1. Introduction

Loyalty marketing is a process by which any company earmarks its "best customers" and uses and analyses the data obtained from the customers to generate customer relationships that are not only long lasting, but profitable in the long run as well. When we mention the word "best customers", we mean to say that they are those customers who are commercially the most valuable to a company or to put it in other words, brings us the most profits. Loyalty marketing methodologies identifies these people who have the potential to become the "best customers" to the company. Companies make attempts to establish profitable relationships with its customers by first defining what kind of behavior it intends to have with its customer and later devises a range of marketing strategies to maintain the relationships. This result in an increase in yield delivered and leads to maximization of customer lifetime value.

1.1 The Origin of Loyalty Programs: S&H's Green Stamps

The first ever known act of customer loyalty was started by Sperry and Hutchinson with their S&H Green Stamps program which was started way back in the 1930s. The modus operandi of this program was that the customers used to get stamps whenever he/she used to purchase from a group of merchants who were a part of the program. The customers used to collect these stamps by pasting them onto stamp books. These stamps were then later redeemed for merchandises once they were sizeable and had attained some value. These stamps became very popular and were taken as a form of 'alternative currency'.

According to Joseph C. Nunes who is accredited for writing many papers on Loyalty Marketing, his observation in his study was that these trading stamps were by far the first ever alternate currency which were aimed at increasing the repeat purchase behavior among the customers. The logic behind this is that the customer would purchase more and more to collect as many stamps as possible with aim of redeeming them to get something useful. When these stamps were launched initially in the 1900s, these were given out to customers who paid in cash instead of credit. These then later evolved as a token which were given to customer whosoever purchases anything. This concept became so popular that after Second World War, the retailers went into a war among themselves. In an effort to outdo each other, they began to offer the customers more than they could ever afford. They gave the customers double, triple and sometimes quadruple stamps. The companies incurred losses due to this and ultimately, these stamps began to lose its sheen. After this, the supermarkets began to offer product discounts to attract customers.

AAdvantage: Frequent Flyer Loyalty Program of American Airlines

The first ever successful and most widespread Customer Loyalty Programme was started by American Airlines in 1981. They named their frequent flyer program as **AAdvantage**. AAdvantage was the second such loyalty program in the world which is based on the concept of "more you fly, more you earn". The first such loyalty programme was launched by Texas International Airlines in 1979. The AAdvantage program boasted of 67 million members in 2011 and the number is still growing. It is considered by far the largest ever customer loyalty program in the world.

The flying miles which the customers accumulated allowed the members of AAdvantage to redeem flight tickets, upgrade the flying class, get free or sometimes discounts in car rental services, discounts on hotel stays, access to exclusive merchandise through the partner companies of the loyalty program. The members who used to avail the schemes more frequently or who used to fly more often were designated as **AAdvantage Gold, AAdvantage Platinum and AAdvantage Exclusive Platinum** class which was based on the amount or the price of the tickets they had booked. These designated members were given some very exclusive privileges like such as a separate check in counter, priority in terms of up gradation of flying class and standby processing and free upgrades at times. These privileges were not confined to American Airlines only and included other partner airlines of American Airlines as well who were a part of OneWorld. Co-branded credit cards of American Airlines were also made available to the customers. These were issued in collaboration of Citigroup.

As previously mentioned, AAdvantage comprises of four membership tiers viz. AAdvantage Standard, Gold, Platinum and Executive Platinum. The details of these tiers are given as follows:

- **Standard** membership is the default and starting level and given to the new enrolments of AAdvantage

- **Gold** status is conferred on completion of atleast 25,000 qualifying miles flown by the customer or if the customer has flown in 30 segments. A customer with gold status has "Priority AAccess" pre boarding and expedited security. This also gives the customer the ability to get 500-mile upgrades which can be redeemed. A customer with a gold status also gets a 25% bonus on the mileage. This means that the points the customers gets would be 25% more than he otherwise would have got with standard membership level

- **Platinum** status is conferred on completion of atleast 50,000 qualifying miles flown by the customer or if the customer has flown in 60 segments. A customer with Platinum status gets all the benefits of that with a Gold status plus access to "Admirals Club" lounge and other business class lounges if he travels in such a way that the itinerary includes travelling outside North America as well. Apart from this, the customer gets a 100% bonus in the

mileage to all the segments flown, a higher priority on the upgrade lists and a dedicated phone line.

- **Executive Platinum** status is conferred on completion of atleast 100,000 qualifying miles flown by the customer or if the customer has flown in 100 segments. A customer with Executive Platinum status gets all the benefits of that with a Platinum status plus eight VIP upgrades. Apart from this the customer with Executive Platinum status gets unlimited upgrades on completion of 500-miles. If the customer is travelling in such a way that the itinerary includes travelling outside North America, then the customer has access to the Flagship Lounges as well as First Class Lounges. Moreover, the customer is entitled to a special black membership card issued by American Airlines along with a dedicated phone line. Over and above all this, customers who have flown 1 million flying miles receive a lifetime gold status and customers who have flown 2 million miles receive a lifetime Platinum status.

There is an underlying fundamental assumption that comes into picture which states that the cost to a company to acquire new customers is more than it is to keep the existing ones. According to a study by **Reichheld and Sasser**, if there is an improvement in the customer retention by a mere 5 percent, it translates to an increase in overall profitability by around 25 percent to 85 percent with respect to net present value. The percentage varies from sector under consideration. An increase in customer loyalty has a direct positive correlation with an increase in customer profitability. The reason why the increase in profitability which is associated with loyalty marketing occurs because the acquisition costs incurred only occurs in the beginning i.e. during the initial establishment of a relationship. As the duration of the relationship increases, the amortization cost reduces along with the reduction in the account maintenance costs as well.

1.3 Indian Food and Grocery Retail Sector Overview

Food and Grocery retail segment takes up about 60 percent of the total Indian retail industry. As per the Deloitte report, there are about 12 million retailers in India and approximately 80 percent of those comprise the unorganized retail which is predominated by the local mom and pop stores known as the „kirana‟ stores. Modern organized retail has made inroads in the country but has along way to go. However, with the recent changes in the FDI regulations in Indian retail, this picture is soon about to change forever. The success of F&G stores are attributed to the following factors:

- Companies that are into modern retail are able to achieve economies of scale and integration of the entire supply chain, as a result of which they get a reduction in the overall costs, an improvement in the stock turnover and better relations from the vendor in terms of credit.

- The models are scalable and can be easily replicated to various other regions and extending the existing retail model to Tier II and III cities

- Since the retailers get a significant reduction in the costs, they are in a better position to pass on the benefits to their customers who get a better value for money in comparison to their neighbourhood stores.

- These retailers can also provide services like free home delivery which competes with the convenience experienced by the customer whenever he/she visits a 'kirana' store.

- A shopping environment which is as per international standards

- A means to promote private labels for staple foods by providing them individualized attention

- A means to extend to other product categories in terms of private labels

Some prominent Indian players in Food and Grocery retail are:

Pantaloons Retail

Reliance retail

RPG Retail

Aditya Birla Retail

2. Literature Review

2.1 Loyalty Programs: A theoretical framework

In the past few years, there has been a lot of discussion about the entry of Direct Marketing into the areas where it had never been associated before. This entry was of two types. First one was that direct marketing was adopted by those firms who previously had no intention or interest to bear any association with this technique. They would fell that doing so would hamper their image which otherwise had been very carefully nurtured over the years. They thought of this method as "down market" and for some, it was even highly irresponsible to do anything of this sort. However, some companies like the banking industry were very well suited for direct marketing since they had high value, distinct audience. But, they refrained from using it because they feared potential rejection from their high value customers .It is interesting to note that direct marketing was adopted by those companies whose products were entirely inappropriate for the technique. When the concept of direct marketing came to the retail industry, the retailers were swift in adopting it. They were very prompt in making customer databases and launching store bonus cards, a practice that is followed by retailers even today.

The second type of direct marketing was that it diverged from those practices which very favored by the traditionalists. The logic behind it was that it had to adapt in order to expand. It had to change what it used to measure and also the way in which the measurement of the effect on customers (both current and prospective) takes place. This was a slightly unconventional way of direct marketing, which was lesser known. This led to the emergence of "through the line" marketing which was the combination of above the line (ATL) and below the line (BTL) marketing. However, we shall focus on the first way of direct marketing which was to make a win-win situation, both for the customers as well as the retailers.

2.2 Need for loyalty

An overall shift in the focus for marketing activity was one of the primary reasons of direct marketing's foray into new areas. There has been a rise in the niche market in the past ten to twenty years. The consumers today have become more demanding; their awareness levels have improved drastically and have needs so specific that they are not satisfied with the consumption of standard products. The product manufacturers had taken a due note of this changing trend and have responded accordingly. Marketing today is not about having a few major brands and expecting your customers to be happy with what you can possibly offer them. It is now about looking after your customers, cherishing them and making them feel privileged. In short, it is about maintaining loyalty.

The role of direct marketing is enhanced by the increasing importance of loyalty marketing in today's context. This is because direct marketing is about ensuring that appropriate messages are reached to the intended customers. Its usage shows the customers that we care for their needs. This facilitates interaction with the customers at key points in their life cycle. This helps further nurturing relationships with them. The biggest of direct marketing is its reliability. However, in this context this more of becomes a liability in itself. This is because many decision makers rely on the belief that direct marketing is measurable. If this holds true in pure conditions, this must equally hold true in other less regulated circumstances as well. The fact is that loyalty is very difficult to measure. The prime objective of any direct marketing campaign is to ensure that the right message reaches the right people. Despite their efficacy, many good direct marketing campaigns are ruled out just because of the reason that they cannot be cannot be measured. Ironically, other weaker marketing approaches replace these direct marketing campaigns because the effectiveness of those approaches was never contested. There isn't any supporting evidence to counter the same.

Another factor which poses difficulty in measuring the various loyalty marketing campaigns is that they are not given much importance. Although there are many 'time tested' and proven techniques to bringing in more replies. These techniques, like "time closes" which is the use of a deadline after which some special offer is already closed to lure customers and get response from them, incentives and use of postscripts (this is used at the bottom of a sales letter to propagate the best deal from any sale, since this also creates curiosity among the customers who are going through the letter) they all work very effectively. The main issue is that how many customers are aware of these techniques as they are aware to the people in the direct marketing industry. It goes beyond doubt that use of direct marketing certainly leads to an increase in sales, but a majority of the customers who receive these direct mailers do not engage in purchase of products on offer, mostly because these mailers are often ignored and are added to their spam folders. The latent cost of increasing the sales by using some other sales technique may increase hostility levels among the non-buyers.

This issue is not confined to only loyalty programs. Many respectable companies use direct mailers for market their products. They do spend a lot of money on above-the-line advertising to communicate their brand image to the customers; but they should never underestimate the possible damage that a mass direct mailer can cause. At best, that mailer can be personally demeaning to a person but when the worst case scenario is considered, it can trigger a widespread adverse PR in the press and television.

Generally speaking, whenever any communication emphasizes on the selling part, it become even more difficult to convince the customer that the company is considerate of his/her needs. This logic rules the element of directly measure the loyalty campaigns.

2.3 Need for Loyalty Marketing in Retail

Self-service retails began in the 1930s where customers had to do shopping on their own. This made way for other modernizations where customer can opt for self-checkout systems. This led to the dramatic reduction in the labour costs and time spent by the customers at the retail stores. However, according to **Jose. B Alvarez**, senior lecturer of marketing at Harvard Business School, the loss of interactivity between the shopper and the merchant has left a lot of customers in the lurch (Starvish, 2011). A well-structured and robust customer loyalty program is the key to bring them back. Loyalty programs help the retailers to cure the commoditization to some extent that has been a part of retail scenario (Starvish, 2011). In simple terms, a loyalty program helps to break "the clutter"

Technology has been a very significant enabler of customer loyalty programs. Gone are the days of obsolete and creepy strategies where an employee was specially sent to collect the licence plate number of the car used by the customer during the shopping and comparing this with the addresses to track the customer (Starvish, 2011). In today's digital era, the retailer has a lot of options at his disposal. The customer data can be "sliced and diced" as per convenience. According to Alvarez, the more information the retailer gets of the customer, better the services the retailer can provide to the customer (Starvish, 2011).

2.4 Engaging the customer

The most important component of any customer loyalty program is the engagement. The retailer should try to build relation with the customer instead of forcing enrolment into the program. This is important because customers also perceive a loyalty program as a tactic of a retailer to ambush him, according to Alvarez (Starvish, 2011). A retailer has to connect with a potential customer at three levels in order to be successful. At the first level, the customer is introduced about the loyalty program and receives an introductory award for enrolling in the program. The second level involves direct communication of the retailer with the customer which takes places mostly via e-mail to give tailor made offers to the customer. At the third level, a two way communication occurs between the customer and the retailer which completes the feedback loop (Starvish, 2011).

The customer data obtained from loyalty programs is immensely beneficial to the retailers. It helps them perform marketing research, define various pricing strategies, and also make an informed decision as to expand or not. Retailers are in a position where they get a thorough understanding of which brands matters most to the consumers. For example: if the retailer gets to know that the consumer is switching brands or paying a lot of attention on product promotions then the retailer can drive the customer towards private labels. Data based on customer preferences towards brands can be used as a driver in retailer-manufacturer relationship. So if a brand is not getting sufficient loyalty among the customers, the manufacturer can be forced to

keep the prices constant or else the retailer may choose to keep the product off the shelf (Starvish, 2011).

Today, as more and more retailer giants are emerging out, the need of a robust and effective customer loyalty program has escalated to greater heights. Today's customers have become tech savvy. They don't care about how many varieties of products a retailer can stock. What is more important is that whether the needs are getting fulfilled or not. It is not only about price, selection and convenience anymore, it is about relationships and experience. Technology therefore would be the game changer for the retailers in the times to come. In order to ensure that the loyalty programs hit the bulls-eye, retailers need to leverage technology to track the customers" preferences and give them a shopping experience so that they come back again and again.

2.5 Dollars and Miles

In a research paper by Dréze and Nunes titled, **'Using Combined-Currency Prices to Lower Consumers 'Perceived Cost'**, they take into consideration different types of currencies like flyer miles, hotel reward points, credit card reward points, etc. that consumers can accumulate by enrolling themselves into various customer loyalty programs. This concept of "combined-currency" is important to marketers because by using combined currency, customers are today are having an ability to pay for a whole lot of goods and services. The perception of the consumers towards the "combined-currency" is the matter of investigation by Dréze and Nunes. In their paper, they provide a mathematical proof of how a price (measured in actual money) which is converted into a combination of multiple currencies is more preferred by consumers as compared to the single currency of the same monetary value. For example, if a customer buys a ticket worth $189 or 25,000 miles ($0.02 per mile), he would prefer a $39 plus 16000 miles instead of the single currency values mentioned above which all are equivalent to $250 in monetary terms (Drèze & Nunes, Using Combined-Currency Prices to Lower Consumers "Perceived Cost, 2004). The research paper was widely acknowledged and also got a place in the Journal of Marketing Research in the year 2004. The authors highlighted that there are two ways in which the concept of combined currency is profitable for a company. The first way is that this leads to a reduction in the perceived cost associated with a scheme. The second way is that it increases the revenue generation by a company at a given perceived cost (Drèze & Nunes, Using Combined-Currency Prices to Lower Consumers Perceived Cost, 2004). For example, the psychological cost to a consumer when he spends $1000 or 50,000 miles on an airline ticket would be equivalent. Hence, he would prefer paying $800 plus 10,000 miles rather than paying in form of only one of the currency option as mentioned above because the perceived psychological cost of the combined-currency option is lower despite all the options would provide equivalent revenue to the airline company (Drèze & Nunes, Using Combined-Currency Prices to Lower Consumers" Perceived Cost, 2004). This example is a clear evidence of the preference of the customers towards the combined currency scheme. This also illustrates the fact that if

a customer flies a mile or spends an amount that corresponds to that one mile, then, he would not give the same value to both of them. So, the psychological cost perceived by the customer would increase if he would start to increase the amount of payment made in any of the single currency. As a result, there would be two conditions under which an airline company would make profits if it charges its customers in the form of combined-currency. These two scenarios are:

Scenario 1: The perceived cost of the individual units of two currencies is not the same in the minds of the customer

Scenario 2: The cost function of any of the individual currency has a level of convexity. By this, it means that for example, 25,000 miles would be perceived as more worthy by consumer as compared to two times 12,500 miles. This may be because the reward associated with the first option would be more delightful to the customer as compared to the second one.

The authors provided conclusions to their study after conducting survey of three groups of travelers and evaluating them on the basis of the options given to them as per the individual currencies and combined currency. They initially thought that people would prefer money over miles but the reverse happened. The customers felt that money is something that would not give them something that is worth remembering for (Drèze & Nunes, Using Combined-Currency Prices to Lower Consumers‟ Perceived Cost, 2004) At most, money would make them pay their bills but miles would give them memories. This places miles higher than money. Psychologically speaking, there is a lot going behind the minds of the customers when it comes to making choices between these frequent flyer schemes (Drèze & Nunes, Using Combined-Currency Prices to Lower Consumers‟ Perceived Cost, 2004). The paper by Dréze and Nunes proves that customers don't value miles and equivalent money the same.

2.6 Artificial Advancement and Endowed progress Effect

In another paper published by Nunes and Drèze titled, **'The Endowed Progress Effect: How Artificial Advancement Increases Effort'**, they highlight how companies can design their certain customer loyalty programs wherein they would make them more attractive to the customers and hence the program would become more profitable. The concept of endowed progress is that the customers who are provided with a sense of artificial advancement towards any particular target for example, certain reward points show a higher degree of persistence towards attaining it than they otherwise would in the absence of any artificial advancement (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006). Artificial advancement means that the retailer makes the customer advance towards a target and at the same time, also moves the customer away from the target. In this way, the requirements to accomplish the task and the reward the customer

would get after accomplishment of a task would remain unchanged (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006). For example, a company can modify its reward program that would initially require a customer to require eight purchases to attain a certain reward upon completion by changing it so that the customer now has to make 10 purchases instead of 8, with a difference that now the customer gets a bonus of 2 purchases completed during enrolment. In this way, the customer would be tempted to complete the target earlier since he is provided with a head start. Although, the overall number of steps required in both the options is eight only. The paper was published in the Journal of Consumer Research. Nunes and Drèze demonstrated this by experimenting with 300 customers who came for a car wash. These customers later received loyalty cards after their first car wash and subsequently, their later visits to the car wash were tracked (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006).

According to the study by Nunes and Drèze, by changing a task that would have required eight steps to complete and giving to the customers as something that has not even begun (without a head start) into a task that would require 10 steps to complete but the customers would be given a head start of 2 steps would be perceived as one that has been but is incomplete (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006). Doing this would lead to an increase in the chances of the task getting completed and would also lead to a decrease in completion time as the customers would now be tempted to complete the task sooner.

Apart from the study by the authors on the customer who had come for car wash, they also undertook four other studies of customers to elicit the concept of endowed progress effect on the customers. They had the following findings which are summarized as follows:

- First, they found that as the customers" progress towards the completion of a set target, their efforts to achieve it would keep on increasing which would lead to a subsequent reduction in the completion time. This is because of the endowed progress effect which gives a sense of artificial advancement towards the target (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006).

- The second finding was that the persistence that the customer shows towards the accomplishment of a target is dependent on how much progress is made by the customer and not on the amount of points lost in the process of not following the program (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006).

- The third finding is that when the progress made by the customer is paid back to the customer in the form of points rather than purchases, the return that the customers get during the course of the program would appear more significant to the customer and this would propel the customer to give more effort to

achieve the goal and hence, reduce the completion time (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006).

- The final finding by the authors was that the endowed progress plays a greater role in a case when the customers are given a reason for the endowment (Drèze & Nunes, The Endowed Progress Effect: How Artificial Advancement Increases Effort, 2006).

2.7 Customer Loyalty Cards

According to Lars Meyer-Waarden, customers feel less inclination towards visiting other competing retailers because the loyalty cards gives a sense of usefulness due to various financial benefits, added convenience and identification it provides. However, it is also possible that the desired level of usefulness is not reached of the customer's share of wallet (SOW) is not entirely devoted to a particular retail outlet. While Nathalie T.M. Demoulin and Pietro Zidda feel that the effectiveness of a loyalty card comes into the picture only when the rewards offered in the scheme bear value to the customer and also when the customers become somewhat price sensitive. Loyalty cards is a type of Customer Relationship Management (CRM) tool which is has a defensive character and has long term returns which makes it different from other sales promotions schemes.

Loyalty card programs create a sense of privilege in the minds of the customer as he/she tend to perceive to get a better service quality from the retailer in comparison to a non-member of the loyalty program. Loyalty program are an excellent means to gather various customer related information. Every time a customer get his/her card swiped at the payment counter, the retailer get some valuable pieces of information like purchases made, the kinds of products purchased by the customer, the size of the basket, the amounts spent by the customer, the preferences of the customer towards a certain type of rewards and redemptions. Apart from this, other relevant information of the customers likes demographic, psychographic and behavioural aspects when the card is issued for the first time. These information points helps retailers design customer specific schemes to further provide value to the customer in a better way. This information is also later used for evaluation of a CRM campaign, get marketing insights and also for customer follow up activities like sending e-mails, SMSs, etc.

Advantages of using Loyalty Cards

The advantage of a loyalty card is more to the company that issues it than to the customer who receives it. It is an excellent method of tracking your customers" shopping behaviour (Carmen Acatrinei, 2012). By shopping behaviour, we can have a tab on what they are buying, when they are buying, how much amount they are spending, what they buy as an alternate if their favourite product is not on the shelf. The consumer upon enrolling as a loyalty card member anticipates future rewards, and this makes him in a cordial relationship with the retailer (Carmen Acatrinei,

2012). Considering the ever competitive retail scenario, a company's loyalty card scheme differentiates itself from its competitors and acts as symbol of identification in this highly competitive scenario.

To the customers, the perceived advantage is that he/she gets to accumulate points which can later be redeemed. This gives the sense to the customer that he/she is getting something for free. Some research has also shown that the customers feel a sense of guilt if they do not get a redeemed gift they wanted at the first time. For some customers, co-branded loyalty cards add to the convenience. Apart from this there are social benefits that can be attributed to a loyalty card (Carmen Acatrinei, 2012).

2.8 Evaluation of Loyalty Programs

In order to assess CRM program's effectiveness, comparisons between behaviour patterns of members and non-members are an appropriate method. Yet, there are some who believe that this type of analysis may be deceiving in the sense that becoming a member of a loyalty program may not be the reason behind increased loyalty or repeat purchase behaviour. The shopper may have decided to become part of the program due to the fact that he was loyal in the first place and wanted to be rewarded. (Leenheer J., 2003)

It is difficult to assess loyalty in relation to the card and there are numerous models used to try to evaluate card-holders" loyalty, such as the Dirichlet model or the Tobit-II model. Pauler and Dick proposed that RFM (recency - frequency - monetary method) could be a useful method to target loyal customers when using average spending values instead of one-time-purchase values as the monetary indicator (Carmen Acatrinei, 2012). Yet, RFM does not include household expenditures or purchases made at competitor stores. RFM is a criticized model due to the fact that it is rather a snapshot and does not include the potential of a new loyalty program member. It is highly likely that there is no relationship between being a member in a loyalty card program and the value of a customer using RFM. In addition, proximity may also influence RFM, in a higher manner than the membership to a retailer's loyalty program. (Carmen Acatrinei, 2012)

2.9 Loyalty Programs on the rise

Loyalty programs continue to be at a growth trajectory. Initially, customer loyalty programs were confined only to businesses like credit cards, hotels and airlines. The reason was that these sectors dealt with products and services that were perishable in nature like a room in a hotel or a seat in an airplane. The costs were very low but returns were very high. Today, almost all types of companies are launching their own customer loyalty programs to remain competitive. The effectiveness of these customer loyalty programs can be determined by this very fact that customers are excited to be a part of them even when some do not have any monetary value at all. For example, Yahoo! Answers, a site run by Yahoo wherein user can ask questions and get answers awards points to users who answer the questions and also to those who rate the answers to questions posted by other users. These points cannot be exchanged for real

world goods but the mental gratification that the users get by competing with other users to get to the top in the list and even competing with themselves leads to them spending enormous amount of time on the site.

Despite these studies, Nunes considers that we are far from completely understanding the long term impact of customer loyalty programs. According to a study by Maritz, which engages in marketing research and also does consulting and implementation of customer loyalty programs , a member of a customer loyalty program does spend more but whether being a member the customer loyalty program drives spending or there is high likelihood of big spenders to join customer loyalty programs is still unknown. According to Nunes, some firms are hunting for the customers who fit the bill and holding them by giving the customers rewards that are bigger and better. In addition to this, Nunes feels that any customer loyalty program should be designed in such a way that their primary aim is to provide to its customers, the products and services which are differentiated in nature, the basis of which should be the purchasing patterns of the consumers. If any customer loyalty program simply believes in giving discounts on products purchased in bulk and paying for patronage, their long term sustainability is doubtful.

Numerous studies have also proven the effectiveness of loyalty programs. In a study named „Exploiting the Installed Base Using Cross-Merchandising and Category Destination Programs‟, which was conducted by Drèze in collaboration with Stephen Hoch who is a marketing professor at Wharton, a loyalty program „baby club‟ was launched a store selling baby products. After this program was launched in the store, the sales of the products in the store surged by 25 percent for duration of six months on an average (Xavier & J., 1998). The reason for the increase in the sales in the given period was due to an increase in the number of transactions with the baby products by the customers. Apart from this, the average billing amounts and the number of people visiting at these baby stores also went up by around 5 percent (Xavier & J., 1998).

Customer Loyalty Programs are still requiring a lot of in-depth research and Drèze and Nunes are on it. Among other things, the authors are finding out whether conferring a loyalty status to a customer like gold, platinum, etc. are effective in increasing customer loyalty or not. Currently, there are a lot of loyalty programs that are running in which there is a provision of customers to get endowed by a status like a gold member and the likes. By performing this stratification among the customers, the customers tend to behave differently and needless to mention, their shopping behaviour changes as well. By the research done by the authors so far on the stratification of customers, doing this would put the gold status customers on the top 5% of the lot but it doesn't mean that they would feel special about it. The sense of exclusivity comes in only when these customers get to know that there is a class say a silver class below them who get lesser privileges than they get. This leads the members of the gold class to spend more to justify their position in the loyalty program pyramid.

2.10 Case Study

Case: Big Bazaar
Big Bazaar is a hypermarket chain based out of India. Presently, there 214 Big bazaar stores spread across 90 towns in India covering around 16 million sq. ft. of area. The supermarket was designed with an objective of providing a one stop-shop option to its customers by offering a variety of merchandise ranging from food and grocery, apparel, furniture, consumer electronics, stationery and book and leisure and entertainment.

Big Bazaar is a unit of Future Group. The group had under its hat other chains like Central Hypermarket, Apparel chain Pantaloons, consumer electronics chain eZONE, BrandFactory, online retail portal futurebazaar.com. This are fully owned subsidiaries of Pantaloons Retail India Limited (PRIL) and is also listed on Indian stock exchanges.

Big Bazaar was launched in India in September 2001 when in a span of 22 days, its first four stores were opened in Calcutta, Indore, Bangalore and Hyderabad. Since then, the giant has come with a number of stores across all major cities in India. The group is headed by Kishore Biyani who is currently the group CEO and managing Director of Pantaloons Retail India Limited. Though Big Bazaar was initially launched purely as a fashion format which comprised of apparel, cosmetics, accessories and general merchandising but the retail giant has diversified to include a host of other product categories. Today, it includes four principal retail formats viz. Biz Bazaar, Food Bazaar, Electronic Bazaar and Furniture Bazaar.

Customer Loyalty Programs of Big Bazaar
Big Bazaar runs a range of CLPs (Customer Loyalty Programs)

- **Wednesday Bazaar:** This concept of Wednesday Bazaar was launched by Big Bazaar which was promoted as "Hafte Ka Sabse Sasta Din". The main aim of this program was to draw the customers towards the stores on Wednesday when the observed number of customers is the least. According to Big Bazaar, the scheme was aimed at giving homemakers the power to have the maximum savings possible and along with it; the stores across the country had a fresh look to make the customers feel special.

- **Sabse Sasta Din:** The Company wanted to achieve the daily sale target of Rupees 26 Crore. For this, they launched the scheme, "Sabse Sasta Din". The idea was simple. To mark a day in the calendar that belonged to Big Bazaar. The results were phenomenal. The scheme was first launched on 26 January 2006 and the footfall was so much that the company had to call in police for crowd control. This concept was a huge hit. Later on, they increased the duration of the scheme from one day to three days in 2009 and later in 2011, to five days.

- **Maha Bachat:** This scheme was also flagged off in 2006. As a single day campaign, it offered attractive promotional offers to its customers across all Big Bazaar stores. With the growing popularity of the scheme, it has now become a 6 days campaign which happens twice a year. The offers were valid at all the retail formats of Big Bazaar viz. Big Bazaar, Food Bazaar, Electronic Bazaar and Furniture Bazaar catering to complete shopping needs of the consumer.

- **The Great Exchange Offer:** This interesting scheme was launched on 12 February 2009. "The Great Exchange offer" allowed its customers to exchange their old, unused items for Big Bazaar shopping coupons. These coupons could later be redeemed for purchasing new goods at Big Bazaar. The price value offered on exchange of these goods was way higher than the scrap value that people would otherwise have got by selling those items.

3. Research Methodology

Research methodology is a way to systematically solve the research problem. When we talk of research methodology we not only talk of the research methods but also consider the logic behind the methods we use in the context of our research study and explain why we are using a particular method or technique and why we are not using others so that research results are capable of being evaluated either by the researcher himself or by others. A research process consists of stages or steps that guide the project from its conception through the final analysis, recommendations and ultimate actions. The research process provides a systematic planned approach to the research project and ensures that all aspects of the research project are consistent with each other. Research study evolves through a series of steps, each representing the answer to a key question.

3.1 Need of study
Customer is one for whom you satisfy a want or need in return for some of payment. The payment may be money, may be time, or may be goodwill but there is some form of payment. Satisfaction is the level of person felt state by comparing products perceived in relation to the person's expectations.

Satisfaction level is function of the difference between perceived performance and expectations. If the performance falls short of expectations, the customer is not satisfied. It the performance matches the expectations the customers are highly satisfied. If the performance is beyond his expectations the customer is thrilled.

Customer satisfaction is customer's positive or negative feeling about the value that was perceived as a result of using particular organization's offering in specific used reaction to a series of use situation experience. According to Peter F. Ducker, the purpose of business is to create and retain a satisfied customer. A society supports business because they serve the members by catering to their needs and wants as a

result of which leaving they satisfied. If the business dissatisfies its customers and not only these customers stop availing service but society at large will condemn the firm and may even penalize it to the point of its extinction.

The need of study is to analyse the customer satisfaction after sales and service and fill the gaps if any which in turn can improve the service

3.2 Scope of the study

In this competitive world retaining the customers has become very important; hence it has become part and parcel of the business. Business which can adapt to quick changes and get access to improvised technology can survive in this tough market conditions.

This study will help us understand business Environment of Retail Industry. This study will not only help us as a student but it also assist Retail companies. to increase their customer base and serve their customers better.

3.3 Research Problem

The purpose of this research is to understand the efficacy of Loyalty Marketing in Indian Food and Grocery retail. In an already cluttered retail scenario in our country, Loyalty Marketing is something that retail giants use to break this clutter and create some sense of differentiation in the minds of the customer. This study is aimed at undergoing an in-depth analysis of various Loyalty Programs being run in the country and understand what consumers think about these programs and determine whether these are fulfilling their actual purpose or not.

3.4 Sample design

A sample design is a definite plan for obtaining a sample from a given population. It refers to the technique or the procedure that the researcher would adopt in selecting items for the sample. Sample design may as well lay down the number of items to be included in the sample i.e. size of the sample. Sample design is determined before data are collected.

3.4.1 Target Population

It is a description of the characteristics of that group of people from whom a course is intended. It attempts to describe them as they are rather than as the describer would like them to be. Also called the audience to be served by our project included key demographic information (i.e. age, sex etc.). The specific population intended as beneficiaries of a program. This will be either all or a subset of potential users, such as adolescents, women, rural residents, or the residents of a particular geographic area. Topic area: Governance, Accountability and Evaluation, Operations Management and Leadership. A population to be reached through some action or intervention may refer to groups with specific demographic or geographic characteristics. The group of people you are trying to reach with a particular strategy or activity. A specific resource set that is the object or the target of investigation. The audience defined in age, background, ability, and preferences among other things for which a given course of

instruction is intended.

I have selected the sample through Convenience sampling and Judgemental Sampling.

3.4.2 Sample Size

This involves figuring out how many samples one needs. The number of samples you need are affected by the following factors:

- Project goals.

- How you plan to analyze your data?

- How variable your data are or are likely to be?

- How precisely you want to measure change or trend?

- The number of years over which you want to detect a trend.

- How many times a year you will sample each point?

- How much money and manpower you have?

I have targeted 134 people in the age group above 15 years for the purpose of the research. The target population influences the sample size. The target population represents the Delhi NCR region. The samples were from different professional background.

3.4.3 Sampling Methodologies

Sampling methodologies are classified under two general categories:

1. Non-Probability sampling

   - Convenience Sampling

   - Quota Sampling

   - Judgmental Sampling

2. Probability sampling

   - Simple Random Sampling

   - Stratified Random Sampling

   - Cluster Sampling

   - Systematic Sampling

In the former, the researcher knows the exact possibility of selecting each member of the population; in the latter, the chance of being included in the sample is not known. A probability sample tends to be more difficult and costly to conduct. However, probability samples are the only type of samples where the results can be generalized from the sample to the population. In addition, probability samples allow the researcher to calculate the precision of the estimates obtained from the sample and to specify the sampling error. Non-probability samples, in contrast, do not allow the study's findings to be generalized from the sample to the population. When discussing

the results of a non-probability sample, the researcher must limit his/her findings to the persons or elements sampled. This procedure also does not allow the researcher to calculate sampling statistics that provide information about the precision of the results. The advantage of non-probability sampling is the ease in which it can be administered. Non-probability samples tend to be less complicated and less time consuming than probability samples. If the researcher has no intention of generalizing beyond the sample, one of the non-probability sampling methodologies will provide the desired information.

The subjects are selected just because they are easiest to recruit for the study and the researcher did not consider selecting subjects that are representative of the entire population.

In all forms of research, it would be ideal to test the entire population, but in most cases, the population is just too large that it is impossible to include every individual. This is the reason why most researchers rely on sampling techniques like convenience sampling, the most common of all sampling techniques. Many researchers prefer this sampling technique because it is fast, inexpensive, easy and the subjects are readily available.

Examples

One of the most common examples of convenience sampling is using student volunteers as subjects for the research. Another example is using subjects that are selected from a clinic, a class or an institution that is easily accessible to the researcher. A more concrete example is choosing five people from a class or choosing the first five names from the list of patients.

In these examples, the researcher inadvertently excludes a great proportion of the population. A convenience sample is either a collection of subjects that are accessible or a self-selection of individuals willing to participate which is exemplified by your volunteers.

Uses

Researchers use convenience sampling not just because it is easy to use, but because it also has other research advantages.

In pilot studies, convenience sample is usually used because it allows the researcher to obtain basic data and trends regarding his study without the complications of using a randomized sample.

This sampling technique is also useful in documenting that a particular quality of a substance or phenomenon occurs within a given sample. Such studies are also very useful for detecting relationships among different phenomena.

We have used Non Probability Sampling and to be specific convenience Sampling and

Judgemental Sampling in which the researcher must first prepare an exhaustive list (Sampling frame) of all members of the population of interest. From this list, the sample is drawn so that each person or item has an equal chance of being drawn during each selection round. Samples may be drawn with or without replacement.

Therefore overall sampling process can be summarized as follows:

- Area: Delhi.

- Sample Frame: consumer's in retail stores.

- Sample unit: Individuals.

- Sample size: 134

- Sampling method: Convenience sampling.

3.5 Research Design

Phase 1: Secondary Research (Exploratory Phase)

The first stage would be secondary research. This would involve studying reports, articles and understanding research work done in this domain previously. Though there is some research done to understand the effects of Loyalty Marketing on sales. However, no research so far has been done on understanding how Indian shoppers react to Loyalty schemes offered to them at retail stores like Big Bazaar, Reliance Mart, etc. So this will help in providing a lot of insights for the Loyalty Marketing in Retail industry and help in understanding its actual effect on sales in Indian context.

The findings which are obtained from first phase would be the basis for subsequent stages in research. After gaining basic clarity on the subject, the efforts would be directed to obtain specific insights. Apart from this, there shall be identification of gaps that are present in the current loyalty programs in the food and grocery retail formats.

Phase 2: Primary Research (Data Collection)

After thoroughly conducting the secondary research and gathering some relevant information on the topic, the next phase would be primary research. The aim of primary research is to crosscheck the findings that have been obtained from the previous phase and also to gain a better ground on the findings to our research problem. The research carried out in this phase would be divided into two parts:

- Part 1: Qualitative Research

The first part of the research would be qualitative in nature. The respondents covered in this phase would be the store managers of the retail stores. For this phase, two retail stores in New Delhi have been covered:

o Big Bazaar

o Reliance Freash

The aim of conducting this study is to find out the various elements of a customer program from a managerial perspective. The respondents would be asked questions on topics like:

o How do you structure and strategize their customer loyalty program?

o What are the parameters you take into consideration while designing any customer loyalty program

o How do you communicate about any customer loyalty program to your customer?

o What are the process improvements you would like to bring in to make your customer loyalty programs even better, etc.

The mode of data collection would be by means of in-depth interviews.

- Part II: Quantitative Research

The second part of the research would be quantitative in nature. The respondents covered in this study would be the regular shoppers who visit the following stores in New Delhi:

o Big Bazaar

o Reliance Fresh

The objective of this study is to get an opinion of the consumers regarding their shopping habits and how they feel about the various loyalty programs. This information would lead to a better understanding of the effectiveness of various loyalty programs from the point of view of the customers and whether there is any insight that can be obtained about any potential loopholes that is present in the current loyalty programs in food and grocery retail. The following areas would be covered:

o The frequency of shopping at food and grocery stores

o The usage frequency of loyalty cards

o The features in a customer loyalty program they like and dislike

o Suggestions on what needs to be done at a store level to improve the existing customer loyalty program

The mode of data collection would be in the form of questionnaire. The sample survey is given in the Appendix C. The target number of respondents to be covered would be more than 100.

Phase 3: Data Analysis
After the data acquisition via various media, it would be collated and given a formal structure. This would involve collation of data obtained from primary research and secondary research. After the data is compiled, it would be checked for consistency throughout the entire research findings to eliminate any redundant information. We also need to check whether the data obtained is in line with the research objectives or not. The data obtained from qualitative research would be analysed to obtain trends and commonalities across the two stores covered. The data obtained through quantitative research would be collated to report the percentage trends and some would be treated with factor analysis using SPSS software. A detailed data analysis is given in the next section.

After a thorough analysis of the data obtained, conclusions would be drawn on the various insights obtained which would give some clarity on the situation of loyalty programs in food and grocery retail in India, the road ahead and what needs to be done to further improve the processes. Loyalty Marketing In Indian Food And Grocery Retail

4. Data Analysis and Discussion

4.1 Section I: Qualitative Analysis

The first part of the primary research would cover the store level managers of the multi-brand food and grocery retail stores. The following retail stores were covered under this:

- Big Bazaar, Rohini - Sector 3, Delhi

- Reliance Mart, FD-4, Pitampura, Delhi

The following respondents were interviewed:

- Mrs Nainita Patil, Head, Customer Service Cell, Big Bazaar

- Mr Ramesh Patel, Store Manager, Big Bazaar

- Mr Jignesh Parmar, Head of store operations, Big Bazaar

- Mr Bhavik Shah, Head, Store marketing, Reliance Fresh

- Mrs Sushma Kapoor, Store Manager, Reliance Fresh

The respondents were asked questions based on their perception of the Loyalty programs being run at their stores and how do they assess their effectiveness. Basis their responses to the questions, they have been classified into the following sections:

1. Need for Customer Loyalty Program

The respondents felt that the primary need for introducing any customer loyalty program is to improve the current level of service being offered to the customer with an objective of improving the overall experience the customer goes through when the customer visits a store. Apart from this, the respondents also felt that loyalty programs are much needed to remain in the competition. At a time when everybody is offering a loyalty program of its own, an effective loyalty would help to differentiate a retailer from other and would ultimately lead to an increase in the number of customers participating in the loyalty programme. Both the respondents asserted that the customers today look for experience and don't mind travelling the distance to reach the store provided their expectations towards the shopping experience are met.

2. Goals of a Customer Loyalty Program

Unanimously, the respondents think that the goal of any loyalty program is to increase brand value of any retail store in the minds of the customer. They would like to be the most preferred choice of the customers. Taking into consideration that both these retail stores stock a large variety of products, the respondents would expect their customers to consider their stores as the one stop shop for all the grocery needs. Apart from this, a high level of customer interaction is considered to be very critical in the success of any customer loyalty program. Also, considering the fact that the government has opened its doors to allow foreign players to set up roots in the country, respondents feel that a robust loyalty program would help in preparing them for the stiffer competition that might exist in future owing to the presence of foreign players like Wal-Mart and Tesco in the retail domain.

3. Genesis of Customer Loyalty Programs

According to the respondents, customer loyalty programs at the retail stores were started with the initiation of retail operations of these retailers. For example, Big Bazaar started its Big Bazaar-ICICI bank card way back in 2002, a year after it started its operations in 2001, as recalled by the respondent interviewed at Big Bazaar. Some programs which were not getting profitable were discontinued while some are still running and have entered into its seventh year.

4. Kinds of Customer Loyalty Programs

More or less, the loyalty programs at the retailer level are based on loyalty cards. These cards are issued to the customers by the store personnel and which every purchase they do at the designated store, they get some points which can be redeemed by purchasing products at the retail store. According to the respondents, loyalty cards are primarily targeted towards the middle which contributes a majority to the store revenues. Apart from card based loyalty programs like Big Bazaar‟s PayBack card and Reliance‟s RelianceOne, there are some other innovative loyalty programs as well. For instance, in Big Bazaar, Nainita claimed that the „Great Exchange Offer‟ is one of the most successful loyalty program launched by Big Bazaar and is something that is not implemented by any of its competitor.
Started initially in 2006, in this scheme, the customers can bring in items like old newspapers, plastics, metal utensils and get a very competitive per Kg rate and if the shopper buys four times or more of the net value of the exchanged items then the equivalent value of the items exchanged gets deducted from the total bill.

5. Modus Operandi of Customer Enrolment in a Loyalty Program

The procedure of enrolling a customer in the loyalty program is the same at both the retail stores. First the customer is made to fill up a form following which; a card is issued to him. The customer is also informed about the points scheme during this time only. Generally, Big Bazaar for instance for every Rs. 40 worth of shopping, the customer gets one point whose monetary value is equivalent to 25 paise. The customer is asked to carry the card everytime he/she comes for shopping and depending on the bill amount the points are deposited in the customer"s card. In, order to redeem the points earned, the customer has to accumulate a minimum number of points.

6. Communication about Customer Loyalty Programs

According to Nainita, Big Bazaar is very serious when it comes to conducting in-store promotional activities. They try to engage as many customers possible to convey the message. For example, the store managers ensure that the local festivities are propagated into the store as well. So during Navratri, a store would be decorated in the festivities of Garba and the very store would look different during Diwali. Reliance Mart invests heavily on print medium to communicate its schemes to the customers by attaching flyers and advertisements in the newspapers. Bhavik claims that the sales representatives ensure manual distribution of latest offer leaflets at the doorsteps of the customer. He says that, "If we want them to come to us, we have to go them first before anybody else does"

7. Ensuring that the customer revisits the store

The respondents feel that in order to ensure that the customers revisit the store regularly, we have to ensure that the customers have a great time every time they visit us. In order to ensure that the customers enjoy shopping with them, they need to know what the customers want out of them. This requires a very robust feedback mechanism. The customers are contacted by the retailers on a very regular basis to get feedback so that the store experience is improved even more. "If the customers have any serious grievances regarding anything that has got to do with the store, it is immediately addressed and rectified", asserts Bhavik.

8. Planning of Loyalty Programs

When the respondents were asked about the planning of the customer loyalty programs, they unanimously stated that it is centralized in nature. The planning follows a hierarchy starting from the central level down to the zonal level down to the store level. However, the respondents also mentioned that there is some degree of customization that take place at the store level. They believe that centralization is important because a customer who shopped at a store in Delhi would feel a great

difference if he would shop at a store in Ahmedabad. The offers at all the stores across the country are the same.

9. Planning competition and flow of information

Speaking about competition, the respondents mentioned that the planning of it is also done centrally based on the store level data that is sent out to the head office. Any modifications that is done to meet the market dynamics is done with a span of 4-5 days. The flow of information also takes a hierarchical route i.e. from head office to zonal level and finally down to the store level where the actual implementation takes place.

10. Measuring Success rate of Customer Loyalty Program

According to the respondents, the measurement of a customer loyalty program takes place on a daily basis. At a store there is a daily target that is set. Whenever, the customer does shopping and uses the loyalty card at the counter, it is tracked by the system. At the end of the day, the revenues coming out of the loyalty card members is added and if it exceeds the daily target set by the store manager, the loyalty program is said to successful for that day. However, it is important and rather interesting to note that the daily targets for different days of the week are different. The targets for weekends are higher than that for weekdays. The sales data obtained is sent to the head office on a daily basis.

11. Optimization of resources for Customer Loyalty Program

When it comes to optimizing the resources that have been invested on the smooth implementation of customer loyalty programs, the respondents assert that they take great care to ensure that the resources are utilized in the best possible manner and that the wastage is reduced as much as possible. However, the complete optimization is not achieved. For example, Bhavik pointed out that the pamphlets that Reliance Mart sends for print sometimes overshoots the actual demand. Now since the customers need to be informed about the latest offers, these pamphlets get wasted.
Apart from this, the store conducts an external audit to maintain the strict quality standards of not only the stocked products but the shopping experience as well. These auditors do surprise audits to ensure that the standards that are set by the stores are met in all possible ways. Moreover, these auditors take visual proofs of the stores by clicking photographs which are directly sent to the head office for referral.

12. Analytical tools for Customer Loyalty Program Data

When the respondents were asked about whether they have any store level analytical tools in place, they said that since they do not do anything with the data but sending the same over to the zonal office, investing in analytics tool doesn't make sense. The

data at the store level is maintained in the form of excel sheets which is collated on a daily level and sent over to the zonal office for analysis.

13. Loyalty program and desired ROI

When the respondents were asked so to whether their Customer Loyalty Programs are achieving the desired ROI or not, both of them, claimed that most of their programs have managed to achieve a positive return on investment. For instance, Nainita mentioned that while the "Sabse Sasta Din" went great in terms of footfalls and sales, their "Biz Bazaar Price Challenge" didn't work out that well. "In order to successful, you have to win the confidence of your customers", said Bhavik. The campaign back fires if proper tracking of prices doesn't take place. But, they maintained their stand on the fact that not all Loyalty campaigns give the desired ROI. However, if any campaign gives the desired ROI, it is repeated. Nainita recalls that since they launched the "Great Exchange Offer" in 2006, it has continuously given them returns. "This is the reason why it's still in existence across all Big Bazaar stores in the country", proudly claims Nainita
.
14. Store level improvements to improve Loyalty

Despite the successful loyalty marketing campaigns by the retailers, there is still scope at the store level to improve the shopping experience of the consumers. As pointed out by the retailers, when a customer visits a store, the first thing they take for granted is the store hygiene. If they don't find the same, it may cause a bad memory in the minds of a customer, the future implications of which may be severe. When the customer is at a store, he might feel an urge to consult with the store staff. Sometimes, due to rush or sheer staff mismanagement, certain customers find the store staff absent at places where they expect them, and this again creates issues.

As pointed out by Bhavik, "Before our customer expects something out of us, we have to be there before that to meet his expectations. If there is a disconnect anywhere, then problems are bound to happen." Nainita feels that retailing especially food and grocery retailing involves a lot of dynamics including the customer, retailer and the supplier. "In order to be successful, you have to strike a perfect balance between these three", she adds.

4.2 Section II: Quantitative Research

The second part of the primary research was aimed at the shoppers of the multi-brand retail stores in Delhi. The customers were surveyed by means of a simple questionnaire when they were doing their shopping. However, only the shoppers who had visited the following stores were covered:

- Big Bazaar, Rohini - Sector 3, Delhi

- Reliance Fresh, FD-4, Pitampura, Delhi

A total of 134 respondents were covered in the survey with 50-50 distribution across the two stores mentioned above. The questionnaire was designed to determine the shopping habits of the customers, their awareness and inclination towards the customer loyalty program of that store. Apart from this, the customers were asked about what keeps them loyal to any loyalty program and suggestions were asked on what they think needs to improve in a customer loyalty program.

Age Group
The respondents were aged between 18 to 60 years. The youth aged between 18-24 years contributed to around 37% of the total shoppers surveyed. This was followed by people aged between 25-34 years whose total contribution was 23%. For a detailed breakup on the age groups, refer to Appendix D.
Based on the responses we received from the receivers, we divided them under the following heads:

1. Shopping Frequency

When the customers were asked about how frequent they shop, most of them turned out to be monthly shoppers. Out of 134 respondents, 71 of them (around 53%) shop only once a month. Apart from this, around 33% shop twice a month. With the emergence of modern retail, the customers have a lot of choices at their disposal. But, when it comes to going there regularly, most shoppers feel hesitant to do so. Since most of the households are working class, hence, the shopping patterns are also dependent on when the pay check of the chief wage earner comes. Usually, this takes place in the first week on every month and hence, this reflects on a substantial increase in the number of footfalls at these retail stores during the first weekend of every month. For detailed breakup on the shopping frequency of the respondents, refer to the Appendix D.

2. Usage of Customer Loyalty Cards

Retailer companies claim that they ensure that the customers use their customer loyalty cards everytime they do shopping. However, the survey doesn"t suggest the same. Only 10 out of 134 respondents (around 7.5%) use customer loyalty cards everytime they come for shopping. Majority of the customers surveyed (44 percent) "sometimes" use their loyalty cards. There are also some customers who never use their customer loyalty card. This number was around 34 (around 25%). When some of the customers were randomly asked about this, they told us that most of them became the members of loyalty programs without much giving thought to it. This is maybe the reason why they don't consider adding points to their cards as a motivation enough to go for shopping. Hence, they sometimes forget to carry their cards and miss out on using them at the cash counters. For a detailed breakup on the usage of loyalty cards, refer to Appendix D.

3. Distance travelled to do Grocery Shopping

As far is the distance customers takes to travel to their favourite retail stores is concerned, we have got mixed responses. A majority of customers (around 37%) travel somewhere around 3-5 kms to their retail stores. However, the number of customers who travel greater than 10 kms are very less (around 5 percent). This pretty much proves the point that customers prefer to travel less when going for shopping at these multi brand grocery stores. The possible reason is that customers do bulk of the shopping at a go; as mentioned previously where around 53 percent of the shoppers shop only once. Hence, taking a long way to shopping and coming back and battling the busy traffic on the way might not suit many. Also, given the vast choices of retail stores at the customer's disposal, customers would prefer a store that near to their place. For a detailed breakup on the distances travelled, refer to the Appendix D.

4. Price Comparison before Shopping

Most Indian customers are believed to be very price sensitive when it comes to shopping, even food and groceries. When we asked our respondents as whether they compare or not, we found that most of them do. However, most of them (around 53 percent) compare the prices at the store itself. Among the most preferred medium used to compare prices, print medium takes a clear lead. Around 33 percent of consumers compare prices given in the newspapers before they decide on what to shop and from where. This also makes great sense to stores like Reliance Mart who invest heavily on print medium. Apart from newspapers, customers also refer to more than one medium; for instance, brochures and leaflets in order to make price comparisons between various products. However, there are some sections of customers who do not make any comparisons at all. These comprise around 24% of the total respondents who were surveyed. These customers belong to the category of

impulse purchasers. For a detailed account on the various media used by the customers, refer to the Appendix D.

5. Key Drivers to Customer Loyalty

When it comes to determining the key drivers to the customers, a vast majority of respondents (around 88 percent) felt that it is good products and service that comes to the top. Apart from this, good promotional strategies and courteous behaviour of the sales staff wherein, 56 percent of the respondents surveyed think that it works for any customer loyalty program. Since food and grocery retail caters to a vast majority of customer who are price sensitive, giving better discounts also enhances the loyalty of a customer towards a store. When it comes to taking timely customer feedback, many stores claim that they do. Of our respondents, more than 55 percent feel that solving customer complaints on time improves their subsequent shopping experiences at the store which has a direct effect on customer loyalty. For more data on key drivers to Customer Loyalty, refer to the Appendix D.

6. Customer Feedback on Improving Customer Loyalty Programs
Though by means of survey and general interaction with the respondents, it has been found that customer loyalty programs have been well received by the customers but the customers feel that there is more that needs to be done. It has been pointed out by the customers that most of the customer loyalty programs are forced by the retailers to the customers during the shopping process and as a result of which, the customer is not aware of the entire terms of the program. Due to this, the customer is not able to derive the full benefit of the program.
Apart from this, the customers felt that the scope of the loyalty program is very limited, i.e. which the points earned, you can only purchase product from that store only and this also has a lot of stipulations like there needs to be minimum points in the card to start redeeming the points earned. Amongst the respondents surveyed, most of them suggested that if the retailer gives them flexibility to redeem the points at a place which lies outside the purview of the store, then this would be delightful for the consumers. For example, with the loyalty cards, you can purchase movie tickets, fill up petrol, but a gift or flowers for someone, etc. They believe that food and grocery is something that everybody purchases. If the retailers introduce some freshness into their loyalty programs, not only the customers would be happy but it would reap in profits for the retailers as well.

5. Results

The primary objective of conducting the research was to get a broader understanding of the various customer loyalty programs being run at various food and grocery stores. After conducting primary research at two select food and grocery stores the researcher was able to get some clarity on the scenario of loyalty programs at these stores. Research followed a two pronged approach. The first part was to get a managerial perspective of various customer loyalty programs. The second part was to capture the perspective of the customers. Hence, the results would also be divided into two parts:

5.1 Part I: Results based on In-depth Interview

Based on the interviews of the store managers at the two stores viz. Big Bazaar and Reliance, we had a lot of similarity in the answers we obtained from the store managers. Both the respondents felt that the main goal of any customer loyalty program is to increase the brand value of a retail store and also to ensure that the customer gets the best shopping experience. They felt that the primary requirement of any customer loyalty program is offer a better service to their customers as compared to their competitors. They see a loyalty program as a means to stay in the competitive in a space which is already much cluttered. To the best of knowledge of the respondents, most of the loyalty programs started during the time when the retailers started their operations in the country. However, some initial programs which were not profitable were discontinued.

As far as the kinds of customer loyalty programs are concerned, they are mostly based on membership cards wherein points are added as customer shops. However, the respondents also mentioned some innovative loyalty programs that have been successful as well. Talking about the member enrolment process, both the retailers followed a similar path of making the customer fill up a form and informing the customer the customer about the terms and conditions of the loyalty program. About the communication to the customers about the loyalty program, the retailers resort to both traditional medium as well as in-store promotional activities.

When the respondents were asked on how they ensure that the customer keeps on coming back to their stores, they were very prompt in responding that they have a very robust feedback mechanism. They contact the customers on a very regular basis and if any customer has any grievances with the store, that is resolved as soon as possible. As far as the planning of customer loyalty programs is concerned, both the respondents provided a unanimous answer i.e. it is centrally planned with minor scope for customizations at the store level. This also applies to planning for competition. After the orders are received from the head office, it usually takes around 4-5 days to actually implement the changes. The measurement of the success rate of a customer loyalty program takes place on a daily basis at both the stores. The customer purchases are tracked via the loyalty card and if it exceeds the daily target, the program is considered to be successful. However, the respondents informed that the targets are not the same for every day of the week.

Talking about the optimization of resources used for promoting loyalty programs, the respondents claim to take great care to ensure minimal wastage of resources. In order to ensure this, they conduct external audits which directly reports to the central office. As far as usage of analytical tools is concerned, the retailers defended that since most of the analysis takes place at the zonal office, having an in-store analytics tool makes less sense. The respondent claimed that most of their loyalty programs have given them a positive ROI. Those programs which continue giving desired returns are continued for a longer period while rest are discontinued. Talking about store level improvements, the respondents mentioned they have ahead of the customers at all times to continue winning their loyalty.

5.2 Part II: Results based on Customer Survey

When the shoppers were surveyed we found out that most of them (53%) used to shop only once a month. The possible reason to this is maybe because the shopping patterns are governed by the period of incoming salary of the chief wage earner. That is why the footfalls are higher in the first week of every month. On asking the respondents on the usage of loyalty cards, it was found that a majority of them (around 44%) "sometimes" use the loyalty card. There were around 25% of respondents who had never used a loyalty card. An attempt was made to examine the possible reason behind this and it was found out that the shoppers were not motivated enough to use loyalty cards every time and hence, used to forget cards at home.

When the shoppers were asked on the distances they travel to come to the retail store, it was found out that around 37% of them travel 3-5 kms. to their grocery stores. There were only 5 percent of surveyed consumers who travel more than 10 kms for shopping. The customers also do a lot of comparison before going for food and grocery shopping. 53 percent of the consumers do it at the store itself while 33% of the respondents refer to newspapers to compare prices. However, there were also around 24% of the total respondents surveyed who don't compare prices at all. Talking of the key drivers to customer loyalty, a whopping 88 percent of the respondents felt that it is good products and service that builds customer loyalty. Apart from this, the respondents also felt that there were factors like good marketing promotional campaigns, courteous behaviour of the sales staff, responding to customer grievances on time that also contribute their bit to customer loyalty.

More or less, almost all the respondents felt that the retailers need to improve their customer loyalty programs. Among the ones suggested, the prominent ones that came out were that the retailers need to be clearer to their customer on the terms and conditions of the customer loyalty and it should not be forced upon them.

Secondly, the customer loyalty program needs to be more flexible in terms of the redemption of the points they earn from shopping.

The customers also asked to rate the following:

Driving factors for shopping at a particular retail store

Level of importance they give to the components of customer loyalty program

Driving factors for shopping at a particular retail store

Component 1: Store Portfolio

Component 2: Loyalty Components

Component 3: Price (would be kept the same)

Component 4: Travel time (would be kept the same)

Level of importance they give to the components of customer loyalty program

Component 1: Exchange points benefits

Component 2: Customized communication

Component 3: Access to in-store products (would be kept the same)

6. Conclusion

The study of Loyalty marketing in Indian Food and Grocery Retail has been carried out successfully. After obtaining a thorough understanding of loyalty marketing via secondary research and identifying the gap in the literature review, primary research by means of in-depth interviews of store level managers and survey of respondents were carried out. The data obtained through interview responses were analysed using qualitative analysis while the survey questionnaire data was analysed using quantitative analysis. After obtaining the managerial perspective on the various customer loyalty programs being executed at their stores and getting the customer perception of the customer loyalty programs, the following things can be concluded:

The primary aim of a customer loyalty program is to offer better services to the customer and enhance his/her shopping experience.

Earlier, the customer loyalty programs were the differentiators; today, they have been an integral part of any retail firm's marketing strategy.

CLPs of the retail stores that have been covered under the research are centrally planned with some minor customizations.

A robust feedback mechanism is a key factor behind the success of any customer loyalty program.

Most of the shoppers shop once a month, sometimes use their customer loyalty card, don't travel much to reach their stores and do most of the price comparisons at the store itself.

They rate good product and service quality; and courteous behaviour of the staff and timely redressal of grievances as the key success drivers of a customer loyalty program.

There needs to be improvement in terms of clarity on terms and conditions; and flexibility of choices of points redemptions in a customer loyalty program

7. Limitations

Though the research conducted at the retail stores led to a fair amount of understanding on the loyalty programs in food and grocery retail, a detailed study of loyalty programs being run at other stores across New Delhi would have enabled us to make a more comprehensive comparative analysis of the customer loyalty programs at various retail stores across the city. Also, since the area under study was the city of Ahmedabad, an analysis of food and grocery stores at other metros like banglore, Mumbai, etc. would have helped us to validate the claims made by the store level managers on the homogeneity of their customer loyalty programs at all their stores. This would also have helped us to gauge the city wise acceptance of customer loyalty programs. This city-wise analysis of customer loyalty programs would also have helped us in understanding as to why a certain customer loyalty program is successful at a food and grocery store in one city and not in other and what key drivers are responsible for the same.

Apart from this, the store level managers of the retail stores were also could have provided some sample data on the number of customer enrolments they have made on a particular month, the number of billings done in a month, the average bill size in a month, etc. but due to their company policies, they were not in a position to provide any data on the same. If that data could have been made available, it could have been very helpful in analysing the actual effectiveness of the customer loyalty program. As far as this research is concerned, we had to rely on what the managers of these stores have told us on key pointers like effectiveness of customer loyalty program, the return on investment of any customer loyalty program, the optimization level of resources utilized for promotion of any customer loyalty program.

When we approached the retail stores, it was done as an interviewer. Perhaps, if at attempt was made to analyse the retail stores as a mystery shopper, the results would have been more insightful. This is because it that case, we would have directly put ourselves in the shoes of the customer of these retail stores. We would have interacted with the store personnel like any customer does, observe the flaws in the store as a customer and also enrol ourselves in the loyalty program as a customer to understand a program in a better way. Apart from this, the number of respondent who were surveyed were limited to 134. If we could have obtained a higher number of respondents, out quantitative analysis in terms of percentages of total and factor analysis would have been more accurate.

8. Implications and Scope for Future Study

After conducting the research on the existing customer loyalty programs at select retail stores, it becomes evident that there is a need to revamp the existing programs to make them more beneficial to the consumers. This paper would be helpful for researchers to carry forward their study in future and determine very specific factors of customer loyalty program that needs to be worked upon so that the state of the existing customer loyalty programs could be improved. This is important in the wake of recent changes in the FDI regulations in multi brand retail. The government has opened its doors to allow foreign retail giants like Wal-Mart and Tesco to set up their retail roots in the country. In such a scenario, an effective and robust customer loyalty program would help the Indian food and grocery retailers like Future Group"s Big Bazaar, Reliance Mart, Hyper, etc. to retain their existing customers.

The results obtained through the research conducted on this topic would help the researchers to perform a desired demographic and psychographic profiling of the customer which would help the retailers make their future customer loyalty programs even more effective by keeping in mind the customer profile obtained. Apart from this, the results derived from this report can also help the retailers in designing an effective communication strategy of their loyalty programs which would not only result in higher conversion rates but would also focus on the desired set of customers. The report also highlighted the fact that the success of any loyalty program depends on how well it is received by the customers.

Designing a customer centric loyalty program is something this report advocated and hence, this would again be helpful to the retailers to design their loyalty programs in such a way that the customer gets benefited. This research report should be seen as a starting point of conducting advanced research studies on existing customer loyalty programs in food and grocery retail in India. Indian food and grocery retail has immense potential in terms of consolidation since most of it is still unorganised and this report helps in understanding customer loyalty which is very critical in achieving this large scale consolidation of the sector as a whole.

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Appendix A

Framework

Name of Interviewee:

1) What is the need for your organization to include any Loyalty program?

2) What are the goals and objectives of your Loyalty programs

3) Since when the company has been engaged in Loyalty programs?

4) What are the various Loyalty programs you have been running?

5) What is current strength of members in your current Loyalty program? Do you have any data to substantiate that?

6) Tell us the step-by step procedure you adopt to join new members in your current Loyalty program?

7) Can you provide an account of the usage of membership cards? Any (periodic or seasonal) data?

8) What have been the various promotion (in-house or other) activities you have been engaged in? / How do you communicate with your potential customers about your Loyalty programs?

9) How do you ensure that a customer revisits your store? Do you have any data to validate that?

10) How do you plan the loyalty campaigns? (Is it centralized or localized?) How many campaigns have you been a part of in your complete tenure?

11) Is the planning competition based or is it centrally scheduled? What is the information flow in the organization in terms of planning?

12) How do you measure the success rate of your loyalty program? Can u provide relevant data?

13) Is your loyalty program's structure well designed and is in alignment with its goal? Do you have anything that validates this claim?

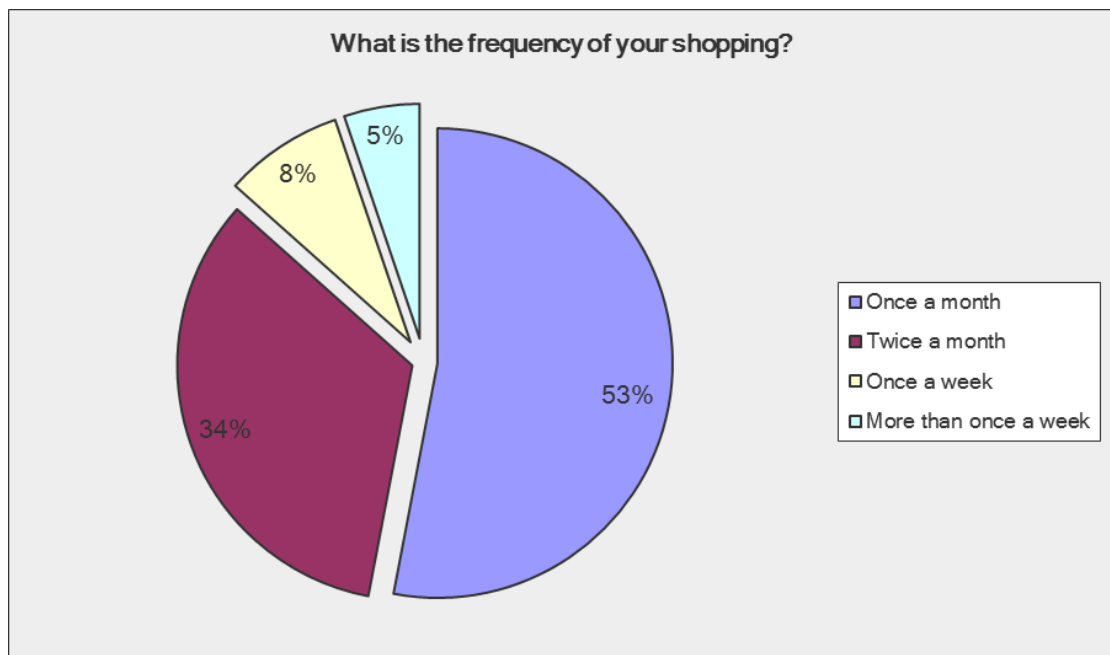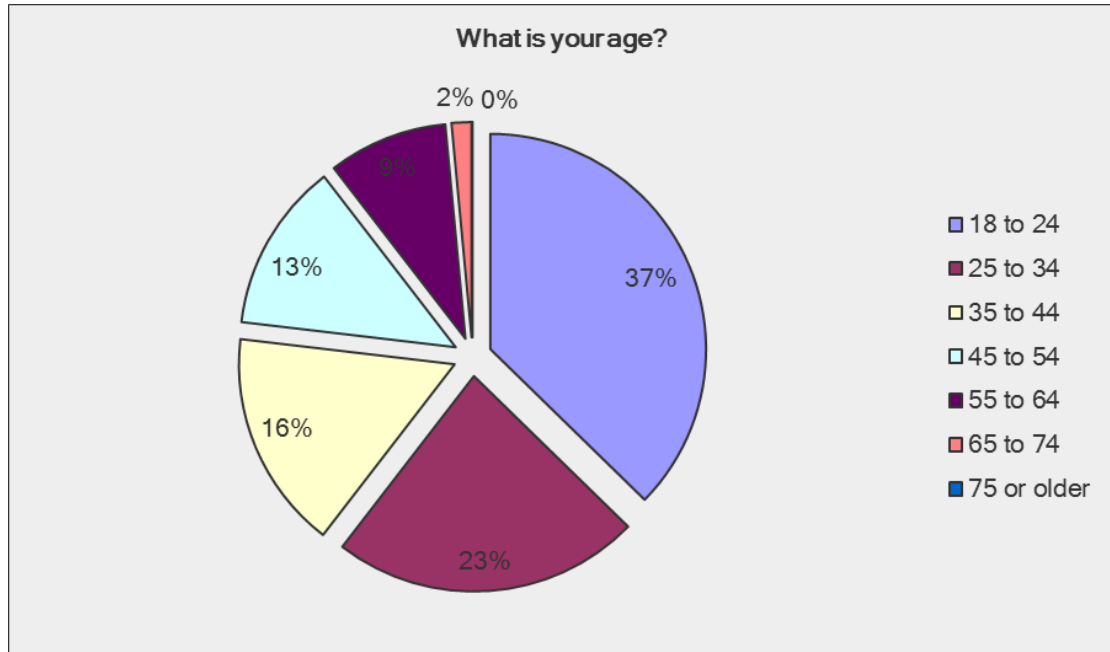14) How does your company optimizes resources for its loyalty programs? Examples?

15) Do you have an effective reporting and analytical process in place that takes care of your loyalty programs? Can you provide data in support of the same?

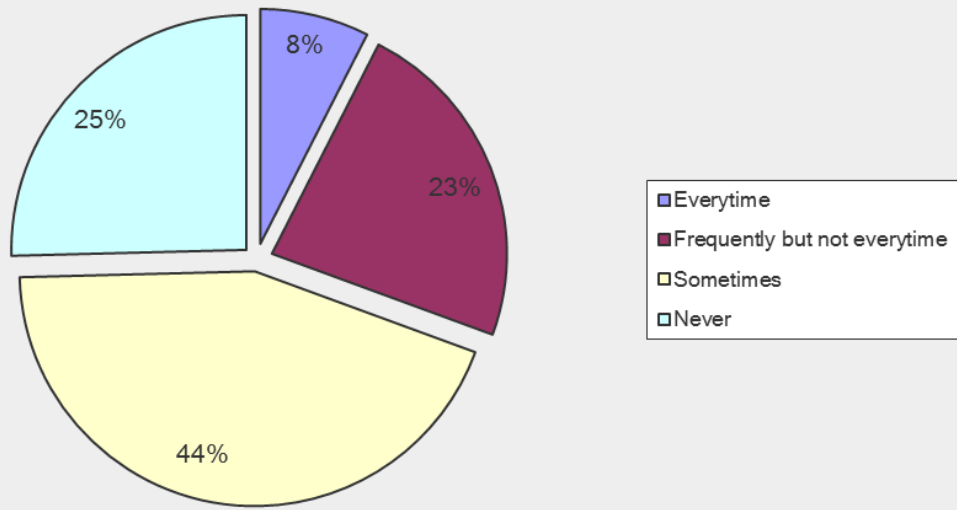16) Are you making effective use of your program's data? If yes then how?

17) Is your program achieving the desired ROI? Any data to substantiate the same?

18) Do you think there are any scopes of improvements in your Loyalty program?
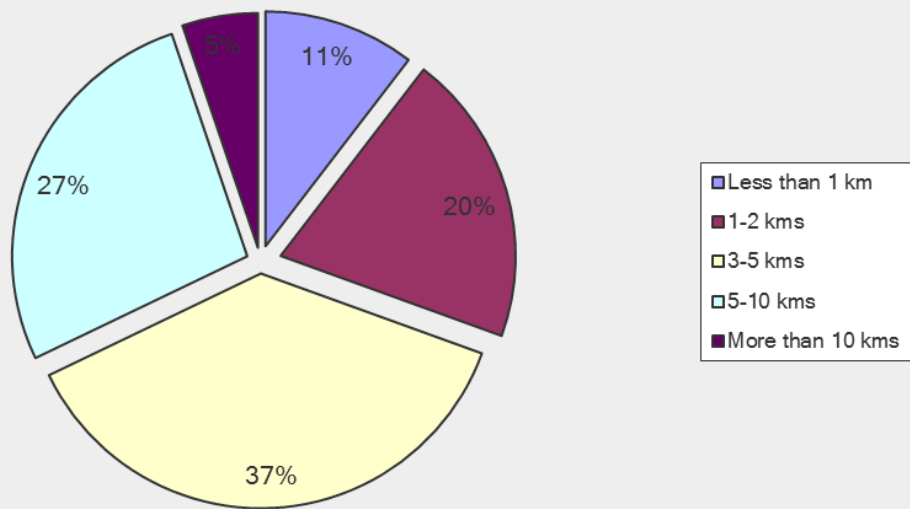
Appendix D

What is your age?

- 18 to 24 — 37%
- 25 to 34 — 23%
- 35 to 44 — 16%
- 45 to 54 — 13%
- 55 to 64 — 9%
- 65 to 74 — 2%
- 75 or older — 0%

What is the frequency of your shopping?

- Once a month — 53%
- Twice a month — 34%
- Once a week — 8%
- More than once a week — 5%

How much do you use loyalty card/ Loyalty program offers?

- 8% Everytime
- 23% Frequently but not everytime
- 44% Sometimes
- 25% Never

How far do you normally travel to get to your regular supermarket?

- 11% Less than 1 km
- 20% 1-2 kms
- 37% 3-5 kms
- 27% 5-10 kms
- 5% More than 10 kms

How do you compare prices before you do your usual grocery shopping?
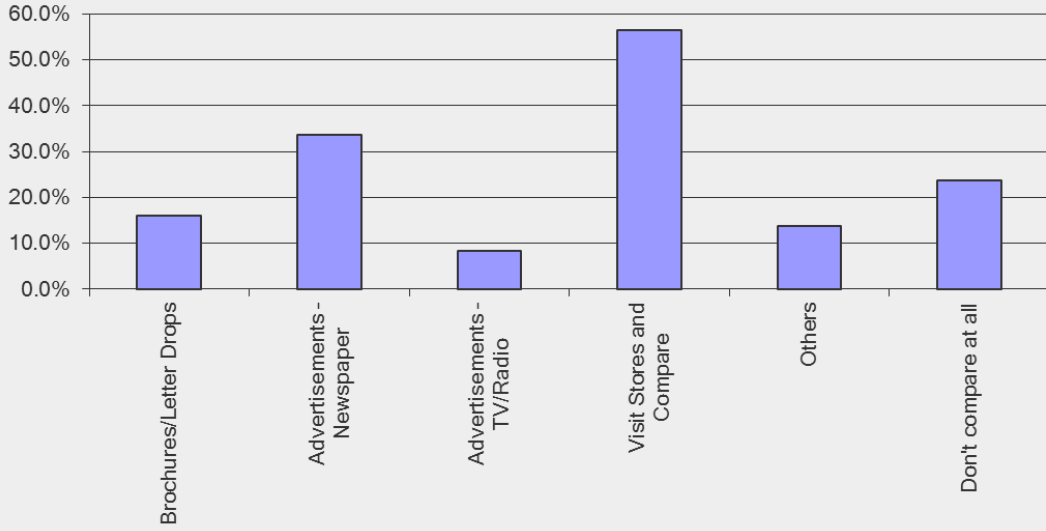
What according to you works best in keeping customers loyal to a retail store?