

Loyalty cards schemes



Why do some work and others do not (appear to)?Why are you undertaking the research?

In an increasingly global environment, organisations, its people, strategy and marketing, and its structure are finding themselves constantly seeking innovative ways to differentiate themselves from their competitors. The complex business interactions synonymous with modern society has witnessed the consumer gaining in status and decision making power whilst the retailer explores new avenues enabling them to provide superior products and services acting as the differentiator amongst competitors. Consequently the crux for all retailers in maintaining and attracting consumers stems from the notion of 'customer loyalty'; *'customer's commitment to do business with a particular organisation, purchasing their goods and services repeatedly, and recommending the services and products to friends and associates'* (McIlroy and Barnett, 2000)

There appears however to be varying schools of thought over whether loyalty schemes and card do actually work in favour of the retailer, or whether the advantage lies instead in the hands of the customer, or indeed whether there is a mutually beneficial relationship present. The UK Competition Commission (2002) found that the average consumer holds at least two loyalty cards with retailers in direct competition such as Tesco and Sainsbury's, where Shabi (2003) found at least 85 per cent of UK households have at least one loyalty card.

Dick and Beau (1994) propose that loyalty has both behavioural and attitudinal components. This dissertation will address the former of the '

behavioural’ component and seek to identify how consumer’s behaviour has changed since the introduction of loyalty schemes in the 1990’s in relation to present day, and provide recommendations on how retailers can maximise consumer patterns to their advantage.

What will be the gain in knowledge?

The gain in knowledge which will arise from the above will present itself in the following ways:

- Maximising effectiveness within customer loyalty market research to generate solid data from a questionnaire which will try to identify the ‘ why’ and ‘ what’ factors of consumer habits using pertinent research methods (discussed later). As retailers seek to innovate into new growth areas accurate market data is essential to maximise customer retention through a strong understanding of behaviour and motivation.
- Developing new proposals for customer loyalty cards and schemes drawing on the findings from the data analysis which are more pertinent to today’s society, taking into account the increasing choice of loyalty schemes available to the consumer in an increasingly saturated ‘ loyalty market’.

Literature review

- What theoretical issues will you examine?

Sopanen (1996) posits that there are six different types of loyalty, where UK retailers fall within the incentivised loyalty segment:

- Monopoly loyalty; where there are no available choices

- Inertia loyalty; customers do not actively seek substitutes
- Convenience loyalty; loyalty is solely defined by location
- Price loyalty; customers are influenced by the lowest price
- *Incentivised loyalty; loyalty relates to the benefits gained from reward cards and programmes such as UK retail giants Tesco and Sainsbury's*
- Emotional loyalty; customers are influenced by factors such as brand

Mauri (2003) remarks that the UK retail sector has embraced the notion of incentivised loyalty since the introduction of loyalty cards and schemes in the 1990's where, initially established as a strategic marketing tool to garner valuable consumer data its continued use suggests that there are considerable benefits to both customers and retailers who participate in these schemes. Noorhoff et al (2004) and Sharp and Sharp (1997) believe the loyalty card exerts a positive impact on increasing customer loyalty through development of long lasting relationships and creation of a sense of belonging, where Uncles, 1994 strengthens this notion ' *the retailer is prepared to listen, is willing to innovate on behalf of customers, and is caring, concerned and considerate* '.

Presently however according to Byrom (2001) there are more than 150 loyalty schemes in the UK with a resulting circulation of 40 million cards; therefore it poses the question of growing concern of a saturated or ' loyalty overload' market within the UK retail market and the subsequent consumer behavioural response to this.

Consumer Behaviour

Behavioural loyalty can be demonstrated through measurable characteristics such as increased shopping frequency, sensitivity to price, an individual's retention over time and spending pattern (Oliver, 1999) where incentivized rewards such as discounts and points target specifically this form of loyalty. However due to the competitiveness of giant retailers such as Sainsbury's and Tesco and the ever increasing influx of incentives available to consumers it's possible that customer perception is being altered due to the increase in choices, which in turn influences their behaviour. An example is a recent quote from a supermarket customer who claims ' *I AM loyal to my grocery store - I simply carry both loyalty cards*' (Lamb, Hair & McDonald, 2008) an indication that the customer will only shop at their preferred store only when it benefits them the most.

Based on the above, which are your research questions? Be as clear about these as possible.

I am ideally looking to explore:

' If loyalty cards are effective in retention of retail customers what are the behavioural changes that have occurred within the consumer to support this since the introduction of the loyalty card system in the 1990's as opposed to present day? '

(Note to client; this is an idea for you to base upon; if it is too diverse you can break this down into 1) the period of 1995 onwards when the first loyalty scheme was introduced 2) focus just on present day 3) support the change in behaviour of customers and criticise the retail industry such as Tesco 4) vice versa to 3 or 4) subjectively discuss both sides)

Methodology

- How are you going to address the research questions?

This question will be addressed through dissemination of a comprehensive questionnaire encapsulating the following research methods:

- Kerlinger and Lee (2000) ' Theory Dependent viewpoint' of ' *why* ' questions examining the relationships between variables and predicting the outcome i. e. theorising that the introduction of loyalty cards will lead to customers not shopping at competitor's stores
- Phillips and Pugh (2005) ' Descriptive research' of ' *what* ' questions looking for patterns within relationships and theories i. e. assuming the above theory is correct what would be reasons for these relationships?

Distributed out to a demographic cross-section of people encompassing different ages, nationalities, status (single, married) and religious beliefs representative of the British consumer.(Note to client; if this is too difficult then ensure that you have picked a diverse profile of known individuals to yourself)

Sample Questionnaire: These are suggestions for the questionnaire; where it is recommended that a maximum of fifty questions are provided, equating to ten to fifteen minutes of completion time per person. The questionnaire can be adapted to 1) retail stores and managers 2) consumers; enabling flexibility in question choices i. e. for the retail manager ' What do you perceive to be the biggest behavioural change in shopping habits of the consumer since introduction of loyalty cards?' to the consumer ' What do you

actively perceive to the biggest changes in your purchase behaviour since the introduction of loyalty cards?'

**Suggestions:
Descriptive
Research**

-Do you have
any of the
following
cards? (Tesco
Clubcard,
Sainsbury's
Nectarcard)

- Do you
have any
other /loyalty
cards for
retail stores
other than
supermarkets
(Boots The
Chemist or
Homebase
the DIY

store)?

-How did you
obtain the
cards?

-Of the cards
you have list
them in
chronological
order with
the most
recent first:

-From the
cards that
you have,
which do you
use the
most? Why?

-What made
you obtain
the card?

-How often
do you show

the card?

-Please

indicate the

maximum

value (£1 per

point) you

have ever

achieved on

your card?

-Have you

used any of

the cards you

own to

receive

discount from

another

retailer(s)?

-If you

answered yes

to the above

question

what were

the

motivators

which made
you change
your
shopping
habits to the
other
retailer?

**Theory
dependent
viewpoints – ‘
Why’
questions in
an attempt to
draw
relationships
between
theory:**

Do you agree
or disagree
with these
statements:

– “ I would
visit other
supermarkets
not currently
involved with
loyalty
schemes if

they began
this service”

-“ I would
stop
shopping at
my current
supermarket
if they
stopped the
loyalty
program”

-“ Price is the
main
determinant
for my choice
of
supermarket”

-“ I always
play them off
against each
other so I can
exploit the
cost savings
and

promotional
offers to get
the best deal
for me”

-“ Loyalty has
a different
meaning to
the consumer
as compared
to the
retailer”

How are you going to acquire and analyse the identified data?

Data analysis for the descriptive questions will be qualitative analysis which will be used to support or attack the theory dependent questions; i. e. once a relationship has been found from patterns in the statistical analysis this qualitative data should provide reasons for this, and thus recommendations can be given.

Data analysis for the theory dependent questions can be measured on the scale of 1-5 (1 strongly agree / 5 strongly disagree) and presented quantitatively:

- Ensure that these questionnaire's go out to a proportionate sample size i. e. segment accordingly on different demographics
- After retrieving the data analysis can be undertaken using simple statistical analysis

(i. e. mean, mode, standard deviation etc)

-You are looking to see whether there are significant patterns appearing which either support or criticise your hypothesis, where you can offer recommendations off the back of these.

Data

Which organisations, individuals or sources will provide the necessary data?

Any UK retail organisation, consumers, retail bodies, consumer bodies, and any relevant literature.

Will the data be available in the depth required? Yes: providing the questionnaire is distributed effectively.

Are there matters of confidentiality? No: I do not foresee any confidentiality issues from the consumer nor the retailer providing the questions asked follow the same structure as those suggested.

Discussion

What is your hypothesis?

' It is hypothesised that the increasing availability of loyalty schemes is beginning to saturate the market to one which favours the customer rather than the retailer. Application of research methods will enable identification of key relationships which support this hypothesis and thus provide recommendations to counter it.

How will this guide the research?

It is anticipated that the hypothesis will assist the dissertation research by ensuring it remains succinct and follows the objects.

How will you make adjustments following any changes in the hypothesis?

It is anticipated that the only amendments will be data which may be need to be revisited depending on the effectiveness of the questionnaire.

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