



Loyalty Programme Applications in Indian Service Industry

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Abstract

Retaining all customers would not be a good idea for any business. In contrast, allowing the profitable customers to leave would be an even worse idea. Consequently the real solution rests in knowing the value of each customer and then focusing loyalty efforts on those customers. Customers are more likely to be loyal to a group of brands than to a single brand. This is particularly true if the chosen brand is the category leader and costs more. In contrast to the one – brand- for – life mentality of the past, today’s consumers are blatant in their divided loyalties, for their own safety and pleasure. The conceptual framework presented helps to understand the evolving logic of loyalty programs and process of implementing the same. Applications in different service industry for building and sustaining loyalty provide an overview of the status of such programmes.

Loyalty programme Applications in Indian Service Industry

Introduction

The concept of loyalty 'is not a new concept ; it was in practice since many centuries. In past, ancient Roman Empire had often used the concept of loyalty for their army. In 21st century, marketers are trying to capture market share and profits with the help of a loyal customer base. Customer loyalty has been universally recognized as a valuable asset in competitive markets (Srivastava, Shervani, & Fahey, 1998).

Loyalty programs are established with an accrual system for earning a reward over a longer period. As the loyalty program evolves, so does the relationship between the brand and the customer. This relationship is based on an exchange of value and when done properly grows to a dialogue, where the customers feel secure enough to begin to share their wants and needs. Loyalty programs provide an ideal environment for this permission-based exchange of information, creating a competitive advantage and driving incremental profit.

Loyalty programs are best suited for highly competitive business environments, often where the service levels and products are not highly differentiated. Many businesses with high fixed and low variable costs find that loyalty programs are an effective tool to retain customers and maximize the utilization of their capacity like airlines, lodging, or telecommunications. These industries have another thing in common – “perishable inventory.” As time goes by, empty airline seats, unoccupied hotel rooms, or unused telecommunication capacity creates no revenue. Loyalty programs help use that capacity through incremental purchases or as part of the reward offering.

Measuring and changing purchase behavior is a critical component of loyalty programs, so it's obvious that tracking that purchase behavior is paramount. Loyalty programs allow marketers to avoid competing on price, making it much harder for competitors to copy what they are doing. They can copy a discount, but not the soft benefits value that is unique to a company brand. If done right, loyalty programs become a real differentiator in the market. A worldwide survey of CEOs conducted by the Conference Board in 2002 found that consumer loyalty and retention was the most important challenge that the

CEOs believed they faced more important than improving stock performance, reducing costs or developing leaders within their organizations.¹

Then, the imperative question is-what does it take to build and sustain 'true' loyalty? Where should research effort be invested to enhance behavioral loyalty, cultivate attitudinal loyalty and generate profitability simultaneously? This paper tries to explore the above questions and illustrate how loyalty is implemented by various Indian service sectors. The paper concludes with raising managerial issues in designing and implementing customer loyalty.

What is loyalty?

Loyalty', in day-to-day life, implies an unselfish belief in institutions or unswerving fidelity in marriage, or emotional commitment to friends. Loyalty also suggests monogamy: one choice above all others.²

Another definition is: "A deeply held commitment to rebuy or repatronize a preferred product/service consistently in the future, thereby causing repetitive behaviour reflecting purchase of the brand despite situational influences and marketing efforts having the potential to cause a switching behavior."

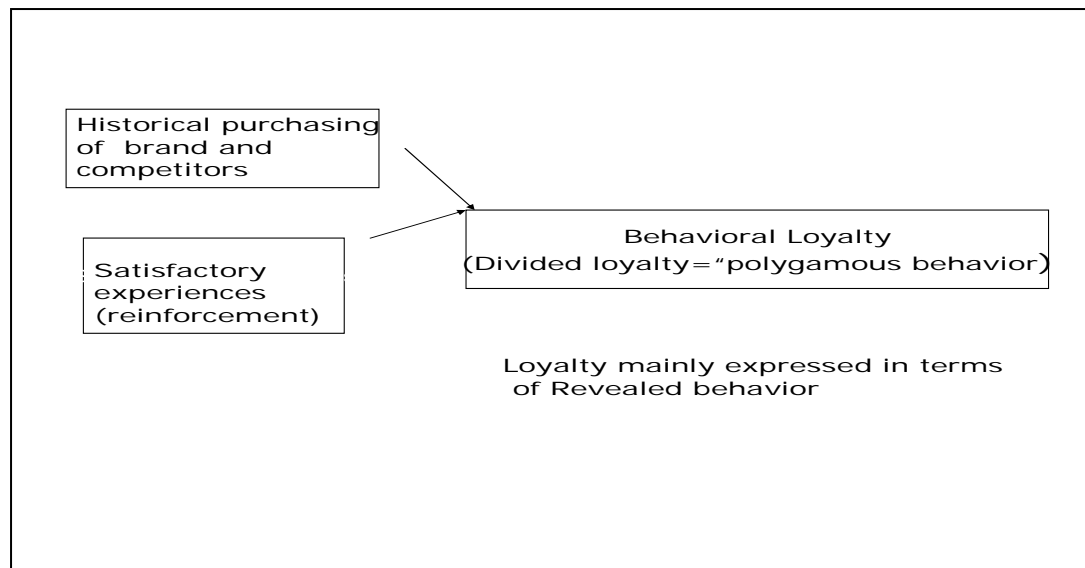
Loyalty is, in simpler terms, a reliance on a particular brand or company even though numerous satisfactory alternatives may exist. Loyalty helps build relationships. It requires that companies view customers as people first and consumers second. Trust, commitment, ethical practices, fulfillment of promises, mutual exchange, emotional bonding, personalization and customer orientation have been reported to be the key elements in the relationship building process (Levitt,1986; Gronroos, 1994; Morgan,1994; Gummesson,1994; Bejou et al,1998).

There are three basic approaches that have evolved to conceptualize loyalty: a behavioral (purchase) approach, an attitudinal (feelings) approach, and a hybrid approach incorporating consumer characteristics and purchase situation which are depicted below:

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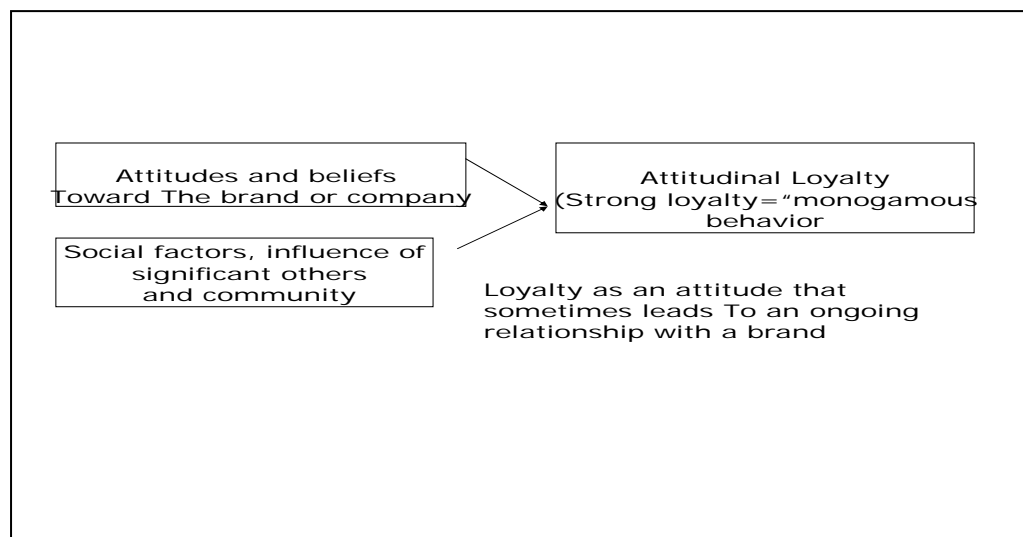
² Keiningham, T.L., Vavra, T.G., Aksoy, L. & Wallard, H.; "Loyalty Myths John" Wiley & Sons, Inc, 2006 edition.

(1) The Behavioral Model of Loyalty



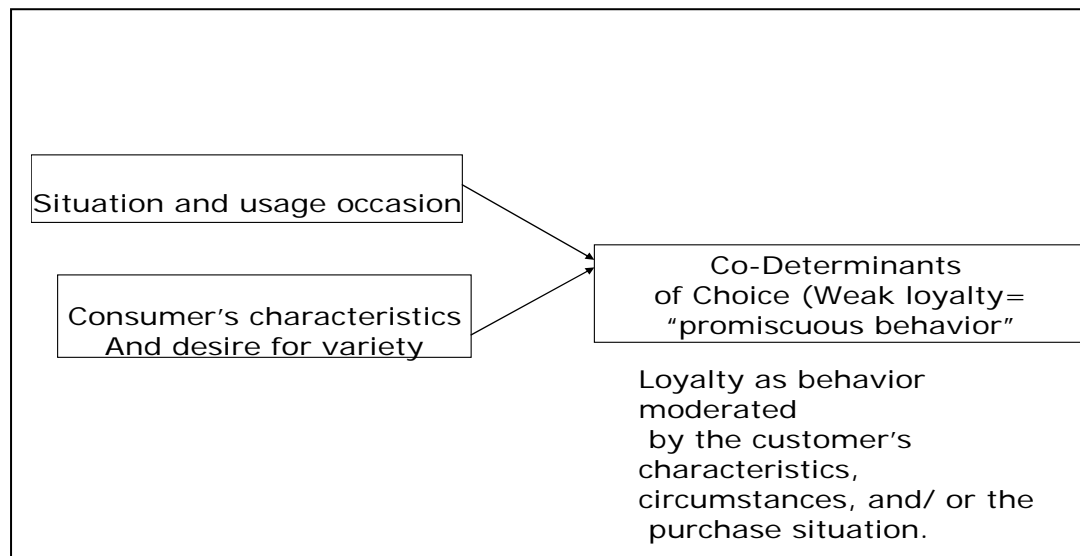
Behavioral models are purely historical and deterministic. They shed no understanding on the reasons for the observed behavior; they simply produce probabilities for future purchases based on what has been recorded in the past.

The Attitudinal Model of Loyalty



Attitudes towards the brand and company image also affect the customer mind to build relationships with the company.

The Situational Model of Loyalty



When consumer preferences are not well defined, they may be constructed based on the influence of some contingency factors. Three types of contingency variables are specified: consumer circumstances (budget, time constraints, need for novelty, tolerance for risk, need for social approval, etc.); consumer characteristics (such as habit, desire for variety, tolerance of risk and need to conform); and purchase situation effects (including product availability, promotions/deals, the use occasions).

These models help determine extent of loyalty of a particular consumer by observing historical behaviour, studying his attitudes and by analyzing contingency factors.

Evolution of Loyalty : Traditional views

The concept of loyalty first appeared in the 1940s. In its earliest days loyalty was proposed as a uni-dimensional construct, which was related to the measurement perspective taken by the researcher. Two separate loyalty concepts evolved. namely, “brand preference” (Guest, 1944, 1955) and “share of market” (Cunningham, 1956), which was later referred to as attitudinal loyalty and behavioural loyalty respectively. Nearly 30 years after loyalty first appeared in the academic literature, researchers (e.g. Day, 1969) proposed that loyalty may be more complex and that it may comprise both attitudinal and behavioural aspects. This two-dimensional concept has since been combined and referred to as composite loyalty (e.g. Jacoby, 1971). The composite definition of loyalty has become the basis for loyalty research that has since been

undertaken (for examples see Jacoby and Kyner, 1973; Bloemer and Kasper, 1995; Bennett, 2001). The composite definition of loyalty considers that loyalty should always comprise favourable attitudes; intentions and repeat-purchase (see Jacoby and Chestnut, 1978). Some researchers (see Oliver, 1999) suggest that Loyalty evolves and that there are stages of loyalty. In a personal sense loyalty is a feeling or an attitude of devoted attachment and affection. This feeling of loyalty tends to imply that a person feels an obligation to stay with a brand in good and bad times. Loyalty is the key to the longevity of any brand and one type of loyalty, namely word of mouth has recently been correlated with company growth (Reichheld, 2003). It is possible that each and every customer has loyalty qualities or states in varying degrees, and that customer's have a different mix of loyalty qualities or states. Marketers can activate different loyal states or qualities in different ways. For example, word of mouth behaviors may be encouraged through reward programs while attitudinal loyalty may be encouraged through emotive advertising.

As the concept of loyalty is dynamic, managers need to study how these intentions evolve through different phases of a brand life cycle. Loyalty intentions are a function of perceived value early in the life cycle. Over time, more affective attitudes toward the brand and the relationship with the company come to mediate the effects of value on intentions. From the introduction to the growth stage of a life cycle, managers must adapt from improving value per se to measuring and managing relationships and brands directly.

Providing customers with perceived value or satisfaction is widely recognized as a means of improving loyalty intentions (Fornell et al. 1996; Zeithaml, Berry, and Parasuraman 1996) and actual retention (Bolton 1998; Bolton and Lemon 1999; Mittal and Kamakura 2001). However, research demonstrates that these relationships are potentially complex and dynamic and that the drivers of intentions change and evolve over time (Mittal, Kumar, and Tsiros 1999; Slotegraaf and Inman 2004).

Recent research has suggested that intention drivers vary considerably over time. Mittal, Kumar, and Tsiros (1999) compare the drivers of perceived performance and subsequent loyalty intentions for new vehicle owners 3 to 4 months after purchase and again 21 months later. They find that service satisfaction has a greater impact on intentions early in the relationship, whereas product satisfaction has a greater impact later in the relationship.

In a subsequent study, Mittal, Katrichis, and Kumar (2001) examine the drivers of customer satisfaction for people who owned a credit card for less than a year versus more than a year. They find that the weight customers place on different performance attributes shifts on the basis of their tenure with a firm. Again, in an automotive context, Slotegraaf and Inman (2004) study changes in the effects of resolvable attributes (attributes that can be fixed or repaired under warranty, such as a faulty part) versus irresolvable attributes (attributes that cannot be fixed or changed regardless of the warranty, such as size or gas mileage). They find that resolvable attributes have greater influence on satisfaction over time, whereas irresolvable attributes have less influence.

So from the above literature we conclude that these studies reinforce the need for a dynamic perspective. As the customers' experience with a particular offering grows over time, attitudes toward brands and relationships become stronger, more "top of mind" or accessible, persistent, resistant to change, and likely to guide intentions and subsequent behavior. (Fazio, Powell, and Williams 1989; Priester et al. 2004). They suggest two important attitude-type constructs. The first is **affective commitment** (Morgan and Hunt 1994; Verhoef 2003), or the factors that create stickiness in a relationship. This commitment is affected directly by the degree of personal interaction between a customer and a company and how the company manages the customer's account over time (Bendapudi and Leone 2002). The second is **brand equity**, which is influenced by factors such as repeated performance and satisfaction (Keller 1993; Selnes 1993), word of mouth or the "buzz" about the brand (Rosen 2000), the degree of identification with the brand, and its relevance to a customer's situation (Aaker 2004; Keller 2003). As the market grows and customer experience accumulates, more affective attitudes toward the relationship and brand come to drive intentions. With respect to relationship commitment, the implication is that the personal relationship between a customer and a company should be measured, nurtured, and managed effectively (Bendapudi and Leone 2002) through a company's customer relationship management system. For brand equity, the implication is that the degree to which customers identify with a particular brand and find it relevant to their situation should also be measured and managed effectively.

Loyalty in Airline industry:

Nearly every airline has a point reward system. The system itself is no longer a differentiator. So customers would really remain loyal to an airline which assures safety, efficient and pleasing service and recognition of their preferences. People fly on those airlines where the brand experience is unique.

In May 1981, American Airlines (AA) introduced the first FFP (Frequent Flyer Program). The goal was to retain AA's most frequent customers by rewarding them for their loyalty. AA had a database (through its Sabre computer reservations system) of 150,000 of its best customers.

The Indian airlines industry is no exception to loyalty programme. Passengers flying certain airlines get special privileges on specific trips and at certain hotels. Special rates are offered by Indian Airlines or Jet Airways, the main criterion being flying frequency on basic room tariffs at tieup hotels. The programmes should be mutually beneficial to both parties as they have access to each other's database. The Taj hotel group has tied up with prominent international airlines like British Airways, Virgin-Atlantic, Emirates and Sri Lankan Airways, to provide members of their frequent flyer programmes with a host of special benefits. It has tied up recently with two more airline frequent flyer programmes – Singapore Airlines' Kris Flyer programme and Delta Airlines' Sky Miles programme. For starters, members will earn between 250 and 500 miles on their respective frequent flyer programme, each time they stay at a participating Taj hotel. The number of miles earned varies as per the hotel they stay in. Apart from earning miles, members of the frequent flyer programmes will also enjoy special discounts (including room discounts between 10 to 15 per cent on printed tariff) room upgrades and value additions whenever they stay at a Taj hotel.

The Leela Hotels are involved in the Jet Airways Mileage programme wherein every member gets a certain number of miles per stay if he meets a certain qualifying rate. In addition, the guest gets an early check-in at 9 am and a late check-out at 6 pm, no extra charges for double occupancy and complimentary use of steam, sauna and jacuzzi in the Health Club. The guest is also entitled to an upgrade to the next category of room if available. Leela Hotels also have a tie-up with the Singapore Airlines PPS Club where members are extended a late check out at 6 pm at no extra charge and free internet usage.

The Leela Goa has tied up with Sahara, Jet Airways and Indian Airlines for air tickets as well as three-night stays at the Leela Goa. The summer and winter programmes are however priced separately.

The Air Sahara Holiday plan (twin sharing) has tie-ups with hotels only in Goa. Options of packages (inclusive of air fare) differ depending on prices based on the type of property and the number of days opted for. The 'Stars & Skies' business plan offers one-night stay complimentary or at very nominal amounts. For business class fliers, one night stay is complementary at all hotels except Oberoi properties. Economy business travellers can avail of a wide range of hotels in the metros either free or by paying a nominal amount starting from Rs 500 to Rs 2,500 depending on the hotel demanded.

The guests can avail a free room night with as low as 800 points at participating properties. Presently majority of properties in India accept a free night at 800 points. The programme membership is free of cost.³

The table-2 below shows the benefit and loyal programme by different air ways.

Name of Airline	Loyalty Programme	Condition
Kingfisher Airlines Limited	Kingfisher's King Club programme	Individuals who are above of 12 years of age at the time of enrolment in the King Club programme. The Member has a minimum period of 12 months to complete the requirement of 3 valid flights in order to be eligible to receive a plastic Membership card. A minimum of 10,000 King Miles in their King Club account.
Indian Airlines	Flying Returns	Their scheme with the Taj Hotels where they offered a room at premium Taj Hotels for as little as Rs 1,000 (slightly more now),2003. over 12 years of age.
Air India	Flying Returns	A start-up bonus of 1,000 Mileage Points will be credited to you immediately on enrolment.

³ <http://www.businesstravellerindia.com/200310/coverstory01.shtml>

Name of Airline	Loyalty Programme	Condition
		<p>Tickets may be purchased in any currency and in any country, for accrual of Mileage Points.</p> <p>Members with more than 20,000 Mileage Points at the end of three years, are re-enrolled into the Programme on a Complimentary basis for a further period of three years.</p> <p>Members with less than 20,000 Mileage points at the end of three years may renew their membership by paying Rs. 500/- only.</p>
Jet airways	Jet Privilege membership	

<http://kingclub.flykingfisher.com/terms.htm>

But till now the low cost airlines like spice jet, go air, air deccan has not entered into any sorts of loyalty programme. Not all loyalty programme members are equally profitable. In fact, 50% - 60% of new recruits do not even fly the airline whose programme they join. These members erode airline profit because they consume acquisition budgets. Airlines incur servicing costs to serve them but generate no revenues. Therefore, they should not have been targeted and recruited in the first place. To solve that problem “Trident Loyalty Systems (TLS) ‘has conceived an innovative strategy with enabling technology which targets and enrolls only active flyers into an airline's loyalty database. It enables FFP management to segment, target, and enroll flyers depending on ticket type (i.e. premium, full-fare economy, or discounted economy).

This system is able to:

- Save approximately 40% of an airline's acquisition cost per active member.
- Generate incremental advertising revenue and in-flight merchandise sales.
- Issue a personalised and magnetically encoded membership card, and deliver a welcome pack to new members within 2 - 3 minutes of starting the enrolment process.
- Recruit and fulfill new members as well as providing retention services to existing members.

In addition to, or as part of, their frequent flyer programmes, most major airlines also issue co-branded credit cards or are associated with Diners Club or American Express. Most airlines have idle capacity on a fairly regular basis. In the US, it is estimated that, on average, the paid per-flight load factor is only 67 per cent and those empty seats have a very short shelf life; once the aero plane takes off, the possibility of any revenue from the empty seats is lost forever.”

Loyalty in Retail Industry

The Raheja chain that started the retail revolution in India in 1991 and now organized retail is booming in India with national and international players. According to Kishore Biyani, the big brain behind Big Bazar, price, quality or service are the only way to retain customers in retail. The repeat customers spend more than the average customers and need to be encouraged to come back. That's why the stores have started offering special discounts to customers who join their loyalty card programme. Lifestyle, for instance, has a loyalty programme called 'The Inner Circle', while Pantaloons offers a 'Green Card'. Rewards programmes, Westside has 'Club West' and 'First Citizen' from Shopper's Stop to woo the customer. The competition being intense, more retailers - Reliance Fresh and Subhiksha for instance - have introduced membership programmes. Trumart from pyramid group plans to introduce a credit card for its shoppers to give the benefit of buying goods on credit. The purpose is to emulate the services provided by the local *kirana* store, which also sells on credit. Getting one of these cards is easy. On a bill of Rs 2500 or above, stores such as Lifestyle, Westside, or Pantaloon or even at a Titan showroom or a Landmark bookstore issue a membership card.

First Citizen Citibank Card and ICICI Bank's tie-up with Big Bazaar . Reliance entered into retail in December 2006, was distributing free 1/2 kilo sugar & ice-cream for every purchase of Rs 100 for the first few days. They have also introduced a reliance card which is *free*. Cardholder gets 1 point for every 100Rs of purchase after 25 points they give a cash-voucher which can be used again. They also have a feed back form to get valuable inputs from regular buyers.

According to an FMI study, many US food retailers are attributing 10 to 20 per cent increases in sales to their loyalty programmes. The UK's largest supermarket chain, Tesco, attributed one-third of its 6 per cent volume increase in sales over six months to

its recently launched Clubcard. The profit increase comes from several directions: the acquisition of new customers, increased customer retention, increased basket size, a shift towards own(private) label and other high profit lines and the ability to recover defectors. Other reasons are more value from marketing spend (above the line marketing costs can be reduced by targeting offers more specifically) and the sale of data to other manufacturers.

Loyalty in Hotel Industry

In fact, a hotel can learn a good deal by conducting a better dialogue with its guests and by giving frontline staff members an incentive to note their observations. Hotel operators should also search for innovative ways to distinguish programs from those of the competition and to make them more appealing to frequent travelers. Free meals aren't much of an incentive to anyone on an expense account. Instead, these customers want their rewards to be personalized with things that matter to them: benefits such as upgrades to concierge floors or offerings (including free movies or minibar items) not covered by their expense policies. Moreover, some guests may be planning special events (such as weddings, honeymoons, vacations, or large parties) that could not only serve as the focus of innovative rewards programs but also use up lots of points—if hotels are aware of them. Hotel chain, **Wyndham**, doesn't have a point system in its loyalty program (it does partner with airlines, though). Its program is based on customer service and tailoring their stay. The staff makes sure guest's refrigerator is stocked with their favorite foods, their favorite beverages are waiting in their room, and everything is just as they like it. This correctly instills loyalty based on premium customer service.

Indian hotels like Taj group, Trident (Oberoi) group has point wise reward system. As point systems become a commodity (because everyone has one), companies must leverage their company brand and customer service. These loyalty programs cost a lot to maintain. They have become so common they are just a cost of doing business, not a differentiator. Customer loyalty must revert back to the brand experience and the intrinsic desire. We have to be loyal to a brand we like. That brand must somehow be differentiated so it sticks in customer mind.

Hospitality loyalty programs tend to fall into two broad categories:

- Points-based frequency programs where guests earn points based on spend or stays which can be exchanged for rooms or other benefits
- Recognition programs where guests' preferences are captured, retained and communicated throughout the brand and utilized to enhance future visits

Different organizations establish different programs according to their size, competitive posture and other attributes.

. Points-based programs have numerous virtues:

- They are voluntary: the guest decides to join and decides to share their personal information.
- They are easy to understand: You stay. You spend. You get points. Then you get free stays for points.
- They are straightforward to administer, with the right investments in technology and business process integration.
- They support non-points-based awards also, such as special registration lines, or upgrades.
- They are effective: Market Metrix¹ reports that 34 percent of hotel guests say that a loyalty program was a key factor in hotel choice, from a sample dominated by points-based programs.

If points-based programs have all these positive attributes, to accumulate enough points to fund a meaningful stay or partner award, one needs quite a few stays. But for a single hotel or small chain, it is difficult to assign enough value to a given stay to accumulate enough points to give anything away. Hotels need lots of opportunities to have stays to make a points-based program effective and in addition need plenty of locations that members can redeem awards, probably different from where they earned them.

Hotel Group in India	Loyalty Programmes
The Leela	Connoisseur Club(Point system)
The Taj	Taj Inner circle
The Oberoi	HHonor programme
The Choice Group	Service based facility
The orchid	Evergreen Club(Point system)
ITC welcome Group(Fortune Hotels)	Service based facility
Quality Inn hotels	Service based facility
Park Hotels	No Loyalty programme(service based benefit)
Mansingh Group	Service based facility
Welcom Heritage Group	Service based facility
Le Meridien Group Of Hotels	Service based facility

Strategies for making redemptions easier include:

- Point-swapping agreements with other frequency programs (such as airlines like Taj).
- Allowing for merchandise awards (golf clubs and other leisure items).
- Using points to purchase upgrades to suites or nicer rooms, where the traveler can stay in an ocean view suite at their negotiated corporate regular room rate.

Most programs offer private label credit cards, where members can earn program points for spend on the cards; often with double points for spend in the brand's properties. Others have tie-ins to telephone companies or others that are willing to pay the brand for points awarded to members that they can market to. Enabling technology would require that these connections call for the necessary interfaces, typically at the mainframe level.

Loyalty in Telecom Industry

Telecom and energy services pre-deregulation are examples of repeat customer business driven by lack of choice. When new choices became available, customers eagerly seek out alternatives if they're not satisfied with their current provider.

Tata Indicom, India's premier telecom service provider has launched its 'Smart PCO Loyalty Programme 2006-07, a one-year programme for its PCA operators. The announcement coincided with honoring the loyal PCO operators for 2005-06 This programme is aimed at building loyalty and trust among the existing Tata Indicom operators, while appreciating and commending their commitment and performance.

Prizes were given away by noted film star Sneha to felicitate the winners. Maruti 800, Bajaj Pulsar bikes and home theatres, all totally worth Rs 60 lakh, were given away as prizes. The Smart PCO Loyalty Programme 2006-07 has been christened as 'Smart PCO-Cricket Kudhukolam Loyalty Programme 2006-07' where the operator who has a PCO with STD or CCB (coin collection box) connections is eligible for entry. Whosoever achieved the minimum level of norms prescribed by the organisation has been assured of a prize with the highest performer winning an all-paid trip to the World Cup Cricket tournament in the Caribbean Islands in March 2007. Indica Xeta, Bajaj Pulsar, Hero Honda CD 100 and gold coins worth Rs 1,00,000 are the other prizes to be won by the Tata Indicom loyalists. Likewise reliance India, Hutch, IDEA, BSNL have different schemes for loyalty. Total number of subscribers 129.5 million till 2006.

All these players are following different schemes for their subscribers and doing up selling & cross selling activities. In India also now different board exam results are going to be declared by SMS and it makes the path smoother not only for students, but also for their parents. State and national government warn the general public regarding the natural calamities by tying up with different service provider through SMS. AIRCEL, the cellular company that operates in the Chennai and Tamil Nadu circles, has launched an SMS-based facility where its subscribers can get acupuncture tips for various ailments. Called 'MobiHealth,' the service provides tips for various ailments ranging from the common cold to obesity. Hutchison Essar to deliver m-coupons, which can be cashed across 40 retail outlets such as Barista, Domino's Pizza, Lifestyle and Kaya Skin Clinic. Similarly, Airtel has joined with Enpocket, a global leader in intelligent mobile marketing, to give advertisers a convenient, effective way to reach a major cross-section of the country's population. Television contest and radio mirchi contest are addition to this telecom loyalty scheme.

Loyalty in Indian Railway Department

The Indian Railways is turning customer savvy. The organisation is offering regular train travellers reward points on train travel. The points are awarded for all categories of AC travel with the exception of AC III tier, provided the tickets are booked through the Indian Railways' Web site for internet booking - managed by Indian Railways Catering and Tourism Corporation (IRCTC).

Indian Railways has launched its first ever loyalty programme, which would be executed through SBI Cards, called **Shubhyatra** and the co-branded SBI Railway Card. Among other normal credit card benefits, and also function as free platform tickets. The Shubhyatra card can be used to acquire loyalty points for all bookings irrespective of the bank used for making payments. IRCTC has tied up with about 17 banks through which passengers can pay while booking their tickets through the internet. It pioneered the online rail ticket booking in India through its website 'www.irctc.co.in', and, booking Railway tickets through various unconventional modes like, Mobile phones, SMS etc., Users of this service get their tickets at their door step without any hassle and earn reward points on their travel and use them to buy a ticket in those very segments. About 30 per cent of the totals of 10,000 tickets sold every day through IRCTC on an average are in those AC categories that could earn reward points. Moreover, the reward points earned on this card through other retail purchases can also be used to buy train tickets. This card has some other benefits such as the waiver of membership fees of Shubhyatra and 1.8 per cent surcharge on ticket bookings, flexi-payment options through equal monthly instalments, personal accident insurance of up to Rs 10 lakh, among others.

Loyalty in banking industry

The importance of maximizing customer lifetime value is widely recognized. A 1994 study by showed that a 5 per cent increase in retention rate brought a 30 per cent increase in profits to a bank's retail chain; the same increase in retention rate caused an 85 per cent increase in bank deposit profits and a 75 per cent increase in credit card profits.

The value of micromarketing was recently demonstrated by one financial institution. From the database, the name and address files were matched, the files were cleaned and the data enhanced. Natural customer segments and attributes such as time with bank and whether a single or multi-product holder were identified. Customer clusters were then formed; for instance, conservative savers and profligate risk takers. After considering recent behavioural patterns, cross-sell propensity models and pre-approving applications, a mail shot offering a loan was sent out. The usual response rate of 2 per cent rose to 20 per cent; the number of loans booked was five times higher than usual and the company's market share for that product grew by six per cent.

SBI Card has a joint venture with GE money for becoming the second largest credit card player in the country by crossing 3 million card mark through innovative products. Retail chain also collaborate with banking card for example the loyalty card of Vishal mega mart with SBI card. ICICI bank has tied up with Airtel for mobile money facility. The top Indian banks like ICICI ,HDFC ,UTI, Standard Chartered, City bank and Public banks go for up-selling and cross selling of their respective services for retention of existing customers.

I-mint – India’s largest Coalition Loyalty

I-mint is India’s first and truly national coalition loyalty and consumer rewards program, where India’s leading brands Airtel, HPCL, ICICI Bank, Indian Airlines, Lifestyle and MakeMyTrip.com have joined hands to be available over 20 cities and at 20,000 select i-mint outlets in first year of august 2006⁴. I-mint allow consumers to reap benefits through the largest ecosystem of business partners on a single rewards platform. ‘Shop while you earn’ is now possible with i-mint. The program offers opportunity to earn points from more than one partner on each transaction. Further, another exciting proposition of i-mint is its rewards catalogue. Shoppers and consumers will get an opportunity to avail over 300 exciting rewards from partners as well as from other merchants, across various categories and at all point levels. To increase point accumulation pace further, customers can aggregate and transfer points within family members. Coalition loyalty programs have been a success in other parts of the world. These companies have taken into account all the needs and aspirations of an Indian consumer, and have created a quality product to suit all lifestyles.

While there has been a great deal of attention on loyalty technology and practices in recent times, the market is in a very early stage of evolution. Indian firms were either unaware, or unconvinced about the benefits and applicability of CRM. The annual growth rate for the CRM Software market in India varies between 25- 30% .

How loyalty can be implemented

In order to implement the loyalty programme in an organization, one needs to follow five steps listed below:

⁴ <http://www.hindu.com/2006/08/02/stories/2006080205911600.htm>

Step 1: Observation

This is the stage of accumulating all information possible about customers from many disparate sources, including:

- Purchase records and history
- Costs associated with servicing each customer.
- Demographic information.
- The share – of –Wallet or of spending that each customer gives.

The demographic information vary from B2B to B2C in the following manner.

Useful demographic information

Sl .No.	For B2B Customers	For B2C Customers
1	Customer's years in business	Customer's age
2	Customer's gross revenue	Customer's household income
3	Number of locations a customer has	Customer's household size
4	Customer's Dun & Bradstreet rating	Customer's activity (has he/ she contacted our customer service center? complained? complimented? give us a referral?)
5	Customer's decision making process: centralized/decentralized	Customer's receptivity to deals/ offers
6	Number of executives involved in customer's decision making unit	Customer's geodemographic code
7	How we interact with customer: impersonally/personally	Customer's credit rating
8	Number of competitors with whom customer does business	
9	Customer's complaint/ returns activity	

Step2: Calculating inertial CLV (Customer lifetime value)

Determining contribution to profit from each customer (projected purchases minus anticipated costs of serving), It is called as inertial CLV as the figure represents the current status. At the same time it provides a convenient metric by which customers can be segmented for the next step.

Step 3: Selection

After using the inertial CLV the customers are differentiated into three customer types like the Desired Customers, Breakeven Customers and costly Customers. The ratio of

costly customer should not be more than 15% in the organization, otherwise it may affect the bottom line. So there has to be good balance between these three categories of customers to maintain a good financial health of the organization.

Step 4: Prioritization

In this stage company should divide each of these three customer groups in to pairs like *low share of spending* and *high share of spending* and determine which customers to focus for developmental efforts after knowing their share of current spending. The strategies followed in this stage are as:-

- Improving companies financial gains by reducing servicing cost for *low-share –costly customers* and moving them to the status of *low-share break-even customers*.
- Improving financial condition of the company by increasing *low- share costly customer's* share of spending and by advancing them to *high- share Breakeven Customers*.
- Improving financial condition of the company by controlling offers for *low-share Break-even customers*, reducing servicing costs and moving them to *low- share Desired Customers*.
- Improving financial condition of the company by increasing share- of – spending and controlling servicing cost of *low-share Break-even customers* and advancing them to *high-share Desired Customers*.
- Improving financial condition of the company by increasing the share of spending of *low-share Desired Customers* and evolving them into *high-share Desired Customers*.
- Divest the *low-share Costly customers* and *low-share Breakeven Customers* whose purchasing behavior can not be improved.

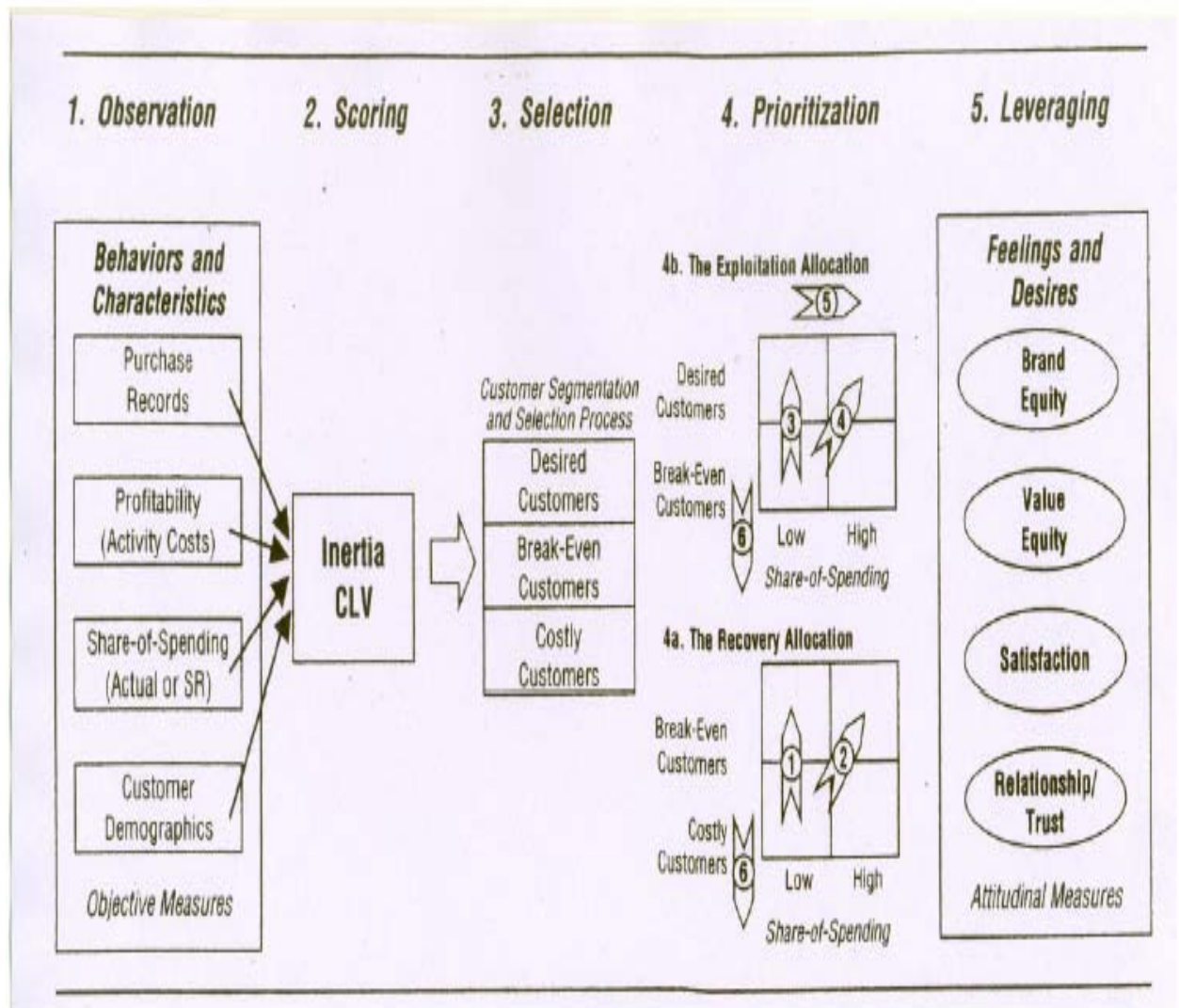
Step 5: Leveraging

In the above each strategy requires moving as many customers as possible from one status to another, but still there are some leveraging tool which must be taken into

consideration like Brand equity, value equity, relationship Equity and satisfaction. Attitudes of customers towards brand, its communications, its associations with community events etc. constitute brand equity. Similarly perceptions about quality, price and convenience constitute value equity. Various types of loyalty programmes comprise relationship equity and satisfaction with the brand make up satisfaction – these are the leveraging tools. The company needs to find the deficits vis-a-vis its competitor to determine how to leverage each of the equity in its favour?

Loyalty process model involving above steps given by Timothy I. Keiningham et.al. (2006) can be diagrammatically represented below:

A loyalty Process Model



Source: Timothy I. Keiningham et.al. (2006)

General discussion and future research directions

The company has to give the customer a reason for him to believe that their firm deserves his loyalty. There is need to monitor customers' behavior. Each rupee appropriately invested in nurturing customer loyalty will pay substantial rewards in the future, but managers require that this view be proven with factual results. The Seven Pillars of Loyalty strategy is based on seven truths about customer loyalty:

1. Manage the customer selection before you manage customer retention.
2. Be patient. Customer loyalty takes time.
3. Focus on share-of-wallet. "Consumer polygamy is the rule these days."
4. Make sure that your loyalty efforts are mutually beneficial and not tilted too heavily in your favor.
5. The path to loyalty is torturous. You need to understand your industry and your customers' specific response patterns.
6. Satisfied and loyal employees can help, but customer satisfaction and loyalty often happen without them.
7. Customer loyalty and brand imagery must be managed hand-in-hand.

Brand-centric marketing manipulates product, price, promotion and place to improve brand equity. Managing either one in isolation results in expensive programs that get at only one part of the challenge, and can make a company spend inordinate sums on customers they should actually be cutting loose.

Customer segmentation—desired, break-even and costly—begins a process that can lead to an accurate evaluation of ROI of loyalty programs.

The reward offered has different purposes in different programmes; it could be aimed at customer acquisition, at customer retention, at increasing basket size, at shaping the profile of the customer base or (as in many loyalty programmes) to buy information from customers in order to build a marketing database. The actual rewards used vary widely, from different ways of giving discounts, through gifts and prizes to exceptional levels of service. And, of course, rewards can be redeemed either in-house or elsewhere. Both methods have their pros and cons. But whatever the reward, it must be something which the customer feels is worth collecting for. If customers are not happy with the way in which a company is treating them, no level of reward will make them stay."

Surveys show that nine out of ten people rate personal attention as one of the most important customer services. Currently, 96 per cent of dissatisfied customers do not complain; of these, between 65 per cent to 90 per cent will go elsewhere for their next purchase. This glaring fact emphasizes the need for retaining satisfied customer.

Managerial issues:

In designing and implementing loyalty in an organization, the manager faces several challenges. Due to lack of system integration of IT in an organisation, it is difficult to compile the track record of each customer's purchases. Lack of data warehousing and data mining capabilities in banking sector result in loss of opportunities of cross selling or devising customized loyalty programmes. Managers need to understand consumer behaviour, how individuals form their preferences and factors that influence the strength of these preferences in order to devise a loyalty programme. As Indian markets are huge and diverse, it is quite challenging for a manager to understand each customer individually. It is a very time consuming process and as a manager is busy resolving trouble shooting on a day to day basis, he has little time for the above. In order to make the loyalty programme successful particularly in service sector, it is very essential that employees understand and appreciate its importance. This requires a change in their mindset. Otherwise a well designed loyalty programme if not implemented well may not bring about desired results.

In future as Indian market is aligning to the global market, the market for CRM software for loyalty programmes and systems is likely to evolve like its counterparts in developed world.

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