

→ Customer loyalty programs (CLP) arrived in India almost a decade ago thanks to proactive retailers such as Shoppers Stop. I call Shoppers Stop proactive because when it was merely a three-store chain and generating revenues of less than ₹100 crores, I believe it must have taken a lot of courage and foresight on its part to invest a few crores of rupees to launch a CLP and then bear a significant running expenditure for managing and



Customer

CUSTOMER LOYALTY PROGRAMS (CLP) ARE A DECADE OLD IN INDIA, PIONEERED BY RETAILERS SUCH AS SHOPPERS STOP. BUT RETAILERS HAVE TO USE THEM WITH CARE AS THEY ARE A TWO-EDGED SWORD WHOSE ARRIVAL HAD GOOD AS WELL NOT-SO-GOOD IMPACT ON THE OVERALL RETAIL INDUSTRY OF THE COUNTRY

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LOYALTY

by Harminder Sahni

handling it.

It is a well known fact that this early move into CLP gave Shoppers Stop a major headstart over most other retailers in the country. Today, Shoppers Stop runs one of the largest customer loyalty programs in India with more than 1.5 million “First Citizen” members. The chain claims to have more than 70 percent of its overall sales coming from them. A job well done by any measure!

This highly successful program by Shoppers Stop has had repercussions across the industry and many retailers from different segments and with varied formats came up with their own loyalty programs to retain their customers.

In the absence of the “First Citizen” program, I suspect that the CLPs would not have come to India so early and retailers may have waited

for a few more years to first build a network of stores and create brand equity and later go for CLPs. The early arrival of CLPs has had good as well not so good impact on the overall retail industry of India.

For the retailers who have been successful and reaped the rewards of CLPs, all is good even though, going deeper, it may be noted that the amount of money spent in early days on these programs may have been better utilized elsewhere. Also, the real impact of a CLP comes into play when the retailer has reached a critical mass of stores and there are a large number of people visiting them frequently. Also, there is a reason to believe that in the absence of serious and relevant competition, the need for a CLP as a USP to lure customers and retaining them may be far less. The consumers, not having much choice anyway, become loyal. They shop at the only store in town whether they are getting loyalty points or not.

Another issue that I see with launching a CLP too early is that the management begins to focus more on retaining loyal customers rather than acquiring new ones.

In an emerging market such as India, the generation gap between consumers is as short as three years. This means that a consumer who is three years younger has been exposed to a very different type of retailing environment compared to a consumer who is three years older. Due to this, their reaction towards marketing strategies also differs quite a bit.

A loyalty program that was launched a few years earlier to target consumers when the chain did not have many stores and also had limited offerings would have created a base of loyal customers with a very different profile. When the chain moves into other cities with, say, larger format stores and begins to offer many more categories, it takes decisions such as where to open the store and

what more products and services to offer based on the analysis of the consumption behavior of its current loyalty customers, not the ones it had acquired in the early stages. This creates a kind of self-fulfilling prophecy where the retailer creates something to service its current set of loyal customers and ends up attracting new ones who are of a similar profile. The base of such customers and their indirect power to dictate the retailer's behavior keep going up.

It may not necessarily be a bad outcome but we should be wary of the fact that the Indian consumers are evolving really fast. So the

that have an impact on the overall profitability of the business. Unless the loyal customers bring some minimum level of revenue to the business, these costs can bear heavily upon the retailer.

Another unintended outcome of CLP is that retailers tend to become more loyal to their presumed customer base of loyalists instead of the customer becoming loyal to them. The former facilitates the process of evaluation and selection of new categories, price points and even locations because the retailer knows very well exactly who is going to be served most of the time.

However, this also comes in the way

to loyal customers, and choose to take their business to competitors. India is a market where retailers are and will be growing so fast that they will be doubling their customer footfalls every other year, meaning the numbers of their new and old customers will be almost equal. It is therefore really important for retailers to focus on new customers as much the old ones.

With the demographics moving on the age and income scale as well as the SEC spectrum, retailers need to ensure that they stay relevant and sensitive to the needs of the larger customer base that is untapped while certainly offering the best to the



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changes in consumer behavior need to be captured and incorporated by researching the needs of consumers who are not shopping with a particular retailer, and not just by studying the behavior of consumers who are shopping most of their needs with it.

A CLP raises a certain level of expectations in the minds of the customers, be it in terms of discounts, better offers or even services such as free parking, no-questions-asked returns and so on. Once these expectations are promised and delivered, managing them becomes quite demanding and challenging for the retailer over a period of time. Moreover, all these services and privileges entail certain costs

of trying anything that is radically different and is perceived to be not in line with the current loyal customer base. Over time some managers become subservient to the analysis of their current sales data and turn blind to the upcoming trends that can never be captured from POS (point of sale) statistics. For this, they need to step out of the comfort zone of loyal customers and look around to notice how other potential customers are behaving and why are they not shopping with their store.

The exclusivity of a loyalty member club leaves out, even if unintentionally, a larger set of customers who sense the lack of service or feel shortchanged compared

customers who are already loyal.

Generally retailers claim their loyal customers account for a large percentage of their sales. But the question to be asked is whether a loyal customer is buying more of their total needs from the retailer against buying from competing retailers. If a retailer can say that my loyal customers buy large percentage of their needs from him, that will be the real proof of loyalty. ❌

ABOUT THE AUTHOR



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