

Retail loyalty programmes: are they truly beneficial for your customers?

Professor Hye-Young Kim, University of Minnesota, USA

Synopsis

Conventional wisdom suggests that customers value loyalty programmes, mainly because of the monetary rewards these programmes provide. However, this claim may be limited because it overlooks a duality of rewards in customer participation, the distinction between participating in a loyalty programme to “save money” versus doing so because “I love it.”

In view of the considerable investment required to set up and maintain a loyalty programme, it is useful for managers to understand fully what aspects of the loyalty programme are perceived as truly beneficial by customers and how customers' perceptions contribute to their loyalty. Professor Hye-Young Kim from the Retail Merchandising Programme at University of Minnesota in the U.S. highlights how non-monetary benefits of loyalty programmes are linked to customer loyalty in retail settings.

Definition

As an important component of a retailer's Customer Relationship Management (CRM) strategy, loyalty programmes may not be cost effective because they do not necessarily translate into customer loyalty, ultimately firm profitability. The proliferation of loyalty programmes may just reflect marketing hype i.e. an exaggerated or extravagant claim made in promotional materials or a “me-too” scheme i.e. a tactic of a market follower who attempts to avoid losing customers to a competitor by offering a loyalty programme that is a copy of the competitor's programme. There is still much to understand about the effectiveness of loyalty programmes and whether they actually deliver on their promise of building customer loyalty.

Customer loyalty is often measured based on several key metrics such as share of wallet, positive word of mouth, and repeat purchasing. Creating customer loyalty through a loyalty programme requires that the programme is perceived as valuable by customers. In other words, programme members' positive attitude toward a loyalty programme (hereafter referred to as “programme loyalty”) is a consequence of their value perception of the loyalty programme i.e. what benefits the programme can provide or what value the customer attributes to participation in the programme. Although evidence about the effectiveness of loyalty programmes has begun to accumulate, a clear picture has yet to emerge.

Current thinking

What are the specific benefits associated with retail loyalty programmes? Over the years, the benefits linked with participation in loyalty programmes have been broadly classified into two categories: monetary vs. non-monetary benefits. The monetary benefits include tangible elements such as discounts, cash rewards, coupons, and gifts. The non-monetary benefits are emotionally oriented elements that give customers a sense of recognition and importance e.g. special invitation to a member-only event).

More and more retailers are incorporating non-monetary benefits into their loyalty programmes. For example, apparel retailers attempt to fulfill loyalty programme members' needs for special treatment, extra attention, or personalised services through priority queues, exclusive lounges,

and members-only services. These symbolic benefits allow participants to feel differentiated from other customers. Consumers can achieve a sense of community when they derive benefits from participation in loyalty programmes such as membership (a feeling of belonging), influence (a sense of mattering), a shared emotional connection (the commitment and value associated with the brand that members have shared), and fulfillment (a feeling that members' needs will be fulfilled through group membership).

Clothing retailers can provide non-monetary benefits through special events including fashion shows e.g. Nordstrom, Macy's, Bloomingdale and other entertaining events e.g. American Eagle's bra fitting parties, Nordstrom's Designer Preview event. Participation in these "exclusive" events brings customers into contact with other programme members, thus forming a social group and reaping social benefits. Equally the explosion of new technologies is transforming retail loyalty programmes. In particular, a range of smart technologies e.g. tablets, smartphones, Wi-Fi, augmented reality, apps, video, virtual catalogs, smart tags) is providing apparel retailers with innovative ways to provide exclusive social benefits to their loyalty programme participants.

Despite the large number of retailers offering loyalty programmes and their high levels of consumer membership, many programmes have not been successful due to a lack of focus on how members perceive loyalty programmes and which advantages individuals derive from participation. Also, when it comes to the design and implementation of loyalty programmes, retailers largely make use of defensive strategies and their decision to launch a programme is often made by competitive parity motivations. As a result, they end up creating programmes that look-alike when they would probably benefit from competitive differentiation.

Needless to say, the more benefits a customer associates with a loyalty programme, the higher the likelihood of enrolling in the programme will be. If customers perceive a certain loyalty programme to be more beneficial than competing programmes, they are more likely to join and actively participate in that programme. More importantly, the more beneficial a loyalty programme is perceived to be, the more a customer demonstrates customer loyalty.

Implications for managers

The major goal of a loyalty programme is to provide added value to customers with the purpose of establishing customer loyalty. Thus, a critical key of a loyalty programme's success is whether a consumer can perceive and identify the benefits of membership and appreciate receiving rewards.

Retailers need to provide not only monetary but also non-monetary incentives and integrate social benefits into their loyalty programmes. In our social-networked society, the social benefits of loyalty programmes could help to create or strengthen the connections among loyalty programme participants and cultivate a sense of community, and thus add value to the loyalty programme.

Further reading

Kim, H-Y., Lee, J., Choi, D. & Wu, J., Johnson, K. K. P. (2013). Perceived benefits of retail loyalty programs: Their effects on program loyalty and customer loyalty. *Journal of Relationship Marketing*, 12(2), 95-113.

Kim, H-Y., Kang, J. & Johnson, K. K. P. (2012). Effect of consumer relationship proneness on perceived loyalty program attributes and resistance to change. *The International Journal of Retail and Distribution Management*, 40(5), 386-387.

Mimouni-Chaabane, A. & Volle, P. (2010). Perceived benefits of loyalty programs: Scale development and implications for relational strategies. *Journal of Business Research*, 63(1), 32-37.

About the author



Hye-Young Kim is an associate professor in Retail Merchandising Programme at University of Minnesota, USA. Her research interests lie in Retail Management and Consumer Shopping Behavior. Her recent publications include *Journal of Relationship Marketing*, *International Review of Retail, Distribution and Consumer Research* and *International Journal of Retail and Distribution Management*.

E-mail: hykim@umn.edu