

# Customer Loyalty Programs And Marketing Strategies

*\* Dr. H. N. Ramesh*

## INTRODUCTION

As an important component of a firms' customer relationship management (CRM) strategies, loyalty programs aim to increase customer loyalty by rewarding customers for doing business with the firm. Through such programs, firms can gain more repeat business and, at the same time, obtain rich consumer data. Every successful business connects with customers by using purchase history data. Maintaining and using customer insight can make an enormous difference on the quality of customer service provided.

According to former studies, it can cost as much as 6 times more to win a new customer than it does to keep an existing one (**Rosenberg et al. 1984: 45**). Depending on the particular industry, it is possible to increase profit by up to 60% after reducing potential migration by 5% (**Reichheld 1993: 65**). Hence, we can see that the increase and retention of loyal customers has become a key factor for long-term success of the companies. The main emphasis in marketing has shifted from winning new customers to the retention of existing ones.

The word '*Customer Loyalty*' is employed to explain the performance of repeat consumers, in addition to those that recommend good scores, reviews, or testimonials. A few customers do an exacting company a great overhaul by offering positive word of mouth advertising regarding a creation, telling associates and family, thus adding up them to the figure of loyal consumers. However, customer loyalty comprises greatly more. It is a course, a rewards program, or a group of programs devices towards keeping a customer happy.

Customer reliability can be achieved in a number of cases by offering an excellent creation with a firm assurance. Customer reliability is also attained through free offers, vouchers, low well being rate on financing, high charge trade-ins, unlimited warranties, refunds, and other rewards and incentive programs. The definite goal of consumer loyalty programs is joyful customers, who will return to purchase again and persuade others to use that company's products or services. This associates to profitability, in addition to happy stakeholders.

Customer loyalty may be a one-time program or incentive, or ongoing rewards program to entice consumers. Buy-one-get-one-free programs are very popular, as are purchases that come with rebates or free gifts. Another good incentive for achieving customer loyalty is offering a risk free trial period for a product or service. Moreover, known as product name loyalty, these types of incentives are destined to make sure that customers will come back, not only to buy the similar product again and again, but also to try other products or services offered by the company.

Excellent customer service is another key element in gaining customer loyalty. If a customer has a problem, the company should do no matter what it takes to make things right. If a product is faulty, it should be replaced or the customer's money should be given back. This should be standard procedure for any reputable business, but those who wish to develop customer loyalty on a large-scale basis may also go above and beyond the standard. They may offer even more by way of free gifts or discounts to appease the customer. The key to a successful business is a steady customer base.

Moreover, successful business typically sees 80% of the business comes from 20% of the customers. Many businesses neglect this loyal customer base in pursuit of new customers.

## HISTORY OF LOYALTY MARKETING

In 1929, Betty Crocker issued coupons that could be used to redeem for items like free flatware. In 1937, the coupons were printed on the outside of packages, and later, the Betty Crocker points program produced a popular reward catalog from which customers could pick rewards using their points. In 2006, it was announced that the Betty Crocker Catalog was going out of business and that all points needed to be redeemed by December 15, 2006. With it, one of the

---

*\* Associate Professor / Director, Kuvempu University, P.G Centre, B.H Road Kadur, Chikmagalur Dist., Karnataka.  
E-mail: rameshnn2003@yahoo.co.in*

earliest loyalty programs ended a 77 year old tradition.

American Airlines launched the first full-scale loyalty marketing program of the modern era in 1981. This revolutionary program was the first to reward "*frequent fliers*" with reward miles that could be accumulated and later redeemed for free travel. Many airlines and travel providers saw the incredible value in providing customers with an incentive to use a company exclusively and be rewarded for their loyalty. Within a few years, dozens of travel industry companies launched similar programs. Later on, it was used in other areas also. Consumers shopping at various grocery and dry goods stores, would receive a set number of Green Stamps that could be pasted into booklets and redeemed for prizes.

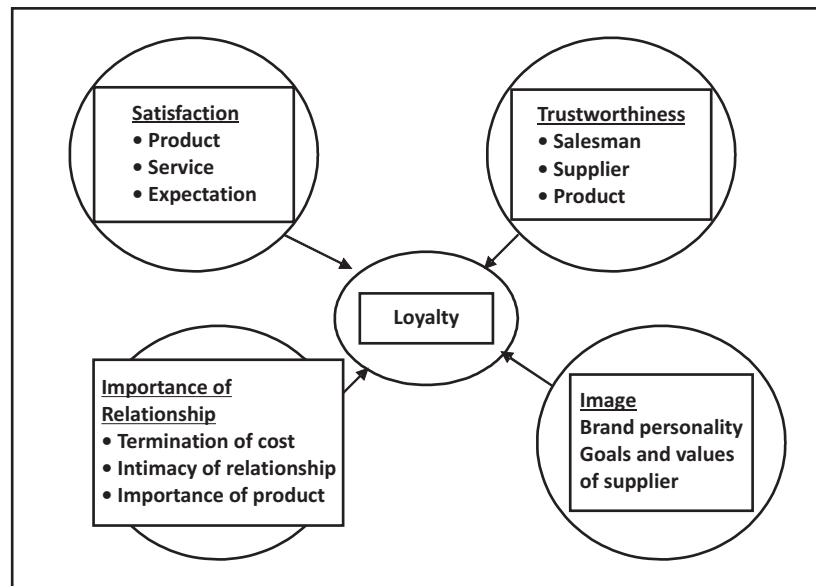
## LOYALTY MARKETING IMPACT

Many loyalty programs have changed the way consumers interact with the companies from which they purchase products or services from and how much consumers spend. Many consumers in advanced countries have become quite accustomed to the rewards and incentives they receive by being a "*card carrying*" member of an airline, hotel, fuel or car rental program. In recent years, the competition for high income customers has led many of these loyalty marketing program providers to provide significant perks that deliver value well beyond reward points or miles. In Indian, many companies have inroad into loyalty programs successfully. Mega cards, Petrocards, Debit cards are some of the loyalty cards used by Indian companies. In recent days, organized retailers are widely using loyalty programs to attract and retain the customers.

## LOYALTY FACTORS

Customer loyalty is a function of various factors affecting in building a loyal customer. The major groups of factors affecting customer loyalty are shown below.

**Figure1 : Factors Affecting Customer Loyalty**



Other factors not shown in the above figure but also affecting customer loyalty are price, price activity, distribution, existence or domination of alternative social classes, demographic characteristics and other individual and environmental factors, advertising pressure, constraints on choice (budget limitations, time pressures), usage situation, double jeopardy phenomenon etc.

## CLASSIFICATION OF LOYAL CUSTOMERS

Some of the General segmentation of customers by loyalty are:

**1. Committed Or Emotionally Loyal Customers :** Active customers who use only a certain firm's products or services

and declare that they will use only these in the future and recommend it to others;

**2. Behaviorally Loyal Customers :** Active customers who use only the certain products or services and declare that they will use only this product in the future, but do not agree to recommend this to others (inert or functionally loyal);

**3. Ambivalent Or Dubious Customers :** Active customers, who use only certain products or services, but don't know which product they will use in the future;

**4. Disloyal Reducers :** Customers who have reduced or will reduce the percentage of the products or services in their usage;

**5. Leavers :** Customers who declare, that they will certainly leave this product or service.

## LOYALTY PROGRAMS

There are many types of loyalty programs, but there are no absolute rules for success, particularly when each program can be shaped to fit the character of firms. A firm success depends on creating a loyalty program that offers relevant attainable rewards that fit its budget and operating model.

Some ways to build customer loyalty may be - communicate customer service, employee loyalty, employee training, customer incentive, product awareness, reliability, be flexible, people over technology, know their names, reward points. etc. Given below are some typical loyalty programs used by firms:

✳ **Frequency Program :** Frequency programs are based on the frequency at which the customer purchases a product or visits a hotel. In a frequency program, guests receive points for the purchase of specific products or for each visit made. Each time an item is purchased, the guest receives a point and when a designated threshold is met, the guest automatically receives the reward. A buy nine, get one free is a common example of a product frequency program. After the reward has been received, the product points are reset to zero and begin accruing again.

✳ **Automatic Rewards Program :** In an Automatic Rewards program, the customer earns points for each rupee spent. When the defined threshold is met, the points are converted into a reward. After earning the reward, the point values are reset to zero and the customer starts to earn points again towards his next reward. Typical rewards include product rewards or monetary rewards.

✳ **Bankable Points Program :** Bankable Points programs allow customers to accumulate points to redeem for rewards of their choosing. With every rupee spent, a customer earns points that are tracked and stored in their personal account. The point balance will grow with each purchase, and will only be converted to rewards, when she takes action to redeem the points for a reward she values.

✳ **Surprise And Delight Program :** A Surprise and Delight program allows shops or restaurants to provide guest rewards at random. There are no set intervals or thresholds for guests to receive rewards. Instead, the excitement of unexpected rewards drives customer loyalty.

✳ **Membership Program:** In a Membership program, a customer typically purchases a membership card that entitles him or her to benefits including bonus items, points, and discounts. These benefits may be available periodically (once a month) or earned when she accrues points.

✳ **Affinity Program:** With Affinity programs, firms donate a percentage of customers spending to a designated charity. Sometimes, firms will sweeten the incentive to spend by combining the pledge of charitable donations with a discount.

✳ **Discount Program:** Discount programs give customers a price reduction on their purchases. A customer may receive a percentage off of his entire purchase or for selected items.

✳ **Tiered Program:** Tiered programs are often layered onto loyalty programs to keep customers engaged and active over time. Strong buying behavior qualifies customers for access to a higher tier of rewards and promotions.

## PROCESS OF DESIGNING CUSTOMER LOYALTY PROGRAM

Loyalty programs are designed with the objective of developing a satisfied customer with profit. Firms are investing time and money for designing good programs. Therefore, an effective loyalty program requires companies to consider the following steps:

- 1. Observation.** The first step is dedicated to accumulating customer data. This would include purchase history, service costs for each customer, demographic data, and the share of wallet the customer contributes to the company.
- 2. Scoring.** If an organization took no further steps to promote purchases with a customer, what portion of sales would future purchases be? The value of doing nothing to accelerate more purchases from customers - this is a base score from where a loyalty program would improve on.
- 3. Selection.** Prioritizing each customer based on scores from the above information, with further delegation into three categories: Desired, Break-even, and Costly customers.
- 4. Prioritization.** Companies should prioritize the consumer categories in order of importance. Then narrow the focus of the loyalty program to concentrate on the biggest priority. Each company will have to decide what their desired goals are from the loyalty program. For example, determine whether it is important to improve share of spending or controlling costs per customer group.
- 5. Leveraging.** This is the combination of brand equity, value equity, relationship equity, and satisfaction, used to create a loyalty program. The end result will have the combination of four tools to move the customers from the starting score to the next level.

## CUSTOMER LOYALTY AND SATISFACTION

Customer satisfaction is a measure of how products and services supplied by a company meet or surpass customer expectation. It is seen as a key performance indicator within business and is part of firms' marketing strategies. In a competitive market place, where businesses compete for customers, customer satisfaction is seen as a key differentiator and increasingly has become a key element of business strategy.

Customer loyalty and customer satisfaction are closely related. It seems that there are correlations between loyalty and satisfaction. But, this is not always true. There are many occasions when customers are satisfied but not loyal, especially in highly competitive market environments such as the fast-moving consumer goods market. There are many factors other than satisfaction that lead to loyalty. There are occasions when customers are not satisfied, but loyal (transactional loyalty in this case), especially the industries with only a few players or monopoly. With the same degree of customer satisfaction, the loyalty level is different for companies in highly competitive industries when compared to loyalty levels for companies in non-competitive industries.

## CUSTOMER LOYALTY AND VALUE

Customer value proposition consists of the sum total of benefits, which a vendor promises that a customer will receive in return for the customer's associated payment (or other value-transfer). In simple words, the value proposition is what the customer gets for his money/time. A customer can evaluate a company's value-proposition on two broad dimensions with multiple subsets:

**1. Relative Performance:** what the customer gets from the vendor relative to a competitor's offering;

**2. Price:** which consists of the payment the customer makes to acquire the product or service.

The following are some of the value factors affecting customer loyalty.

✱ **Monetary Value :** The most straightforward measurement of customer value is the amount of money that a particular customer brings to the company. This could be grouped into the following categories, up-buying, cross-buying and referrals. Up-buying means up-selling, to sell a greater quantity of the same products and services to the same customer. Cross-buying is also a form of up-selling, to sell different products and services to the same customer. Referral means that the same customer refers your products and services to other customers.

✱ **Customer Profiles :** Most companies, after years of business, find that there are some customer profiles that tend to generate more values (revenue, profits, and referrals) than others. The simple pattern for B2C cases includes demographic information such as age, sex, occupation, income, role in households and size of households. For typical B2B cases, it is industry information such as industry type, size of the company (revenue, number of employees) and years in operation etc.

✱ **Customer Profitability :** This information will not have much meaning if it considers only the revenues generated by the customer without knowing the costs (both direct and indirect) that were incurred when dealing with that particular

customer. In many a cases, so-called "*big deals*" have resulted in poor profit margins, or even deficits, for numerous companies. The importance of measuring customer profitability is not properly done by the firms. One of the major reasons is that it's not easy. But, there are tools called CBA - customer-based accounting - which derives the profitability of each customer segment, or even of each customer.

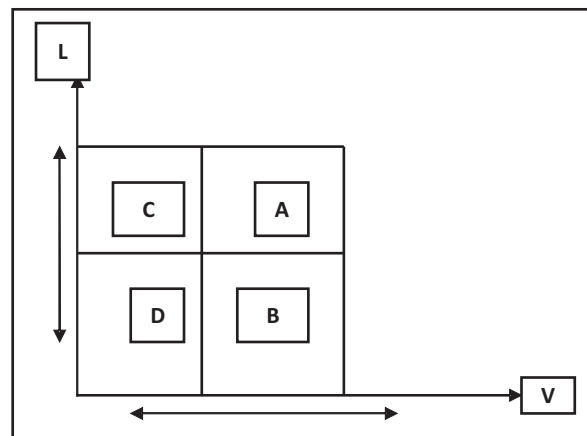
✳️**Customer Life-time Value** : Finding the customer lifetime value (CLV) is a much more difficult mission than ascertaining customer profitability. The simplified expression of customer lifetime value is:  $CLV = NPV$  (net present value) of profits from your customer. Customer life time value is the worth of the business the customer gives to the company in his life time. Customer life time value drives companies to build strong customer loyalty.

## THE LOYALTY - VALUE QUADRANT (L-V QUADRANT)

The concepts of customer loyalty and customer value are useful in market segmentation. Customer segmentation based on the LV Quadrant is a powerful tool for companies to build long-term customer satisfaction and relationship. The quadrant divides the customers in to four basic categories:

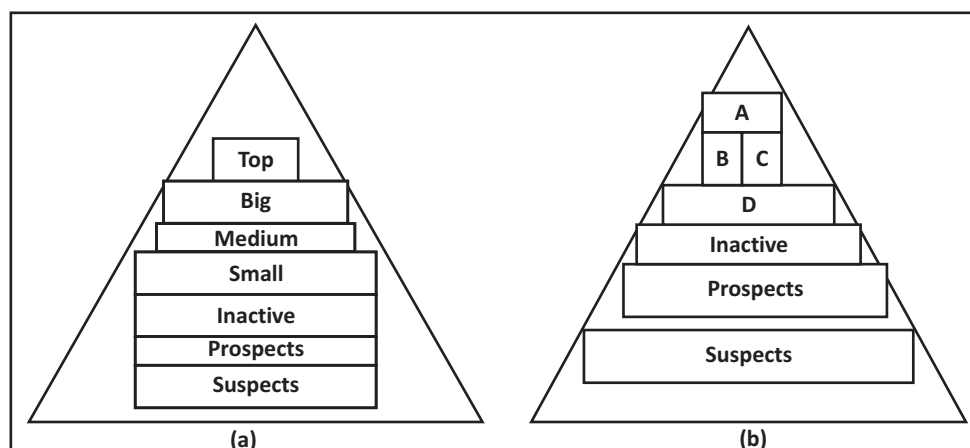
- A. High loyalty, high value;
- B. Low loyalty, high value;
- C. High loyalty, low value; and
- D. Low loyalty, low value

Figure 2 : The L-V Quadrant



The above figure shows the classification of customers on the basis of loyalty position and customer life time value. Vertical axis is the index of how high or low the customer loyalty is. The horizontal axis is the index of how high or low

Figure 3 : (a) Population Pyramid And (b) Population Pyramid And L-V quadrant





the customer value is. The cells C, A, D, B are the indicators of customer segments based on loyalty and value of the customers.

## THE APPLICATIONS OF THE L-V QUADRANT

Loyalty-Value Quadrant is an important tool for customer analysis and market segmentation. Population pyramid is an arrangement of customers in a hierarchical order on the basis of the business potential of the customers. The quadrant together with the customer pyramid indicates the categories of actual existing customers of a firm. Since, the L-V quadrant is combined with the population pyramid, the limitations of the traditional classification of customers only on the basis of economic factors is avoided and loyalty of the customer is given importance. The panel shows the population pyramid and L-V quadrant.

The population pyramid divides customers according to the revenues generated by each customer segment. Therefore, it is based only on economic factors and the customer loyalty and customer value factors have been ignored. Thus, the LV Quadrant is incorporated into the customer pyramid. In the above panels, panel (b), put B and C types of customers on the same level since these customers are regarded "high loyalty, low value" and "low loyalty, high value" as being of similar importance.

## CONCLUSION

Loyal and Satisfied customers are the backbone of a firm. In a competitive marketing environment, developing loyal and satisfied customers is an uphill task for companies. It is a known fact that loyal customers are the real partners in the success of a firm. Therefore, companies need to put efforts to develop loyal and satisfied customers. Loyalty and satisfaction are the two different behavioral issues. A customer may be loyal, but may not be satisfied, or satisfied but may not be loyal. Hence, it is important for a company to develop a loyalty program on the basis of customer loyalty and customer value. Customer classification only on the basis of business potential of the customers at times ends up with shortsightedness. Therefore, combining customer loyalty, value and population pyramid is considered to be more relevant.

## BIBLIOGRAPHY

- 1) Chaudhuri, A. Brand Equity or double jeopardy. - *Journal of Product & Brand Management*, 1995, Vol. 4, No. 1, pp. 26-32.
- 2) Chaudhuri, A., Holbrook, M. B. The chain of effects from brand trust and brand affect to brand performance: the role of brand loyalty. - *Journal of Marketing*, 2001, Vol. 65, Issue 2, pp. 81-94.
- 3) Chris X. Moloney (2006) "Winning Your Customer's Loyalty: The Best Tools, Techniques and Practices" AMA Workshop Event(s). Misc. materials distributed related to event(s). San Diego, 2006.
- 4) Cunningham, Ross, M. Brand Loyalty what, where, how much? - *Harvard Business Review*, 1956, No. 34, pp. 116-128.
- 5) Day, G. S. Creating a Superior Customer-Relating Capability. - *MIT Sloan Management Review*, 2003, Vol. 44, Issue 3, pp. 77-83.
- 6) Djupe, P.A. Religious Brand Loyalty and Political Loyalties. - *Journal for the Scientific Study of Religion*, 2000, Vol. 39, Issue 1, pp. 78-90.
- 7) Doney, P. M., Cannon, J. P. An Examination of the Nature of Trust in Buyer-Seller Relationships. - *Journal of Marketing*, 1997, Vol. 61, pp. 35-51.
- 8) Dwyer, F. R., Schurr, P. H., Oh, S. Developing Buyer-Seller Relationships. - *Journal of Marketing*, 1987, Vol. 51, pp. 11-27.
- 9) Ehrenberg, A. S. C., Goodhardt, G. J., Barwise, T. P. Double Jeopardy Revisited. - *Journal of marketing*, 1990, Vol. 54, pp. 82-91.
- 10) Farley, John, U. Why Does "Brand Loyalty" Vary Over Products? - *Journal of Marketing Research*, Nov 1964, pp. 9-14.
- 11) Fournier, S. Consumers and their Brands: Developing Relationship Theory in Consumer Research. - *Journal of Consumer Research*, 1998, Vol. 24, pp. 343-373.
- 12) Grönholdt, L., Martensen, A., Kristensen, K. The relationship between customer satisfaction and loyalty: cross-industry differences. *Total Quality Management*, 2000, Vol. 11, Nos. 4/5&6, pp. 509-514.
- 13) Gummeson, E. Productivity, quality and relationship marketing in service operations. - *International Journal of Contemporary Hospitality Management*, 1998, Vol. 10/1, pp. 4-15.
- 14) Harary, F.; Lipstein, B. The Dynamics of Brand Loyalty: A Markovian Approach. - *Operations Research*, 1962, Vol. 10, Issue 1, pp. 19-40.
- 15) Heskett, J. L., Jones, T. O., Lovemann, G. W., Sasser, W. E. jr., Schlesinger, L. A. Putting the Service-Profit Chain to Work. - *Harvard Business Review*, 1994, Vol. 72, Issue 2, pp. 164-174.
- 16) Hofmeyr, J., Rice, B. Commitment-Led Marketing. Chichester: John Wiley & Sons Ltd., 2000, 299p.
- 17) Jacoby, J., Kyner, D. B., Brand Loyalty Vs. Repeat Purchasing Behavior.
- 18) Sheth, J. N. A Factor Analytical Model of Brand Loyalty. - *Journal of Marketing Research*, 1968, Vol. 5, pp. 395-404.