

Retail Management
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Lecture - 07
Loyalty and Reward Programs

Hello everybody, welcome to this NPTEL Swayam course on Retail Management. This is Professor Swagato Chatterjee from VGSOM, IIT Kharagpur who is taking this course for you. We are in week one, this is lecture 7, the last lecture in week one and we will be discussing loyalty and reward programs.

So till this point I was talking about customer services that we were, we give in the retail. And we were also been discussed about the service retailing. That means retailing of services, when you are selling services. And while discussing about selling services, I told that it is the relationship. It is a long growing relationship from which in the service context a retailer makes money.

It is not that if let us say you have gone to a particular carwash to wash your car, you first one time washed your car he charged you 300, 400, 500 rupees something like that. That is not the money that the retailer should be thinking about. The retailer should think about that this particular customer if he becomes happy, he will keep on coming back to my car wash.

He will not even search in the Google that what other car washes are available nearby. He will become loyal to my particular carwash and if that particular person the owner of the car becomes more loyal towards the this particular car wash, then over these repeated services that I am providing I will make more money than the first service.

The first service even if I do not make any money or if I make certain losses while making the customer happy that is okay. So this is called loyalty, this is called trying to create a customer relationship or customer loyalty. Now retailers provide lots of

things to create this loyalty, lots of programs, lots of steps that they take to create this loyalty and those are called loyalty and reward programs.

In a customer relationship context, not only the services are important, not only the value that you are providing that are important, to ensure a long-term relationship, the relationship has to be incentivized. And those incentivizing the relationship through certain kind of benefits also becomes important.

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Rewards Program Categories

- Economic
- Hedonistic
- Social-relational
- Informational
- Functional

<https://www.wsj.com/articles/SB122160028857244783>

So what are the various reward programs that are available? This is a link, this is a very good article that came up in Wall Street Journal, you can read about, thoroughly read about. And this particular journal, this particular article is very comprehensive about how to create the reward programs. But I have brought up only a snippet.

So ideally, you should stop this particular video at this point, go to this link, copy this link, this will be there in the PPT also. So go to the PPT and copy this link, paste it in your browser and read this particular article before you go ahead and listen to the video. So it is saying in this particular that there are five different kinds of reward programs.

One is economic and is hedonistic, social-cultural or social-relational, informational and functional. Let us talk about each of them one by one. What is economic benefit?

Economic benefit means your repeat purchasers are being incentivized monetarily, economically. That means I am giving you purchase coupons which can be redeemed in the next purchase.

I am giving you points which can be redeemed in the next purchase. I am giving you certain kind of coupons which can be redeemed only in the next purchase when the purchase amount is higher than this particular limit. I am giving, so these are all economic benefits. So basically, I am giving you benefits related to money so that you keep on having the relationship.

It is not like for example, let us say Zomato if you see. In Zomato if when you go and try to make a purchase, there are certain coupon codes that you can put like ICICI bank's coupon or let us say if you go to Paytm there is some coupon. Now for Zomato it is not a repeat purchase coupon. For Zomato it is a sales, ensuring the sales is happening, that kind of a coupon.

But for Paytm, it is a repeat usage coupon. Think about the who, so it is a joint coupon, right? In the Zomato this thing this coupon can be redeemed. So Zomato is also given certain benefit. That benefit, the cost of the benefit sometimes totally taken care of Paytm, sometimes it is jointly taken care of by Paytm and Zomato.

So then for Zomato this particular coupon, whatever benefit he is giving to you, Zomato is giving to you, is to ensure the sales, current sales, not the future sales. But the Paytm, they have done the relationship with Zomato so that repeat usage of Paytm can happen. So for Paytm it is a reward program. For Zomato it is just a sales promotion.

So that is called economic benefit. Then comes hedonistic benefit. Hedonistic benefit means when you are getting certain hedonic, certain emotional benefit like free delivery let us say or personal, free personal shopping. So somebody is giving you personalized, I would say suggestions, these are basically hedonistic benefit.

Or let us say which is not monetary, which is not monetary benefits. Free delivery or valet parking services when you go to a restaurant, these are certain services which are hedonist. Then there are certain service the certain rewards which are social relation. So which is like let us say, what a person is in for.

Like personal shopping can also be thought about as a social-relational service where I am giving you a special personal I would say communication oriented services or rewards are being provided. Like let us say it can be also related to a specialized let us say training program that you are providing when you are using this particular product or particular software product let us say.

For certain period of time, I am giving you certain free training programs, which let us say softwares like MATLAB or Salesforce, this kind of software will provide to you so that you keep on using it. Then comes informational, which is let us say in a apparel store, you are a very loyal customer and they whenever the new arrivals comes, whenever a new product gets launched, you are the first person who gets notified.

Many people think that that is a very important benefit that I am getting to use this product first. Like beta version, a new product innovation coming up, you are getting the beta version, not it is a very invitational beta version, let us say which is part of informational. On the other hand, let us say somebody is giving you a club membership, which is also invitational, but which is not informational.

That club membership is hedonistic. You are getting a hedonic benefit out of it. If you are becoming a part of a club, where you can get free spa service, or free this let us say free golf, you can play golf there. So these are hedonistic benefit that you are getting. But a membership card which ensures that you will get the right information at the right time is a informational benefit.

And then the last one is functional benefit, where certain features are open to you, certain other features are not open to you. For example, let us say for gamers, this is

very common. Let us say if you are a very prominent gamer a loyal gamer to a gaming company, then certainly when you play a multiplayer game, your character has certain benefits.

He has extra power or he has extra life let us say, extra weapon let us say. These are functional benefits. Functional benefits in the retail context can also be let us say, in your case you are the person who gets to participate in the flash sales. There is a flash sale that goes on and you get extra one minute in that flash sale let us say.

So those are the benefits if you get those are part of functional benefits. So a reward program, if I have to create a reward program, I have to think in this five domains and not all reward programs will be suitable for everybody. Certain customer segments will look for economic benefits, certain customer segments will look for hedonistic benefit.

And if I am a retailer who serves both these customer segments like let us say Pantaloon. Pantaloon has a store where it caters to those people also who spend 500 rupees per dress and it caters to those people who spend let us say 3000 rupees per dress. Now 3000 rupees per dress whoever is spending probably will look for hedonistic benefits.

But 500 rupees per dress whoever is spending will look for economic benefits and Pantaloon is probably located at a certain place where they can probably cater to both this group. So they have to give certain informational, hedonistic, social-relational benefit to those people who are spending 3000 rupees per dress and will give economic benefits to those people who are spending 500 rupees per dress.

Because that is how they have to manage their market. So the reward program that you are creating should have different target groups, different combinations of these things.

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1 STAR	3 STAR	5 STAR	7 STAR
<ul style="list-style-type: none"> 2 points per Rs.100 No questions asked Exchange Policy*, valid for 90 days, bill not required Instant Redemption on next bill at cash counter Convenient Mobile based program 	<ul style="list-style-type: none"> 3% cashback as reward points No questions asked Exchange Policy*, valid for 90 days, bill not required Instant Redemption on next bill at cash counter Convenient Mobile based program Exclusive VIP Sale Preview Exclusive Billing Counters 	<ul style="list-style-type: none"> 5% discount as points No questions asked Exchange Policy*, valid for 90 days, bill not required Instant Redemption on next bill at cash counter Convenient Mobile based program Exclusive VIP Sale Preview Exclusive Billing Counters Reimbursement of paper carry bags (as reward points) 	<ul style="list-style-type: none"> 7% discount as points No questions asked Exchange Policy*, valid for 90 days, bill not required Instant Redemption on next bill at cash counter Convenient Mobile based program Exclusive VIP Sale Preview Exclusive Billing Counters Reimbursement of paper carry bags (as reward points)

The value of 1 point is 25 paise
 *Exchange available only on the products bought from the store. Products bought online cannot be exchanged/redemmed.

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For example, if I show you one example, let us say there is a multi-phase like one star, three star, five star, seven star, I think this has been taken from Pantaloons itself a few years ago. So you just think that the first one it is read two points per 100 rupees, then 3% cashback, 5% cashback, 7% cashback. So this is economic benefit that you are providing. Then exclusive billing counters.

Exclusive VIP sale. These are probably certain hedonistic benefit. You are getting something which is a special treatment, in the seven star I am saying. Reimbursement of paper carry bags as reward points. This is all, this can also be a functional benefit, which is not available to other people. Instant redemption of next bill at cash counter. So instant redemption on next bill at cash counter.

So for other things, you have to wait for one day, 24 hours. But here if you make second bill in the same within one hour or within half an hour, you can redeem your points. This is also functional benefit, which is not available for one star. I think it is available for every star. But if by chance if it is not available, let us say a non-member, for non-member it is not available.

So then that is a functional benefits. No questions asked exchange policy valid for 90 days and bill not required. It is also a functional benefit. So these are some of the

things that you can think about that how that there are tier systems that you create. And these are combinations of different kinds of reward programs.

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Types of Economic Loyalty Programs

- Additional discounts at register
 - Not a real loyalty program
- 1 free with every "n" items purchased
 - Easily copied, no customer database
- Rebates based on cumulative purchases
 - Customer maintains records
 - Can develop "heavy half" programs like Hilton
- Targeted offerings and mailing based on purchase history
 - Tesco example "Market research staff know more about my customers than the board chairperson"

Now types of economic loyalty, I already told. Additional discounts at register or one free with n items purchased. So one free with three items purchased or rebates based on cumulative purchases like customer maintains, this is something that is sometimes problematic. So customer maintains records when the rebates based on cumulative purchase and can develop heavy half programs like Hilton.

So I would strongly suggest go and search for this particular term, heavy half like Hilton. So you have to you will get an idea. So one free easily every n items purchased the drawback is it can be easily copied and you are not keeping no customer database. You cannot use this particular activity later point of time.

The last one is target offerings and mailings based on purchase history. Like Tesco does that. Market research staff know more about my customers than the board chairperson. This is a problem sometimes. So if my market research staff who is there in the field, who is collecting the data, if he is more knowledgeable than the board chairperson who has lesser idea about the customers then there is a problem. But still this is a very good way to deal with economic loyalty programs.

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Motivate to Join



- CVS Extra Care Card
- Tracks purchase data
- Offers and free ExtraCash to subscribers

10/25/2021

Retail Marketing: Prof Swagato Chatterjee

Then there are other programs like you can do motivate to join this. How what kind of motivations that you can create so that a person will join your loyalty program. A person may not join your loyalty program. That person may not buy your that particular card, the loyalty card that you are providing.

So what will be the initial trigger that you can ensure to be there so that the customer will buy your, so one thing is you can talk about all these benefits blah, blah, blah. But all these benefits the customer will get only when he has made certain purchases not at the very first. So if the customers is not getting the benefits at the very first, what kind of extra thing that they can do.

So the CVS is a pharmacy store. So what CVS did is CVS created a extra care card. So it tracks your purchase data and based on this purchase data, it gives you extra care. What is extra care? It reminds you when to buy products, which is medicines, which nowadays many e-commerce do.

Based on what kind of products you purchase, they can probably give an idea that though nowadays it might be a breach of contract or breach of privacy, but at least the product recommendations I can provide. So its recommendation systems, which is also there. Somebody who has bought X has also bought Y.

If that kind of a product recommendation is common in Amazon, there is no reason why it cannot be common in a pharmacy store as well. So they can give you those kind of product recommendations or let us say physician recommendations and etc. And offers free extra cash offers and free extra cash to subscribers it is also providing.

So all of these things it is providing at the very first itself. Even when you have not used that particular card to make lots of purchases, it is giving you free beforehand. So that is how it is encouraging you to join the reward program. So to sustain a person in the reward program and to make a person join a reward program, these are two different activities for which a retailer has to fight definitely.

For the first one when somebody is wanting to join he is reluctant to join a reward program, why will I join a reward program? There has, you have to create a reason why he will join a reward program, because unless the customer joins a reward program the data will not be available with you. You will not be able to create a relationship with the customer.

And if you are not creating a relationship with the customer, you will not make a long-term profit out of it. But at the same time as I told that all relationships, in a relationship management course this is more discussed in a greater depth or I would also say that all relationships comes with certain kind of vulnerability.

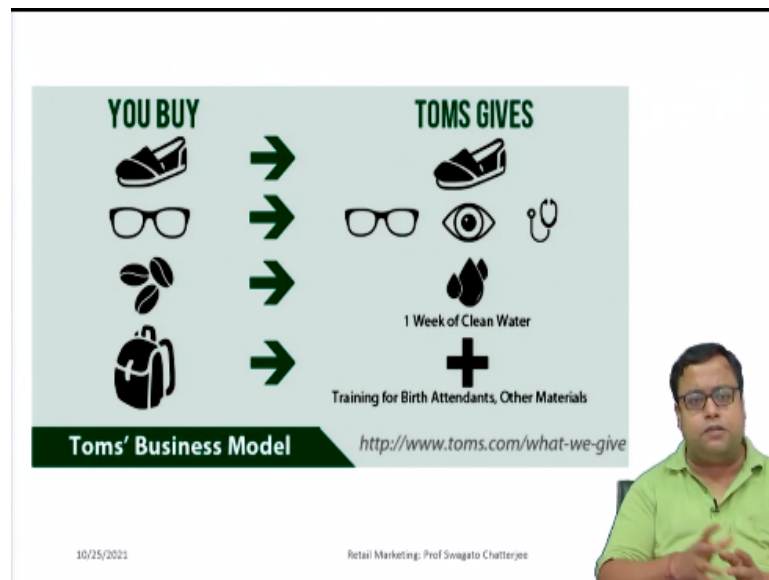
You the customers become vulnerable at after certain point of time towards you, because the customer is sharing lots of information to you, which is only known to you. So you become powerful over time. So if that is the case, then you have to gain the customers trust as well. Why will the customer want to share all this. Why, he will all of a sudden will become panicky and stop buying products from your retail store.

So you have to also create those kind of trust, trust related to the data privacy. Trust that you will not misuse the data. Trust that you will not cheat the customer. So those kind of trust you have to create because once the trust is lost, it is lost forever, because

there is nothing the customer can do to make a harm for you, right? There is no giving back in this relationship.

So that, in a relationship management, in a loyalty management, reward management program, trust becomes a very important factor.

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I already discussed about this. There are other service model like Toms' Business Model. So you say, it says that okay you buy a book Toms Gives. So these are hedonistic. Like they are saying that you buy something, I will not give you back. I will give somebody who is in need of a product, certain.

So like ITC does for ITC. If you have seen ITC copies, note books, at the back it is said that every ITC product that you buy, we put one rupees or two rupees in a fund, which is basically used for child education. So you think that okay, if I spend money on my children's education, then ITC will also spend money on somebody else's education.

So that is a I would say hedonistic reward that it is creating. That hedonistic pleasure that you are getting that okay by doing this I am doing good for the society. So this is also called social marketing, which is coming up very strongly nowadays. There are

lots of companies who are doing that. There are companies who are producing products out of waste materials.

They are recycling, they are upcycling products. Branded products, people are buying. People are spending hefty amount of money to buy those products. But these are very simplistic, at least not that much complicated. These are very simplistic like the ITC one. When you spend something on my retail store, I will also spend money on the needy people.

Like if you buy a, let us say shoe I will give a shoe. If you buy a spectacle, I will give a spectacle and free eye checkup and medicines for that. If you buy coffee beans here, one week of because coffee beans are related with water, you require water for that. So if you buy coffee bean here, I will give one week of clean water to the people from where this coffee beans are sourced.

If you are getting, let us say buying a bag, I will give a training for birth attendants and other materials. So basically this is how they are saying that whatever you are trying to do in my retail store, I will map it with certain things which is either related to the source of the product or either related to the usage of the product. And that is how other people will get benefited.

This is a hedonistic reward that we are creating for the customers. If the customers gets attached with this particular behavior, they will keep on buying products which will give you lots of benefits.

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Then there are some functional benefits as I was telling. For example in this one, they are saying this your dividend is inside and it is written here, before you hit the trail drop into REI. REI is an organization which actually rents or sells trekking products, the products that you will, it can be shoes, trekking shoes. It can be tents, it can be mountaineering products, which are used for mountaineering.

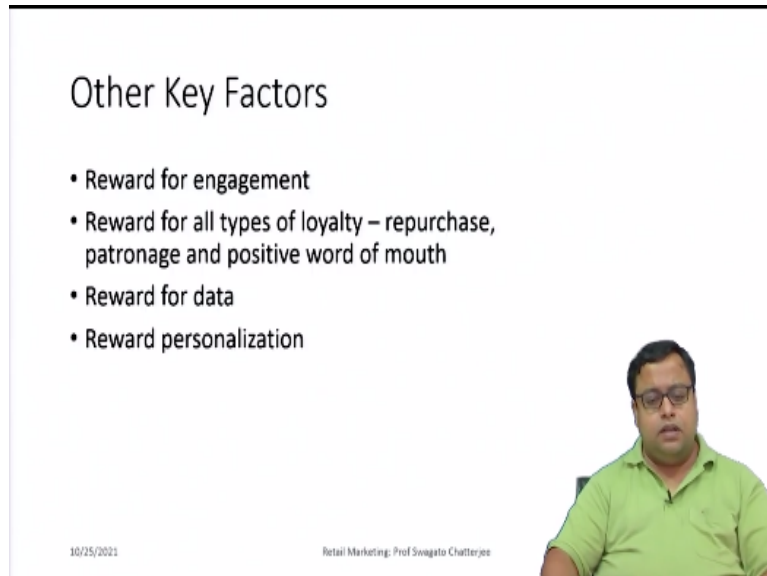
So they are saying that drop into REI store, we offer great gear, expert advice which is a functional benefit or informational benefit and where-to-go info, which is also informational benefit to set you up for, to set you up for your trip basically. So I picked up from the REI ad. So it is saying that along with whatever it is similar kind of thing you can go to Decathlon, you will get similar facilities.

That okay you buy the product from here, and I will give you lots of suggestions which are related to sports, how to use a, how to better hold a racket let us say if you are buying a tennis racket from me. Or certain kind of where to get training. I might probably give you, there are other stores.

For example, there are stores of musical instruments where you can buy go and if you buy musical instrument from their store, they know that okay you are buying these then you might require a training of this particular musical instrument. So they might

arrange training for you. So these are informational functional reward program that you are creating so that people come back and purchase at your product.

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Other Key Factors

- Reward for engagement
- Reward for all types of loyalty – repurchase, patronage and positive word of mouth
- Reward for data
- Reward personalization

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What are the other key factors of reward management other than the reward design? You have to reward for engagement. You have to make sure that all these rewards and etc., that you are getting, you are trying to create it so that the customer comes back to you. It is creating loyalty, creating repeat engagement, repeat purchase. So create reward for multiple engagement.

For example, what is what that what does that mean that if somebody shares your information, if somebody shares your product information that with social media. You should give reward for that. If somebody likes or participates in the what will I say the lotteries that we do, online lottery, sweepstakes, you should give rewards for that.

Reward for all types of loyalty like loyalty are of different type. I told I was keep on telling for the last couple of this thing that there are repurchase. There is patronage and there is positive word of mouth. You should give reward for each of them. You should have repeat you should have a reward idea for each of them. Repurchase is very easy.

You give economic benefit that is a repurchase. But what reward will you give for patronage? Patronage means that your competing firm is giving a better offer than you but still this guy is not going to that particular company and coming to your retail store. You have to think about it that what kind of reward program you can create for this particular behavior, patronage.

Positive word of mouth is still okay. So you do this many likes and this or you do a you share something in the social media, the more likes it get, the more benefits you will get. So I do a competition in the social media and you take a picture from bigbasket once the bigbasket delivery happens at your home. Take a picture with the bigbasket delivery boy.

So let us say you do this kind of a campaign that delivery boys are very in the COVID situations they are making our life simple. They are making our life more safe. So take a take a picture of your delivery boy or take a selfie with your delivery boy by standing a little bit distant one in the front and one in the back and posted it in the retail post it in your social media platform and tag bigbasket in there.

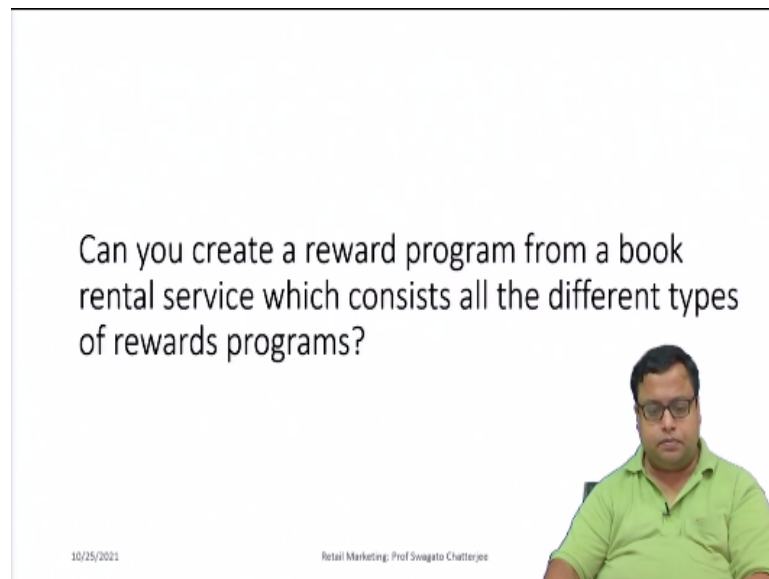
And whenever whichever particular social media post gets highest engagement, that will be chosen for a lottery for a price. So this kind of campaigns are very common. So here what I am trying to do is I am creating a positive word of mouth only when you will post if you are happy with bigbasket.

If you are unhappy with bibbasket, you will probably put a complaint there. If you are happy with bigbasket you will put this kind of a picture and which will create a positive buzz and this positive buzz will, I will make money out of that positive buzz because lot other people will feel that okay, then bigbasket is doing something good, I should buy it from bigbasket only, and they will go and buy.

So if they buys, some part of their benefits should go to this person who has posted this picture. So you have to create a reward program for this positive word of mouth.

Reward for data, for data sharing. How much data you are sharing. For that also you should, there should be the reward and reward for personalization.

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So again I will stop and ask you, there is a small assignment that you should do after this particular video. So there are quite a few work that I have given in first week itself, but it is going to be heavy in the first week itself. Take your time, the second week will be a little bit lighter, less number of videos, less number of assignments. So this one I am giving another work.

So can you create a reward program for a book rental services. It is like a library services, but of different grade. Let us say two books or four books or 10 books at a time, there are certain services this kind of services are there where you can go and read books. And you can read for one month, two month and then return it back and pay a price. So again this kind of services make money from repeat purchase.

Somebody goes and rents book repeatedly and create a book reading habit, from that it is making money. It is also social entrepreneurship activity you can say because this is a particular service where people are moving away from. People are not interested to read books nowadays. They are more habituated with social media. They are more habituated with Kindle probably for reading purposes.

Normal books are not something that they are reading. So if I am doing a book rental service, what kind of reward program you can create and that reward program should have all the different elements. Not necessarily all five, but you can create on your own and put it in here in the discussion box, again the discussion forum.

And we will see that which particular respondent's reward program is the most interesting out of it. That is all from me today. Thank you very much. I will see you in the next week.