

**UNDERSTANDING THE LEVEL OF CUSTOMER
PARTICIPATION IN LOYALTY PROGRAMS AND ITS
IMPACT ON STORE LOYALTY IN ORGANISED RETAIL
SECTOR**

Mujibur Rahman*

Abstract

Loyalty program is a popular marketing program among organised retailers to develop customer loyalty to the retailing store. In Indian retail sector, almost all the leading organised retailers like Pantaloons, Westside, Shoppers Stop, Big Bazaar, etc. have launched their loyalty programs for rewarding regular customers through a combination of monetary and non-monetary benefits. Although, the enrolment of customers in these programs has been huge, their level of participation in the programs was not clear. So, this study made an attempt to find out the level of customer participation in loyalty programs of organised retailers and to find out the impact of customer participation in loyalty programs on store loyalty. The study was conducted in Delhi/NCR region. Leading organised retailers were selected for the study. The primary data was collected from 372 respondents, who were loyalty program members of the leading organised retailers across India. SPSS 20 version software was used to analyse the data. Frequency distribution and Regression analysis were statistical tools applied in this study. The results revealed that the level of customer participation was not encouraging as a majority of the respondents didn't always participate in various activities under the loyalty programs. But, it was found that there was a significant impact of customer participation in loyalty programs on store loyalty.

Keywords: Customer participation, Loyalty program, Loyalty, Retailer.

* Faculty member, Apeejay Institute of Technology – School of Management, Greater Noida

1.0 Introduction

The fiercely competitive business environment has forced the retailers to develop programs to retain their existing customers. In its response, the marketing executives developed loyalty programs to retain their existing customers by offering loyalty rewards. Presently, organisations across business sectors – financial services, retail, tours & travels, hotels, automobiles etc. have their loyalty programs.

Sharp and Sharp (1997) defines loyalty programs as structured marketing efforts that reward, and therefore encourage, loyal buying behavior — behavior which is potentially of benefit to the firm. It allows consumers to accumulate free rewards when they make repeated purchases with a firm. So these programs are aimed at developing customer loyalty over time.

The modern day loyalty program was launched in 1981 by American Airlines, and was quickly followed by other airlines and other industries including hotels, car rental companies, and credit card organizations. Now, loyalty rewards programs have become prevalent across a variety of service industries including retailing.

In Indian retail sector, almost all the leading organised retailers like Pantaloons, Westside, Shoppers stop, Big Bazaar, Reliance Trends, Allen Solly etc. have launched their loyalty programs for rewarding regular customers through a combination of monetary and non-monetary benefits. The financial benefits offered by these retailers are in the form of reward points, discounts, exclusive offers/Sales promotion for members only. The non-financial benefits offered are in the form of exclusive billing counters or trial rooms for members, personalized greetings/offers on special days like birthday, anniversary etc., Previews of new arrivals, store updates etc. (Rahman, 2013).

Many studies have found these programs to have positive effect on consumer purchase and enhance loyalty (Lewis 2004; Liu, 2007; Kivetz and Simonson 2002). A study by Rahman &

Singh (2013) focused on Gen Y members and found that store loyalty of a member increases with his loyalty program membership duration. However, some studies also found that loyalty program may not influence customer loyalty (Dowling, 2002; Meyer-Waarden and Benavent, 2006)

There are huge numbers of customers enrolled in these loyalty programs across various industries. As per Colloquy report (2011), the number of loyalty memberships in the U.S. exceeds 2 billion and in Canada there are 120.7 million members. In terms of memberships, Retail business controls a huge 40% of total memberships. In India, where the organised retail started late as compared to the US and Canada, 48% of Indians in SEC A/B currently belong to reward programs, as per Cartesian Consulting report (2012). In the past ten years, the members of Shoppers Stop's loyalty program multiplied by more than ten times from 0.25 million in 2004 to over 2.79 millions in 2013 (Rahman, 2014).

Although the enrolment is huge, it must be seen that the level of members participation in these programs is high. Customer participation in services is defined as the specific behaviours, degree of consumer's effort and involvement, both mental and physical related to the production and delivery of a service (Cermak et al., 1994; Silpakit & fisk, 1985). So, customers must be active not merely a making a contact with the firm just for a purchase.

Members are required to participate in loyalty programs in terms of -- providing personal data and carry their membership card and present it to the billing person so that retailers understand customer profile and purchases; availing the benefits or rewards offered to them; and reading the communication messages sent by the retailers through social media, SMS, mail etc. The review of literatures found a lack of studies on the customer participation in these dimensions. Hence this paper attempted to understand customer participation in all these dimensions and understand its impact on store loyalty.

2.0 Objectives

- 1) To find out the level of customer participation in loyalty programs of organised retailers.
- 2) To find out the impact of customer participation in loyalty programs on store loyalty.

3.0 Research Methodology

The study is descriptive cum analytical in nature. The study was conducted in Delhi/NCR region. Leading organised retailers were selected for the study. The primary data was collected from 372 respondents, who were loyalty program members. The respondents were only those members, who purchased at least two times at the store during his association with the store and visited the retailers at least once in the past one year.

A relevant questionnaire was developed to collect the primary data, which was administered personally by the researcher. Secondary data was collected from various Journals (like Journal of Marketing, Icfai university journal of Marketing Research etc), Research Reports, books and Web Sites concerned.

For analysing the primary data, SPSS 20 software was used. Frequency distribution and Regression analysis was done in this study.

4.0 Hypothesis of the study

Many studies have found the positive effect of participation on the customers in services. Cermak et al. (1994) found a positive association of increased customer participation with service quality and customer satisfaction. Eisingerich and Bell (2006) found that customer participation had a significant and positive influence on customer loyalty.

Based on the literature review, the following hypothesis has been developed for this study:

H0: There is no significant impact of customer participation in loyalty programs on store loyalty.

H1: There is a significant impact of customer participation in loyalty programs on store loyalty.

5.0 Results and Discussion

5.1 Reliability Analysis

The reliability test was done on the Customer participation scale and the Cronbach Alpha value was found to be 0.755 indicating the fair reliability of the data.

5.2 Level of Customer Participation

Table 1: Frequency distribution of Customer participation

	I provide complete personal information whenever required by the store		I carry the loyalty card whenever I go for shopping		I actively redeem/ /strive to redeem reward points.		I avail special benefits offered to me being a member		I read the messages sent to me by the store.	
	Frequency	%	Frequency	%	Frequency	%	Frequency	%	Frequency	%
Never	27	7.3	5	1.3	53	14.2	199	53.5	31	8.3
Rarely	39	10.5	11	3.0	34	9.1	53	14.2	31	8.3
Sometimes	61	16.4	82	22.0	54	14.5	83	22.3	85	22.8
Often	135	36.3	117	31.5	93	25.0	24	6.5	115	30.9
Always	110	29.6	157	42.2	138	37.1	13	3.5	110	29.6
Total	372	100.0	372	100.0	372	100.0	372	100.0	372	100.0

The analysis of the level of customer participation in loyalty programs in various ways gave surprising results. As shown in the above table 1, the proportion of customers who always participated in loyalty programs in different dimensions ranges from 3.5% to 42.2%. It was found that just around 30% of the respondents always provided their complete personal information and a considerable proportion (18%) of the respondents never or rarely provided complete information.

It was also found that 42.2% of the respondents always carried their membership cards while going for purchase and just 4.3% never or rarely carried the card. The reason for not carrying the card may be due to the use of the mobile number in place of card for customer identification.

Just 37% of the respondents always actively redeemed the reward points before it expired or strived to redeem it (by trying to accumulate minimum points for redemption) and a considerable proportion 23.3% never or rarely redeemed/strived to redeem the points.

Just 3.5% of the respondents mostly or always availed spl benefits (like exclusive members sales days, exclusive offers etc.) offered by the store, and over two third of respondents (67.7%) never or rarely did the same. Moreover, just around 30% of the respondents always read communication messages/information sent by the store, and a small proportion of respondents (16.6%) never or rarely did the same.

The above results show that the level of participation in loyalty programs was low as majority of respondents didn't participate always in various attributes of loyalty program.

5.3 Hypothesis testing

H0: There is no significant impact of customer participation in loyalty programs on store loyalty.

H1: There is a significant impact of customer participation in loyalty programs on store loyalty.

Table 2.1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.535 ^a	.286	.284	.57684

a. Predictors: (Constant), CPLP AVG

Table 2.2: ANOVA^a

Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	49.280	1	49.280	148.101	.000 ^b
Residual	123.116	370	.333		
Total	172.396	371			

a. Dependent Variable: LoyaltyAvg

b. Predictors: (Constant), CPLP AVG

Table 2.3: Coefficients^a

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.

	B	Std. Error	Beta		
1 (Constant)	2.062	.123		16.715	.000
CPLP AVG	.428	.035	.535	12.170	.000

a. Dependent Variable: LoyaltyAvg

As shown in above table 2.3, $t = 16.715$ and sig value = 0.000 indicates rejection of the null hypothesis H_0 and acceptance of the alternative hypothesis H_1 i.e. there is a significant impact of customer participation in loyalty programs on store loyalty.

The model summary table 2.1 shows that $R = 0.535$, which means that customer participation in loyalty programs has moderate correlation with store loyalty. $R^2 = 0.286$ means that 28.6% of variance in loyalty was explained by customer participation in loyalty programs. Hence retailing organisations must focus on encouraging customers to participate in loyalty programs so as to develop loyalty.

Conclusion

Loyalty program is considered to be structured marketing efforts or activities prevalent across businesses involved in retailing. Customer participation or involvement in activities undertaken by a firm is very important in developing customer loyalty to a brand or a company or a retailer as highlighted by multiple studies. In the similar line, this study found that there is a significant impact of customer participation in loyalty programs on store loyalty. But, the level of customer participation in loyalty program, as found in the study, was not very encouraging as a majority of respondents didn't participate always in various attributes of loyalty program. The proportion of customers who always participated in loyalty programs in different dimensions ranges from 3.5% to 42.2%. Hence, retailers have to work hard and encourage their customers to participate in their loyalty programs.

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