



LOYALTY PROGRAMS AND STORE BRAND PREFERENCE: AN EMPIRICAL EXAMINATION

Dr. Shilpa S Kokatnur

Assistant Professor, Indian Institute of Plantation Management, Jnana Bharathi Campus, Bangalore.

Abstract

Purpose – This article aims to understand the impact of loyalty programs on the shopping behavior of consumers with respect to private brands. Loyalty programs adopted by three categories of retailers were considered. The study also aims to analyze the influence of demographic variables on private label choice.

Design/methodology/approach –The current study is empirical in nature and hence primary data has been collected from survey and observation. The responses were collected through a structured questionnaire which was administered to 500 respondents. Statistical tools such as MDA, Anova, and t test were used to analyze the data.

Findings – The results indicate that loyalty programs build store loyalty across the retailers. It is also observed that women and youngsters are more loyal to store brands.

Research limitations – The research is restricted as it considers only three categories of retailers. A further limitation surrounds the issue of generalisability as the retail outlets in Bangalore were used.

Practical implications – The paper offers this checklist for managers to align loyalty programs with what matters most to target customers with reference to purchase of store brands.

Originality/value - Loyalty programs are offered with a aim to retain more number of customers. Retailers with this approach use innovative private brands and attractive pricing strategy to ensure that their loyalty program is truly successful to both retain and acquire loyal customers.

Keywords: Loyalty Programs, Store Brands.

Introduction

Customers are developing more loyalty to their retailers these days than they do to national product brands. This change in consumer behavior is prompting retailers to enhance their marketing strategy by offering more private label products. Few retailers have improved sales by targeting niche segments. They target to lucrative, up-scale and discerning customers who appreciate, desire, and require merchandise quality and assortment as well as personal service. Retailers employing this approach include Shoppers stop, Westside, Bigbazaar, and many others. Retailers have adopted strategies and programs to cultivate customer relationships and maintain an ongoing dialogue with their customers to determine their preferences.

As private label have evolved in the 21st century, there has been a major shift in paradigm. No longer had proprietary brands viewed as inferior. Rather, they were leveraged in such a way that consumers see benefits and values that are offered through an exclusive product and retailer. Such restricted access is hoped to ultimately evoke loyalty to the brand and retailer (Mullick-Kanwar, 2004). As per Mariotti (1999), store brands seems to follow the economic trends of the market in that as the economy begins to soften, the amount of private-label goods sold will increase. Private labels have become an important part of the retail industry; however, private label programs are identified as having positive effects on the customers. They create loyal customers. Loyalty programs serve to impede initiatives launched by competitors that might otherwise limit or deplete the firm's customer base.

Loyalty may be measured through behavioral and attitudinal data. Behavioral data is based on self-report of actual past behavior, where attitudinal measures are based on preference statements or statements of likely behavior (Jacoby & Chestnut, 1978).

The impetus for and outcomes of private label implementation at retail was therefore the focus of this study. This study provides empirical evidence of the effectiveness of loyalty programs in influencing purchase of private brands.

Relevant Background

Oliver (1997) identifies loyalty as a deeply held commitment to repeat purchases of a preferred product or service consistently in the future, in spite of situational influences and marketing efforts (e.g. pricing policies) having the potential to bring out change. Loyalty was interpreted as a form of customer behavior (such as repeat purchasing) directed toward a particular brand over time (Sheth 1968; Tucker 1964). Loyalty is a critical element of brand equity and retailers have a degree



of advantage as customers remain loyal to a given retailer even when they stop selling a brand to which they have been loyal. Reward programs are also effective in increasing customers' perceptions of switching costs, thus further nurturing customer retention (Bendapudi and Berry 1997; Gultinan 1989). As many service firms suffer from identical offerings and low switching costs (Reinartz and Kumar 2000), loyalty reward programs might be an effective tool to relationship building.

In a bid to strengthen relationships with their customers marketers are showing interest in customer loyalty programs. Loyalty programs seek to bond customers to an organization or its products and services by offering an additional incentive. Sharp and Sharp (1997), Bolton, Kannan, and Bramlett (2000), define a loyalty program as an integrated marketing actions, which aims to make member customers more loyal. They provide members with rewards and added value, making them accepted among consumers, Liebermann (1999). As per Wright and Sparks (1999) loyalty cards are nothing but mere promotional gimmicks. Loyalty card is a method to achieve customer loyalty, a means of strengthening existing relationships Ravald and Gronroos, (1996).

As per Kahn et al.(1988), stores with a loyalty program accomplish in creating a niche position by possessing subgroups of customers, who are probably card holders and are more prone to loyalty which would be reflected by higher repeat purchase rates. According to a polling study, roughly 80 percent of Americans participating in loyalty programs say their membership influences their purchasing decisions, and 74 percent say that without such programs, they would buy in less quantity from any given firm (Dunlap, 2004). Ehrenberg (1988), mentions the nature of the effects provoked by loyalty programs due to their long term and increasing rewards, should attract the serious buyers of the store but also of the category who tend to maintain better repertoires of brands.

Loyalty card have a positive impact on increasing customer loyalty Noordhoff et al. (2004) and Sharp and Sharp (1997), this is also evidenced by Lal and Bell's (2003) and Lewis' (2004) studies which find a affirmative relationship between loyalty programs and purchase behavior. As per Gilbert (1999) "loyalty cards aim to build greater customer loyalty and retention; develop methods of creating longer-term associations and lead ultimately to increased sales and profits". Uncles (1994) adds mentioning that consumers' attraction to loyalty programs concern a "sense of belonging", a feeling "that the retailer is prepared to listen, is willing to innovate on behalf of customers, and is kind, concerned and thoughtful".

Verhoef, Franses, and Hoekstra (2001) suggested that loyalty program members are more likely to retain their insurance contracts and to purchase new insurance products at the company. Consumers typically participate in loyalty programs to get economic benefits (discounts), expressive benefits (sense of belonging), prestige or acknowledgment, and/or access to an exclusive treatment or service (Gruen 1994; Youjae and Hoseong 2003). Reward systems are based on volume inducing heavy users to remain loyal to the company (Shugan 2005). Jochen Wirtz et al., (2007), the attractiveness of a reward program, has a positive impact on share of wallet in spite of of the level of psychological attachment to the store.

Rationale for the study

Given the limited amount of information on private label programs in India, it was decided to design an exploratory study to understand the effectiveness of these programs on buying behavior of consumers with special reference to private/store brands. There is a large body of literature which has studied the effectiveness of various loyalty programs targeted towards national/manufacturer brands. However, only few case studies have been dealt in developed countries to analyze the effectiveness of loyalty programs. Review of literature revealed that loyalty programs do induce the consumers majorly in the quantity of purchase, frequency of purchase, and also do influence to be loyal to a particular store. Hence, it created interest in knowing the association of loyalty programs on respondents buying behavior. Consumer behavioral variables such as frequency of purchase, quantity, purchase acceleration and store brand loyalty are considered for the study.

Study Purpose

The study evaluates the effect of a loyalty program in terms of its ability to influence purchase of store brands offered by retailers.

The current research aims at the following

- Investigating the *frequency* of purchase
- Determine the relationship between *quantity* purchased and loyalty programs
- Determine the relationship between *purchase acceleration* and loyalty programs
- Analyze the relationship between loyalty cards and *store brand loyalty*
- Determine the relationship between demographic variables and usage of loyalty cards



- H1: Loyalty program influences repeat purchase behavior of consumers
- H2: Loyalty program will have a stronger positive effect on quantity of purchase of store brands
- H3: Loyalty cards have positive effect on inducing consumers to buy earlier than planned
- H4: Loyalty program will have a stronger positive effect on store brand loyalty
- H5: Women are more likely to accept the loyalty programs
- H6: Young generation people prefer loyalty programs

Study Method

This research examines the impact of a loyalty program operating in three product categories viz food and grocery, apparels and electronics. It was thought that focusing on the purchase behavior of consumers in these markets would be wise since most of the retailers are offering wide variety of private labels. As consumers’ decisions are to a large extent influenced by personal characteristics, it was thought of to consider these variables for the study.

The study sample comprised of 500 respondents located in Bangalore, which is called as silicon city (IT hub of India). Major organized retailers operating in three different product categories viz food and grocery, apparels and electronics were considered for the study. Quota sampling technique was adopted, using age as the major variable. The sample consists of 58 % female and 42 % male respondents. The age slab was segmented as less than 25 years, 26-34 years, 35-54 years and 55 years and above. Under each age slab, to ensure stability of statistics a minimum of 50 respondents were approached while others making the sample on pro rata basis. Two groups of customers were approached, one group of consumers possessed the loyalty cards and the other groups of consumers were non-members. After pre-testing the questionnaire with 20 respondents, the data in the study were obtained by the author over a two month period through structured questionnaire with both loyalty card members and non-members. The questionnaire consisted of a series of closed ended questions; likert scale (1 to 5) was used to gauge the reaction of customers. The first part of this questionnaire relates to demographic information about the respondents participating in the study. In the subsequent part, respondents were asked to provide information about frequency of shopping, quantity of purchase, selection of brands and loyalty to store. Multiple discriminant analysis (MDA) was used to find out the important factors and association between various forms of sales promotions and consumers buying behavior respectively. MDA allows predicting the variables discriminating between two or more groups. T test, ANOVA and Leven’s test were used to find the association of demographic variables. One way Anova was used as an appropriate method to compare the means of the independent variables age, education as there are more than two independent groups. (Coakes & Steed, 1999).

Discussion

The effect of loyalty cards offered by three categories of retail outlets (food and grocery, apparels and electronics) and its influence on respondent’s buying behavior will be discussed. The buying behavior variables such as frequency of purchase, quantity purchased, purchase acceleration, and store brand loyalty are considered for the study.

Multiple discriminant analysis (MDA) was used to find out the effect of a loyalty program in terms of its ability to influence purchase of store brands offered by retailers.

Food and Grocery

Table No. 1: MDA

Source:Field Data Analysis	Food and Grocery: Loyalty Card Members		Food and Grocery: Non-Members	
	Wilks Lambda	Sig.	Wilks Lambda	Sig.
Purchase frequency	0.972	0.244	0.978	0.344
Quantity Purchased	0.927	0.001	0.955	0.079
Purchase Acceleration	0.961	0.117	0.988	0.619
Store Brand Loyalty	0.925	0.009	0.951	0.263



Almost all the food and grocery outlets do offer loyalty cards to the customers. Member customers are suitably rewarded on their usage rate of the card. The effectiveness of the loyalty card on the buying behavior of consumers was analyzed on the basis of one way comparisons using Wilks' lambda. The results provided significant differences between quantity purchased and store brand loyalty for loyalty card members. (Refer table 1).

It is clear that promotional strategies with reference to loyalty programs adopted by food and grocery stores do have impact on the buying behavior of the consumers. Among the variables of consumer buying behavior, it is observed that the quantity purchased significantly differs from other variables for non members.

Similar study conducted by Raghur et al. (1999) found that non-users of products and services were encouraged to go for a trial when price promotions were undertaken. Neislen et al. (1985) also gave substantial evidence that stockpiling and purchase acceleration are associated with sales promotions. Buklin et al. (1989) in his study revealed that price discounts enable customers to switch brands and buy early than planned. From these studies and our findings it is evident that price promotion has a significant relationship with the buying behavior of the consumers. Benavent et al (2000) and Kivetz, Urminsky, and Zheng (2006) indicate that the false impression of progress toward a reward goal induces purchase acceleration and find that a strong tendency to accelerate toward the goal predicts greater retention.

Apparels

Loyalty cards were introduced in the Indian retail sector by apparel retailers. Players such as Shoppers Stop (first citizen), Westside (club west), Lifestyle have successfully implemented this strategy in retaining customers.

Table No. 2: MDA

Variables	Apparels: Loyalty Card Members		Apparels: Non- Members	
	Wilks Lambda	Sig.	Wilks Lambda	Sig.
Purchase frequency	0.978	0.004	0.927	0.344
Quantity Purchased	0.927	0.187	0.973	0.279
Purchase Acceleration	0.918	0.217	0.955	0.619
Store Brand Loyalty	0.961	0.005	0.951	0.263

Source:Field Data Analysis

From table 2 it is clear that loyalty cards offered by apparel retailers do have an impact on the buying behavior of the consumers. Among the variables of consumer buying behavior, it is observed that purchase frequency and store brand loyalty is significantly differing from other variables. This indicates that loyalty cards are making the customers to be loyal to the store brands thereby leading to store loyalty. The same doesn't hold good for non members.

As per Blattberg et al. (1989), promotions entail brand switching. Customers exhibit such behavior as they feel that they are able to en-cash more volume for the same price. It also gives a feeling to the customer that they are saving money by going for this offer, which is off course limited for some period of time. Further, customers consider this offer worthwhile to switch the brand and buy early.

Electronics: Loyalty Card Members

Organized electronic retailing is recently developing in India with the entry of players such as Viveks, Reliance digital, Future Groups e-zone. These players are working out new strategies to compete with the existing players.

Table No. 3: MDA

Variables	Electronics: Loyalty Card Members		Electronics: Non- Members	
	Wilks Lambda	Sig.	Wilks Lambda	Sig.
Purchase frequency	0.958	0.253	0.945	0.144
Quantity Purchased	0.921	0.167	0.932	0.225
Purchase Acceleration	0.972	0.003	0.912	0.042
Store Brand Loyalty	0.942	0.001	0.933	0.133

Source:Field Data Analysis



From table 3 it is clear that loyalty cards offered by electronics retailers do have an impact on the buying behavior of the consumers. Among the variables of consumer buying behavior, it is observed that purchase acceleration and store brand loyalty is significantly differing from other variables. This indicates that loyalty cards are making the customers to be loyal to the store brands thereby leading to store loyalty.

It is observed that promotional strategies adopted by electronics stores specially festive season do have significant impact on the buying behavior of the consumers. Among the variables of consumer buying behavior, it is observed that purchase acceleration is significantly differing from other variables for non members.

Demographic characteristics and usage of loyalty cards

The impact of demographic characteristics on the usage of loyalty cards offered by three categories of retail outlets (food and grocery, apparels and electronics) will be discussed. The demographic characteristics such as gender and different age slabs are considered for the study. T test, ANOVA and Leven’s test were used to find the association of demographic variables and usage of loyalty cards.

Table No.4: AVOVA

Variables	T value	Sig. F Change
Loyalty programmes V/S Gender	0.190	0.050
Loyalty programmes V/S Age Groups	0.186	0.053

Source:Field Data Analysis

From the table 4, it is found that the loyalty programmes significantly differ across the gender. The significant value of 0.050 revealed that, women accept the loyalty programs with significant difference. This signifies that loyalty programmes entice buying behavior.

The study also aims to test, whether there is a significant difference in the preference for the loyalty programmes across different age groups. Statistical tools such as T test, ANOVA and Leven’s test are applied to find the preference for the loyalty programmes across different age groups.From the table 4 it is found that the age groups do significantly differ on preference for loyalty programmes. The significant value for age 0.053 revealed that, age groups exhibited a different kind of preference towards loyalty programmes.

Managerial Implications

Establishing the effect of loyalty programs to buy private brands has direct and direct implication for retailers who wish to promote the marketing of their private brands. In general, store brand consumers tend to be more price sensitive. Price plays as a very important factor in store brand purchase. One possibility is that private brand prices are lower than national brand prices; hence a household that purchases private brands in a category will tend to spend fairly less compared to households that purchase national brands. A second possibility is that households that purchase store brands are more price sensitive and have no strong brand preferences. Therefore they are more likely to shift across multiple stores (perhaps buy lower priced store brands at competing stores as well) leading to a lower indicator of dollar spending at the chain in question. These two interpretations have dramatically different implications for the retailer.

Shopping frequency has a highly significant and positive impact on store patronage, suggesting that more recurrent visits are an indicator of greater share of the household wallet at this store rather than an indicator of low search costs and greater price sensitivity.

By applying before and after experimental designs, one can measure the direct impact of the; loyalty schemes in building positive attitudes toward products, and it may be interesting to compare the results with those of this study. possible that a loyalty program can both price discriminate and encourage repeat purchase. The key to volume rewards programs is that re-wards are linked to volume. Note that, unlike the usual time facet associated with loyalty (e.g., along-relationship), volume is not necessarily directly linked to time. Loyalty programs can also persuade positive word-of-mouth communications. It might be the case that the loyalty allows loyalty programs while competition destructs these programs.Competition will often diminish or eliminate simple price discrimination and related forms of discrimination. True loyalty programs invest now for the future, commit now to the customer,and trust rather than demand trust.



Conclusion

It may be remarkable to categorize loyalty programs based on target customers. Although loyalty programs are usually designed toward loyal customers, loyalty programs can also be used as an effective tool in service recovery programs and revitalization programs.

A real loyalty program should aim to create an asset rather than a liability. A real loyalty program should create existing customer benefits by committing to the customer. A true brand loyalty program creates a benefit by making the customer more attached to the brand over time. That attachment can come from learning, knowledge, familiarity, higher switching costs, habit, or customization.

Retailers must try to improve the consumer's perception of their own brands. The development of commercial policies orientated to reinforcing their brand image or corporate identity can contribute to increasing the familiarity with and prestige of store brands and to prevent them from being considered second rate alternatives.

It is essential that retailers banish the idea from the consumer's mind that store brands are of substandard quality merely because they are cheaper than national brands. It would be advisable for retailers to make it clear to consumers that the lower prices of their brands are not a consequence of inferior quality but rather result from immense cost savings in, for example, the way they are marketed.

The retailer can create an overall quality image by either creating a substantive quality umbrella brand or making sure that each private brand is of high substantive quality.

Limitations and directions for future research

The research is restricted as it considers only three categories of retailers. A further limitation surrounds the issue of generalisability as the retail outlets in Bangalore were used. It would also be interesting to incorporate new variables into the model related to the consumer's buying behaviour, such as their participation in the purchase, their motivation or their attitude towards store brands.

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