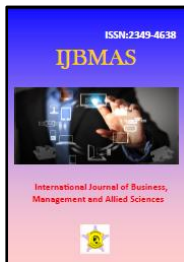# INTERNATIONAL JOURNAL OF BUSINESS, MANAGEMENT AND ALLIED SCIENCES (IJBMAS)

A Peer Reviewed International Research Journal

CUSTOMER RELATIONSHIP MANAGEMENT INSIGHT IN THE INDIAN RETAIL SCENARIO

Dr. Raja Roy Choudhury

Director, N L Dalmia Institute of Management Studies & Research

Mumbai, 401104 India

Email: director@nldalmia.edu.in

ABSTRACT

The retail sector, especially the organized retail is witnessing drastic changes, be it the competition from foreign brands or the rapid change in customer expectations as of result of global exposure of customers. The consumer of today has plenty of options while deciding on a purchase from any of the stores. The highly cluttered market and the arrival of world class brands and retailers have given the customers of today the choice to shift brands at a click of their fingertips. As the competition is going up day by day, retailers, be it Indian or foreign are finding it extremely challenging to attract and retain customers. The Tier 2 and Tire 3 city consumers are becoming more aware of brands and latest products and are demanding the state of the art service when it comes to business.As a result of this, the brands are forced to innovate on a regular basis and come up with ideas to retain the customers. Research proves that acquiring new customers is costly compared to retaining the old ones due to the increased cost of marketing and brand awareness promotions.

The paper aims at finding the different types of CRM techniques available and their benefits. It also gives a view of how organized retailers in India have designed or developed their CRM systems over the years based on their customer needs and expectations. It also explores the operational factors that affect the proper implementation or success of the CRM techniques and how they can be modified.

Keywords: Customers Relationship, Behavior, Marketing, Techniques, Retail Sector

Introduction

This has led to the development of innovative strategies and techniques like CRM aimed at retaining customer information and delight them with exciting rewards and promotions. CRM is a strategic approach that integrates people, business and technology to understand and meet the needs of a customer in a much efficient manner. Customers are more attracted to a retailer due to the rewards and customized benefits provided to them by the retailers with the help of CRM techniques.

Retailers are getting benefitted from CRM techniques as it is helping them to understand customer buying behavior and provide them with customized offers to suit their shopping needs and tastes. This also helps them to cross-sell products and does repeat business from existing customers at minimum cost thereby increasing their top line and bottom line. The paper aims at finding the different types of CRM techniques available and their benefits. It also gives a view of how organized retailers in India have designed or developed their CRM systems over the years based on their customer needs and expectations. It also explores the operational factors that affect the proper implementation or success of the CRM techniques and how they can be modified.

Customer Relationship Management

CRM is a mix of approaches, procedures, and procedures actualized by a company to bind together its client communications and give a way to track client data. It includes the utilization of innovation in drawing in new and productive clients, while framing more tightly bonds with existing ones.

CRM is about managing customer knowledge to better understand and swerve them. It is an umbrella concept that places customer at the centre of an organization. Customer Service is an important part of CRM, however, CRM is also concerned with co-ordinating customer relations across all business functions, points of interaction and audiences (Bose and Suganmaran, 2003)

The usefulness of CRM is evident from the definition offered by Greenleaf and Winer (2002) who have explained CRM as: ''Customer Relationship Management (CRM) is a business strategy to select and manage customers to optimize long-term value''.

Organisations have well realized the fact that adding new customers is often more costly than retaining their existing base of loyal customers. It is a fact that 80% of the sales of an organization are driven by the 20% of the customers. These facts have led to designing of customer loyalty programs which awards the customers based on their purchases and aims at retaining them. This leads us to the understanding that CRM is a comprehensive strategy and process of acquiring, retaining, and partnering with selective customers to create superior value for the company and the customer (Parvatiyar and Sheth, 2001).

Research data underpins that brand loyal consumers can be valuable several times than other consumers as the rate of switching and price sensitivity of the former is much lower than the later. This is the motivation behind major retailers like Tesco, Walmart and Meijer aiming at bonding with customers to gain market share. The figure below shows the relation between bonding with customers and the market share of the organizations.
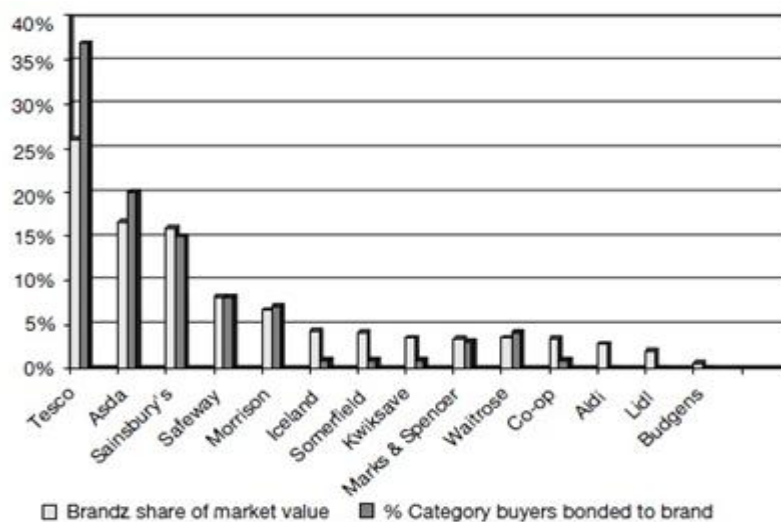

Figure 1 Relationship of bonding and market share: Grocery stores — UK

Source: OgilvyOne and Millward Brown

Peppers (1999) summarizes the following as the basic strategies and objectives of the CRM intiatives.

Customer Identification: The organization must be able to identify the customer via marketing channels, interactions and transactions for a period of time in order to provide value to the customer by serving his or her need at the right time with a right product or service.

Customer Differentiation: Every customer has his or her own needs and demands and therefore from the organization's point of view, customers have their own lifetime value.

Customer Interaction: One of the most important objectives of CRM by an organization is to keep track of consumer behaviourand needs over time. This is because, from a CRM point of view, the customer's long term profitability and relationship to the company is very important.

Personalisation: This can be defined as treating each customer differently or uniquely and that is the motto or a major objective of CRM. Through the process of personalization, the organization can increase customer loyalty.

Evolution of the Loyalty programs

Loyalty and rewards programs have gotten to be typical in today's general public. Customary block and mortar stores are utilizing them to keep pace with the advancing ecommerce world, and ecommerce sites are utilizing them to boost retention and drive down procurement costs.

Some believe that the early foundations of client loyalty programs began with premium advertising in the late eighteenth century. American retailers started to give copper tokens with purchases that could be reclaimed for item on a future buy.

Retailers immediately discovered that utilizing coins as a retention procedure was an unreasonable method for promoting loyalty and they started to move to less costly choices. In the late nineteenth century around 1891 stamps supplanted coins in the loyalty programs.

Green Shield stamps got to be one of the first retail loyalty programs and could apparently be viewed as an antecedent of what Air Miles and Aeroplan do today. The organization recompensed stamps for purchasing at select retailers that could be later redeemed.

1896 -Betty Crocker started collection of points for the customer buying its products.

1981-American Airlines uncovers the first full-scale loyalty-marketing program called Advantage frequent flyer program with frequent flyer program.

1985 -A stamp based loyalty program called Cub Club has been rolled by Subway.

1990-In the movie industry AMC theatre was the first one to launch guest loyalty program named as Movie Watcher.

1991-Nordstrom started its customer loyalty program called Nordstrom Fashion Rewards.

2008- Starbucks launches their own loyalty program (Starbucks Rewards) and offering perks such as free Wi-Fi and no charge on flavored syrups.

2012-Mooyah Burgers and Fries started Mooyah Rewards, powered by RewardMe'scardless loyalty solution.

Loyalty Programs impacting the Retail Business

Creating superior customer experience is a central concern in retail management and most managers recognize that enhancing customer experience is important for customer satisfaction, loyalty, and ultimately the firm's profitability (Kumar et al., 2013). In order to provide good, positive customer experience, it is important to understand the factors that create customer experience, how to measure it and how it affects customer satisfaction and loyalty in different service settings (Klaus and Maklan, 2012).

A loyalty programme is defined as an organized marketing activity that offers a firm's customers additional incentives, rewards or benefits to entice them to be more loyal (Leenheer et al., 2007; Liu, 2007; Sharp and Sharp, 1997; Yi and Jeon, 2003). The steady adoption of such programmes reflects acceptance of the relationship marketing idea (Liu and Yang, 2009) which can be seen as a paradigm shift from transaction-based marketing to customer retention and relationship management (Reichheld, 1993). The underlying rationale for loyalty programmes is usually based on the idea that:

first, the cost to retain a customer is far less than the cost of acquiring a new one; and second, the Pareto rule which suggests that 80 percent of revenue comes from 20 percent of customers (Reichheld, 1993). It therefore seems reasonable to invest in retaining the firm's most valuable customers. Also, in comparison to short-term effects of sales promotions and advertising campaigns (Ehrenberg et al., 1994), loyalty programmes seem to have a longer-term orientation (Sharp and Sharp, 1997).

CRM benefiting Retailers

CRM helps retailers provide their valued customers customized offers based on their purchases. This creates increased loyalty towards a store or brand and consumers refrain from switching brands. There are 7 core benefits of CRM that provide value to the retailers

1. Improved capability to target profitable customers
2. Synergized performance across channels
3. Better efficiency and effectiveness of the sales force
4. Cost reduction in reaching out to the right consumer
5. Customized products and services for customers
6. Individualized promotion and activities

CRM benefiting Customers

Customers get rewarded for being associated with a brand or a store for extended periods of time. These rewards include discounts on preferred items, promotional offers and personalized mails and SMSs on special occasions. There are 4 core benefits of CRM that provide value to the customers

1. Improved customer services from organisations
2. Enhanced personalized service on a regular basis
3. Organisations become responsive to customers' needs
4. Improved multichannel integration for ease of purchase
5. Ease of access to the right information at the right time

Simple Strategies to improve effectiveness of Loyalty Programs:

- **Point system:**
  Based on the frequency of purchases customers earn points which can be redeemed in the form of discounts, freebies or specialized customer treatment.
  Benefit: Encouraging frequent short term purchases

- **Tier system to reward initial loyalty-**
  This involves giving rewards to the customer as a base offering for being participating in the program, and then encourage repeat purchases by increasing the value of the rewards as the customer ascends the loyalty ladder. This mitigates the problem of members forgetting about accumulated points and never redeeming them.
  The key differentiator between the points system and the tiered system is that customers derive short-term versus long-term value from the loyalty program. Generally tiered programs work better for higher price-point businesses like airlines, insurance or hospitality companies.
  Benefit: Customer gets hooked into returning early.

- **Charging upfront fees for VIP benefits**- For this scheme a one-time (or annual) fee is charged which allows customers bypass common purchase blockers (such as delivery costs)This system is most suitable for businesses that are driven by frequent, repeat purchases. In exchange of an upfront fee, customers are relieved of inconveniences that could possibly hamper future purchases.
  Benefit: Customers make a commitment for frequent repeat purchases.

- **Partnering with other companies-**Strategic partnerships with organisations to have shared loyalty scheme can be extremely effective in retaining customers

*Benefits***:** The customer receives value beyond the firm's own offering showing its commitment to cater to the customer's needs. Moreover it helps in extending the network to the partners' customers

Other Key Considerations:

Omni-Channel: Omni-channel requirements are an important consideration for any multi-channel retailer. According to anOrder Dynamics field study, conducted in 2014, it was observed that 27% retailers in the UK and 21% globally deploy cross-channel loyalty schemes. Retailers can exercise the optionof using a combination of cards and accounts (e.g. House of Fraser) or only an account (e.g. Nespresso). The online account should allow accessibility to all personal and loyalty account information for the consumer.

International: Another important consideration is to equip the loyalty scheme to process transactions and rewards at an international level. Often, existing point of sale systems restrict transactions to one currency only. In order to deal with this it is best to operate on a points system for which rewards can be redeemed in any currency.

Data: Retailers must also ensure to gather and implement pertinent data in order to maximize the effectiveness of schemes. In order to achieve this datashould be collected across multiple channels and the return on investment should be computed as a financial indicator. This ensures thatavenues to improve the profitability encompasses a holistic view of its customers' buyingbehavior and targets them with the right promotions at the right place at the right time.

Reward Types Classification

Reward Type	Example	Suitable Customer groups
Monetary	Vouchers, Price discounts	Price sensitive customers
Hedonistic	Spa services	People buying for pleasure
Social-Relational	Special invitation offers & pre order	Consumers who want differentiation as an elite group
Informational	Personalized advice or information about new products	Customers who are loyal to a particular service
Functional	Priority delivery slots	Time conscious customers who want to reduce shopping time

The definition of loyalty

Before understanding the nuances of loyalty and rewards programmes, it is important to define loyalty and see how these programs help this cause for retailers or sellers. Two basic approaches to define the concept have been identified by Tanase (2011):

- *Behavioral loyalty:* This is measured in terms of repeat purchases; amount allocated in the budget for a particular category to a store, likelihood of purchase and switching
- *Attitudinal loyalty:* this is more psychological and measures a customer's trust, reliability and integrity with the brand. Whether customers would recommend the store to others is a good way of measuring attitudinal loyalty

Designing the Loyalty Programs

The loyalty programs are designed to provide members customized and tailored rewards, promotions, and communication. These are done by tracking customer database, their demography, preferences, needs and buying behavior.Thus retailers can use these captured data to increase their revenue by cross-selling, repeat selling and retaining their valued customers. Barry Berman in "Developing an Effective Customer Loyalty Program" gives a framework to design an effective loyalty program and identifies four possible types of such programs. According to the study four types of reward programs can be designed which can be tailored according to customer and industry needs.

Program type	Characteristics of program	Example
Type-I Members receive additional discount at register	• Membership open to all customers • Clerk will swipe discount card if member forgets or does not have card • Each member gets same discount irrespective of purchase history • Firm has no information base on customer name, demographics, or purchase history • There is no targeted communications directed at members	Supermarket programs
Type-II Members receive 1 free when they purchase n units	• Membership open to all customers • Firm does not maintain a customer database linking purchases to specific customers	Local car wash, nail salon, SuperCuts, Airport FastPark, PETCO
Type-III Members receive rebates or points based on cumulative purchases	Seeks to get members to spend enough to receive qualifying discount	Airlines, hotels, credit card programs, Staples, Office Depot
Type-IV Members receive targeted offers and mailings	• Members are divided into segments based on their purchase history • Requires a comprehensive customer database of customer demographics and purchase history	Tesco, Dorothy Lane Markets, Giant Eagle Supermarkets, Harrah's, Hallmark

Source: *Barry Berman, "Developing an Effective Customer Loyalty Program", California Management Review.*

The four types of reward programs defined differ considerably from one another. Type-I in particular is very different from the other types of reward programs. This aims at attracting new customers and not encouraging repeat purchases. Here customers get additional discounts on products they purchase for the first time from a retailer. Thus a new customer can get same or even better deal on a product than a valued customer.

On the other hand Type-II, III and IV aim at increasing repeat purchases or increasing the number of purchases by a customer.

In Type-II customers have to keep track of the number of purchases and based on that they receive an additional free item. This encourages customers to buy more to reach the point to be eligible for the free gift. Apart from these it helps a firm in retaining their loyal customers.

Type-III provides volume discounts on items purchased. These rewards often vary with the number of items purchased or the cumulative value of the purchases over a period of time. Thus customers buy more to save more. Modern retailers provide volume discounts to customers on items across the shelves to increase their revenues.

Type-IV is a very important aspect of modern retailing. This program aims at retaining database of valued customers and sending targeted emails and SMS information regarding the latest offers and promotions in store. It serves a major part of the marketing campaign of the organizations as it provides the option of targeting customers and also clustering they based on their needs and

preferences. Modern retailers and e-commerce giants in India and abroad are heavily relying on the Type-IV promotions.

Type of Reward	Timing of Reward	
	High	**Low**
Direct	Instant Scratchers, Membership Program (product-related Reward)	Airline Frequent-Flyer Clubs, Coupon & Token (GM Card)
Indirect	Instant Scratchers, Membership Program (Product-related Reward)	Multiproduct Frequent-Buyer clubs (Fly Buys)

Figure 2: Modified Framework of Reward Schemes

Steps in Designing and Implementing an Effective CRM/ Loyalty Program

The planning and implementation of an effective loyalty program goes through a number of steps (Barry Berman, 2006). A proper framework must be designed to implementing the CRM and loyalty programs for any retailer.

The first step to this is the understanding of the objectives of the loyalty program and the budget of the organization. The organization has to identify and cluster its customers based on their needs and then find the most valued ones. The loyalty program to be offered to these customer segments must be tailored to meet their requirements and delight them. This may need partnership with other organizations or collaborators which can provide the opportunities to cross-sell and increase revenues. Comprehensive database maintenance is very important and for this a proper IT infrastructure and capability is required. A Strong analytical team dedicated to data warehousing, data mining and customer behavior analysis must be developed. The effect of the CRM and loyalty programs may not be visible in the short run but the system and its returns must be studied to analyze any modifications if required. Finally the success or failure of the program like any other program depends on the corrective action taken and the proper maintenance and support of the organization towards the team handling the system.

In addition to the steps mentioned the following also needs to be done in order to maximize the effectiveness of a loyalty program:

- **Developing a communication platform:**

1st group is the loyalty program members,2nd is the company employees, management& stakeholders,3rd is the external loyalty program environment i.e media and the industry where the company operates-external partners etc. For each of these groups' different means of communication and appropriate messages should be developed.

- **Research on other loyalty programs**
  - How do competitors develop and manage their customer loyalty programs?
  - How are loyalty programs designed and implemented in other industries and other countries?
  - Can we benchmark and adopt best practices from other successful customer loyalty programs?
  - What are our learning and takeaways from loyalty programs that have failed?
  - Is there any literature that can throw light on the subject?
  - Are there external specialists and experts whom we can consult?

Measuring the success of a loyalty program:

1. *Customer Retention Rate*: Measurement of how long customers stay with a company. Measuring the difference in customer retention rate between member and non-members give a clear indication of the effectiveness of the program.

2. *Customer Effect Score:*The Customer Effort Score measures a business' customer service based on the actual experiences and encounters customers have had with the company.

3. *Negative Churn:*Churn is the measurement of how many customers leave a business over a period of time. Hence, negative churn is the measurement of customers who instead of leaving the company, upgrade their membership and enroll for added services.This is an area where analytics software can play a very critical role.

4. *Net Promoter Score:*Net Promoter Score (NPS) is a customer satisfaction metric derived from direct customer feedback. The most prevalent form of NPS is the extent to which customers would recommend a company to others based on a scale from one to ten. The NPS is arrived at by subtracting the percentage of detractors from the percentage of promoters.

Steps in Developing, Implementing, and Controlling an Effective Loyalty Program

1. Outlining Loyalty Program Objectives
2. Developing a Budget
3. Determining Loyalty Program Eligibility
4. Selecting Loyalty Program Rewards
5. Considering Partnerships with Others
6. Building an Appropriate Organization
7. Developing and Maintaining the Loyalty Program Database
8. Managing an Internal Data Warehouse and Data Mining Capacity
9. Evaluating the Success or Failure of the Loyalty Program
10. Taking Corrective Action

Source: Barry Berman, (2006) "Developing an Effective Customer Loyalty Program", California Management Review

Loyalty Cards

Loyalty programs are primarily driven by the loyalty cards. Although currently, many retailers just use the customer's mobile numbers at the POS to get their details, it is often the case that these mobile numbers were earlier recorded at the time of issuing a loyalty card. Most of the retail companies use these means to attract and retain customers, as well as rewarding repeat customers. Loyalty cards are of three distinct types:

- **Co-branded credit or debit cards**: These are most often seen for either high ticket or high frequency purchases. Airlines like Jet Airways have tie-ups with banks like HDFC, ICICI, and American Express by which customers could earn Jet's Jet Privilege Miles while shopping. Similarly, Oil Marketing companies have tie-ups of this nature as well. These generally give the customer a fixed number of points per Rs. 100 spent on shopping.
- **Store cards**: These and other points cards offer customers rewards for their loyalty and are offered and operated by one single retailer. Unlike the co-branded cards, they can be used to earn points at the stores or POS of the issuing retailer alone or their partner stores. These are typically the most common loyalty cards, with nearly every top-notch retailer having one of their own. Examples include Starbucks, Tata Westside, Tata Star Bazaar, Big Bazaar, etc.
- **Multi-brand or coalition cards:** These are offered by one service provider who often is not a retailer; and the card offers rewards programmes when used at outlets the provider has had tie-ups with. This is an easy CRM solution for start-ups and other players in the services industry that lack the financial resources to develop a CRM programme of their own. A fee every month could get them crucial customer data, and they can choose if the points earned at their store can be redeemed at other stores, or only at theirs. An example is the '#*Loyalty'* programme which has is aggregator of sorts of loyalty programmes

These loyalty cards are durable and cheap and resemble debit/credit cards of banks in terms of building credibility and value.

Rewards

Like discussed earlier, benefits for retailers from loyalty programs vary from customer data in terms of demographics, purchase patterns, purchase volumes, details about categories and brands preferred, etc. For the customer, however, the benefits are in terms of rewards obtained from loyalty programs, which may be classified into tangible and intangible rewards. Tangible rewards include personal tangibles like gifts, such as toys, games, electronics items, garments. They can be monetary rewards like discounts vouchers or cash back coupons. Intangible rewards are like free vacation packages, newsletters, trekking passes, tickets to sporting events and movies. Other forms include priority treatment at airports, additional baggage limits, free travel class upgrades and so on.

CRM/ Loyalty Cards in India

The Indian retail industry has emerged as one of the most dynamic and fast-paced industries due to the entry of several new players. It accounts for over 22 per cent of the country's Gross Domestic Product (GDP) and around 8 per cent of the employment (FICCI). Retail remains the highest contributor to India's services sector, which again is over 65% of the country's GDP. India is the world's fifth-largest global destination in the retail space.

The retail sector in India is fast changing and the grocery retail sector is experiencing very challenging times. A lot of organized retail outlets are being opened in tier-2 and tier-3 cities which are providing consumers with better ambience to shop and offers. In this process smaller unorganized retail outlets and kirana stores are facing the most difficult times. They generally do not have the economies of scale which the mega retails have and so cannot pass on the benefits to the customers. Goods reach them through a series of networks of distributors, C&F agents, wholesalers and this leads them to having lower margins on the goods as compared to the modern retailers. Modern trade channel owners may even directly purchase from the manufacturer, and their larger volumes of purchase (many retail chains have centralized purchasing across the country) enables them to have serious cost advantages over their kirana or mom-and-pop store counterparts. Under such circumstances they are slowly closing down. This has led to a great increase in the presence of organized retail in the country. Modern or organized retail comprised of 5% of the retail industry in 2010 (FICCI) which has now reached 8%, and is expected to touch as high as 14% in 2020 (IBEF – 2015).

On the other hand even the largest retailers like Food Bazaar (Future Group), More (Aditya Birla group), Hypercity (K. Raheja group) and Star Bazaar (Tata Tesco) are facing difficulty due to the opening of the smaller organized retail outlets in cities. Customers are slowing moving to these retail outlets as they are in close proximity to their houses and offer attractive offers like free home delivery or credit sales. Moreover, the time customers have to spend to shop at a large format store are considerable, meaning that they do so perhaps only for their monthly stock ups or large purchases.

To counter these challenging situations these retailers have come up with loyalty programs to attract new customers and also retain their existing customers. They are providing customers with attractive and targeted offers to retain them.

A comparative analysis is done on the loyalty programs done by some major retailers in India. It is given in the table below:

Field	Reliance Fresh	More	Star Bazaar	Food Bazaar
Scheme Name	Reliance One	Club More	Star Power Rewards Program	Shakti, Future, silver, gold ICICI-Big Bazaar cards
Build	Magnetic strip	Paper	HSBC card	ICICI card
Features	No paperwork, prepaid, made of paper, no minimum purchase	no minimum purchase, universal access, lifetime	Rs 500 minimum purchase, 2 pictures, Photo ID, cell number and address proof required	Rs. 1500 minimum purchase, that too in a single time
Marketing modus-operandi	'beyond just rewards', world class way to shop	Get more variety at less price and less hassle, an international way to shop	A book with T&C, pamphlets distribution, USP is that it has features as per your choices	Distribution inside stores and pamphlets outside
Positioning	-	Superstores	Hypermarkets, value stores	Cheapest than anywhere
Advantages	Mass customization model, addition of bonus points, free cards for family members, home delivery without charge, online shopping, vouchers, special events, bonus on certain items, minimum 25 points needed, 2years validity	0% discounts, ,special privileges offered, Gifts are given of items not being sold, no choice in gifts1 point for Rs 10	Rs. 51 free for Rs 1000 spent, one month credit for payment, free credit for 48 days	Rs. 100 gets 4 points, Free facility of EMI, priority counters for customers holding, special previews, Shakti & future customers have unique benefits – points can be redeemed as vouchers at Big Bazaar and also insurance can be gained

Field	Reliance Fresh	More	Star Bazaar	Food Bazaar
Image in customers' minds	Convenience in location, value for money, pleasant ambience, goodies: gifts, vouchers, etc.	More discounts, they increase as you buy more, leads to more visits	discounts based – 80%, gifts & credit based – 20%	Most want discounts & do not value credit, they want to minimize grocery expenditure
Strengths	Better benefits than usual customers, higher loyalty, inspires people to come frequently, recommend to others	Better benefits than usual customers, new customers enticed	Most are loyal customers, but think that will not make them purchase frequently, benefits are thought of as simple, represent smartness	majority (90%) agree that having it causes more shopping, customers know about benefits vis-à-vis non-holders
Weakness	Not novel, customers not aware regarding its benefits, no bent of mind to travel due to it		Not novel, no status increase due to the fact that it lets people buy beyond budget, does not give status, people do not understand T&C	Lack of bent of mind to travel due to the card, customers not buying beyond budget, not useful in appearing fashionable

Customer loyalty programmes in the Automobile sector

An interesting example in this case would be to see how *Customer loyalty programmes* work in the automobile industry.

Hero Motor Corp

The *Hero MotoCorpGood Life Program* is one such initiative undertaken by the largest seller of two wheelers in India. It provides an easy way to use privilege insta card along with special rewards and benefits. It also offers customer's free riders' insurance worth 1 Lakh. Furthermore, the Hero MotoCorpGood Life Program membership rewards customers with points as per the three categories in the scheme:

• Gold - 1 Rupee spent = 1 Point earned
• Platinum - 1 Rupee spent = 1.25 Point earned
• Diamond - 1 Rupee spent = 1.50 Point earned

This program has over 1 crore members. Based on the success of the program it has been extended for female riders and the program is named as Lady Rider Club.

Along with this one gets 6000 points for referring a friend to buy a new 2-wheeler and 3000 points for self-referral. Apart from this the participant also gets discounts on every transaction made at a dealer point using the card and get invites to special events as well.

Maruti Suzuki India Ltd.

MSIL have introduced the *Maruti AutoCard,* another notable loyalty venture in the auto sector. Customers are rewarded with high value Auto points (One Auto point equals 1 rupee in value). Apart from this, customers can get exchange loyalty bonus of 3000 auto points when they

exchange their existing car for the latest Maruti Suzuki car, joining bonus of 100 Auto Points, 3% Auto points on every transaction at Maruti network and complimentary gift vouchers.

Customers are also encouraged to refer their friends and relatives to purchase MSIL cars. 1,000 Auto Points are rewarded for the same.

Why have loyalty programmes?

The last few years has seen many retailers and other service providers provide CRM measures and loyalty programmes for their customers. These often involve high costs, namely:

- Setting up the infrastructure
- Customer acquisition costs
- IT and systems required
- Hiring workforces, and so on.

A company should ideally not incur these costs unless they can be recovered by them in the long run. The benefits (Amofah and Ijaz, 2005) include:

- more customer knowledge:
    - o details about purchase and buying behavior
    - o segmentation of the customer base
    - o likes/dislikes to tailor communication to them
- measurability of campaigns
- tailoring service encounters to suit different customer preferences
- growing customer profitability and retaining customers
- creating a competitive advantage
- cross sell and upsell services

According to Tanase (2005), the CRM initiative should be compatible with the company's overall strategy. If the strategy is to achieve market leadership by gaining customers from its main competitors, the CRM should be designed and promoted such that the maximum numbers of customers are attracted. The CRM strategy should be paid great attention to as the benefits if it is properly executed can far outweigh the costs involved.

Retail Sector's High Growth Potential

India's retail sector stands to grow tremendously in the next decade. This is due to a mixture of macroeconomic factors, regulatory changes, changing customer demands and buying behavior. A few of them are enunciated below (IBEF, 2015):

Macroeconomic reasons:

- India has occupied a remarkable position in global retail rankings; the country has high market potential, low economic risk, and moderate political risk
- Rising income and demand for quality products to boost consumer expenditure (CAGR of 23.5%, to reach $3.6 trillion in 2020)
- A decline of inflation and comparatively lower interest rates encourage spending and cheaper debts are available to retailers looking to start operations or expand
- Increased urbanization and easy credit for consumers make spending easy

The Indian market:

- In market potential, India ranks eleventh (after United States, China, Canada, UK, Brazil, Germany, Austria and Mexico)
- India's net retail sales are quite significant among emerging and developed nations; the country is ranked third (after China and Brazil)
- Overall, given its high growth potential, India compares favorably with global peers among foreign investors
- Foreign and private players are investing in the country due to changes in regulations and permissible levels of FDI in the retail sector

Emerging channels and trends

- India has been witness to a recent boom in online and e-commerce sales. The online retail market is expected to grow from USD6 billion to USD 70 billion (from 10% to 15%) during FY15-FY20
  - Cash on delivery and short delivery periods make this an attractive proposition to many people in the country
  - The emergence of a young, rich middle class with the resources to exploit the ecommerce boom will only fuel the sector's growth
- Infrastructure augmentation is something on the agenda of the current government and the urban areas will see a lot of benefits
- Retailers are investing heavily in their supply chains and forging strategic sourcing relationships with their suppliers, ensuring the supply side dynamics are stronger than ever.

Retail Industry in India

Latest update: August, 2015

Organised retail penetration (2015)

8%

92%

- Unorganised retail penetration
- Organised retail penetration

Source: KPMG, Indian Retail Next growth Story 2014, TechSci Research

Drivers of organised retail

Demand drivers
- Rising income levels
- Increased urbanisation
- Growing aspiration levels and appetite to experiment
- Credit availability

Supply drivers
- New entrants
- Expansion plans of existing players
- Infrastructure addition
- Emergence of new categories

Ranking   Values calculated on a 0 to 3 scale

2013	2014	2015		Score
1	1	1	United States	2.10
2	2	2	China	2.00
8	4	3	United Kingdom	1.95
4	3	4	Canada	1.94
7	6	5	Germany	1.89
3	5	6	Brazil	1.87
13	19	7	Japan	1.80
12	10	8	France	1.80
9	12	9	Mexico	1.79
6	8	10	Australia	1.79
5	7	11	India	1.79
–	20	12	Italy	1.75
–	22	13	Netherlands	1.74
18	14	14	Switzerland	1.74
10	9	15	Singapore	1.73
21	–	16	South Korea	1.72
16	18	17	Spain	1.71
–	16	18	Sweden	1.71
–	21	19	Belgium	1.70
–	23	20	Denmark	1.69
–	–	21	Austria	1.69
–	24	22	Turkey	1.69
19	–	23	Poland	1.68
–	–	24	Norway	1.68
–	–	25	Finland	1.67

Low confidence   High confidence

■ Maintained ranking   ■ Moved up   ■ Moved down

Source: A.T. Kearney Foreign Direct Investment Confidence Index®, 2015

2015 FDI Confidence Index® ranking and scores

KY Publications

Factors affecting loyalty programs in India:

1. **Communication gaps:** The operational staffs mainly at the check-out counters are not fully aware of the details of the program such as point system and commensurate rewards. They are generally not able to provide the customers with the right details or offers for which they are eligible. Also they are not aware of the customer data as such details are not generally shown at the point of sale counters. Softwares must integrate customer data so that they are shown to the sales personnel whenever a customer purchases a product. This way the customer may be provided with personalized gifts or offerings based on his/her preferences.

2. **Quality and durability cards**: Major retailers are providing permanent card with bar codes or magnetic strips. This smart cards hold customer informations and customers can check their card status online. But still several retailers provide their customers with paper cards which are not durable for a lifelong use and cannot store customer data. Electronic smart cards are a must as they provide the durability and can hold the data.

3. **Mismatch in expectations:** Card holders expect on-the-spot discounts as reward for loyalty. Whereas retailers want to bound them for life.

4. **Privacy issues**: Customers often fear privacy issues while using the electronic cards. Often the cards can be used by anyone in case it is lost. Also in some cases retailers provide cards on the customer's name. In such cases the customer's family members cannot avail the benefits from purchases. Modern retailers must provide more secure cards and offer cards which can benefit the cardholder as well as his/her family members.

Factors affecting the loyalty programs in retail outlets:

According to a statistical study carried out in retail outlets in a major metro in India spanning 500 respondents, a few major factors were derived which influence performance of loyalty programs:

- **Quality:** Some of the aspects that were attributed to the overall perception of quality were the quality of brands that were stocked in the retail outlet, sale offers like two on one, store within a store concepts, retail store offers loyalty cards where points grow in proportion to value and frequency of purchases, delivery of products to the homes of customer, gives back to society in the form of donations, robust systems which integrate customer data in a reliable and efficient way.

- **Value Addition:** This factor encompasses features where retail store offers supervised play area for children, shoppertainment for the regular shopper, drive up window for shopping groceries so that customer doesn't have to carry them, offers special ordering of products online, high value merchandise drawings or big pay-out cash sweepstakes on a monthly basis.

- **Convenience:** The factors that encompass convenience are store location, high quality product offerings, acceptance of bank cards.

- **User friendly:** The retail store should be spacious offering enough non retail space for navigation, quick moving checkout lines, and wide selection deli counter.

- **Program Characteristics:** The policy, rewards and membership structure are major differentiating factors for a loyalty program to work.

- **Service**: The expertise of salespersons demonstrating products and handling customer queries. General attitude, proactiveness, demeanour has a direct impact on the overall shopping experience of the customer.

Factors that can drive the performance of loyalty programs positively

- Focusing on acquiring data, not just repeat visits
- Targeting customer acquisition more accurately
- Moving customers up the spend bands
- Deselection of the least profitable customers
- Winning back profitable customers that have defected

- Increasing Customer Lifetime Value (CLV)
- Setting fairer tiered pricing policies
- Improving overall product range and stock selection
- Better merchandising and store layout planning
- Geographical targeting for new store locations and increasing footprint
- Influencing the elasticity of purchasing decisions
- Implementing demographic data to predict loyalty
- Rapid market penetration deploying coalition programmes
- Elimination of technological problems with robust loyalty platforms

References

[1]. Greenleaf, E. and Winer, R.S. (2002), ''Putting the customer back into customer relationship management (CRM)''

[2]. Parvatiyar, A. and Sheth, J.N. (2001), ''Conceptual framework of customer relationship management'', in Sheth, J.N., Parvatiyar, A. and Shainesh, G. (Eds), Customer Relationship Management: Emerging Concepts, Tools and Applications,

[3]. Peppers, Rogers D.M&Dorf,B.(1999). Is Your Company Ready for One-to-One Marketing? Harvard Business Review

[4]. Kumar, V., Pozza, I.D. and Ganesh, J. (2013), "Revisiting the satisfaction – loyalty relationship: empirical generalizations and directions for future research"

[5]. Maklan, S. and Klaus, P. (2011), "Customer experience: are we measuring the right things?"

[6]. Leenheer, J., Van Heerde, H.J., Bijmolt, T.H.A. and Smidts, A. (2007), "Do loyalty programs really enhance behavioral loyalty? An empirical analysis accounting for self-selecting members"

[7]. Liu, Y. (2007), "The long-term impact of loyalty programs on consumer purchase behavior and loyalty"

[8]. Sharp, B. and Sharp, A. (1997), "Loyalty programs and their impact on repeat-purchase loyalty patterns"

[9]. Yi, Y. and Jeon, H. (2003), "Effects of loyalty programs on value perception, program loyalty, and brand loyalty"

[10]. Liu, Y. and Yang, R. (2009), "Competing loyalty programs: impact of market saturation, market share, and category expandability"

[11]. Reichheld, F.F. (1993), "Loyalty-based management", Harvard Business Review

[12]. Ehrenberg, A.S., Hammond, K. and Goodhardt, G.J. (1994), "The after-effects of price-related consumer promotions"

[13]. Yuping Liu, (2007) "The Long-Term Impact of Loyalty Programs on Consumer Purchase Behavior and Loyalty" Journal of Marketing

[14]. Barry Berman, (2006) "Developing an Effective Customer Loyalty Program", California Management Review

[15]. Simon Knox and David Walker (2003), "Empirical Developments in the Measurement of involvement, brand loyalty and their Relationships in Grocery Markets"

[16]. Preeta H. Vyas , Piyush K. Sinha (2008), "Loyalty Programmes: Practices, Avenues and Challenges"

[17]. Jacoby J. and Kyner D.B.(1973)," Brand Loyalty vs. Repeat Purchasing behaviour"

[18]. Arthur W. Allaway, Richard M. Gooner, David Berkowitz, Lenita Davis, "Deriving and Exploring Behaviour Segments within a Retail Loyalty Card Program,"

[19]. Michael Lewis,(2004)"The Influence of Loyalty Programs and Short-Term Consumer Promotions on Customer Retention"

[20]. C. Rohwedder, (2006), "No. 1 Retailer in Britain Uses 'Clubcard' to Thwart Wal-Mart,"

[21]. Chu, J. and Morrison, (2003) 'Enhancing the customer shopping experience: IBM/National Retail Federation ''Store of the Future'' survey'

[22]. Hero Motor Corp: www.goodlife.heromotocorp.com

[23]. "How to Evaluate and Measure Loyalty Program Success": http://customerthink.com/how-to-evaluate-and-measure-loyalty-program-success/

[24]. 10 Steps for Setting up a Customer Loyalty Program By Kim SkaaningJørgensen

[25]. Loyalty program membership: A study of factors influencing customers' decision

[26]. The 30 major factors behind a successful customer loyalty program by Peter Clark

[27]. George CosminTanase (2011), "The Paradigm of Customer Relationship Management in the Fast Moving Consumer Goods (FMCG) Retail Industry"

[28]. Jet Airways co-brand cards - http://www.jetairways.com/EN/IN/JetPrivilege/partners/co-brand-cards.aspx
Hashtag loyalty : https://www.hashtagloyalty.com/

[29]. FICCI Sector profile (Retail): http://ficci.in/sector/33/Project_docs/Sector-prof.pdf

[30]. The Hindu Business Line, Honda Motorcycle overtakes Bajaj as 2nd largest domestic two-wheeler maker:
http://www.thehindubusinessline.com/companies/honda-motorcycle-overtakes-bajaj-as-2nd-largest-domestic-twowheeler-maker/article4602412.ece

[31]. Maruti Suzuki Auto Card:
http://marutibrands2.cloudapp.net/MarutiAutoCard/msautocard-rewards.aspx?id=1

[32]. Patrick Amofah, AmerIjaz; "Objectives, strategies and expected benefits of CRM", 2005