

DO LOYALTY PROGRAMS AUGMENT GROWTH IN SUPERMARKETS? KENYAN EVIDENCE

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Abstract

Customer loyalty schemes have flourished in the era of consumer retention and stiff competition for the customers by the supermarkets and have been eagerly embraced by retailers and consumers alike. The loyalty schemes as we see it today are a replica of the AAdvantage Programme; a frequent flier programme instigated by American Airlines in 1981. The rapid expansion of the Kenyan economy over the last eleven years in spite of the post election violence of 2007/2008 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 loyalty cards and innovative marketing strategies. The primary purpose of this paper is to evaluate the extent to which loyalty schemes enhance performance of the supermarkets in Kenya. In order to do this, the researcher underscored various categories of loyalty schemes employed in Kenya as identified in the literature. The study established that loyalty schemes spur the growth of supermarkets in terms of market share, sales and revenue in Kenya.

Keywords: loyalty scheme, loyalty card, supermarket, Kenya.

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1.1. INTRODUCTION

This research is of the proposition that the customer loyalty scheme arena is where today's marketing battle are being fought and, without doubt the plethora of Loyalty schemes available to consumers certainly suggests that this is factual. Customers are always seeking alternatives to their current retailers this implies that many customers are not satisfied with the current loyalty schemes which they hold. Supermarkets employ a couple of marketing strategies endeavoured at building a bond with customer. Over the past few years, loyalty programs, i.e., loyalty cards, store cards, or frequency programs, have become a major component of marketing strategies, serving a significant role in developing relationships, stimulating product and service usage and retaining customers. One of the strategies popularly used of loyalty in most supermarkets in Kenya is the loyalty card. The loyalty card has been borrowed from the Airlines' frequent flier programmes, the hotel's frequent sleepers, the retailers', credit card companies frequent shoppers, the car rental's frequent drivers and the restaurants' frequent eaters (Barsky 1995). In most recent years many retail firms have initiated loyalty schemes with the objective of enhancing customer revenues. (Lewis 1997) postulated that Loyalty schemes are currently available in many industries like supermarkets, gasoline stations, airline industry, hotels and clothing stores hence becoming nearly universal property in a number of them. The rapid expansion of the Kenyan economy over the last eleven years in spite of the post election violence of 2007/2008, 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 loyalty cards.

Kenya Airways the Kenyan National carrier probably pioneered the use of the Loyalty schemes in Kenya by enrolling its regulars in a frequent flier programme that legitimatised accumulation of flight miles which can be used to make up for a part of flight ticket costs in the future. The employing of Loyalty schemes as a marketing strategy in Kenya's retail industry is rife and most established supermarkets have invested in them showing their inclination towards this as a customer acquisition and retention strategy. The common supermarkets in Kenya like Ukwala have invested in Zawadi Card, Naivas in Naivas Reward Card; Nakumatt in Nakumatt Smartcard and Tuskys in Tuskys Reward Card. The Kenyan retail industry employs the credit card option of the advanced Loyalty schemes where customers amass points based on their shopping. Most

common delivery method for the LPs in Kenyan retail outlets is the frequent shopper card, where customers present the card for scanning at the point of purchase for discounts or reward points. The accrued points are then redeemed to either offset part payment for future shopping or for cash, Kamau (2006).

1.2. Statement of the Problem

The hyper competitive environment of the majority supermarkets in Kenya is persistently challenging businesses to come up with ground-breaking and innovative ways to compete in the market place. This paper focuses on whether the Loyalty schemes spur growth in the supermarkets in terms of market share, revenue and profitability of the supermarkets.

1.3. Objectives of the Study

1. To determine whether the loyalty schemes spurs market share of the supermarket.
2. To find out whether the loyalty programmes has spurred the profitability of the supermarket.
3. To determine whether loyalty schemes boost revenue of the supermarkets.

1.4. Justification of the Study

The study contributes to the available pool of knowledge in loyalty schemes thus stimulating the subject area. The findings of the study will be helpful in informing the stakeholders in the Kenyan retail industry as to whether the loyalty schemes are spurring growth.

1.5. Limitations of the Study

The findings of the study may not have external validity with regard to the use of loyalty schemes in other sectors outside of supermarkets given its scope. The study findings are specific to supermarkets and can therefore not be generalised to other sectors.

2.0. LITERATURE REVIEW

2.1 The Concept of Customer Loyalty

The issue of loyalty has been extensively studied by both academicians and marketers in equal vigour. According to Lambin (2000) loyalty both brand and firm is particularly vital in building lasting relationships between the service providers or product suppliers and customers and can sometimes lead to lifetime relationships. Also important is the impact that loyalty scheme has on profitability resulting from increased customer retention and reduced new customer acquisition costs. Loyal customers are logically at the heart of a company's most valuable customer group as

they offer many benefits to marketers (Ganesh, et al., 2000). Most marketers therefore have sought to pursue Customer Relationship Marketing (CRM) using Loyalty schemes with an intention of building Customer Loyalty. Loyalty scheme is “an integrated system of marketing actions that aims to make member customers more loyal, to enjoy the benefits of the Loyalty scheme, a customer must become a member and must identify himself as such at every purchase occasion Sharp and Sharp (1997). The importance of Loyalty schemes is seen in light of the fact that unlike normal sales promotions, they adopt a long-term perspective in shaping customer behaviour. According to Jain, Dalela and Tiwari (2009), every retailer in India is looking at some or the other form of CRM or its prime constituent loyalty based programmes to draw the customers. The challenge lies in constantly innovating methods of attracting repeat customers and keeping their interests alive. It is contended that every Indian retailer today is aiming at an attempt to turn a casual customer into a loyal customer. LPs are presumably initiated by marketers in an effort to achieve long term competitive position. Financial returns depend on increases in market share and repeat-purchase loyalty which is known to increase as a brand's market share increases (Sharp, 1998). LPs deliver distinct advantages to a firm such as increased revenue and have become a commonly used marketing tool to build Customer loyalty.

2.2 Types of Loyalty Programmes

Kotler and Keller (2009) argue that firms can offer two types of frequency programmes or club marketing programmes. Frequency Programmes are used to reward customers who buy frequently and in large quantities, to build long-term loyalty with high customer lifetime value while creating cross-selling opportunities in the process. Companies operating in highly competitive markets are finding it increasingly difficult and costlier to win new customers than to retain the ones they are presently serving. To succeed such companies are therefore, aiming at building satisfying relationships with customers with the intention of retaining them. (Kagira and Kimani 2010).

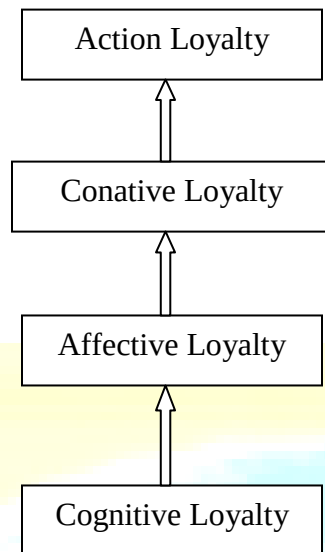


Figure 2.1: Customer Loyalty Levels, Source: Harris, L. C., & Goode, M. M. H. (2004).

Adeniyi (2009) found that loyalty is a multidimensional there is a positive relationship between satisfaction and loyalty, and that product or service quality is important for satisfaction. Loyalty schemes are profitable primarily since substantial incremental sales to casual shoppers' customers offset subsidies to already loyal customers. Kamau (2006) established that loyalty cards do indeed influence store loyalty and that customers found them useful and need to be used together with everyday low prices, assortment of items, customer service, convenient location and quality of merchandise to achieve the efficacy on store loyalty. Loyalty scheme guarantor derive a higher benefits from the scheme members resulting from both repeat purchases and purchase consolidation consistent with the study of Uncles, Dowling and Hammond (2003) assert similar sentiments suggesting that two objectives of customer loyalty schemes are notable. First and foremost is to enhance sales revenues by increasing purchase/usage levels and broadening the variety of products bought from the supplier. Subsequently is to sustain the existing customer base by building a closer relationship between the supermarket and present consumers.

Mutwiri (2005) postulated that expediency, quality and an assortment of goods were important factors in customer satisfaction and choice of supermarket. Attitudes towards relationship marketing, understanding of the concept and use of the concept varies with the size of the supermarket. Sutton Brady & Stegemann (2003) established that the programme helped generate

long-term relationships with customers necessary in ensuring a competitive position in the market and increasing sales eventually, it also helped in pooling resources and cost sharing reducing the individual setup and operational costs. Successful Loyalty scheme leads to customer retention translating to different levels of impact on profitability depending on the industry.

2.3 Conceptual Framework

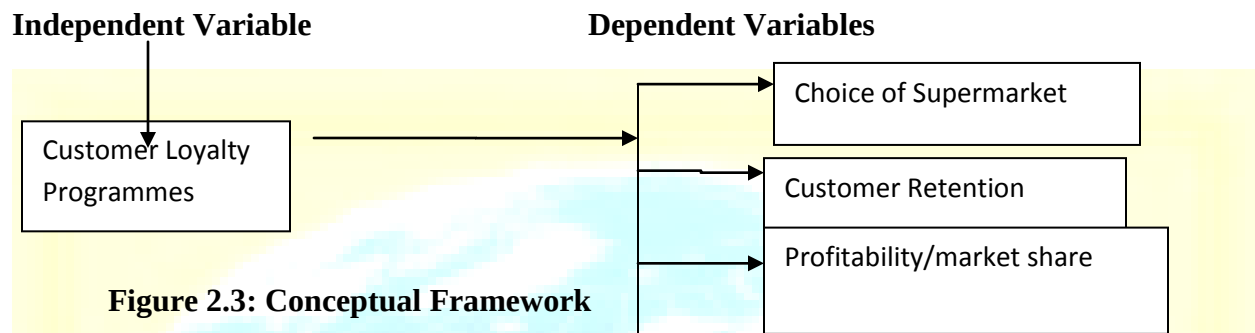


Figure 2.3: Conceptual Framework

Supermarkets hope that by offering customers' Loyalty scheme membership they can influence their choice of which retail outlet to shop at and in the process build retail outlet loyalty. These include influence on the customer's choice of which retail supermarket to shop at, customer retention where Loyalty schemes are intended to make members more loyal than programme non-members and a positive effect on profitability. The framework is premised on the belief that all other factors other than the Loyalty scheme membership would influence all supermarket customers in similar proportions as they pertain equally to both programme members and non-members.

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study adopted a descriptive research design. Descriptive research is used when the purpose of study is to collect data and answer questions concerning the current status of objects under study (Mugenda and Mugenda, 1999). Secondary data was obtained from both internal and external sources and it was cost effective and time saving Polonsky and Waller (2011)

3.2 Target Population

The target population of the study included all adult shoppers (20 years of age and above) of Naivas, Tuskys, Uchumi, and Ukwala, of supermarkets in Kisii Town. the study targeted mid-level managers and shoppers in Kisii town.

3.3 Sample Size

For the study a sample size of three hundred (300) respondents was drawn from the supermarkets under study using simple random sampling method..

3.4 Sampling Design

The four supermarkets were selected using simple random sampling for inclusion in the study and formed the basis of our sample. The choice of respondents from each supermarket for inclusion in the study was selected using judgemental sampling purely at the discretion of the interviewer.

3.5 Data Collection Method

The study collected data from both primary and secondary sources. Primary data collected using questionnaire and Secondary data was from books, journals, previous studies in the area as well as the supermarket websites.

3.6 Data Analysis and Presentation

The collected data was edited, coded, classified and tabulated for analysis. The tools of analysis included measures of central tendency – means and standard deviations, cross-tabulation and correlation analysis. The analysed data was presented using both statistical and graphical techniques. The presentation employed tables, frequency distribution, percentages, and pie-charts among other presentation tools and SPSS.

4.0. DATA ANALYSIS AND FINDINGS

The study obtained 375 usable responses representing a response rate of 92%. Pie charts and Frequency tables were used to representation the results. Age of the respondents varied from 21 years to 60 years. The results of the study showed that majority (51%) of the respondents were aged between 21-30 years; 20% were aged between 31 – 40 years; 19% were aged between 41-50 years while the remaining 10% were aged 51 years and above. These results show that the majority of the people who shop at the targeted supermarkets are middle-aged individuals whereas the minority are aged 51 years and above.

4.1 Respondent's Level of Education

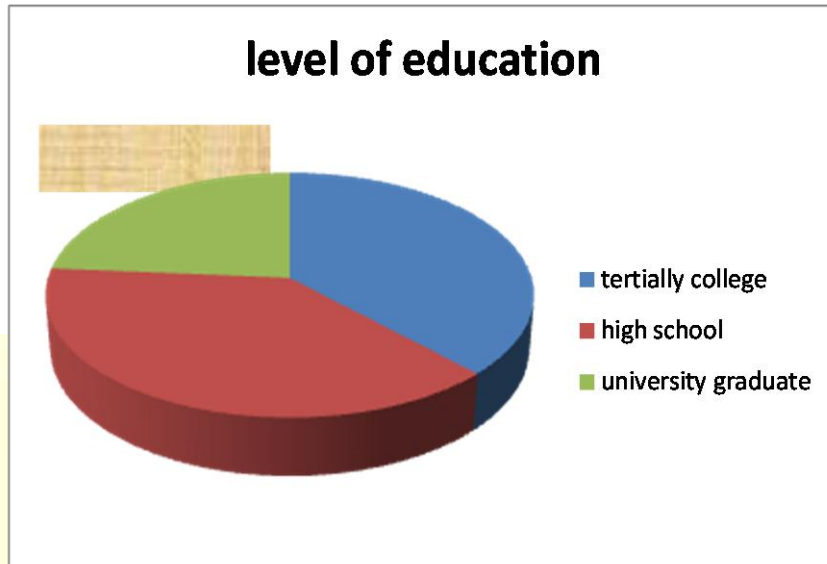


Figure 4.1: Education Level of the Respondents

The outcome of the study revealed that most of the respondents i.e., 48% were tertiary college graduates;

34% were high school graduates, while the remaining 18% were university graduates. this imply that 60% of respondents has post high school qualification which means that education is positively correlate to embracing loyalty schemes as many people with high education have jobs and earn good income.

In order to enhance the understanding of the study, the researcher sought to determine the respondent's LP membership status in the various supermarkets that constituted the population of the study. The results were as shown in figure 4.4.

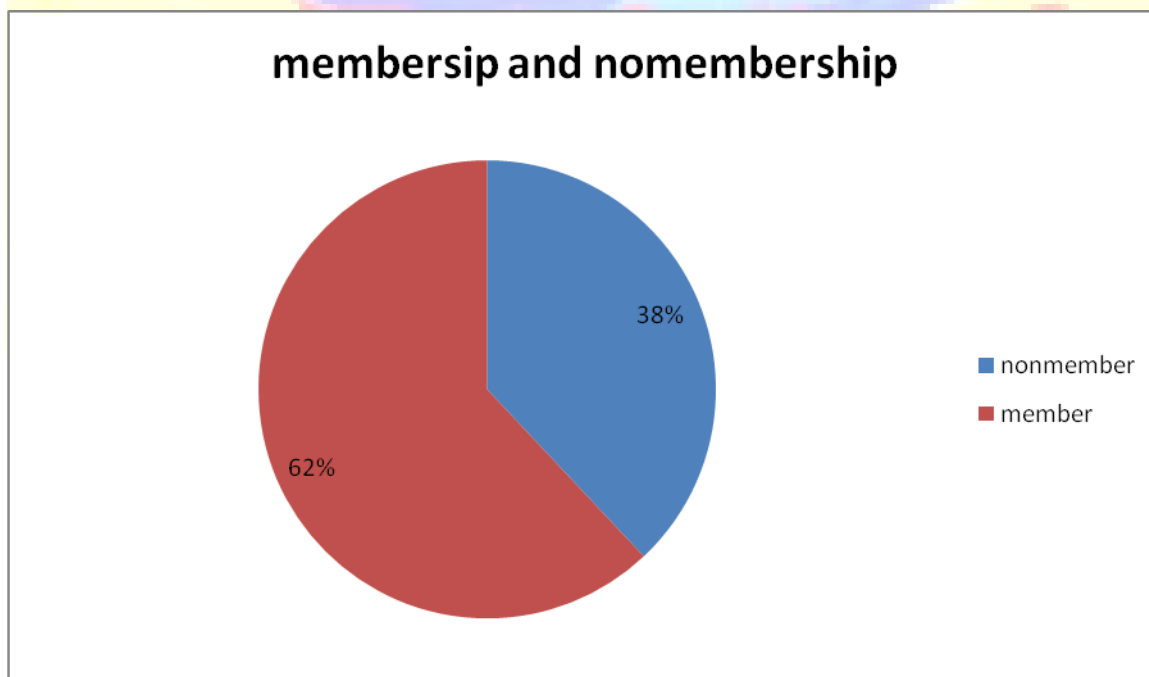
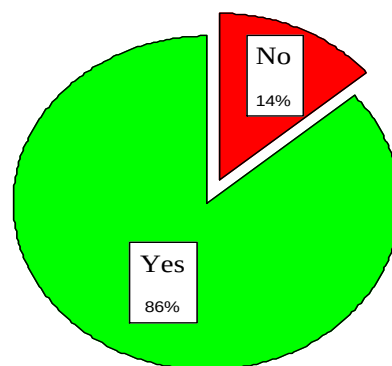


Figure 4.2: Respondent's Loyalty card Membership Status

The findings of the study indicated that a majority (62%) of the respondents were members of the various Loyalty cards being offered by supermarket outlets operating in the area of study, while the remaining 38% were non-members. This means that most shoppers in the various supermarket outlets had enrolled in the Loyalty cards on offer. The results of the study indicated that the supermarket outlet with the highest Loyalty scheme membership was Tuskys (35%), followed by Naivas (25%), then Nakumatt (19%), followed by Ukwala (11%) and (10% Kissimatt. The results of the study showed that before the introduction of the LPs, the supermarket outlet which served the highest number shoppers was Tuskys, then kisiimatt, followed by Ukwala, then followed by Naivas while Nakumatt had the least number of shoppers that were attended of the entire respondents. This means that Tuskys supermarket attended to the highest number of customers while Nakumatt served the least.

The outcome of the study revealed that after the introduction of LPs, the supermarket outlet that attended to the highest number of customers was Tuskys (52.6%); then Naivas (35.2%); followed by Ukwala (29.2%); then kisiimatt (24.5%); followed by Nakumatt (20.9%). This means that the supermarket outlet that served the highest number of customers after introducing LPs was Tuskys while Nakumatt had served the least number of customers after it introduced LPs.

4.2 Influence of Loyalty Programme(s) Membership on Choice of**Supermarket**

Source: Researcher Data (2013)

The results of the study revealed that a majority (86%) of the respondents agreed that LP membership had a role to play when it came to deciding where to shop, while the remaining 14% were of a contrary opinion. This indicates that LP membership is an important factor that the customer will consider while making a decision as to where they will do their shopping.

The results showed that LP membership and choice of shopping outlet were strongly (positively) correlated. The strongest correlation was found in customers enrolled in Nakumatt's LP and who therefore shop at that supermarket given that the Pearson correlation between the two variables was $R = 0.878$. On the other hand, the least correlation was that between the members of Tuskys supermarket LP and therefore those who shop at that outlet, given that the Pearson correlation between the two variables was found to be $R = 0.538$. It can therefore be said that LP membership plays a significant role when it comes to the customer choosing the outlet to shop at. In order to establish the extent to which the LPs have helped in customer retention, respondents were asked whether they would shop at a given supermarket outlet without the loyalty programme(s). The output obtained is as shown on figure 4.3.

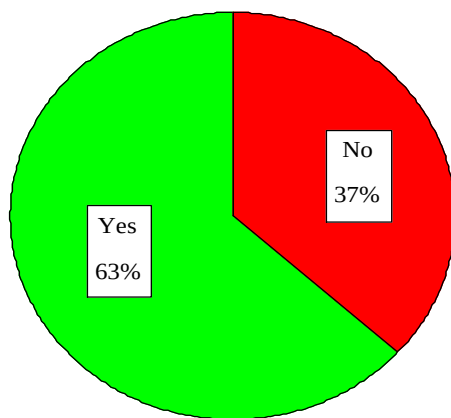


Figure 4.3

Source: Research Data (2013)

The results showed that 63% of the respondents would still shop at the same outlet without the loyalty programme(s) whereas the remaining 37% would not. These connote that LP membership plays a significant role in determining customer retention. Further, respondents who had responded negatively to the withdrawal of the LPs were requested to identify supermarket outlets where they would shop at without the loyalty programmes. Further, the researcher sought

to determine whether convenience of the outlet would influence respondent's future shopping more than their loyalty programme membership. In this case, 70% of respondents agreed while 30% disagreed with the statement. Finally, the researcher sought to find out whether the respondent's loyalty membership will influence their future shopping. In this case, 91.4% of respondents agreed while the remaining 8.6% disagreed. These findings are in line with our earlier findings where 86% of the respondents agreed that their LP membership influenced their choice of where to shop.

4.3 Effect of LPs on Supermarket Profitability

In regard to this objective, the researcher sought to establish the effect of LPs on supermarket profitability. Six out the seven targeted supermarkets responded to the interview yielding a response rate of 86%. To begin with, the researcher sought information concerning LPs being offered by the targeted supermarkets.

Table 4.5 Information on LPs being offered by Selected Supermarket

Supermarket	Type of programme	Loyalty Year initiation	of Current membership status
Naivas	Reward card	2011	5000
Nakumatt	Smartcard	2011	12000
Tuskys	Reward card	2009	7000
Ukwala	Zawadi card	2006	18000

Source: Research Data (2013)

The study further established that the redemption rates were duplicated at 1% discount in four supermarkets - Naivas, Tuskys, Ukwala, and kisiimat while Nakumatt had a variable redemption rate varying from a low of 3% to a high of 5% during back to school offers. The results of the study revealed that all the supermarket outlets unanimously agreed that Loyalty schemes have made a significant contribution to profitability increase of revenue and market share. Data analysis placed Loyalty scheme's contribution to profitability at 18%. This profitability was being realised through repeat purchases, targeted promotions and purchase consolidation. On how to further enhance the contribution of Loyalty schemes to outlet profitability, the respondents suggested the following approaches: conducting awareness campaigns via the media; increase of redemption rates; building of analysis tools; decentralization of Loyalty

scheme membership card issuance/printing; improving Loyalty's security features to deter theft and finally ensuring proper data capture for target marketing.

5.0. DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

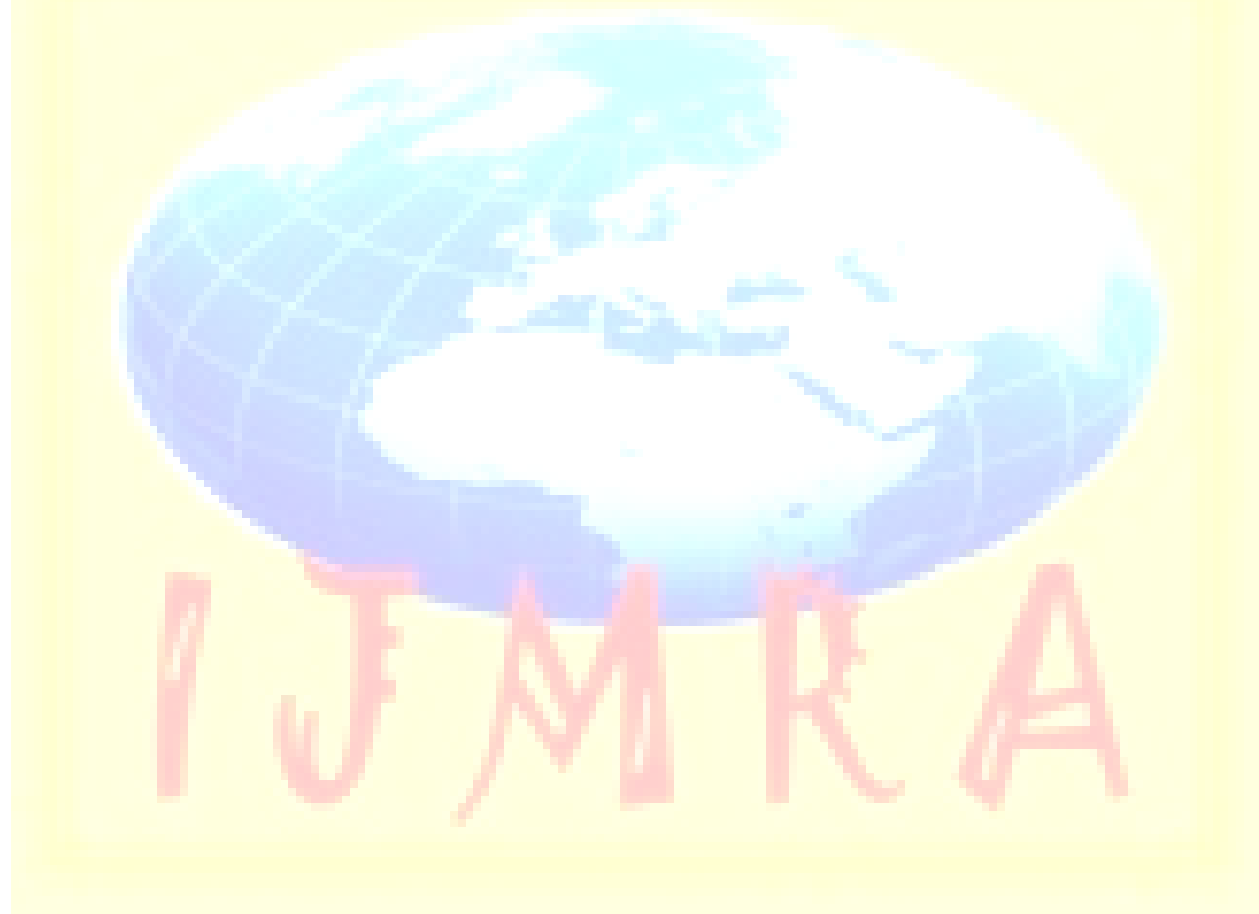
The findings therefore indicate that indeed Loyalty schemes influenced the customer's choice of which supermarkets to shop at. This is in line with Daams, Gelderman, and Schijns (2008) findings on Loyalty scheme use. The second objective was to establish the extent to which Loyalty schemes have helped in customer retention. The study established that Loyalty schemes have had caused 40 % customer retention as indicated by the customers who would not continue shopping where they are currently shopping if the Loyalty scheme offered by their supermarket were discontinued. The findings reinforce those of Kamau, N. K., (2006) who like the current study suggested that supermarket management consider other factors like convenience/location, promotions and special offers and increasing the assortment of products on offer in addition to the Loyalty schemes.

5.4 Conclusions

From the research findings, it is clear that the Loyalty schemes as implemented have a positive effect on the performance of the sponsoring retail outlets. The Loyalty scheme had an 85% influence on the customers/shoppers choice of which retail outlets to shop from. The programmes have caused an average of 35% customer retention for the sponsoring retail outlets and their implementation has yielded on average a 16% increase in profitability for the sponsoring supermarket outlets. The study also found out that the Loyalty scheme guarantor derive a higher benefits from the scheme members resulting from both repeat purchases and purchase consolidation consistent with the study of Uncles, Dowling and Hammond (2003) assert similar sentiments suggesting that two objectives of customer loyalty schemes are notable. First and foremost is to enhance sales revenues by increasing purchase/usage levels and broadening the variety of products bought from the supplier. Subsequently is to sustain the existing customer base by building a closer relationship between the supermarket and present consumers. The study concluded that Customer loyalty schemes have thrived and has been willingly embraced by both retailers and consumers alike in Kenya.

5.6 Recommendation

The study explored the use of LPs as a customer relationship marketing strategy within the retail industry. This study furthermore offers significant proposition, mainly for retailers offering loyalty program to their customers. Based on the findings and the current use of this strategy the researcher recommends that there should better use of the data captured by the Loyalty schemes for target marketing and intensified use of Loyalty schemes can improve the performance of the supermarkets. Consequently, from program-related aspect it is imperative for supermarkets to ensure that customers build bonding with the loyalty scheme.



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