CHAPTER – II
LITERATURE REVIEW

2.1 Introduction

Till recently, most marketers have focused on attracting customers from the target segments using the marketing mix tools developed for mass marketing during the industrial era. In the present information era, this is proving highly inadequate, calling for a paradigm shift in marketing focus from customer acquisition by outwitting competition to customer retention and customer loyalty through "Relationship Marketing". Customer relationship marketing (CRM) burst on the marketing world in the early 1990s. It is a business philosophy and set of strategies, programs and systems that focuses on identifying and building loyalty with a retailer’s most valued customers. Resent research in marketing demonstrates that consumer's attitude and behavior towards a company strongly depends on the type of the company's relationship norms with consumers (Aggarwal 2004).

The increasing availability of technology allows firms to collect and analyze customer level data and interact with customers simultaneously. CRM uses this information to identify profitable customers and develop specific strategies for interacting with each customer. One such strategic tool developed by many of the organizations is customer loyalty program. When customers enroll in one of these programs they provide some descriptive information about themselves or their household and are issued a card with an identifying number. The customers then are offered an incentive to use the card when they make purchase from the retailer (Levy and Weitz 2008)

In India the retail market is maturing and becoming more competitive, so relations have sought different ways of improving sales and profits. They are adopting more transformational relationship marketing and loyalty schemes that aim to build greater customer loyalty and retention and develop methods of creating longer term relationships with the aim of improving profits. Loyalty schemes are just one many competitive initiatives used by retailers to supplement the traditional weapons of brand, customer service, price, merchandise range, product promotions
and locations (Stone Beaman, Butcher et al. 2003). The relevant literature reviewed has been presented in this chapter under the following sections:

- Customer relationship management
- Customer Loyalty
- Customer loyalty and Customer satisfaction
- Customer Loyalty Programs
- Loyalty program Design
- Customers’ perceived benefit of the Program
- Behavioral and Attitudinal Loyalty
- Customers’ Characteristics
- Stores’ Characteristics
- Employees’ Characteristics

2.2 Customer Relationship Management

Customer relationship management (CRM) is a strategic and ongoing approach that focuses on the right customers in order to develop and maintain long-term and profitable portfolio of customer relationships. CRM is also a way of collecting and employing information to improve marketing activities. (Zablah et al. 2004; Payne 2009.)

Mcllroy and Barnet (2000) expose the relationship between customer loyalty and satisfaction, profitability and customer retention through a framework of customer relationship management. It has identified from the study that it is more difficult to build customer retention through customer relationship strategies. It was suggested that customer retention can be achieved only through providing quality in all service encounters.

Chen et al (2003) elucidate that a successful customer relationship management strategy integrates people, process and technology. A company that implements this concept can reap the benefit in the form of customer loyalty and long term profitability. But it was observed that many companies fail to understand the role of process and people in this context and end up in focusing the technology only.

V.Kumar (2010) in his book ‘Customer relationship management’ illustrated the CRM strategies that an organization can use as an effective measure for customer retention. It
was suggested that a continuous improvement can be brought in the organizations CRM strategies by improving the interaction with customers and implementing customized marketing strategies to its target audience. This in turn will increase the profitability of the firm as well as customers.

### 2.3 Customer Loyalty

Customer loyalty is the forefront area of international research of marketing theory, especially in the mid-1990s of the 20th century, the research on customer loyalty becomes another hot point after customer satisfaction. The concept of customer loyalty has pervaded several industries in the past decade (Lewis, 1997). Loyalty is a very complex issue that is worth investigation since acquiring new customer is costly (Reichheld, Markey Jr, & Hopton, 2000). The cost of acquiring a customer is substantially higher than keeping and fostering loyalty (Oliver, 1999; Reichheld, Markey Jr, & Hopton, 2000). For this reason, loyalty has become a major source of potential revenues for companies.

**Dick and Basu (1994)** created a framework of four different categories of loyalty, based on the factor of behavior and attitude: true loyalty, spurious loyalty, latent loyalty and no loyalty. They have measured loyalty through a two dimensional constructs; relative attitude and repeat patronage

![Customer Loyalty framework](source: Dick and Basu (1994), Customer loyalty: Toward an integrated conceptual framework,
Hallowell (1996) stresses, that customer loyalty has evidence not only as behavior but also as attitude. The latter as a certain belief and feeling stimulates to react in a certain way towards things, people and events, determines attachment to goods, service or organization. A richer understanding of the attitudinal component of loyalty is crucial, as it has been shown to be linked to future usage, enhanced word-of-mouth recommendations, and ultimately to customer profitability.

Oliver (1997) described Customer loyalty as "A deeply held commitment to rebuy or patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same brand-set purchasing despite situational influences and marketing efforts are having the potential to cause switching behavior."

Kotler, Bowen and Makens (1999) depicted customer loyalty as “how likely customers are to return and their willingness to perform partner shipping activities for the organization” Partnership activities include the customers’ willingness to spend more while on a property, give positive referrals to others and tell management when problems occur.

According to Gamble et al. (2002) customer loyalty has emotional and rational background. Emotional loyalty is determined by feelings, expectations, relations with staff of the organization, whereas rational loyalty is determined by thinking, availability of information and its understanding, cognition of organization activities processes.

Homburg et al. (2003) defined Loyalty as the degree of a firm’s intention to continue the relationship with a supplier and to expand the quantity and volume of this relationship and where as Knox & Walker (2003) described customer loyalty as ‘retention with attitude’ that means a feeling or attitude of devoted attachment and affection, or the act of binding oneself (intellectually or emotionally) to a course of action.

Bell (2003) found that customer loyalty and retention was the most important challenge that chief executive officers believed they faced. Partnership activities include the customers’ willingness to spend more while on a property, give positive referrals to others and tell management when problems occur.
**Gounaris and Stathakopoulos (2004)** divided customer loyalty into 4 types on the basis of purchase, social effect and emotional devotion to the brand.

1. **No Loyalty** – In this context customer neither they make any purchase, nor they have any social or emotional devotion to the brand.
2. **Covetous Loyalty** – Thought the customer do not purchase, they have an emotional bonding towards the brand that was created though social environment.
3. **Inertia Loyalty** – They prefer the brand only because of habit or convenience, they never possess any emotional bonding or social effect.
4. **Premium Loyalty** – In this situation all the three factors considered to measure the loyalty are found to be high in a customer.

**Bellizzi and Bristol (2004)** found customer loyalty as the highest valuable result of marketing efforts and thus the development of customer loyalty has become an important focus on marketing strategy. Hence engendering and enhancing customer loyalty is a core objective of loyalty marketing – a strategy employed by businesses in order to increase the loyalty of customers and other stakeholders in the drive to meet and exceed commercial objectives.

**Palmer and Mahoney (2005)** defined loyal customers as “customers who a) maintained a relationship with an organization over a period of time and b) purchased products/services at regular intervals”.

**Turner and Wilson (2006)** termed the customer loyalty as customer commitment to do business with a particular organization, purchasing their goods or/and services repeatedly and recommending the products and services to friends, acquaintances and associates.

### 2.4 Customer Loyalty and Customer satisfaction

The concept of satisfaction is “the consumer fulfillment response. Satisfaction is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, including levels of under- or over-fulfillment” (Oliver, 1997). Satisfaction is a measure of how a customer’s expectations are met and often been perceived as the final result of all activities carried out during the process of purchase and
consumption (Oliver 1966). In the retail sector, we can define customer satisfaction as a “post-consumption evaluation of how well a store or product meets or exceeds customer expectations” (Levy and Weitz, 2009, p.111). Moreover, Bennett and Rundle-Thiele (2004) consumer-oriented literature examination contended that satisfaction is likely to increase loyalty, which suggests that satisfaction is a prerequisite for loyalty and customer retention. But when the question is raised: does satisfaction equal loyalty? The answer to this question is “No,” because there are many occasions when customers are satisfied but not loyal. (Myron Gable et al 2008). Customer satisfaction is a requisite for loyalty, but satisfied customers may not become loyal customers (Bowen & Shoemaker 2003). Oliver (1999) stated it most concisely when he wrote: Both practitioners and academics understand that consumer loyalty and satisfaction are linked inextricably. They also understand that this relationship is asymmetric. Although loyal consumers are most typically satisfied, satisfaction does not universally translate into loyalty.

According to the NRF’s (2006b) study of Customer Centricity, 97 percent of the responding retailers indicated that increasing customer satisfaction was a top priority. The major benefits of increased customer satisfaction can be customer loyalty, extending the life of a customer, expanding the line of merchandise the customer purchases from the retailer, and increasing customers' positive word-of-mouth communications. Satisfied customers also help to conserve marketing costs.

According to Lowenstein (1995), satisfaction tends to represent a passive, reactive relationship with the customer, while retention and loyalty require more proactive, closer contact, and greater anticipation of customer needs. As such, a satisfied customer can become a loyal one, but that task lies in the hands of the retailer.

### 2.5 Customer Loyalty Programs

Ever since the acclaimed success of frequent flyer programs in the airline industry, companies in many retail sectors such as hotels, financial services, and grocery, have rushed to introduce “frequent shopper programs or customer loyalty programs.” Today, the use of loyalty programs as a technique for companies to enhance customer loyalty is extremely popular as it is believed that both consumers
and companies can reap benefits from it (Luxton, 1998; Uncles, 1994). The term loyalty program is used to subsume the many different forms of frequent reward programs. Consumers who enter a loyalty program are expected to transact more with the focal company, thereby giving up the free choice they have otherwise. In exchange for concentrating their purchases with the focal firm, they accumulate points which are exchanged for products and services, typically but not necessarily associated with the focal firm. Therefore, Loyalty programs have become an important CRM tool used by marketers to identify, award, and retain profitable customers. Loyalty programs enable retailers to identify individual customers, to determine their profitability, and to differentiate between them by giving personalized incentives and rewards (e.g., through points schedules).

According to Yi and Jeon (2003), loyalty programs are marketing programs designed to build customer loyalty through incentives. They can thus be described as a discriminative marketing tool that rewards only frequent and loyal customers, rather than just any buyer who decides to act on a particular retail promotion.

Noordhoff et al.(2004) described loyalty program as “the prime interface between the retailer’s database and the customer. The term LP is used to subsume the many different forms of frequent reward programs. Consumers who enter a loyalty program are expected to transact more with the focal company, thereby giving up the free choice they have otherwise. In exchange for concentrating their purchases with the focal firm, they accumulate points which are exchanged for products and services, typically but not necessarily associated with the focal firm.

According to V.Kumar and Reinartz (2006) loyalty program can be defined as a marketing process that generates rewards to customers based on their repeat purchasing. Also customer loyalty program can be defined as “An integrated and interactive system of marketing actions that aims to make customers more loyal by developing personalized relationships with them.” (Meyer-Waarden 2007; Arantola 2003.)

Yuping Liu (2007) describes loyalty program as a program that allows consumers to accumulate free rewards when they make repeated purchases with a firm. Loyalty is
also defined as ‘A feeling or attitude of devoted attachment and affection, or the act of binding oneself (intellectually or emotionally) to a course of action

Palmer and Mahoney (2005) note that firms utilize customer loyalty programs to increase revenues, profit and market share, identify customers who are profitable and attempt to increase their usage and/or market share, as well as, identify new markets and build these markets using information gathered from members of the customer loyalty program.

Dowling and Uncles (1997) agree customer loyalty programs are to maintain sales levels, margins and profits providing a “defensive outcome” to protect the existing customer base. An additional goal of customer loyalty programs can be to induce cross-product buying by existing customers. A successful customer loyalty program will enhance the product/service value proposition and broaden the availability of the product/service.

Bowen et al (2001) explain that incentive programs aim at stimulating the distribution channel to “push” more products into the market but loyalty programs are based on customer “pull” effects, increasing customers' motivation to buy your products in return for a continuous relationship based on recognition and reward.

Stephan A. Butcher (2002) identify that the ultimate goal of every loyalty program is to increase profit, revenue and market share, thus securing the company’s stability and existence. But these are often mid-term or even long term goals which can only be achieved if other intermediate goals are reached first. According to him the following figure shows the typical five main goals of many customer loyalty programs.

According to Uncles et al (2003) two aims of customer loyalty programs stand out. One is to increase sales revenues by raising purchase/usage levels, and/or increasing the range of products bought from the supplier. A second aim is more defensive - by building a closer bond between the brand and current customers it is hoped to maintain the current customer base.

Nunes and Dreze (2006) argue major goals of customer loyalty programs also include retaining customers, increasing customer spending, and gaining customer
insights. Also the author finds that a typical grocery store loyalty program goal is confined to reward card ownership not loyal behavior.

2.6 Loyalty Program Design

Lowenstein (1995) feels that the customer loyalty programs provide customers with a wide range of “hard” and “soft” benefits so that they will become frequent buyers and increase their purchases as well as become advocates of the store; recommending the store to family, friends, and acquaintances. While uncommon, such support is generally observed in satisfied, repeat customers who when given the opportunity, will endorse “their” trusted retailer. Hard benefits are generally economic, e.g. providing special discounts, coupons or rebates for past purchases or produce savings for the customer on future purchases. Soft benefits are not generally of an economic nature, although they can be highly valued by customers. They are exclusive member benefits that go beyond a financial component (Mulhern and Duffy, 2004). These benefits focus on special conveniences or information that facilitates the business transaction between customers and retailers (e.g. special invitations, exclusive “after-hours” shopping times). Hard benefits may be easier for customers to evaluate but are more easily copied by competitors. On the other hand, soft benefits may be more difficult to implement but more difficult for competitors to duplicate. As such, soft benefits serve as an emotional tie that binds the customer to the retailer.

Raman (1999) writes that loyal customers serve as a “fantastic marketing force” by providing recommendations and spreading positive word-of-mouth. These outcomes are highly desirable and impactful, yielding effective word-of-mouth advertising. In fact, a number of prominent retailers that have introduced such programs have adopted ones that are multi-tiered, offering differential rewards/benefits to shoppers who might be referred to as their “good,” “better,” and “best,” customers.

Parker and Worthington (2000) argue that customer loyalty to a reward scheme is likely to be affected by the satisfaction that a customer feels towards the degree of return that they are receiving; what is available from other schemes; and, other consumers, the media, and social norms.
Dewulf Odekerenscroder and Lacoburci (2001) with respect to retail industry explore that relationship marketing tactics were found to play a differential, yet consistently positive, role in affecting perceived relationship investment. Mixed evidence was detected for the positive effects of tangible rewards on perceived relationship investment. The natural appeal of tangible rewards can be assumed to decrease if more sellers start offering them. As tangible rewards become widespread, their absence may disappoint consumers, whereas their presence would not necessarily boost customer retention.

Kivetz and Simon(2002) research on consumers preference towards frequent loyalty program reveals that when members of a loyalty program have to take an extra effort in order to redeem their reward, they expect a reward which is luxury in nature, however when the monetary cost of a loyalty program is increased the members do not expect a reward that is luxuriant in nature. This is because of the guilt associated with the members when receiving luxury reward for the respective loyalty programs.

Verhoef (2003) identifies that Loyalty programs that offer economic incentives are useful both to lengthen customer relationships and to enhance customer share. Both developing customer relationships and offering economic incentives can lead to greater customer retention and share.

Yi and Jeon (2003), in the context of consumer goods examine how disparate program rewards influence the perceived value of a program and demonstrate that customer involvement has a vital role on the program’s success. When there is a high involvement from the end of customers, direct rewards are preferable to indirect rewards and when the customers are not involved, instant rewards are extra competent in constructing a program’s worth than postponed rewards. When customers are exceedingly participating, program loyalty is formed based on value perception and the loyalty program affects brand loyalty via both direct and indirect routes.

Kivetz (2005) in context of retailing recognize that customers prefer rewards that fit with the purchase context. For example, consumers in a book context will likely choose relevant rewards (i.e., free book). Similar effects were found in transportation industry also.
Strauss et al. (2005) agree that process and convenience are important; their findings suggest that schemes should only offer those benefits that represent genuine additional value to customers, and that benefits must be calculable at any time and without additional effort by the customer. He feels that loyalty programs can cause frustration with buyers as a consequence of difficulties they face in reaching the threshold required to qualify for the program, program inaccessibility, worthlessness of rewards, or additional costs (material or mental) needed to use the benefits of the program. And this can lead to a negative influence on the loyalty program and on the entire relationship between customer and program supplier.

Jang and Mattila (2005) conducted a study in restaurant industry to investigate the customers’ preference on reward type. Majority of the customers’ preferred immediate monetary gratification than point accumulation system. The researchers were also identified a group of respondents who expect intangible benefits like quality, convenience and entertainment benefit from such programs.

Keh and Lee (2006) through their research explore that delayed reward with high value work well with satisfied customers and immediate rewards work well in dissatisfied context to promote loyalty. Direct rewards build higher loyalty in both contexts than indirect. Effectiveness of reward programs is highly fluid and dependent on the interplay among service, experience, reward type reward timing. Higher face value of indirect rewards doesn’t enhance loyalty effects in either satisfaction context.

Leenheer et al. (2007) find that when focusing on the trade-off between direct and delayed rewards, managers are advised to reward customers predominantly via delayed rewards, such as a saving feature, since the impact on the enrollment decision is stronger than for direct discounts. To enhance the perceived noneconomic benefits, managers may stress the joy and connectedness that the program brings, which could even be more important than low price. Once a consumer has decided to enroll in a particular program, the effect of membership on share-of-wallet is independent of the savings and discount rates.

Rowley (2007) researched on Tesco, one of the top retailers in U.K with a strong customer base. From the study it is known that Tesco accumulates a sufficient data.
from its customers through their loyalty program. From this database, with the help of technology the retailer infers all demographic variables as well as its customer purchase behavior. Tesco then segregate into different segments and provides customized rewards for each segment depending on their lifestyle. The retailer gives out rewards in four quarterly mail outs that consist of point based vouchers, product specific coupons’.

Smith and Sparks (2009) conducted a research by focusing on reward flexibility identifies that the act of redemption itself appears to be important in developing positive feelings towards the retailer, but the freedom to choose on what to spend the points appears also to be of value. Some consumers feel like they are getting something for nothing when they redeem points, but most realize that it just feels that way, but these feelings still can translate into loyalty.

Dwze and Nunes (2009) research in context of general loyalty program reveal that a three-tier program is more satisfying than a two-tier program to members within each tier and top-tier customers are more satisfied when they are the relative minority in terms of members in comparison to the lower tiers. Also it is found that having the third tier enhances feelings of status for elite members and allows for a clearer understanding of relative position for lower-tier consumers.

2.7 Customers’ perceived benefit of the Program

O’ Brien and Jones (1995) suggest that there are five elements which combine to determine a loyalty programs benefit or value: cash value of the redemption rewards, the range of choice of these rewards, the aspirational value of the rewards, the perceived likelihood of achieving the rewards, and the ease of use of the loyalty card.

Dowling and Mark Uncles (1997) observes that to succeed in a tough market condition the loyalty program should be framed in such a way that it should enhance the overall value of the product or service and motivate loyal buyers to make their next purchase.

O’Malley (1998) discusses the extent to which too many schemes has created customers who have come to expect a reward as part of the normal shopping experience, and this has caused them to place a low value on rewards.
Kandampully and Duffy (1999) finds that a customer’s interest in maintaining a loyal relationship is depended on the firm’s ability to anticipate customer’s future needs and offering them before anyone else. Customers join loyalty programme only when obtainable benefit exceeds the costs (input) of loyalty program.

McIlroy and Barnett (2000) argues that loyalty cannot be taken for granted and it will continue only as long as the customers feels they are receiving better value than they would obtain from another supplier.

Khalifa (2004) found that benefit obtained by customer can be material or intangible, costs – monetary or nonmonetary (time, search, learning, emotional and physical), related with financial, social and/or psychological risk. It is important to point that value of loyalty programme is estimated in the market, not in the service organization, otherwise, value is not what provider is offering, but it is how customers perceive what they are getting.

Zeithaml, et al., (2006); Ulaga, Grönroos, (2004); Bettinger,(2002); etc defines Customer value as the trade-off between the benefits and the sacrifices in a market exchange .According to scientists, value is a miscellaneous benefit that is perceived by customer and is estimated comparing it with costs of achieving benefit. Definition of value is complicated because perceivable value is changing continuously (Griffin, 2004; Grönroos, 2004).

Ulaga and Eggert (2005) identify four recurring characteristics of value: 1) customer value is a subjective concept, 2) it is conceptualized as trade-off between benefits and sacrifices, 3) benefits and sacrifices can be multifaceted, and 4) value perceptions are relative to competition.

Rosenbaum et al. (2005) demonstrate that consumers are more loyal to program through which they perceive a sense of loyalty, than those that simply use financial incentives.

Boss et al (2010) conducted a study to validate the scale developed by Mimouni-Chaabane and Volle in Indian context. The scale includes sixteen items that measure five perceived benefits of customer loyalty program namely monetary savings, exploration, entertainment, recognition and social. In this study the researcher has
merged both entertainment and recognition benefit dimensions to ego pleasure. The findings of the study are that focus should be given to some select dimensions based on the different customer segment and industry.

Kim et al (2013) examined the interrelationship among the perceived benefits of a loyalty program, program loyalty and customer loyalty in context of apparel retailing. The factors considered for the study are, monetary savings, exploration, entertainment, recognition, social benefits. Monetary savings, social benefits and entertainment were found to be positive with respect to program loyalty. Moreover program loyalty acted as a catalyst on entertainment, recognition, and social benefits with respect to the benefits of customer loyalty and it had a partial mediator role in the relationship between monetary savings and customer loyalty.

2.8 Behavioral and Attitudinal Loyalty

Several researchers in the past have emphasized the importance of considering both behavioral and attitudinal aspects of loyalty (e.g. Pritchard, Howard, & Havitz, 1992). Day (1969) and Lutz and Winn (1974) have proposed loyalty indexes based on composites of attitudinal and behavioral measures.

Dick & Basu (1996) have categorized loyalty in four different types based on two dimensions behavior and attitude. According to this study consumers may demonstrate sustainable loyalty if attitude and behavior is strong; latent loyalty wherein there is weak behavior and strong attitude; spurious loyalty- if there is strong behavior and weak attitude no loyalty, if both behavior and attitude are weak.

Engel and Blackwell (1982) explained that ‘true’ loyalty as the preferential attitudinal and behavioral response toward one or more brands in a product category expressed over a period of time by a consumer.

‘Attitude’ has been defined as ‘a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor’ (Eagly & Chaiken, 1993). While considering the retailing industry, Attitudinal loyalty has been often defined in the context of brand as it captures the affective and cognitive aspects of brand loyalty, such as brand preference and commitment (Gremler & Brown, 1998; Mellens, Dekimpe, & Steenkampe, 1996; Traylor, 1981). Attitudinal loyalty represents
a higher-order, or long-term, commitment of a customer to the organization that cannot be inferred by merely observing customer repeat purchase behavior (Shankar, Smith, & Rangaswamy, 2000). Attitudinal loyalty is important because it indicates propensity to display certain behaviors, such as the likelihood of future usage (Liddy, 2000) or how likely is it that customers would recommend the company to their friends or colleagues (Reichheld, 2003). Attitudinal loyalty can sometimes lead customers to provide unprecedented value to the company through positive word of mouth (Dick & Basu, 1994; Hagel & Armstrong, 1997; Reichheld, 2003). But failure to account for attitudinal loyalty could lead to spurious loyalty (Dick & Basu, 1994).

In context of behavioral loyalty, commonly used measures in the industry include Share of Wallet (SOW) – that is expenditure at a specific store as a fraction of total category expenditures (Berger et al., 1998) which is analogous to share of purchase (SOP); Past Customer Value (PCV) – based on the past profit contribution of the customer; Recency, Frequency and Monetary Value (RFM) – measure of how recently, how frequently and the amount of spending exhibited by a customer (Hughes, 1996). All of these measures help Marketers evaluate behavioral loyalty. That is, loyalty of a customer as observed from the customer’s purchase behavior.

Some studies (Garcia Gomez et al., 2006; Stauss et al., 2001; Verhoef, 2003; Lewis, 2004) discovered that participants in loyalty programs tend to show greater behavioral loyalty to the retailer that has implemented the loyalty program than non-participants. Furthermore, certain researchers find that loyalty programs contribute to a higher attitudinal and affective loyalty (Roehm et al., 2002; Yi and Jeon, 2003; Garcia Gomez et al., 2006).

According to the poll conducted by Maritz roughly 80 percent of Americans participating in loyalty programs say their membership impacts their purchasing decisions, and 74 percent say that without such programs, they would buy less from any given firm (Dunlap, 2004). Mayron Gable et al (2006) concluded that these program participants will spend more than the non-participants.

Verhoef (2003) found that participation in an insurance firm’s loyalty program makes consumers more likely to stay with the firm and encourages them to expand
their business with the firm hence by increasing both behavioral and attitudinal loyalty to the firm.

**Bolton, Kannan and Bramlett (2000)** offered a more in depth examination of this issue by studying the moderating effect of a credit card firm’s loyalty program. Though they could not find any significant relationship between loyalty program membership and customer retention, their results show that loyalty program members used their credit card more than non members.

**Blanca García Gómez et al (2006)** showed that participants in loyalty programs are more behavioral and affectively loyal than non participants. Nevertheless, most customers do not change purchase behavior after joining a loyalty program. The strategy is therefore to retain loyal customers and to achieve the reinforcement of affective bonds linking the customer to the retailer. Therefore, to achieve ‘true’ loyalty, firms should concurrently focus on building both behavioral and attitudinal loyalty.

**Anisimova (2007)** researched on the influence of corporate brand on attitudinal and behavioral loyalty among the consumers of an automobile manufacturer in Australia. The author divide he corporate brand into two; corporate and marketing level. The dimensions of marketing level include functional, emotional and symbolic brand benefits. Corporate level comprises corporate activities, corporate associations, organizational values, and corporate personality. The study disclosed that corporate brand personality, corporate values and functional consumer benefits are the most crucial and dependable factors in creating both attitudinal and behavioral loyalty.

**Daams et al (2008)** examined the impact of customer loyalty programs in context of B-to-B marketing. The study was conducted in a real life setting based on before and after experimental design. The result revealed that the loyalty program was successful enough to create both behavioral and attitudinal loyalty in participants as compared to non-participants and the program made the customer to purchase more with an increased feel of commitment.

**Pepper and Roger (2009)** reported that working with behavioral loyalty dimension is more useful and practical. Behavioral loyalty can be observed through the behavior of consumers, but to gauge attitudinal loyalty a company has to conduct an opinion poll.
or survey. The authors feel that internally held attitudinal loyalty has no financial benefit to the firm until and unless it converts into action.

Chen et al (2009) conducted a study measured the role of two dimensional constructs; attitudinal and behavioral loyalty in creating customer loyalty in retail setting. In the model of the study the authors had considered five antecedents in the form of variables namely outcome quality, interaction quality, environmental quality, sales promotion and frequency of exposure to print ads. The result revealed that perception of outcome and environmental quality was instrumental enough to create attitudinal loyalty which in turn leads to behavioral loyalty. It was also discovered from the study that distribution frequency of print ads is positively correlated to behavioral loyalty whereas sales promotion had no effect on behavioral loyalty.

Cheng (2011) conducted a study among department store customers to explore the influence of three variables customer satisfaction, switching cost and corporate image on both attitudinal and behavioral loyalty of customers. The study revealed that all these factors have a significant positive influence on attitudinal loyalty, but when it comes to behavioral loyalty only switching cost was positively related. It was suggested to stimulate repurchase intention the retailer need to increase switching cost and provide price cuts or discounts to regular customers along with differentiated service.

Colakoglu and Artuger (2013) researched on the effect of airlines frequent flyers program on customer loyalty. The study revealed that there exist a moderate level of correlation between FFP and customer loyalty and the members showed a higher behavior loyalty than attitudinal loyalty.

2.9 Customer characteristics

K. De wulf et al (2002) felt purchase frequency to play a significant role in consumers’ participation intentions. Consumers are more likely to participate in a loyalty program when they reveal a high purchase frequency and when participation to the loyalty program is exclusive to a specific group of consumers. Where as an intriguing finding in the recent literature suggests that male and female consumers
differ significantly in their level of loyalty to companies (Mittal and Kamakura 2001; Steenkamp and Burgess 2002).

**Kivetz and Simonson (2003)** show on frequent fliers program females are more sensitive to the idiosyncratic fit of a loyalty program than Males i.e., women were more likely to join a loyalty program when they believed that the program is more favorable for them than for others. This suggests that women might have a stronger need to be treated in a more preferential way than others compared to men.

**Lewis (2004)** suggested that the existence of consumer segments vary in their response to reward programs. Hence in view of potential differences operating at the individual level, it is important to explore potential individual differences in response to the reward program.

**Bellizzi et al (2004)** studied on the loyalty cards in US market revealed that older shoppers are more frequent card users as compared to youngsters. They also gave higher ratings to their loyalty being attributed to stores which have cards. The another interesting findings of this study is the older respondents would be less loyal to stores that don’t offer loyalty cards but offer low process where as younger shoppers expressed their willingness to be more loyal to super markets that grow progressively larger with continuous card usage throughout the year.

**Valentina Melnyk (2005)** explained in context of store loyalty that male and female loyalties are different in nature, with females being relatively more loyal to individuals (such as employees) and males being relatively more loyal to groups or larger group-like entities (such as companies). However, in case the loyalty program stops, men are less likely than women to stay customers of the company. Therefore, male and female consumers might also respond differently to various loyalty program designs.

**Peter clark (2006)** stated 30 major factors behind the success of a loyalty program quote Hofmeyr and Rice (2000) study conducted on customer loyalty by creating a conversion model which measures a person’s psychological commitment to anything. The model helps a marketer to segment their customer based on their commitment to staying with a brand. According to their study it was observed that more affluent and educated customers are less likely to be brand loyal as they can afford to switch to
other brands. They also found young customers are less likely to be brand loyal as compared to their older counter parts.

Bagdoniene et al (2007) conducted a research on three retail chain on the topic of customer loyalty program from the customers’ perspective. The study revealed that loyalty program of the selected stores were not substantial enough to create any emotional or social belonging in the mind of customers. Also an attempt was made to test the significance of select demographic variables like age, education, social and family status and income. All the variables, except income were found to be less significant in program evaluation. It was observed from the study that respondents with less income participate more actively in the loyalty program than high income group.

Ferguson and Hlavinka (2008) had carried out a research in context of financial services, travel and Retail sector to investigate the attitudes and behaviors of specific consumer segments in relation to consumer loyalty schemes. Highest participation levels were expected among the affluent segment and findings confirmed this with almost eight in ten attached to a scheme. In addition to income factors, higher education achievements typical of this group were considered significant. Core women reported 60 percent participation in retail loyalty programs than travel or financial services as this segment tends to control the majority of household spending in their respective situations. Participation among seniors was slightly lower than the general population, which perhaps confirms suspicions that membership declines due to age, lifestyle changes, health and income levels. Lowest participation was recorded among young adults and emerging Hispanics, although levels were healthier than expected.

2.10 Store characteristics

Substantial investigations have been conducted with reference to store attributes and customer loyalty in western countries (Carpenter and Moore, 2006). However, limited attention has been paid to this issue in developing countries. Consumers’ perception of store attributes influenced by retail formats, type of products, cultural value, shopping intention and customer base (Paulins and Geistfeld, 2003). Bearden (1977) states that store atmosphere, location, parking facilities, and friendliness of store
people are the salient factors that influence consumer store patronage. As a result store attributes such as service offering, activities, facilities and convenience have major influence on customer satisfaction and loyalty (Chang and Tu, 2005).

Assael (1988) conducted a study on consumer behavior and marketing action finds that consumers become loyal to a particular store as they become loyal to brands and it has lead to more store loyalty than brand loyalty. The study also revealed that shopping from the same retailer may foster store brand loyalty. It is also found that low income customers become more loyal to a store by reducing the risk of shopping by selecting the same shop due to their limited income and lack of information.

Dong-Mokoo (2003) carried out a study to know the interrelationships among store images, store satisfaction and store loyalty in Korean discount retail. It was identified that the various factors that have significant impact on the attitude are related to in store services like merchandising, atmosphere, and employee service and after sales service. The other factors location, convenient facilities and value were found to be insignificant in shaping the attitude. It also revealed that the attributes with positive impact create customer satisfaction and that in turn creates customer loyalty.

Omer et al (2011) researched on a sample of 400 loyalty program members from different retail stores to measure card holders satisfaction on loyalty program and its after effects on store loyalty. The study reveals that program loyalty has a created a strong significant influence on store preference and it was suggested in the study to create a strong bond between the members and the program so that it will reap the benefit in future in terms of store loyalty.

Carmen et al (2012) conducted a study to evaluate the effectiveness of Loyalty programs. One of the variables considered in this study was proximity. Though many other researchers have identified a relationship between proximity and store loyalty, this study claims no relationship between these two variables as most of the respondents prefer to visit a bigger retailer who is situated far than visiting a small retailer with less merchandise mix. The other interesting outcome of the study was being a card member doesn’t make the customer to hold a different attitude towards the store.
2.11 Employees’ Characteristics

Retailer desire better customer service and value, with the aim of enhanced customer loyalty and spending. By better staff provision or exhortation through customer service and excellence initiatives it is hoped that virtuous circle of better service leading to better customer loyalty will be achieved. In this context loyalty card scheme acts as one aspect of service provision though it remains as an issue to the degree to which staffs dealing with customers actually believe in such programs and the approaches of their managers and companies.

Renylods and Beatty (1999) Retailers try to encourage customers to become more loyal to the store through loyalty scheme, although there are many influences on store loyalty. Loyalty may be operationalised via enhanced service provisions, including both physical service feature and human dimension of service. Customers become more loyalty in a buyer seller relationship to a particular brand when there is a better interaction with the salesperson.

Andrew Smith et al (2004) conducted a study from employee dimension revealed that managements’ idea on customer loyalty was not clearly translated to its employees. Also it has been identified from the study that though such the loyalty scheme represents and opportunity for the collection of additional customer information by employees, through their extending contact with card holders this opportunity is not utilized. It was also suggested that along with relevant training on new scheme or existing, employees need to be motivated to provide input on customer relationship management.

Rowley (2007) conducted a study on the strategic role of loyalty programs of Tesco club card. Right from the initial launch of the loyalty program in 1995, Tesco had identified the role and importance of employees in obtaining a little extra goodwill among its stakeholders. The top management had a strong commitment in regard and they focused more on internal marketing which educated the staff about the importance of the club card.

Ugur Yavas and Emin Babakus’s (2008) studied among two customer segments of a national automotive parts and accessories retailer in the USA identifies
that, to reinforce loyalty the focal retailer should continue to enhance the interaction skills of current and prospective employees via careful selection, training and motivation.

Vyas and Sinha (2008) revealed that the operational staff who work at the check out areas of retail outlets are not completely aware of the details of their loyalty programs such as point system and their corresponding rewards. They were not educated about how points were collected and analyzed at the backend level and how strategies were formulated from this analysis. The front end staff as well as the customers was also ignorant about co-branded cards and the importance of loyalty programs in enhancing the brand value of the company. The authors conclude that any such imperfect knowledge about any such promotional program will lead to customer dissatisfaction.

Mark.T.Fletcher (2010) reported that the best loyalty programs are offered over the sales counter. If the sales team is not engaged then the uptake will be low. It is vitally important that the sales team members understand the role the loyalty program plays in the overall business model.

2.12 Research Gap

More recently retailers have adopted customer loyalty programs that have been long used by the travel industry (e.g. hotel, airlines). The effect of loyalty programs on loyalty and their critical success factors were investigated in the context of various industry settings such as automotive industry (Stauss et al., 2001), packaged goods (Roehm et al., 2002), financial services (Bolton et al., 2000), airlines (Whyjte, 2002), retail stores (Noordhoff et al., 2004) or telecommunication (Gustafsson et al., 2004). Most of the studies related to Customer loyalty programs have been conducted in developed countries, where they are well established. Empirical research examining the performance of customer loyalty programs has shown mixed results. Some studies reported positive effects of loyalty programs (Bell and Lal 2003, Taylor and Nelsin 2005), while others provided evidence of no effects or negative performance (Maggi 2003; De Wulf et al 2001). Despite the promise of customer loyalty program as a way to build and strengthen a positive relationship with loyal customers a little research has conducted to study customer’s perception of loyalty programs. The past research has dealt with issues related to perceived benefit of the program, loyalty program
design; and customers demographic characteristics. However, some of the basic issues like role of employees’ efforts in creating consumer awareness and knowledge, and the store characteristics are appear to remain unexplored anywhere in developing countries. Further, no studies appear to have been conducted on these parameters of loyalty programs with respect to Indian retail industry.

Despite the popularity and rapid growth of customer loyalty programs in developing countries like India the effectiveness of the programs is largely unexplored although evidence about the effectiveness of loyalty programs has begun to accumulate recently, the field is still underdeveloped and a clear picture has yet to emerge.

The study focuses on current retail trends in retailing and the customer relationship management practices of retailers with special reference to customer loyalty programs. The study also tries answering the following questions

Is there any influence of customer demographic variables in creating attitudinal and behavioral loyalty?

Is there any relationship between customers’ perceived benefit of the loyalty program, program design, store characteristics and employee characteristics with members’ attitudinal and behavioral loyalty?

Since very few studies have been conducted on the two select variables; store characteristics and employee characteristics, an attempt has been made to compare these two variables among different loyalty program members irrespective of the retailer.