CHAPTER I

1.1 INTRODUCTION

Long term relationship between organization and customers has become the most significant leverage of success in nowadays business. In this juncture Loyalty marketing has turn out to be a particularly poignant topic for research and practice in service and manufacturing industries over the last few years. In today’s more competitive market, management has shifted their focus from merely gaining new customers to retaining the existing ones. And also it has been explored through various studies that the cost to gain a new customer can be five times more expensive than to retain one (McIlroy and Barnett, 2000). Hence in many service and manufacturing industries, the emphasis of marketing objective has shifted from customer acquisition to customer retention or customer loyalty (Shoemaker and Lewis, 1998). As per the research in 1990, Reichheld points out that the benefits of retaining customers have direct impacts on company’s profitability. The costs associated with taking care of loyal customers decline over time, while at the same time, revenue for the company from loyal buyers increase over time as a consequence of their loyal patronage behaviour. Further, it has been have found out that loyal customers will present partnership actions such as spread a positive word of mouth to their friends and relatives (Shoemaker and Bowen, 1998).

The past few years have seen many firms readopt a customer focus - often through a formal program of Customer Relationship Management – CRM (e.g., Brown 2000; Kalakota and Robinson 1999; Peppers and Rogers 1997). Technological development has provided the tools for marketing managers to craft a new generation of CRM tactics. One such approach that thousands of firms have considered, and which many have adopted, is to launch a customer loyalty program. Loyalty programs have been introduced in a variety of industries, including hospitality airlines, financial services, and retail environments. In recent years, the programme has gained special significance in retail sector, where competition is strong and supply is standard.

In retailing, A loyalty and reward program concentrates on customer retention by offering the opportunity to solidify existing relationships, initiate new ones and convert one time visitors, buyers and prospects into repeat business and long term...
members. Consumers who enter a loyalty program are expected to transact more with the focal company by voluntarily giving up the free choice of trading with its competitors. It has been observed that around the world retailers are competing with each others in designing successful programs to motivate customers to return often, make frequent purchases and shun competitors. This trend is clearly evident in Indian retail sector also.

The retail environment in India has undergone a continuous and marked change over the past decade. The rapid expansion of Indian economy after liberalization, combined with external economic and social influences, have led to a retail boom in the country, which in turn has encouraged the entry of new players and aggressive approaches by existing retailers such as the introduction of new retail formats and competitive price wars. This rise and expansion of retailers in India has contributed to high competition among retailers, which leads to the growth of loyalty programs as structured marketing effort used to retain customers.

1.2 Background of the study

1.2.1 Retailing

Retailing can be described as a set of business activates that adds value to the products and services sold to the final consumers for their personal, family or household use. A retailer is the key player in the marketing process as he regularly interacts with the end consumers. From a marketers point of view, retailing can be described as a set of marketing activates designed to provide satisfaction to the end consumer and profitability maintain the customer base by continuous quality improvements across all areas concerned with selling and services.

Retailer plays a major role in the transfer of goods and services from the manufacturer to the end consumer. In this process retailer deliver many benefits to customers, manufacturers, wholesalers and economy

- **Benefits to Customers**

Retailer acts as a buying agent for the customers and perform various business activates that increase the value of the goods and services they sell to the end
consumer. The following are the various activities performed by a retailer

- Breaking the bulk
- Providing assortment
- Holding inventory
- Providing after sales services
- Providing information.

**Breaking the bulk** – Retailers buy goods in bulk from manufacturer and divide them into smaller sellable units according to consumption pattern of the end consumer. By buying gin bulk, the retailer gain two benefits – quantity discounts from manufacturers and lower fright rates for large shipment of goods. Availability of products in smaller units enable the customers to buy the products in quantities that suits their consumption pattern.

**Providing assortment** – Retailer evaluate the products of various manufacturers and offer the best collection of products from which the customer can select the product of his/her choice.

**Holding inventory** - Retailer carry inventory and make the products available to consumers at a convenient place and time.

**Providing services** - A retailer provide services to its consumers in the form of free home delivery, accepting credit cards, accepting payments on installment basis, arranging loans etc.

**Providing Information** - Retailer play a major role in providing product related information to the customers through advertising and in-store salesperson.

⇒ **Benefits to Manufacturers and Wholesalers**

Manufacturers and wholesalers consider retailing as a channel for delivering their products/services to the end customer. By selling products and services, retailer provide the manufacturer with great revenues, which could be reinvested in production. While designing new products or upgrading an existing product, manufacturers depend on retailers to gather information regarding the tastes and preference of customers.
Benefits to the economy

The retailing business is the largest private industry in the world with a turnover of US $ 6.6 trillion. Retailing plays a crucial role in the management of world economy and retailers constitute a tenth of the Fortune 500 companies. In India retailing accounts for over 10 percent of the country's GDP and 8% of the employment.

1.2.2 Retail Sector in India

Indian retail sector has presently manifested itself as one of the most enterprising, dynamic and rapid industries since the entrance of a huge number of players in the market. This industry represents over 10 percent of our Gross Domestic Product (GDP) and about 8 percent of the employability of this country. The total retail sales of the country exceeds 5 billion USD and is ranked 14th for the Global Retail Development Index (GRDI). According to the Boston Consulting Group and Retailers Association of India’s report (2015), our retail market is anticipated to grow double to 1 trillion USD by 2020 from 600 billion USD in 2015 as a result of increase in disposable income, shifting urban trends (semi urban development) and attitudinal shifts.

The Indian retail sector is divided into two - Unorganized sector and organized sector.

Unorganized Retail Sector

Indian unorganized retail sector can be explained better by looking back at the ancient Indian retail industry. Earlier, sellers and buyers flock together in a big market, in order to barter their products. They barter their agricultural produce for other products at the market place, which is also known as Haat or Mandi. In later stage the traditional format of retailing was of neighborhood ‘kiranas.’ Kirana stores have traditionally dominated the Indian retail market for long time. These stores used to cater to the local people. With the passage of time chain stores run by Khadi and Village Industries Commission came up.

The unorganized retail sector is still prevalent and also amounts for the major share of the India retail industry. The reasons for this are many -
• Family owned business still very common in India and running for more than one generation.

• Loyal small town customers who prefer to interact with the shop owners and have a relation with the shops.

• Majority of the working class population who work on daily wages still opt for these traditional family owned small stores because purchase quantity is so small that no big retail chain would entertain.

• Some of these small stores known as *kiranas* give products on credit to their daily consumers, and this helps lot of seasonal workers and other low income groups. They can pay the stores when they get their wages.

• Another rationale might be the accessibility and nearness of the *kiranas* to the consumer’s house. Most cities and towns would have small stores at every corner of a street and it makes it easier and convenient for consumers to shop rather than travel long distance to organized retail stores.

• Small stores always employ cheap labour, mostly their own families and function out of small places reducing real estate charges as well.

• The most important reason for the popularity of this unorganized form of retail is because most of our country is still rural. Rural areas still operate out of small stores and mandis.

➢ *Organized Sector*

Organized sector can be mainly described as busy shopping malls comprising of multiple stores or complexes that offer a humungous range of products and services. This sector is undergoing a major metamorphosis from the last couple of years. Due to rise in income, change in consumer behavior and urbanization, consumers seek for a one stop shopping experience as opposed to the previous *kirana* and corner store concept. In the retail organized sector today, a customer come across with massive supermarkets and hypermarkets that offer everything and is often mechanized. Organized retail sector now comprises of Supermarkets, Hypermarket, Specialty Stores, Cash and Carry stores and Department Stores.

During the initial days, small stores run by individuals were very popular in the country, where all the work was done manually and is mostly owned by individuals.
Due to the retail boom, the country has witnessed these small stores transition into department stores and to hypermarkets where everything is mechanized and is mostly run by corporate. These big outlets became retail chains and expanded to different parts of the country where consumers interact with the retail company employees and not the owner. The development of organized retail started comparatively late in India. Single brand retail chains like Raymonds, Grasim, Bombay Dyeing, Titan etc began to find a foothold in the major metros during the 1980s. Foundation of Multi-Brand organized retailing in India was laid by Kishore Biyani of Pantaloon retails India Limited through their Big Bazzar and since late 1990’s, new companies like Food World, Subhiksha, Crossword, Planet-M etc came up with modern retailing concept. Shopping malls and hyper markets have begun to evolve primarily during the new millennium. Now, several large Indian business houses have made a foray into organized retailing, with multiple formats and in varied product categories.

The cities were exploded with more retail stores and everything is streamlined right from the storage to post purchase service. There are trained employees for each function such as Inventory Management, Logistics and Warehousing, Category Management, Accounts Management and Customer Service Management etc, at these retail chains. Moreover, there are different retailing categories that have gained significant importance during this transition such as Food and Grocery, Clothing and Textiles, Consumer Durables, Footwear, Furniture and Furnishing, Catering Services, Leisure and Entertainment, Mobiles and other Electronics. (Dr. Shahid Akhter, Iftekhar Equbal)

1.2.3 Classification of Retail formats in India

The major retail formats followed by Indian Retail can be classified according to their selling processes as store based retailer or non-store based retailers as given in the diagram below.
1.2.3.1 Store based retailing

Store based retailers are those who follows the brick and mortar system or whose stores are having a physical existence. In store based system customers visit a retailer to by product and service from them. Store Based Retailing can be divided based on form of ownership and merchandise offered. Again it has been further classified into 5 different types under form of ownership and 8 different types under merchandise offered.

- **Based on Ownership**

Depending on the ownership pattern, stores can be divided into

- Independent Retailing
- Chain Retailer
- Franchising
- Leased Departments
Consumer Co-operatives

- **Independent Retailer**

An independent retailer is one who owns a single retail unit which is being operated by a single owner or a family managed business. The most striking part of this retailing is the ease of entry, low capital investment and low technical knowledge. In these kinds of units the owner himself will invest for the capital for lease or rent the building and product assortment the independent retailer acquire skills in niche goods and services. Though the ease of entry in this sector has created tough competition among small retailers, many enjoy monopoly due to convenience of location. The decision making in such units are centralized as it involves a few number of employees and do not have to vex about labour union, stock holders and other issues related to organized retailers. The major disadvantage with this store concept is that they are prone to fail due to easy entry and lack of management skills. The Indian retail market has around 12 million outlets and has the largest retail outlet density in the world. Example for such retailer units are the basic mom and pop shops, book shops, drycleaners, salons and any neighborhood stores.

- **Chain Retailer**

A chain retailer operates multiple outlets under common ownership. It usually engages in some level of centralized (or coordinated) purchasing and decision making. The dominance of chains varies greatly by the type of retailer. Retailer who own and operate multiple outlets generate 75% or more of total categories sales from department stores, discount department stores, and grocery stores. This concept of retailing allow the retailer to have bargaining power as they purchase in bulk. They achieve economies of scale when they buy directly from manufacturers and in large volume, ship and store goods, and attend trade shows sponsored by suppliers to learn about new offerings. The chain stores for their promotion take advantage of various medias like television, FM radio, newspaper and internet. Examples of some major retail chains in India are Big Bazaar, More stores, Haldirams, Reliance fresh and IOC.
- **Franchising**

Franchising involves a contractual arrangement between a franchiser (it includes manufacturer, wholesaler or a service provider) and a franchisee which allow the latter to conduct a certain form of business under a reputed brand name and according to a specified terms and conditions. This helps the retailer to market and distribute their products or services in exchange for fees, royalties and a share of the profits.

Franchising can be done in two different ways:

- **Product/trade name franchising** – In product/trade name franchising, the franchisee will be authorized or licenses to use the manufacturers name or trademark. Example:

- **Business format franchise** – The business format franchise is the most popular format in India. In this format franchisor equip the franchisee with all the necessary supplies in return some royalty fees. In this business model franchiser exert more control over franchise as they support the latter with technical know-how. In this model the franchisee is getting support on a frequent basis in various aspects like raw material and sales team training. Examples of such a franchise type are the fast food chains like Pizza Hut, Barista and café coffee day.

- **Leased Departments**

A leased department is a retail concept that in which one shop is situated in any other retail format like hypermarket, specialty store or department stores that will be operated by a separate entity. The lessee will pay a part of his sales as rent to the lesser. The advantages of this format are lessee should bear low initial investment and also can attract the lesser’s customers. In this regard a lesser has to bear more risk as the customer may blame problems on the lesser stores than on lessee.

- **Consumer Cooperatives**

Consumer co-operatives intend at providing necessary commodities at reasonable prices. Consumer co-operatives have been developed as a self-governing institution, owned, managed and controlled by its associates, to safeguard the interest of the
common consumer. In India it was observed that these co-operative initiatives have help to protect the interest of middle class consumers by stabilizing the retail prices. Some examples for such co-operatives are Margin free supermarkets in Kerala and Sahakari Bhandars and Apana Bazaar in Maharastra

➢ Based on Merchandise Offered

In general merchandise retailing, the strategic merchandise mix ranges from a shallow assortment to a deep assortment of goods and services. On the basis of merchandise offered the stores can be classified as follows.

✓ Convenient Stores

✓ Department Stores

✓ Specialty Stores

✓ Super Markets

✓ Hypermarkets

✓ Off- Price Retailer

✓ Factory outlets

✓ Catalogue Showrooms

• Convenient Stores

This model include small stores situate near to residential areas with limited product line of convenient products like milk, bread, chocolates etc. These shops will be kept open for longer hours for the convenience of its customers and operates in a space of 500- 100 square feet.

• Department stores

Department stores are general merchandise retailer whose merchandise offer spans of a number of product categories like personnel care, clothing, stationary, electronics, home care etc. Stock keep units of a department store is in between 50,000 to
1,00,000 where as the store space differs from 20,00 to 40,000 sq.ft. The store layout of a department store is arranged in such away that it attracts the customer through its ambience, attentive service and wide variety of merchandise. Examples for department stores in India are Shoppers stop, Pantaloons, and Westside.

- **Specialty stores**

Specialty stores are specialized in specific/single product category. These retailers are characterized by a narrow product line with a deep assortment in the same. Specialty stores mainly focus on products like jewelry, sporting goods, furniture etc. They have a clearly defined customer base and they earn profit just by catering to these segments. The average space of these retailers varies from 2000- 5000 sq.ft. The major advantage of the specialty store is that they can create niche marketing and create an opportunity for the employees to gain expertise in this category as they are dealing with a single product. But in contrast to department stores, specialty stores lack variety in their product mix.

Example for specialty stores are Dechatlon for sports goods and Tanishq for jewelry and Medplus for medicines

- **Supermarkets**

Supermarkets are large, low cost, low margin, high volume self-service operations, which sells a broad range of food and limited sales of non-food items like health and beauty products, apparels and household appliances. This format was at the forefront during the revolution of organized retailing and at present it contributes more than 30% of the grocery market in India. The store occupy an area which ranges anywhere from 800 -5,000 sq feet. Examples for supermarkets are More supermarket and Food world

- **Hypermarkets**

The hypermarket stores are a combination of supermarkets and departmental stores. This retail format has become synonymous with one stop shopping where a customer can shop variety of food and non food items under one roof. Along with shopping goods a hypermarket includes space for other shops, cafeteria and restaurant thereby
creating an ambience for a family outing to its customers. The selling area of a hypermarket is between 5,000 - 15,000 sq.ft. The major advantage of hypermarkets is that it provides economies of scale and increased retail revenue for the retailer and their customers are benefited by wide range of products with great quality. The major drawback with the hypermarket store is the high start up cost and increased cost of accommodating the wide variety of merchandise. Examples for hypermarket stores are Wal- Mart, Tesco and Big Bazaar

- **Off-price retailer**

Off-price retailers offer an inconsistent assortment of branded fashion oriented soft-goods at low prices. These retailers can sell branded and designed label merchandise at low prices as they purchase goods from manufacturers who have excess inventory.

- **Factory outlets**

A factory outlet is a retail shop where the manufacturer sells his product directly to the end user at a discounted rate. Ex: Nike factory outlet

- **Catalogue Showrooms**

Catalogue retailers are specialized in hard goods like house ware, jewellery and consumer electronics. Customers who prefer to buy such goods first make his selection by seeing the catalogue and place the order.

1.2.3.2 **Non-Store Retailing**

These retailers reach customers and market merchandise using various methods like broadcasting infomercials, broadcasting and publishing direct –response advertising, publishing electronic catalogues, going door-to-door soliciting customers, conducting in house demonstration, selling through portable stalls and distribution through vending machines.

- **Direct selling**

Direct selling sales transaction takes place directly with prospect at home or at the place of work. It provides an opportunity for the seller to give a demonstration to its
prospective customer. Direct selling encourages convenient shopping as well as personal touch or feel of a product. This type of selling can also be called door-to-door selling because the sales person approaches customers directly to sell a product or a service. The products sold in this manner are cosmetics, food and nutritional products, home appliances and educational materials. In India, women comprise almost 70% of direct selling sales force. Direct selling companies mainly follow three methods- person to person, party plan or multilevel network. The major advantage of direct selling is that the seller is able to attract the attention of the prospect without much distraction. The companies that follow direct selling concepts are Tupperware, Modicare, and Amway.

- **Telephone retailing**

  To provide more convenience and service satisfaction to customers, goods and services are sold through telephonic contact. This method allows retailers who use telemarketing deliver merchandise to the customers’ residence or hold it till it is picked up by the customers at later date. Ex : Standard Charted Bank for Credit card, Bajaj Allianz Insurance Ltd, and Airtel

- **Mail order retailing or Catalogue retailing**

  In this retailing prospects are approached through a catalogue that includes the list of products offering by the retailer. In catalogs basic product and pricing information is given along with instructions for placing an order. It helps to eliminate the constraints of physical store location and store operations. The major advantage of this concept is lower operating cost, lower number of sales force, and absence of shop lifting. Example for catalogue retailing is Tupperware and Amway products and *Tata McGraw-Hill* publishers

- **Direct Response Retailing:**

  Here the marketers advertise these products/ services in magazines, newspapers, radio and/or television offering an address or telephone number so that consumers can write or call to place an order. It is also sometimes referred to as "Direct response advertising." The availability of credit cards and toll free numbers stimulate direct response by telephone. The goal is to induce the customer to make an immediate and
direct response to the advertisement to "order now." Telebrands is a classic example of direct response retailing. Times shopping India is another example.

- **Automatic Vending:**

Automatic vending is an impersonal form of retailing where customers have a remote encounter with the retailer. It’s a non store retailing where products are sold directly to customers from machines. In foreign countries these machines provide the availability of different products round the clock. In India tea and coffee kiosks at the airports are most common automatic vending machines. The other automatic vending machine a common man comes across in India is ATMs by national and multinational banks. Also in 2014 Indian railway had introduced automatic ticket vending machines in selected railway stations in India.

**1.2.3.3 Other formats**

- **World Wide Web**

Retailers use the Internet as a medium to market their goods and services and try to keep in touch with them. This reduces cost to a great extend and the reach of the Internet is still unimaginable. Retailers can do more research than ever before since contacting customers and receiving feedback from them is only a click away. With advancement in the field of technology and Internet, e retailing or e-tailing has become a household thing today. There has been a remarkable change in the way Indians shop now. Online retail today is becoming one of the fast paced growing segments in the e-commerce space. Big names have shifted their focus to online retailing and new entrants have made it big in this country.

With the e-commerce explosion, the focus has been shifted to the supporting logistics functions. In order to keep up with the huge competition, companies are taking painstaking effort to streamline their logistics and offering same day delivery, negligible or zero delivery charges, order rescheduling, cancellation, returns and cash on delivery. Flipkart and Amazon India are two of the biggest players in the e-commerce field in India. Flipkart follows an inventory led model and Amazon India follows a market place model. Flipkart started as an online comparison portal, which later became an e-commerce giant. They followed a consignment model and later
built their own back end logistics team to ensure timely deliveries. Whereas Amazon follows a market place model where they started with nearly 15 million products initially and is known for their last mile delivery.

➢ Service Retailing

The service retailing in India comprise retail banking, real estate, car rentals, service contracts providers of various services.

1.2.4 FDI in Indian Retail

Foreign Direct Investment, in short FDI is one of the methods through which retail marketing can be made better in India. Foreign investment from multi-nationals to the country is one of the key growth enablers in the retail industry. But however this issue has given rise to a debate as allowing foreign capital in the retail sector has its own pros and cons. With liberalization things started changing in the Indian market scenario and especially in single brand trade (from 50% to 100%), the sector was all set to witness new entrants. As business progressed, its scale of activities, manufacturing and marketing increased. This in turn led to the growth of business in the country. At this stage, most businesses needed further capital to grow even more. And as expected, Indian brands opened their gates to international investment.

Allowing FDI would bring in certain improvements in retail marketing areas. The use of technologies in retailing can be seen which eases the entire retailing system itself. These include Bar Coding and Scanners, Credit Cards, Electronic Data Interchange (EDI), Internet, The Quick Response (QR) System, Customer Relationship Management (CRM) Systems, Radio Frequency Identification (RFID) etc. The advent & use of these systems make retailing even better. Few examples include Apparel and beauty -Brooks Brothers, Kenneth Cole, Sephora, and Armani Junior, Standalone boutiques -Roberto Cavalli and Christian Louboutin, Food-Starbucks, Dunkin' Donuts. IKEA a furniture retailer announced its entry in India in May 2013. In spite of these announcements, there is still confusion concerning the 51% multi brand retail trade policy. This has resulted in limited entry and foreign players looking for other new market places elsewhere. Tesco entered in a joint venture with Tata owned Trent Hypermarkets Ltd. in March 2014.
The Wal-Mart and Big Bazaar are all examples for adopting this simple way of attracting customers and also do well to retain them. Many of the business giants in the west eye on Indian retail market with their expertise to boost retail business and derive the advantage. They would pick and choose the type of business and pick and choose the type of expertise to achieve it if allowed to venture in the Indian retail market. Such entry of western business houses into the Indian retail sector by choosing the sector of their choice and the manner in which they would carry the retailing business (the expertise/technology) is called Foreign Direct Investment (FDI) in retailing. There are many who have entered, many who are waiting to enter and others just observing for right time and opportunity. These developments in the way of marketing in retail would be to the advantage of the customer as he has wide range of products/services at competitive rates within reasonable reach.

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- **Major mile stones in FDI - India**

  1997 - FDI up to 100% allowed under the automatic route in Cash & Carry

  2006 - FDI up to 51% allowed with prior government approval in single brand retail

  2010 - Government proposed allow FDI in multi-band retail

51% FDI policy approval in multi-brand retail and 100% FDI policy approval in single brand retail.
Indian government has imposed certain rules and regulations to Foreign Direct Investment in multi brand retail (51%) :-

- Investment cannot be less than USD 100m and 30 percent of the procurement value of the manufactured/processed products should be from SMEs.
- Retail outlets can only be opened in cities that have a population of 100,000 or more.
- Companies with FDI in multi brand retail trading are not allowed to trade through e-commerce.
- Minimum 50% of the total investment must be used for back-end infrastructure in no more than the first three years of the first allocation of the FDI.
- A certain amount of food grains will be procured by the government in order to ensure Public Distribution System (PDS) and Food Security System (FSS).

FDI in single brand retail (100%) are subjected to the following regulations:-

- Companies with FDI in single brand retail are only allowed to sell merchandise under a single brand name.
- The company’s products should be sold in one or more countries outside India, under the same brand name.
- The owner of the particular brand should be the foreign investor
- Only those products that are branded during their manufacturing will be allowed to sell under the Single brand retail trading
- When sourcing for the brand under the Single brand retail trade, 30 percent of sourcing for the products must be done from Indian small industries/village and cottage industries, artisans and craftsmen.

1.2.5 Profile of the Retail organizations selected for the study.

Retailing is one of the largest business sector in India and one of the biggest sources of employment in the country. The Indian retail scenario started changing in the nineties. Liberalization of Indian economy led to the dilution of stringent government restrictions and paved the way for the emergence of organized retail sector in India.
The organizations selected for the purpose of the research study are from organized retailers. The five major retailers considered are selected based on their geographical location and popularity. The first section of the chapter is dealing with the profile of the organization and the second section the structure of loyalty programs offered by these organized retailers.

The five major retailers considered for the study are

- More supermarket - Aditya Birla Retail Ltd
- Reliance Fresh -Reliance Retail Ltd
- Westside – Tata Group
- Shoppers Stop – K.RahejaGroup
- Big Bazaar – Future Group

1.2.5.1 More

Aditya Birla Retail Ltd, is the retail chain under the flagship of Aditya Birla Group, one of the leading fortune 500 companies, worth Rs.2,50,000 crore. It has made its entry to food and grocery retail through the acquisition of a south based supermarket Trinethra in the year of 2007. The company launched its first supermarket store in Pune with their own brand of store called More with a space of averaging 2,500 sq ft area. The product range of the super market include many convenient products and daily needs like fruits and vegetables, groceries, personal and home care and other general merchandise. Currently the company is having around 484 supermarket outlets across the country. Later by the year of 2008 the company expanded its footprint to self-service superstores offering value and range in food and non food products under the format of hypermarkets. At present the company is having around 16 hypermarkets named More Megastore that are located in large catchments’ areas with a size of 55,000 sq.ft shopping area. Mega More is a one stop shopping destination which emphasis more on general merchandise, apparels and Consumer Durables & IT (CDIT) along with convenient and daily needs. The company is generating its 20% sales from private labels which are priced 10%- 15% less than the branded product lines. The company was able achieve breakeven in 955 of its stores.
from the year of 2013-14 through . An estimation by Crisil shows that Aditya Birla Retail's consolidated operating income and net loss at Rs 2,930 crore and Rs 548 crore, respectively, in 2014-15. In the near future the company is all set to take over Total hypermarkets owned by Jubilant Bhartia Group

1.2.5.2 Reliance Fresh

Reliance Industries Limited (RIL) which is headed by Mukesh Ambani is India's largest private sector company on all major financial parameters with turnover of Rs1,18,354 crore (US$ 27.23 billion), cash profit of Rs17,678 crore (US$ 4.07 billion), net profit of Rs11,943 crore (US$ 2.75 billion) and net worth of Rs63, 967 crore (US$ 14.72 billion) as of March 31, 2007. RIL is the first and only private sector company from India to feature in the Fortune Global 500 list of 'World's Largest Corporations' and ranks amongst the world's Top 200 companies in terms of profits. RIL is amongst the 25 fastest climbers ranked by Fortune. RIL also features in the Forbes Global list of world's 400 best big companies and in FT Global 500 list of world's largest companies. Reliance Fresh is the retail chain division of Reliance Industries and is the most important part of Reliance Industries retail Business. It has entered into this segment by 2006 with a convenient store format. With an initiative to produce inclusive prosperity and growth for farmers, consumers, small shopkeepers and vendor partners, Reliance Retail was set up in order to lead the foray of Reliance Group into an organized retail. Reliance Fresh directly buys stock from the farmers with an idea to sell straightaway to the consumers removing the middle-men off the beaten track The stores work on The Ranger Format which means selling of fresh vegetables to the road sellers. The first ever a Reliance Fresh store was established in Hyderabad, wherein the company, mainly focused on the fresh produced vegetables and fruits at comparatively low price along with an introduction of farm to fork theory.

The outlet sells fresh fruits, staples, dairy products, fresh juice bars, groceries, vegetables and company’s in-house brand, Reliance Select. Apart from the fresh vegetable and fruits procured within 50 km. of the stores, there were also many varieties from elsewhere in the State and country and imported apples from the US, grapes from California, and other parts of the world. A distinctive Reliance Fresh
outlet is around 3000 to 4000 sq. feet and accommodates catchments’ area of one to three Kilometers.

Reliance introduced several formats in the marketplace to cater to needs of common people, which includes Reliance Fresh, Reliance Mart, Reliance Digital, Reliance Trendz, Reliance I store Reliance Footprint, Reliance Wellness, Reliance Jewels and Reliance Timeout.

In addition to this, the Reliance Retail also entered into a treaty with Apple, which is a leading Information Technology company, to set up a series of Apple Specialty Outlets branded as ISore, with its first ever store in Bangalore.

1.2.5.3 Westside

Westside is one of the popular retail chain operated by Trent Ltd and owned by Tata Group. Westside was established in 1998 when the Tata Group acquired a London based retail chain called Littlewoods. Tata established Trent Ltd post the acquisition to run and operate Littlewoods. The Indian retail market was expanding at a furious pace and Tata found an opportunity in the industry. Littlewoods was later renamed, as Westside and Trent Ltd became Tata’s retail arm. The first Westside store was opened in Bangalore and later expanded its operations to Mumbai (where it is headquartered now), Chennai, Pune, Delhi, Kolkata and Hyderabad.

Today Westside has about 82 store outlets across the country with an ever-growing customer base. Westside boasts of a wide range of designs and styles that are owned by itself, however it houses various other brands covering both local as well as national ones. Westside also has its own brands. The merchandise includes women’s clothing, men’s wear, kids wear, footwear, women’s and men’s accessories, home accessories and soft furnishings to perfumes, cosmetics, handbags and house hold furniture.

Since Tata was a well-known name in every Indian household, Westside did not have any problem gaining a foothold in the Indian retail market. They also marketed themselves as “Fashion at affordable prices”. They have tried to build a one-stop shopping center for their customers. In 2002, Westside hired cricketer Yuvraj Singh as their brand ambassador. The Westside model involves active control across the
value chain including with respect to design, branding, sourcing, logistics, distribution, pricing, display and promotion of over 85% of the product range retailed. They also came up with the loyalty card program popularly known as the “Clubwest”. Since Westside discovered that they had a huge women loyal base, they started focusing more on Women’s apparel and accessories including lingerie, footwear and handbags.

Although the organized retail sector showed tremendous potential for growth in the early 2000s, due to the economic recession in 2008-09 and the boom in the e-commerce retail platforms, big retail chains (brick & mortar) are finding it difficult to flourish in the industry. However, Westside’s gross turnover in 2014 was 1284.10 crores and their annual profit was 54.24 crores.

1.2.5.4 Shoppers Stop

In October 1991, K. Raheja group of companies, who were into hospitality and real estate during the period, decided to venture into new arenas - Lifestyle and Retail. That’s how Shopper’s Stop came into existence. They started as a single brand shop selling only Menswear. The first Shopper’s Stop was opened in Mumbai in 1991 and the second store was only opened 4 years later in Bangalore.

Shopper’s stop co created a loyalty program with HSBC Bank in 1997 for their loyal customers. Later they also co branded another program in association with Citi Bank or better known as the First Citizen Citibank Credit Card in 2002. Shopper’s stop started expanding to other cities and opening more stores in existing cities. They decided to bring in home linen and soft furnishing with accessories and cosmetics into their existing merchandise. They also have an online portal, shoppersstop.com, since online e-commerce is booming in the country.

In 2007, they got into a partnership with the Nuance Group for Airport Retailing and signed a MoU with Home Retail Group, UK in order to introduce the Argos format of cataloguing and Internet retailing. Argos is famous for cataloguing their merchandise and a customer can cross-reference any particular category from the catalogue and order (both online and offline). Shopper’s Stop made an effort to re-position themselves as one of the luxury brand outlets in the country by coming up with a new
logo and tagline. “Start Something New”. In order to enhance the shopping experience and to retain their customers, they came up with one of the most popular loyalty program among Indian shoppers, The First Citizen. Being a First Citizen, their exclusive rewards program, entitles a loyalty program member to privileges, preferred service and points that add up to money that can be used to shop across any of their stores and website, too.

Shopper’s Stop was awarded the “Emerging market retailer of the Year”, in 2008 at the World Retail congress. They have a wide variety of both international and national brands in clothing for men, women, and kids; accessories, fragrances, cosmetics, footwear; home furnishing and decor products across the website and 33 store outlets in 33 cities all over the country.

1.2.5.5 Big Bazaar

Big Bazaar is a value for money hypermarket under the flagship of Future retail; Future group which was established in 2011. The founder of Big Bazaar Kishore Biyani has followed a 3C theory which states change and confidence among the population will lead to rise in consumption, through better employment and income. They have divided their customer segment into 3 Consuming class ( upper middle and lower middle) , serving class (drivers, household help etc) and struggling class (31% of Indian population) . It has designed its stores keeping the Indian mandi style in mind. It subscribes to the notion that chaos in the store increases the sales. The stores have been designed as an agglomeration of bazaar with different section selling different categories. The U shaped sections and islands have proved to be more appropriate for the Indian context. The company rewrote the Indian retail chapter in India by its innovative concepts of sabse saste 3 din, which offers, deals and discounts that help to ensure that there is something for everyone in the family to shop for and that customers get value for money. At present the company has around 200 stores spread across 95 cities.
1.3. Need of the Study

Customer loyalty is about retaining our existing customers. According to the late management guru Peter Drucker "Customers are profitable only from the second year"—this is because in the first year, the company spends a lot of money to attract the potential customers and convert into customers. So retaining customers means more and more revenue.

As mentioned in the introduction organized retailing is growing at a rapid pace in India. Though the Indian market is very large and seems very promising, due to the adverse effects of recession, changing consumption pattern, and severe market competition from the unorganized sector organized retailers are finding it tough to be profitable by creating long term customer loyalty. One of the marketing strategies is to focus on retaining the existing customers as they are five times more profitable than new ones. So it is very important for the marketers to understand the significant contribution of customer loyalty programs not only in retaining the customers but also to acquire the new ones.

The study would be beneficial to academics, retailers and to the consumers of the organized retailers. By adopting better management practices, the industry players can achieve their goals and objectives in a systematic manner. Since this study focus more on the customer perception towards the loyalty programs this provides a better understanding for the retailers about their existing customers purchase behavior and preferences. The reengineering of the customer loyalty programs will benefit not only the retailers but also the consumers. The retailer will be benefited by increase in revenue and market share whereas the consumer can enjoy the specific types of relational benefits like confidence, social and specific treatment benefits.

1.4 Statement of the Problem

Businesses around the world are beginning to recognize the impact of customer loyalty on profitable growth. Over the past few years’ loyalty programs have become a key component of customer relationship activates. Despite the widespread pervasiveness of loyalty programs in the retail industry, most of the researchers are still throw open questions regarding the factors affecting its efficiency and
effectiveness in customer retention. The loyalty programs offered by Indian retailers are focusing more on financial benefits rather than value and service-oriented concepts. Many of the research works done by scholars show that customer loyalty programs which focus solely on pricing benefits deliver no loyalty at all (Janet L. Hoffman and Eric M. Lowitt et al. 2008). In India though many retailers are already implemented the concept of loyalty management it is far from clear whether Loyalty programs are effective in helping the organization to break even and to create the desired loyalty. As the various empirical researches are showing mixed results on the success of the program the researcher finds it necessary to study the same from consumer perspective.

The intent of this research is to identify the relevant factors influencing the success of customer loyalty programs and to understand what makes a particular approach of the program to remain unbeaten across the cutthroat competition. Through this qualitative study the researcher is trying to measure the effectiveness of loyalty program in terms of attitudinal and behavioural loyalty of the program members. Despite the explosion of loyalty programs in organized retailing, Empirical investigation about its success is limited in context of Indian consumers. The purpose of this research is to contribute to a better theoretical knowledge for the effectiveness of loyalty programs for customer retention in the retail sector. Hence the present study designed entitled “Effectiveness of customer loyalty programs – A study on select retailers in Bangalore and Mysore city “.

1.5. Objective of the study

The broad objective of this research is to understand how Indian retailers can increase their customer base and loyalty through loyalty programs. Through this research the researcher is trying to study the dynamics of customer loyalty using the customer database from different modern retailers like Big Bazaar, More, Reliance, West Side etc. The questions to be answered in this research are

1. To analyze the trends in modern retail sector

2. To assess the customer management practices of retailers through customer loyalty programs
3. To evaluate the influence of select demographic variables among loyalty program members; behavioral and attitudinal loyalty

4. To measure the effectiveness of program design and the members’ perceived benefit of the loyalty programs

5. To examine the role of store characteristics in creating attitudinal and behavioral loyalty among loyalty program members

6. To analyze the pivotal role of employees in creating behavioral and attitudinal loyalty among the members of loyalty program.

7. To compare the opinion of different loyalty program members with respect to store characteristics

8. To evaluate the opinion of different loyalty program members with reference to employee characteristics

1.6. Research Hypothesis

The following research hypotheses are stated in the research for verification of the research problem and draw an accurate conclusion

H1: There is no significant relationship between Loyalty program members’ demographics and attitudinal loyalty.

H1a: There is no significant relationship between gender of the Loyalty program members’ and attitudinal loyalty

H1b: There is no significant relationship between age of the Loyalty program members’ and attitudinal loyalty

H1c: There is no significant relationship between educational qualification of the Loyalty program members’ and attitudinal loyalty

H1d: There is no significant relationship between income of the Loyalty program members’ and attitudinal loyalty
H2: There is no significant relationship between customer demographics and customer’s behavioral loyalty.

H2a: There is no significant relationship between gender of the Loyalty program members and behavioral loyalty

H2b: There is no significant relationship between age of the Loyalty program members and behavioral loyalty

H2c: There is no significant relationship between educational qualification of the Loyalty program members and behavioral loyalty

H2d: There is no significant relationship between income of the Loyalty program members and behavioral loyalty

H3: There is no significant relationship between perceived benefit of the loyalty program and members’ behavioral loyalty

H4: There is no significant relationship between loyalty program design and members’ behavioral loyalty

H5: There is no significant relationship between employee characteristics and members’ behavioral loyalty

H6: There is no significant relationship between store characteristics and members’ behavioral loyalty

H7: There is no significant relationship between perceived benefit of the loyalty program and members’ attitudinal loyalty

H8: There is no significant relationship between loyalty program design and members’ attitudinal loyalty

H9: There is no significant relationship between employee characteristics and members’ attitudinal loyalty

H10: There is no significant relationship between store characteristics and members’ attitudinal loyalty
H11: There is no significant difference among the different loyalty program members’ opinion on store characteristics irrespective of the retailer.

H12: There is no significant difference among the different loyalty program members’ opinion on employee characteristics irrespective of the retailer.

1.7. Scope of the study

The present study is designed to uncover the facts on customer loyalty and retention in retailing. As the objective of the loyalty program is to retain or ensure repurchase, present study focuses on the various factors affecting a customer loyalty program success. Since the present study is designed to analyze the loyalty programs of Indian retailers, organized retailers in Bangalore and Mysore will be considered for the study. Five organized retail organizations selected in this study are Shoppers Stop, Big Bazaar, More, Reliance Fresh, and Westside. This qualitative study tries to analyze how effective these loyalty programs are in creating attitudinal and behavior loyalty among customers. In this study the researcher has selected 6 variable that affect the loyalty program effectiveness like perceived benefit, loyalty program design, attitudinal loyalty, behavior loyalty, store characteristics, employees characteristics from the point of customers. The study will help the retailers to come up with new innovative and value based loyalty programs for long term customer equity. The researcher expects this study will help to uncover the clusters of loyalty initiatives that are most effective in improving customer loyalty.

1.8. Methodology

The present study is undertaken to analyze the customer perception about the loyalty programs and identify the significant components of a loyalty programs, which creates a long-term relationship with the customer and retailer.

1.8.1 Research Design

Business research design can be defined as the plan and structure of enquiry, formulated in order to obtain answers to research questions on business aspects. The research design outlines the actual research problem on hand and details the process for solving it.
Both exploratory and descriptive research design has been used in this research. Exploratory studies are a valuable means of finding out what is happening; to seek new insights; to ask questions and to assess phenomena in a new light (Robson, 2002:59). Exploratory study has been conducted to explore the various factors affecting customer loyalty program. In this regard a detailed interview was conducted among store managers and their input has been used to select the research variables. Descriptive study will be used to draw conclusions for the proposed hypothesis.

1.8.2 Data sources

The proposed research requires both secondary and primary data. Secondary data is an established data collected from among the available sources such as internal records, retail magazines, journals and other sources.

The primary data is an integral part of this research. It will be collected through survey research using an appropriate instrument and rating scales. The primary data will be collected from customers of select retail organizations. The primary data will also be collected from the executives of the organizations about the current retail management practices and loyalty programs.

1.8.3 Sample Design and Size

Convenience sampling has been employed to draw the sample respondents of size 600. The universe or population of this study consists of the customers of the organized retail shops. The opinion of members of the loyalty programs of the retailers has collected and analyzed. In this survey around 115 response have been collected through internet survey from a group of volunteer respondents who intentionally visit the retail outlets taken for the study. The remaining respondents were interviewed at the retail outlet until the required sample size has been reached.

1.8.4 Analytical Tool

The most important objective of this study is to measure the effectiveness of customer loyalty programs in organized retailing. Descriptive statistical analysis is being used to describe the basic features of the data collected through questionnaire. Tables and charts are used for the purpose of data representation. The hypotheses
framed for the study are tested using P value, Pearson correlation coefficient, t-test for equality of means, ANOVA test. Cronbach’s alpha was used for determining the predictive validity and reliability of the questionnaire used in the study.

1.8.5 Pilot Study

The pilot study or feasibility study was conducted in order to ensure the validity of the questionnaire. The pilot study helps to refine the questionnaire so that the respondents will have no problem in answering there by facilitating the interviewer to record the data. As part of the pilot study each completed questionnaire was checked to ensure that respondents have no problem in understanding and answering questions and have pursued all directives correctly. In the present study 15 members from each retailer has selected for pilot study. Based on their response considerable modification has been done in the questionnaire for further data collection.

1.8.6 Cronbach’s Alpha Test of Reliability

Reliability analysis was used to construct reliable measurement scales and to evaluate the reliability of scales already in use. The index of Cronbach’s alpha was calculated to measure the reliability. A value of 0.7 – 0.8 has considered as acceptable value for cronbach’s alpha to consider the scale as reliable.

**Table No. 1.1: Result of Reliability Analysis**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Variables</th>
<th>No. of Statements</th>
<th>Cronbach’s Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Perceived value</td>
<td>7</td>
<td>0.9534</td>
</tr>
<tr>
<td>2</td>
<td>LP Design</td>
<td>7</td>
<td>0.9342</td>
</tr>
<tr>
<td>3</td>
<td>Store characteristics</td>
<td>3</td>
<td>0.9383</td>
</tr>
<tr>
<td>4</td>
<td>Employee characteristics</td>
<td>5</td>
<td>0.8182</td>
</tr>
<tr>
<td>5</td>
<td>Behavioural loyalty</td>
<td>3</td>
<td>0.8372</td>
</tr>
<tr>
<td>6</td>
<td>Attitudinal Loyalty</td>
<td>5</td>
<td>0.8488</td>
</tr>
</tbody>
</table>

Source: Field Survey
1.9 Limitations of the study

a) Some of the data relating to the customer loyalty programs was not disclosed by the retailers as it is treated by the retailer as confidential information. Hence the information provided by the retailers is assumed to be factual and their validity was not questioned.

b) The study was conducted in Bangalore and Mysore city with a pre decided sample of respondents. Therefore, the analysis done on the basis of information provided by the sample respondents may not be entirely fool proofed and generalizations drawn on the basis of the study may not be extended to the whole population of the diversified retail market.

1.10 Organization of the Thesis

Presentation of the Thesis

The thesis has been presented in the following sequence in order to provide for a logical flow of information.

In the first chapter an introduction for the research topic is given along with the background information, problem statement, objectives, Need and Scope of the study. Hypotheses and the Research Methodology used for the study are also presented.

The second chapter consists of Review of literature under different headings and gives an insight into different dimensions of Customer Loyalty Programme.

The third chapter brings out the Conceptual framework on the customer loyalty programs along with a description on different loyalty programs of the select retailer concerns under study.

The fourth chapter deals with data analysis and interpretation of the primary data collected for the study.

The fifth chapter provides with summary of findings, suggestion, conclusion and the scope for further research.