group’s Green Card loyalty programme of Pantaloons accounts for 55% of sales, Tata group’s Westside retail chain currently generates over 50% sales from its over eight lakh members of ClubWest loyalty program. Shopper’s Stop retail group’s hypermarket chain, Hypercity is also experiencing impressive sales from its over 11.8 lakh loyalty members.[9]

Loyalty programs have also proved successful even in times during the economic slowdown. The overall consumer participation in loyalty programs has jumped 19% in the U.S. since 2007 and even higher when it comes to Women at 29%, and Millennials (age 18-25) at 32%. And despite the recession, over two-thirds of all U.S. consumers report that they still participate actively in at least one reward program.[10] Loyalty programs have proved successful in the recessionary times around 2008 and 2009 in India too. At a time when consumer spending was on a decline, leading retail chains were either expanding or restructuring their loyalty programmes. Leading retailers like Future Group, Shopper’s Stop, Westside and Reliance Retail realigned strategies to increase the efficiency of loyalty programs cost effectively along with offering something more comprehensive to their consumers.
V CONCLUSION

This is to conclude that the organized retailing in India is progressing towards a tough competitive environment where only those retailers would survive who can understand their customers and develop a strong bond with them by developing and implementing appropriate loyalty programs consisting of an attractive mix of tangible and intangible rewards. Hence, in the time to come, loyalty program is going to be the most dominant marketing tool for enhancing retail performance.

REFERENCES

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