RELATIONSHIP MARKETING WITH LOYALTY PROGRAMS IN UAE RETAIL MARKETS

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Abstract The focus of retail marketing is on customer retention and satisfaction instead of solely selling. The ever changing digital revolution, driven by the spread of internet, mobile technology, and recently the social networking phenomena resulted in a new ‘Information Age’ of consumers. Due to the ease of access to various information sources, which allows shoppers to compare a variety of available goods and services, this consumer segment is becoming very much price-and-quality sensitive, demanding "more for less" from the shopping experience. The effective use of relationship management strategies will allow retailers to consistently identify and communicate meaningful value chain elements to its market segment, which will ensure differentiation and build on loyalty. The renowned 20-80 rule, states that eighty percent of a company's earnings is produced by twenty percent of its core customers. Based on these findings, many of the most successful retailers have shifted their focus towards CRM strategies which largely embrace the use of loyalty schemes. The purpose of this paper is to identify the various aspects of customer relationship in retailing and to explore the loyalty programs and its future in United Arab Emirates.

Keywords: Customer, Value, Relationship Marketing, Loyalty Programs, Retailing.

1. INTRODUCTION

Businesses around the world are becoming increasingly competitive by day. Therefore in order to generate more customers and retain existing ones, companies engage in various forms of activities which are known as “Relationship Marketing”. One of the most important components of relationship marketing is “Customer Relationship Management”. Payne and Frow (2005) describe Customer Relationship Management (CRM) as, “a strategic approach that is concerned with creating improved shareholder value through the development of appropriate relationships with key customers and customer segments” (p. 168). By looking at the definition it can be said that CRM is about creating, maintaining, and sustaining relationships with customers. One of the most commonly used CRM strategies of a company are loyalty programs, which are designed to give variety of benefits to increase customer loyalty. In present multi channel retailing environment, companies seek to provide satisfaction to customers through various loyalty programs. In many cases, retailers with very limited amount of products and services would form joint venture of loyalty program to encourage customers to visit the retail stores which are part of such loyalty programs. This demonstrates the importance of integrated CRM strategies within the organization in current business environment.

2. METHODOLOGY

To conduct the primary research, questionnaire was prepared to survey about 78 retailers in the U.A.E. These retailers were chosen on the basis that they all have some type of a CRM strategy in place within their organization. Questions in the survey were mainly concerned with their CRM practices and how they manage their loyalty programs, and it also looked at how the companies rate the benefits of such customer oriented programs. The results were then analyzed and the findings have been reported in the related areas of this report.

Apart from the primary research, secondary research in the form of journal articles and various texts from different books were used.

3. DEFINING RELATIONSHIP RETAILING

Building strong customer relationships has never been more essential to retailers as in the current scenario. Changes in the marketing environment comprise of fierce competition, emergence of e-commerce, complex multi-channel strategies, and a volatile consumer buying behavior. These factors have placed more emphasis than ever on the importance of customer loyalty. Dick and Basu (1994) describe customer
loyalty as “biased repeat purchase behavior” that is a key driver for nurturing a sustainable competitive advantage, especially during tough economic times.

Some interesting facts brought forward by Kotler and Keller (2008) towards customer retention reveal that acquiring new customers can cost up to five times more than satisfying and retaining existing customers. The renowned 20-80 rule, states that eighty percent of a company earnings is produced by twenty percent of its core customers. Based on these findings, many of the most successful retailers have shifted their focus towards CRM strategies which largely embrace the use of loyalty schemes. The goal of such programs is to establish higher level of customer retention in profitable segments by providing increased satisfaction and value to certain customers (Egan, 2008).

According to Berman and Evans (2010), relationship retailing can be attained by establishing and maintaining long-term bonds with customers, rather than acting as if each sales transaction is a completely new encounter. It compels retailers to implement some specific strategies that not only differentiate their offer in ways that are relevant to their target market, but also difficult for competitors to duplicate (Berry & Gresham, 1986).

Because consumers today recognize fewer real product differences and show less brand loyalty in their search for value, the following topic has being dedicated to further explore the benefits of a value-oriented retail strategy.

### 3.1 Building Relationships by Providing Value

Kotler and Keller (2009), define customer-perceived value as “the difference between the customer’s evaluation of all the benefits and all the costs of an offering”. It denotes a blend of quality, service, and price. From the retail perspective, value is typically described using the “value chain” concept, which encompasses the entire cluster of benefits – including all the activities, processes, tangible, and intangible attributes – offered to clients throughout the distribution channel (Berman & Evans, 2010). They range from logistics processes to the merchandising of goods, including store location, hours, atmosphere, sales personnel, and brands, noticeable or not to the final consumers.

A value-oriented retailer can decide on the following strategies:

**Expected Retail Strategy**: Consists of the basic components expected by a certain consumer segment for the type of retailer such as product assortment, store cleanliness, and knowledgeable staff.

**Augmented Retail Strategy**: Comprises the additional features offered by a given retailer – like store loyalty programs and personalized services – with the aim of differentiating their offerings from direct competitors, and to enhance store patronage.

**Potential Retail Strategy**: This is characterized by the addition of exclusive value-added elements to a retail offer, providing a competitive edge to the firm in areas where other firms are not able to capitalize.

According to Berry and Gresham (1986), some of the most powerful retail relationship programs feature two important foundations: 1) *Relationship customization*, related to personalized offer and individualized service, and 2) *Offer augmentation*, which entail differentiation through the enhancement of the retail offer. In the context of loyalty schemes, majority of retailers compete at the augmented level with similar merchandising and mimicked reward schemes. Competitive advantage is however held by those who go beyond customers’ standard expectations and build on potential features.

It is important to mention that the ever changing digital revolution, driven by the spread of internet, mobile technology and recently the social networking phenomena, resulted in a new “Information Age” of consumers. Due to the ease of access to various information sources, which allows shoppers to compare a variety of available goods and services, this consumer segment is becoming very much price-and-quality sensitive, demanding “more for less” from the shopping experience. The effective use of relationship management strategies will allow retailers to consistently identify and communicate meaningful value chain elements to its market segment, which will ensure differentiation and build on loyalty.

### 4. CUSTOMER SERVICE

In order to understand customer service, understanding who a customer is vital. A customer is someone who purchases something or someone who has the intention to buy. In other words, every person is a potential customer once they enter into a retail store. Acquiring new customers and retaining existing ones mainly depends upon retailer’s efficiencies. It is up to the retailer to acquire new customers or to maintain the current customers. According to Reichheld (2006) all retailers in the US lose half of its customers every five years. Not measuring customer defections and failing to act on these defections, in case of any flaws are the main reasons for losing customers. Therefore it becomes necessary in maintaining customer service for all kinds of businesses especially retailers who are in direct contact with their customers. Wong & Sohal, (2002) have argued that in today’s market situation with constant fluctuations in retail environment, retailers must enhance their mobilization
Relationship Marketing with Loyalty Programs in UAE Retail Markets...

4.1 Customer Satisfaction

Many would argue that customer service and customer satisfaction go together. One of the core elements of a successful retail store is determined by the amount of satisfaction they provide to a customer. To become a successful retailing entity in the long run, it is important for a company to maintain the customer satisfaction at a substantial level. Berman & Evans (2010) explain that customer satisfaction occurs when customer expectations have been met or exceeded by the retailer in terms of value and customer service provided. Hence customer service needs to be aligned with the overall value provided by the product to satisfy the customer.

Retaining customers and developing customer relations over time can be very challenging for any business. Measuring customer satisfaction is therefore one of the major factors in building CRM strategies. Oztaysi et al (2011) explain that in order to develop CRM strategies one of the first steps that a company takes is assess its satisfaction level among its customers. Customer satisfaction also helps in building healthy relationships with customers. There is no doubt that a customer who has been loyal to a retail store or a brand will have a high amount of satisfaction from their purchases over time. Therefore it can be concluded, the higher the amount of satisfaction a retailer or a brand provides, the more number of the loyal customers it will have.

5. CUSTOMER DATABASE

Sometimes retailers may struggle to comprehend its customer’s behavior or preferences and in a desperate need to find ways to enhance their offerings, huge amount of money and time is invested on marketing research studies. Without discussing the efficiency of such marketing research studies, retailers sometimes do not realize the value of the information they already have in hands. Especially with the technology advance in the last decade, most retailers tend to store and control their sales through various integrated information systems. This systematic process created the possibility of registering customer data, which once organized and analyzed, it can offer valuable information about the customer’s behavior.

5.1 Useful information in building a customer database:

- Contact information: Name, salutation, address, email, and telephones
- Demographics: Age, gender, civil status, nationality
- Customer purchase history: Products and volumes purchased, date and timing of the purchase, the salesperson’s name
- Customer service history: Type of service and frequency used
- Complaints: Description of the complaints
- Customer profitability: The profitability of the customer purchased goods

Data base marketing can be considered one of the most basic tools for the retailers in the process of understanding its customer behavior in a better way and in defining the marketing approach according to their findings. Once a database is build, retailers will have the information available upon request with a minimal cost involved.

Some database software solutions:

- Microsoft access
- ACT or Goldmine
- Personalized information system (based on retailer’s preferences)

Through a customer database retailers are able to identify the most profitable customers, their preferences, purchase trends and other information depending on the data collected from the customers and sales force. These interpretations will lead to better communication on the direct marketing approaches, like emails, newsletters, and RSS feed. Retailers will be able to offer a certain level of personalized communication to their customers.
5.2 Important factors to be considered while managing the customer database

- Restricted access to customer information to employees by making few people in charge of it.
- Employees should be encouraged to derive additional information during each visit of the customer.
- The collection of database should be on the increase in accordance with the number of customers.
- The database should be frequently updated.
- Ensure confidentiality of your customers.
- Backup the database frequently.

A very well managed customer database can prove to be one of the most important assets of a company. It is important to point out that a customer database will contain information about most loyal customers as well as customers who buy a lot less frequently. Therefore it becomes important to identify different customers in terms of their loyalty and design marketing campaigns and promotions based on each of these groups.

One of the most effective ways to retain the most loyal customers is by designing loyalty programs. It has been argued by Stone and Jacobs (2008) that customers are often attracted by short term promotions through the internet. They go on to say that loyalty programs have a positive impact on retaining customers in that, they make the difference between losing and not losing a customer in the competition. The main benefit of the loyalty program is to keep the customer database active; it rewards loyal customers, or in other words, the customers who keep purchasing in your retail. Effective direct marketing is extremely important in a loyalty program because such customers develop additional interest to be connected to the retailer; customers want to check their account activities and retailers’ updates on regular basis.

5.3 Loyalty Programs

Customer relationship is the essence of a successful business and that’s why many firms started to adapt a CRM department which specializes in the sole purpose of sustaining its customer base in the market. Customer relationship is a major aspect for a long lasting business, especially in retailing as retaining the customer could assure a thriving business with the support of the customers. Retention strategy is not a luxury any more as competition is not getting any less. As “this strategy gives the firm the chance to have the merits of it as it is cheaper to maintain the existing customers than acquiring new ones and to enjoy a profitable association,” (Reichheld & Sasser 1990), the result of this strategy is loyalty. Organizations need to understand the dimensions of this word and study techniques of how it is obtained, as many retailers link the repeated purchase with loyalty, whereas the difference in major as well as frequent purchase could be for any other reason such as convenience, lack of choice & information, or simply inertia.

6. EXPLAINING LOYALTY

There is no one specific meaning of this definition, since it might be defined with some quantitative measure such as customer’s retention or customers shopping frequency. But again loyalty has a deeper meaning and that’s why many researchers tried to define it and reach the essence of it. Uncles et al. (2003) defined it as “a positive attitude felt by the customer towards products, brands, stores etc.”. Loyalty also can be seen as “a deeply held commitment to re-patronize a service or a product in the future,” (Oliver, 1999). Loyalty is both related to consumer’s attitudes and behaviors, where they both complete each other in truly measuring loyalty. Researchers have categorized loyalty into four types: sustainable loyalty (high-frequent purchase with high positive attitude towards the brand), latent loyalty (high attitude towards the brand but no display of frequent shopping), spurious loyalty (frequent purchases but not based on loyalty) and no loyalty (less frequent purchases and negative consumer opinion towards the brand). These types do exist in every customer base of any organization which helps in deciding which customer is worth retaining.

Retailers try to maintain relationships with customers to achieve the highest levels of loyalty but they are still facing the complex issue of switching behavior due to many reasons. Therefore many firms started introducing loyalty schemes or what we know as loyalty programs and it holds many facilities such as simple points accrual programs, club cards or combined credit cards etc., which are also used in different types of businesses such as airlines, hotels, banks, grocery stores, etc..

6.1 Defining Loyalty Program

A Loyalty Program is a system or “a scheme that rewards loyal customers by offering delayed, accumulating economic benefits to consumers who patronize the brand,” (Uncles, Mark D., Hammond, Kathy, Dowling, & Graham R., 2003), and also by “offering different offers of discounts, monetary rewards or other services,” (Stauss et al., 2005) based on the amount of money that the customer spent. Some cards have microchips in them where data is already stored in the system and the card will facilitate the identification of the consumer, others only have a number or an ID of the holder. The concept itself is not new as it started in the 1960s wherein there used to be certain cards where retailers used to place stamps with every purchase and customers have to
keep them until they reach a certain limit and they will be entitled for a reward. Now a days Loyalty schemes vary in their mechanisms and schemes, but they all agree on rewards and of course the more Bousofiāne, 1996patronage the customer displays the more rewards he receives. Loyalty schemes have different aims too where “some may aim to data collection, sales promotion and other strategies too” (). The advanced technology facilitated the use of these programs and made tracking customers easier on the business runners as when customers register in any loyalty scheme it is considered to be an unspoken agreement on using their details to be used and stored in the retailer’s database and have all their purchases to be tracked.

Loyalty Programs for customers were found to increase brand loyalty and minimize the price sensitivity factor; it also encourages the positive word of mouth in favor of the company, attract more new customers and increase the sales. Besides, Bolton et al. (2000) observes that “customers that are members of a loyalty schemes were observed to be less sensitive to lower quality of service than other customers.” A retailer usually makes the customer join the program by asking the consumer to fill out a form and the forms vary in its details and complexity. The easiest loyalty schemes will usually require the consumer’s name, email, and phone number. Others require more information than this, depending on the business.

### 6.2 Types of loyalty Schemes

There are different types of loyalty programs, some of the most used ones such as Appreciation programs (where consumers are offered the firm’s services or products), Rewards Programs (where customers are offered rewards unrelated to the company’s specialty), Partnership (where the company is partnered with another company and the customer can benefit from both), Rebate (exchanging customers points with monetary value), Affinity programs (Building an emotional relationship with the customer based on trust and a long lifetime bond instead of rewards), Coalition (different firms joint in a shared customer data base to target certain customer demographics).

### 6.3 Benefits for both customers and retailers

The consumer can actually start making or saving money if card was used properly. Customer can also enjoy special offers and discounts which are exclusively meant members. Besides some other benefits such as feeling of being special and the fact that he belongs to this brand and free magazines and many others. As for retailers, loyalty cards can open doors to build a warm and long lasting relationship that may lead to customer retention. It also gives the retailer the chance to track the customer’s purchase behavior and that adds a bonus benefits for retailers to recognize the market changing trends. Loyalty schemes also cause a significant increase in turnover if customers started to appreciate using it. Besides other opportunities as cross marketing, customer satisfaction, gain new customers through word of mouth.

### 6.4 The negative side of Loyalty Programs

There are some disadvantages in the business when one tries to maintain or start a loyalty program. Retailers will need to put a lot of effort and manpower to monitor the scheme. Promotion campaigns and cost of start could be really high and retailers must realize that once they started the program, it’s really difficult to back up. Schemes must be efficient and effective in the eyes of consumers or the whole program will back fire on the company. Consumer’s privacy must be protected at all costs and if the company violated that, then serious implications will befall on the company.

Every benefit comes with challenges and flaws. Loyalty programs were proven by many researches to be effective and rewarding for both the consumers and retailers, but of course many obstacles will come on the way. According to a study held by University of Paris, Dauphine, many negative observations were found by the use of these programs as it is considered to be one of the interaction points between customers and retailers and any bad experience may cause losing the customers and discrediting the company. According to Gastaffson et al. (2004), the systematic procedures that may take place before the ability to collect the rewards and exchange of points may cause a lot of tension and discomfort with the customer towards the retailers. “Some customers look at these programs as a discriminating tool” (Lacey & Sneath, 2006). The more complicated the program, the more frustrated the customer becomes. These reasons are not conclusive but companies should focus more on analyzing what these programs are for as these schemes may turn into disloyalty schemes instead of loyalty.

1. The future of Loyalty Programs

Loyalty programs were originally created to encourage customers to be loyal to certain brands or companies but these schemes need to be revaluated and experimented to achieve better results. Retailers must explore new strategies, tactics and technologies in the process of designing innovative loyalty programs. Few basic values of these schemes should be there such as sincerity in dealing with clients and fulfilling all the promises made to them about the program. Also, protecting the privacy of the client is very important as customers will stop giving their personal data if they don’t feel safe. Further, more focus is required in making the loyalty programs as effective as possible in
the eyes of the customers to encourage them to be part of it. Loyalty programs are expected to be more frequent in the future, and a company that doesn’t have a scheme will be looked at as one without a future strategic plan. Capizzi, M.T., & R. Ferguson, R. (2005) stressed on the fact that “the success of loyalty programs on the future will depend on companies trying to differentiate themselves among the clutter of other schemes,” and as “loyalty programs become so common among companies, customers will feel bored and may forget which one he is part of as they are mostly the same” (Capizzi & Ferguson, 2005). And due to this problem that may affect the future of these programs, marketers need to start creating innovative solutions to cut through the clutter and be recognized and distinguished.

Many researchers found out that monetary rewards and discount loyalty programs have a shorter span of living compared to the other relationship building rewards such as invitations to company events, new product launch, and membership cards and so on, as these activities aim to build a real and a long lasting relationship with the customer rather than the momentary benefits. And the more the customers are involved, the more they have the courage to complain and draw companies’ attention to certain flaws and it was proven by research that a customer who complains is more likely to retain more than others who don’t. As Fornell & Wernerfelt 1987 argued, “the loyalty of the customer can be motivated to increase if you push them to complain.”

Another valuable aspect that will contribute in the growth of loyalty programs is the implementation of technology that is already facilitating and will make extracting data from customers a much comfortable and easier process. Some of these tools are already used, but it’s still not common and expected to be the norm in the near future such as chip cards, iris scanning pilots, radio frequency, biometrics, finger prints recognizing devices and many others to come. And as Capizzi & Ferguson (2005) commented, “the latest technologies that are used to create and design these programs will be also used to collect data without directly asking the customer.” Technology adds speed and quality to the whole process. Loyalty programs will progress dramatically in the future as the value of databases are increasing where the value of the customer’s information is an asset. Companies are expected to do further customized services as they will segment the customer’s data base and create different loyalty strategies for different customers in order to give the ultimate value and benefit to customers. Database marketing and CRM systems are very costly to create and maintain and to minimize the cost and maximize the results, marketers are required to calculate customer’s life time value and plan their strategies accordingly.

6.5 The WOW factor

As mentioned above customers may lose interest in these programs if marketers didn’t start presenting something new to them. Capizzi & Fergusson suggested that marketers should start creating loyalty schemes that makes customers say WOW! Achieving these results will not be easy but many ideas may rise such as asking customers to choose their own prize and it might be a customized item or a special offering that appeals to them. The coming years will witness an increasing number in those programs and in order to survive marketers should create new and differentiated value propositions to retain their customer’s loyalty.

7. RESEARCH: LOYALTY PROGRAMS IN UAE

As mentioned earlier, the purpose of the study was to understand the effectiveness of loyalty programs and the likelihood of those retailers to continue implementing the loyalty programs in the future. The questionnaire was prepared by the group members to fit the frame of the study. The questionnaire included seven sections as follows:

1. Rating the loyalty program (5 questions)
2. Ranking the importance of in-store activities and services (6 questions)
3. Usage of customer data base (4 questions)
4. Value offered to customers (1 question)
5. Customer Satisfaction (1 question)
6. Policy of customer complaints (1 question)
7. Future of loyalty program (1 question)
8. Effect of loyalty programs on sales and store loyalty (3 discussion questions)

7.1 The respondents

The study of this report was conducted on seventy eight retailers who apply loyalty programs in the United Arab Emirates in different types of retail activities ranging from supermarkets to apparel stores with different customer and price orientations and locations.

7.2 Limitations of the study

Privacy Concerns: Many of the respondents seemed hesitant in answering some questions and therefore the questionnaire had to be altered. Even after the questionnaire was modified, respondents were unwilling to provide or answer some of the questions in the survey.
Due to the privacy concerns of the retailers, accuracy of answers might have been compromised.

Sample Size: The sample size had to be kept small as many of the retailers that were approached declined to take answer the questionnaire.

Figure one represents how important and efficient the loyalty programs have proved to be in different aspects listed in the graph. As it can be seen in the graph, out of the 78 retailers, over 80% felt that loyalty programs helped them in terms of attracting new customers, sales, customer satisfaction, and the most importantly in retention of customers. It is for this reason that they rated all these factors as very important in the questionnaire. However in the case of promoting the brand image 61.5% of the retailers felt that it was very important for loyalty programs in promoting their brand image. It can be concluded from this table that the majority of retailers believe that maintaining a healthy relationship with their customers is a very important factor in the success of their business as it helps them to retain their customers and will...
eventually result in enhancing the sales and attract new customers by the word of mouth of their current consumers.

7.3 Customer Database

One of the core elements of a loyalty program is the efficient management of the customer database. Therefore a number of questions were asked to the retailers about how they manage their customer database.

It was found that 53.8% of the retailers use the database very often. Half of the retailers or 50% of the retailers said that through the database they communicate their latest offerings and other promotions to their customers via internet tools like emailing offers and newsletters. When it comes to staff training 84.6% of the respondents said that they offer training in customer service to their employees. We conclude from this table that the use of database is not a common practice among all retailers, but the majority believes that maintaining a database involves costs and staff responsible. Some retailers commented on the great value of using and acquiring a database but at the same time it has to be worth having. And about half of the retailers use the database to communicate with their consumers in order to maintain a long lasting strong relationship. The use of marketing research to serve the customers in a better way has a relatively lesser percentage among retailers, which reflects that different retailers see value in different ways but at the end they all aim to satisfy customers. Majority of retailers stated that if ever their customers were not satisfied, it is for other reasons than store, staff, service, and products. It also states that retailers can’t seem to recognize or admit their flaws and what needs to be enhanced. Majority of consumers declared they adapt an open-door policy when it comes to customer complaints, and finally 76.9% stated they are more likely to continue adapting loyalty programs and employ more customization and upgrading in the future. That reflects the effectiveness of these programs and its likelihood to retain customers and attract new ones as well.

7.4 Other Findings

About 50% of the retailers believe that the quality, service, and competitive price can create value that customers would appreciate. And the rest of the retailers have other variety of aspects, which reflects that different retailers see value in different ways but at the end they all aim to satisfy customers. Majority of retailers stated that if ever their customers were not satisfied, it is for other reasons than store, staff, service, and products. It also states that retailers can’t seem to recognize or admit their flaws and what needs to be enhanced. Majority of consumers declared they adapt an open-door policy when it comes to customer complaints, and finally 76.9% stated they are more likely to continue adapting loyalty programs and employ more customization and upgrading in the future. That reflects the effectiveness of these programs and its likelihood to retain customers and attract new ones as well.
8. Conclusion

In the present competitive environment companies tend to put extra effort into retaining their customers. It is for this reason many retailing companies engage in Customer Relationship Management activities like loyalty programs to provide the customers with more value. Building, maintaining, and updating customer database is a necessity in order to run such programs.

There are a number of loyalty programs being run by many retail stores in UAE. The research on many of these loyalty programs helped in concluding that most retailers agree there are significant benefits by implementing these loyalty programs in terms of retaining and acquiring new customers. Therefore it was found that majority of the retailers will continue to run these loyalty programs in the near future.

References


