

# Retail loyalty programmes: relationships between the customer and the retailer in South Africa – an exploratory study

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## Key Words

Loyalty Programme; Relationship Quality; Customer Loyalty; Perceived Benefits

## Abstract

*Loyalty Programmes are increasing in number and complexity in South Africa. The aim of this study was to establish how members of consumer loyalty programmes in the supermarket environment felt about the benefits that were offered by various programmes. It examined the possibility of the formation of relationships towards the retailer including customer loyalty. The qualitative study was operationalised through a number of focus groups directed at programme members. Information gained from this initial study contributed towards the construction of a quantitative questionnaire to be aimed at a larger audience on a national scale.*

*The quantitative research found that participants exhibited different feelings towards the various forms of loyalty programme. Those offering tangible and immediate rewards were favoured, although this did not mean that other options were disregarded. Results should also be of considerable interest to both academics and retailers who are considering offering a loyalty programme.*

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## 1. Introduction

Retailers in the Fast Moving Consumer Goods (FMCG) marketplace operate in a highly competitive market. Customer relationship marketing is often employed in order to grow loyalty and improve relationship quality (RQ) (Meyer-Waarden 2015; Zhang & Breugelmans 2012). Loyalty programmes (LP) are one of the marketing tools used in this instance (Kreis & Mafael 2014; King & Clark 2014; Meyer-Waarden et al. 2013). In South Africa, the number of LPs is still increasing rapidly at great expense to the retailer (Chance 2016).

An LP is defined by Olivier & Burnstone (2014) as a planned marketing method that serves to encourage customers to spend more frequently and in greater amounts. This occurs through the offering of points, discounts and/or other forms of rewards in return for the cardholder's patronage, creating a win-win situation as the programme sponsor also gains in market share and profitability. Sharma & Verma (2014) concur, stating that in essence an LP is designed to provide the customers with some form of benefit in return for their business. The idea is that as long as customers remain satisfied with their LP offering they will remain with the retailer concerned (Xie & Chen 2013).

One of the major difficulties for those offering an LP, is to identify the correct combination of rewards that are difficult to imitate and also achieve the provider's objectives. Programme offerings that do not provide sufficient value will result in the customer searching for better alternatives (Steyn et al. 2011). Oberholster (2016) identified a number of reasons why LPs could fail. These included being too complicated to operate, insufficient return on investment, no perception of benefits for the customer and a lack of customer retention on the part of the LP.

This research sets out to explore customer opinions and attitudes towards LPs in the FMCG retail industry in South Africa. In particular, with respect to RQ and customer loyalty (CL). This was a qualitative study. The results were intended to contribute towards a quantitative questionnaire aimed at South African LP customers.

## 2. Literature Review

### Loyalty Programme rewards and the benefits they offer

LP rewards offer a variety of benefits to members. Tangible rewards offer benefits in the form of financial rewards, gifts and discounts, while intangible rewards are designed to appeal to the psychological and/or emotional mind set (Garcia-Gómez et al. 2012). Designers of LPs strive to achieve the right offering that will result in behavioural loyalty and more, reaching the customer at both emotional and attitudinal levels (Eason et al. 2015:71). Although tangible rewards are ubiquitous and enjoyed by many, their benefits are often short-lived, failing to establish relationships and build loyalty (Meyer-Waarden 2015; Bridson et al. 2008; Tabaku & Zerellari 2015). Some tangible rewards are also associated with intangible benefits (Garcia-Gómez et al. 2012).

Eason et al. (2015) identified three different forms of LP benefits. These were categorised as self-benefit, altruistic and a combination of the first two. Self-benefit describes the receipt of direct rewards in exchange for the customer's patronage, and are usually tangible (Garcia-Gómez et al. 2012). In contrast, altruistic rewards are linked with a third party which is usually a cause that might appeal to customers, such as favoured schools, child care and retirement centres. Eason et al. (2015) suggests that an LP that contributes towards a charity might heighten the customer's positive feelings towards the programme and the retailer.

### Categorising the perceived benefits

After consideration of the literature and the South African FMCG scenario, three potential categories of perceived benefits were identified for the purposes of this study. These are described in Table 1.

Perceived Benefit	Consumeristic	Altruistic	Egoistic
Associated with	Monetary, self-benefit; utilitarian; economic; hard	Social responsibility; other benefit	Symbolic; Self-image; pleasure, self-expression; power and achievement. Social and psychological values
Tangibility	Tangible	Intangible for cardholder; Tangible to charity	Tangible/intangible
Examples	Points, discounts, prizes	Charitable programmes	Healthy eating; environmentally friendly purchases; tiered rewards

**Table 1: The perception of benefits in the South African FMCG marketplace.**

Adapted from: Eason et al. 2015; Mimouni-Chaabane & Volle 2010; Feiler et al. 2012; Amos et al. 2015; Romani et al. 2013.

### Relationship Marketing

Relationship marketing describes a shift from individual transactions towards a more sustainable relationship for both parties (Agariya & Singh 2011; Nguyen et al. 2013). The difficulty of building relationships in a transaction based environment is accentuated by Vesel & Zabkar (2010b).

Relationship Quality (RQ) consists of three dimensions which are identified as satisfaction, trust and commitment (Liu et al. 2011; Hennig-Thurau et al. 2002).

- **Commitment** describes the consumer's desire to remain in a relationship. Morgan & Hunt (1994), seminal authors in the field of relationship marketing, define relationship commitment as "an exchange partner believing that an ongoing relationship with another is so important as to warrant maximum efforts at maintaining it".
- **Trust** is defined as an individual's expectation that they can depend on the promises of the provider (Wong & Sohal 2002). Trust creates a desire for customers to invest in a relationship with the retailer (Chen & Quester 2015; Sun & Lin 2010), and is identified as a contributor towards customer loyalty (Evanschitzky et al. 2011).
- **Satisfaction** is a by-product of relationship marketing, and an antecedent of loyalty (Egan 2000; Liu et al. 2011). It is the result of a positive comparison between customer expectations and the offering they actually receive (Zakaria et al. 2014).

Most retailers believe that well designed LPs can retain customers through the development of a long-term relationship that is value added and communicative (Meyer-Waarden 2008).

### Customer Loyalty

Customer loyalty (CL) is important to retailers (Thomas 2013). The competitive retail environment creates the need to learn about CL (Bloemer & de Ruyter 1998). Loyal customers create attitudinal and behavioural links to the business, with future purchases becoming more predictable, as well as customer recommendations (Cant & du Toit 2012). Oliver (1999) defined CL as

"a deeply held commitment to re-buy or re-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 having the potential to cause switching behaviour".

Loyal customers are more economical for the retailer through the savings that come from customer retention versus the higher costs of acquiring new ones (Dekimpe et al. 1997). Loyalty consists of two dimensions, namely attitudinal and behavioural (Bridson et al. 2008). Demoulin & Zidda (2008) describe true loyalty as customers not only being engaged in repeat buying behaviour, but also demonstrating a positive attitude towards the retailer concerned.

### The South African scenario

A number of versions of LPs have been introduced to the South African marketplace over the last few years. Olivier and Burnstone (2014) state that LPs have grown exponentially. Figures suggest that the average adult in South Africa belongs to at least 3 programmes. Favoured LPs were those attached to supermarkets (Moorad 2015), with some retailers investing in excess of R100 million in their programmes (Magwaza 2014).

The South African retail marketplace is described as the largest retail market in sub-Saharan Africa with higher per capita incomes than anywhere else on the continent (Price Waterhouse Coopers 2012), making it very attractive to Western retail companies searching for new opportunities (Jackson 2012). The supermarket industry is a major one in South Africa with food sales contributing more than 50% towards retail sales. Some of the largest LPs in the retail landscape are offered within the FMCG environment.

## 3. Research Design and Methods

### The Aim of the Research

This study aims to establish how LP members' feel about different LPs and whether they believe that they contribute towards RQ and CL. In addition, it investigates customers' perceptions of the benefits that they believe they might receive from different LP offerings.

## Objectives

The main objectives of this study were to:

- Determine programme members' beliefs and attitudes towards various forms of loyalty programmes.
- Establish programme members' perceptions of benefits available from LPs and the potential relationships that might ensue.

## Methodology

Qualitative research was conducted to establish underlying beliefs and attitudes towards LPs. This research was part of a greater exploratory sequential mixed methods approach which began with a qualitative study and proceeded towards quantitative data collection facilitated by a questionnaire. The aim was to gather information from card holders in order to supplement material for the quantitative questionnaire. Two focus groups were arranged, consisting of consumers that held membership of at least one LP. The focus groups sought to investigate respondents' ideas and emotional connections with different forms of LPs in the FMCG marketplace, as well as their perceptions of benefits received and their connections with the retailers that offer or accept programmes.

## Sampling

The sample used in the focus groups was a convenience sample. Participants were recruited by emailing university staff, business contacts, associates and other willing individuals. Because of the method of recruitment, most candidates were drawn from middle to upper income groups. A broad selection of both race, gender, age and card usage ended up taking part. Fifteen individuals participated in two focus groups.

## The research process

Each focus group included a moderator and a facilitator. The moderator acted as a note-taker and an observer, and the facilitator conducted the group. A common set of open ended questions derived from the objectives and the literature was used to facilitate discussion. Each focus group lasted for approximately 90 minutes. As the focus groups were conducted to supplement the literature and contribute towards the quantitative questionnaire for the main study, the idea was not to reach data saturation, but rather to assist in the development of themes and useful interpretations to add to the rigour of the forthcoming research.

## 4. Analysis and Findings

Table 2 provides a breakdown of the demographic make-up of the focus groups in terms of age, gender and race. In addition, characteristics of the respondents in terms of their participation in loyalty programmes are included.

Category	Sub-categories	n
Age	<25	1
	26-40	3
	41-55	8
	56-70	3
Gender	Male	3
	Female	12
Race	Black	3
	White	8
	Indian	4
	Coloured	0
No of Cards	1	2

2	0
3	3
4	4
5	2
>5	4

**Table 2: Characteristics of the focus group participants****General Opinions**

Respondents were initially asked to comment in general on their LPs. In particular, those attached to FMCG retailers. A summary of the main issues is listed in Table 3, according to positive and negative opinions.

Positives in LPs	Negatives in LPs
Simple / User-friendly programmes.	Complicated programmes
Good communication	Insufficient information
Obvious link between behaviour and reward	Perception of increased prices linked to LP
Charitable contributions	Too many programmes
Immediate rewards – preferably cash	Inconsistent specials
	When redemption is difficult

**Table 3: Pros and cons of loyalty programmes**

Most respondents stated that LPs were preferred when they were user-friendly.

“As long as the loyalty cards are easy to use, I will use them. I don’t like to use loyalty programmes that have more complicated stuff”.

A preference was noted for rewards that were immediate, particularly those awarded at the point of sale. The association of the purchase with the reward was motivational and resulted in a feeling of mutual benefit. In addition, respondents stated that they would prefer to be advised of rewards that might be due to them.

“A general opinion is that with loyalty programmes you are getting something back that you did not get back before. You’re still doing the same shopping as always, but now you’re getting something in return”.

Tangible rewards such as cash back appeared to be favoured.

“I enjoy it when we get money back.....”

“I enjoy the benefits, whether it’s cash, or some other benefit....”

Some respondents did note a preference for LPs that donated rewards to the card holder’s charity of choice. However, candidates stated that although they enjoyed receiving rewards from a retailer, it did not drive retailer choice.

One of the main negative responses was that a number of LPs were too complicated, resulting in a lack of understanding of the inner workings of the LP, difficulties in redeeming rewards and a dearth of knowledge about what was available to them as programme members.

“I feel it’s more about the retailer trying to gain information about me, rather than trying to make it simple for me to identify offers and take advantage.

“I think they want to get more information from us, and somehow I get lost in how I can reap the benefits. It’s not all clear to me”.

In addition there is the perception that in order to offer the rewards that retailers do, prices have to increase. Respondents were also overwhelmed with the number of programmes on offer, often ending up with a pile of cards in their wallets, not knowing which one to use. Attitudes towards retailers that offered a reward in the form of a charitable donation were mixed. There were some respondents who felt that given the prices they paid already, it should be the retailers’ responsibility to donate to charities, and that they should be personally rewarded for their patronage.

“Their stuff is so expensive. If they want charity money, they must do it themselves”.

Others see the good that can come from a charitable programme, but did not feel that it influenced their loyalty. Finally, a number of respondents were positive about a specific altruistic programme and enjoyed the way it made them feel.

“It’s good to give back. I like it that I can get some rewards at the same time as providing charities with something every time I shop”.

A number of SA retailers accept loyalty cards that are linked with major Medical Aids. These programmes offer members rewards in return for purchasing healthy products, in particular food, although other items have recently been added. Other retailers reward customers for purchasing environmentally friendly products.

Some respondents stated that they compartmentalised their shopping, patronising the store that offered rewards for healthy purchasing and then moving across to a retailer that they perceived to be more value based for the remainder of their shop. They felt that they experienced a feeling of satisfaction when they were able to purchase healthy products and be recognised for it. They summed it up by stating that there was a double benefit when they received both a financial reward as well as a sense of self-satisfaction.

“I like to see the Vitality tick showing it’s a healthy good. It’s a good feeling. There’s a double benefit – the financial reward and feeling good about yourself”.

The downside of this particular programme was that the rewards were restricted to those that were a member of the medical aids that offered the programme and therefore there was a possibility that some would feel neglected when shopping at the associated retailer. Other downsides that were mentioned were that some of these programmes had a membership cost associated with them and were also complicated.

Respondents were questioned about the programmes they participated in and whether they contributed towards their satisfaction with the retailers concerned. A number of different programmes were discussed with various retailers involved. Respondents that expressed overall satisfaction with the retailer, with the LP creating additional value, pointed out a major retailer that aimed at the upper end of the market and had a complex LP offering a number of different reward opportunities, including charitable donations, stating that

“Retailer x is great because I receive an SMS at the end of the month telling me that money has been paid into my bank account. This encourages me to keep going back because I know that I am getting something back every time I spend money there”.

“I’m particularly satisfied with retailer x. I’m satisfied with their products and their service. The programme adds to my satisfaction with the store”.

A retailer that has recently launched a programme that is promotional, with discounts being offered on presentation of the card, with linked items that change on a regular basis. Some respondents found this annoying, as not all items have rewards attached, therefore rewards were intermittent. In addition, card holders appeared to understand that you had to spend a certain amount in order to benefit, which was also problematic. Despite this, retailer’s concerned were still well-liked by a number of respondents who felt that they were loyal customers.

“I have this card, and it irritates me because I don’t buy the food items that give you rewards. But I still prefer this store to shop at, and the programme hasn’t brought about this preference”.

However, other respondents stated that another programme required members to go to a machine in order to check their points or to obtain vouchers and this was an inconvenience.

“I have an x card, and it’s easy to swipe and use, but to get your money out there’s a bit of a commotion. They eventually send you a message saying you have to use the money before a specific date, to prevent the money from just piling up”.

It should be noted that the same respondent stated that:

"I prefer this retailer and I couldn't be bothered to compare their prices with the others. It saves the trouble of running between stores. When it comes to the loyalty programme, I think that anybody feels good about getting something back".

Retailers that offer a straightforward LP, with cash back at the till, were viewed as attractive to a number of respondents. Members were informed at the till what was available to them and asked whether they would like to use their rewards when paying. They felt that the simplicity of the programme required very little effort and no time was wasted.

Communication played an important role when it came to trust. Respondents that belonged to a programme where there was very little or no communication about rewards that had accumulated.

"I would like to have more communication e.g. an email saying you spent R2000 on groceries and you received 25% back in rewards. There is an element of trust that they money I get back is in fact correct. Proof can confirm your trust".

"My trust in retailer x is declining, because I don't think they have been updating my points. Is it worth my trouble to go find out if they have updated my points? When trust is broken it results in a change in my shopping behaviour".

Communication was also seen to be essential for programmes where rewards were donated to a charity.

"I do trust the My School card because I get an email telling me how much I have received and how much went to a school (regular communication helps a lot)".

In contrast another respondent stated that

"Part of the rewards are said to go to the SPCA, but we don't know for sure if this happens, and so proof to verify this would be nice".

Mention was also made of programmes that had an expiry date attached to their points.

"A downside is when points have an expiry date - I lose trust when you receive points to save money and then later they are taken away".

Some customers also felt that they had been affected by deceptive advertising where advertised discounts were not available when they got to the till.

Many participants claimed that although the LP played a role in customer commitment to the retailer, there were other factors (in particular price) that were just as important.

"I will be committed, provided it is value for money".

"I will buy from this retailer because I get something back. However, if there is a special somewhere else, I would not be committed".

"This retailer is socially conscious / responsible - this helps with commitment".

"Negative issues and publicity has an impact. If there is a problem or there are products I don't like, then I won't go there. I will go where I feel comfortable".

Some respondents still had suspicions about whether LPs and value for money could be offered by the same retailer.

"When you get something back the price is still higher for the same item. For me it must come down to value for money at the end of the day".

"I think it is all a con, but I still do it. The price of a basket of the same goods is steadily going up. With the loyalty programme side of it, I only see a benefit that gives me an amount off your next shop, but the actual basket of foods that I'm buying is increasing exponentially".

Other participants could be described as promiscuous, stating that they jumped from one retailer to another depending on what was on offer. It was interesting to note that these respondents were the ones that held the greatest number of loyalty cards. These answers concur with the findings of the 2015 Eighty20/Tritech Media survey which state that approximately 66% of cardholders in the South African FMCG marketplace answered that their LP did not result in increased expenditure

with the retailer concerned. In addition they added that the LP did not stop them from shopping at the competitor either (Chance 2016).

Loyalty to the retailer was defined as “purchasing from that business regularly over a long period of time and making positive recommendations to others”. Responses were mixed. Some participants were found to be loyal to a retailer and they belonged to the LP. A number of respondents stated that they were loyal to a retailer that offered a straight forward programme with point’s accumulation and redemption of points when required, citing the LP as contributing towards their loyalty. Respondents enjoyed the feeling of obtaining rewards and “getting something back”. In a similar result to the commitment question above, respondents noted that their loyalty could not be exclusively ascribed to the LP, but that there were a number of additional factors that resulted in their choice of the retailer that they were loyal to.

“I buy from this retailer partly because it is linked to my card, but I think that it has to do with the particular store itself. If it was not appealing then I would go somewhere else”.

“I’m loyal to stores that are keeping up with trends (are current). Stores changing their look to become lifestyle stores. The card helps but it doesn’t determine which store I shop at; the attractiveness determines this”.

Others stated that they were loyal to a particular retailer, but felt that LPs had no effect on their loyalty.

“I am loyal to myself and my wallet. I’m less retailer loyal than I am personally loyal and brand loyal. I buy at a regular shop and so I know quality and value, and I make decisions based on my lifestyle, not on my loyalty cards”.

## 5. Discussion and Conclusions

Information gathered from the focus groups has been summarised in Table 5.

Topic	Customer (Focus Groups)
<b>Ease of use</b>	Should be easy to use Customers liked to associate reward with purchase Immediate reward or benefit preferred
<b>Communication</b>	Customers preferred to be able to link the reward with the purchase. Needed to be advised when reward had been earned.
<b>Consumeristic</b>	Many preferred a financial reward. Others did not mind what the reward was Some enjoyed charitable rewards
<b>Altruistic</b>	Mixed feelings. It is the retailer’s responsibility. Does not influence loyalty. Preferred when rewards accrue to the customer and the charity at the same time
<b>Egoistic</b>	Shopping is divided over purchases with healthy food purchased from the store where reward card is accepted. Double benefit – feeling good and getting a reward.
<b>Negatives</b>	Programmes are complicated. Lack of understanding. Poor knowledge on rewards on offer. Difficulty in redeeming rewards. Perception of increased prices. Retailer gathering information on the customer. Too many programmes Programmes that had membership fees. Programmes that exclude members.

	Inconvenience to have to check for rewards. Rewards that expire.
<b>Satisfaction</b>	Some programmes increased satisfaction, while others played no role. Recognition for good behaviour increased satisfaction. Communication assisted in creating satisfaction.
<b>Trust</b>	Good communication increased trust. Proof increased trust. Expired points decreased trust.
<b>Commitment</b>	Committed if value for money is evident. Rewards increase commitment, as long as returns remain competitive. Factors outside of LP contribute to commitment. (e.g. product, price etc) Too many loyalty cards leads to promiscuity.
<b>Loyalty</b>	Mixed results. Not only loyalty programme can be ascribed to loyalty.

**Table 5: Summary of Focus Groups**

As far as rewards were concerned, respondents appeared to genuinely enjoy financial rewards, in particular when the cardholder was well-informed, had easy access to the reward, could understand the process and link it with his or her buying behaviour. However, rewards that were donated to charity resulted in mixed feelings with some cardholders, expecting the retailer to be responsible for donations. Despite this, it was acknowledged by some that it still appealed to their emotional side which could be identified as either altruistic or egoistic. There were mixed feelings from a number of respondents as to whether LPs create customer loyalty. It was noted that LPs alone could not create customer loyalty and that there were a number of other factors that contributed towards this aspect, such as price and product. This was true for satisfaction and commitment as well. These findings were supported by an article written on Tesco's Clubcard in the United Kingdom, where it is suggested that the modern family is tending to shop at many retailers with the result that points are not easily accumulated (Ruddick 2014).

The measurement of customer emotions in relation to LPs (or anything else) is not easy. The importance of being able to capture emotions and attitudes was highlighted by a retailer stating,

"And that is exactly what you are talking about: What's their attitude? Would they recommend us over another retailer? We haven't got the answer to this one.....insight which tells us what their 'value' sense is, what customers are feeling, and measuring it".

This confirms the importance of this study which focuses on a number of intangible feelings associated with LPs that are difficult to measure with traditional methods.

## 6. Limitations and future research directions

As with all studies, a number of limitations are noted. Firstly, the research covered a number of different LPs in the FMCG retail industry. Furthermore, the number of perceived benefits that they offer also vary from programme to programme. These differences could serve to limit applicability of the results. In order to overcome this problem, the research was focused on perceived benefits in the LPs, rather than the programmes themselves.

In addition, the sampling technique and research method does not necessarily represent all South Africans, as it was a convenience sample due to the exploratory nature of the study. It should also be noted though, that most of the retailers that support the bigger LPs target the middle to upper income groups. This should be taken into account when considering generalisation of the results. However, this research could easily be replicated in order to compare different groups.

It was also noted that the way in which retailers communicate with their audiences might have an impact on the way in which programmes are perceived and taken up. This could be topical for further research. Furthermore, there is scope for research where additional factors besides LPs are taken into consideration such as location, price and merchandise mix.

Research could also be conducted by considering one specific programme, or one type of benefit. Additional forms of potential benefits could be added to the mix under consideration. Finally, this qualitative study forms a good pre-cursor to quantitative research which by its nature, enables a greater number of respondents to be approached and for statistical methods to be employed

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