

## Customer Retention and Loyalty Program Improvement

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### Abstract

*The main reason of this study is to obtain a clear understanding about the impact of customer loyalty program on customer retention. The study investigates the impact of independent variable; loyalty program: point system, tier system reward, and non-monetary programs. On dependent variable; customer retention. To achieve the objective of the study, a survey was conducted to collect data from sample. In total 100 questionnaires were distributed randomly among membership cardholders at Ipoh, Ipoh, Ipoh. The participants had different gender, social, education, and occupational backgrounds.*

**Keywords:** (loyalty programs: point system, tier system, and non-monetary, customer retention.

### Introduction

Loyalty program is the powerful tool of relationship marketing in becoming popular to encourage customer loyalty. (Rocking 2015) The use of loyalty programs can introduce benefits to both customers and companies itself. Customer loyalty is an important issue for the success in any retail organization, because it is known as drawing new customers is more expensive than keeping existing ones. (Singh & Imran 2012). He also estimates that on average online retailers lose 25% of their customers every year, and a small increase in customer retention can increase profits by more than (25 %.) Relationship marketing aims to create life time customer because when customers have a relationship with a company, they are ready to forget any other competitors over. Customers are motivated to do that because it gives them a greater efficiency in decision making, reduces the information processing, achieves a greater cognitive consistency in decisions, and reduces the perceived risks associated with future decisions. (Singh & Imran 2012) To build loyalty customers.

Companies use several types of loyalty programs. 57% of airlines and 41% of hotel chains reward consumers for a range of engagement behaviors. A typical approach uses platinum, Gold and silver tiers, typically based on purchase volumes. (Singh & Imran 2012) The reasons for loyalty programs include lack of reward relevance, rigid reward structures, and poor quality customer service. More than half of

consumers admitted that they had abandoned at least one loyalty program according to a survey and social media scanning by consulting date. However, loyalty programs need to be designed with more targeted rewards, differ according to different groups

of members based on their value, and they need to provide greater value at higher customer value tiers, by rewarding best customers to encourage higher spending levels. In order to do that the organization needs to understand their customers' needs and behaviors, by creating profiles with relevant data on customer interactions to have a complete picture of a customer's preferences.

### Review of literature

**Singh & Khan** (2012) highlighted how short-term actions with few modifications with the profit will turn into long term customer loyalty and hence long-term benefit. The authors were focusing on understanding the customer retention and customer loyalty and their importance to the business. The authors also understand the approach of how to increase customer retention and customer loyalty towards the business. With the understanding of the behavior of the customers and satisfying them provides the benefit to the business in the long term. Establishing good relationship with the customers by providing better services will create customer loyalty and more visits over time. This will bring more profit to the business in long-term and will reduce the competition. The study also identified the strategies which attract the customers to the retailer and also understood the considerations to be done while implementing them. With this, it will help the business to gain customer retention and loyalty towards their business if they implement them diligently. (Singh & Khan 2012)

\***Achi & Ningbo** (2011) identified a moderator, step-size ambiguity, and address that when ambiguity is high, only reward distance affects loyalty programs. When ambiguity is lower, consumers integrate step size with reward distance. The physical and psychological distance estimation contexts (e.g.,

weight loss, savings) where distances and step sizes can vary (e.g., as a function of units: kilograms vs. pounds), but especially in loyalty rewards contexts. (Bauchi & Ningbo 2013).

Omar et al. (2009), pointed out that the introduction of customer relationship marketing instruments by retailers has been strongly increased in recent years both in theory and practice. Loyalty programs have become a popular choice of marketing strategy by retailers who believe that loyalty programs are an important strategy and mechanism for retailers to build store traffic, increase basket size and increase frequency by creating deeper relationship with their customer. However, some members in the marketing industry have begun to question the effectiveness of loyalty programs in obtaining customers' support and loyalty. The authors reported on the results of a preliminary study of the literature which has been conducted in an attempt to understand the issue and role of service quality in retail loyalty programs as well as factors that are important in loyalty program service quality.

\*East et al. (2005), defined Consumer loyalty as a singular concept, usually as an attitude toward the loyalty object or as repeat patronage behavior. The definition may combine attitude and behavior in either an additive or an interactive expression. The authors argue that definitions of loyalty are useful if they predict phenomena such as recommendation, search and retention (loyalty outcomes). The findings of the study addressed that in three consumer fields, the combination measures of customer loyalty often perform poorly as predictors of loyalty outcomes compared with singular measures since recommendation is predicted by attitude but not by repeat patronage. Retention and search behavior are predicted better by repeat patronage than by attitude. The prediction of loyalty outcomes is not improved by the inclusion of an interaction term in the model. The combination concepts of loyalty are of limited value. And there is no form of loyalty that consistently predicts all the different loyalty outcomes and, so they abandon the idea of a general concept of loyalty.

### **Need of study**

Researcher choose to go to a specific store due to the loyalty cards they have or are there more pressing reasons for preferring that store? The main objective of this study to determine an answer for this particular question. Therefore, we first examine the impact that loyalty programs on customers store

loyalty. second, we look & how loyalty programs compare with other factors companies use to increase loyalty in general.

your insights that are easier to apply to your current or future business.

- Your cost per acquisition will be lower
- Your churn rate will decrease
- Your referrals will naturally fly in
- Your refund rate will be lower
- You will create positive word of mouth
- Your new products will be easier to create, test, and implement
- You will have more recurring orders. You will get positive reviews and testimonials without actually asking for them
- You could naturally include your customers in your content efforts (and for free)
- You will feel their support when everything does not go as expected

These are just a few of the benefits that when combined might lead to a surprisingly strong impact on your business.

### **Objective of the study**

The main objective of this study is the impact of loyalty program on customer retention. In order to reach this objective, the research will address the following sub-objectives:1.To identifying the types of loyalty program that customer preferred.\*.To identifying the impact of customer loyalty programs on customer retention.=.To identifying the effect of point system on customer retention.6.To identifying the effect of tier system reward on customer retention.!. To identifying the effect of non-monetary on customer retention

### **Scope and limitations of Study**

This study is focus on the impact of loyalty program on customer retention. It is desirable to extend as possible, but this is not possible because of time constrains. This study does not cover the whole store in Malaysia but only focus in small sample simple in Ipoh, Perak. Only focus to distribute 50 questionnaires within a week

### **Data collection:**

#### **Customer loyalty:**

Customer's loyalty is the totality of feelings of attitudes that would incline a customer to consider the repurchases of a particular product, service or

bond or revisit a particular company Kottler and Keller .k.2006

**Customers:**

A customer can be defined as one that purchases a commodity or service Kottler and Keller .k.2006.

**Customer retention:**

Customer satisfaction. That means that the company keeps its customers by providing a great customer experience. Customer retention is the &eye to healthy business growth. scuttle and Keller k.2006.

## **METHODOLOGY**

You might want a specific way to check one of the most important business KPIs, or perhaps you simply want to report the results of your work to your boss. At the same time, you are not interested in going into long discussions that happen in marketing departments all the time. How do you solve this?

Creating marketing analytics is often a very misunderstood activity. We often chase the numbers without actually looking at the business from a higher perspective.

The same issue is with calculating customer loyalty or retention. While calculating retention is something we could quantify, loyalty is impossible to track, and it shouldn't be in our top priorities.

Why? First, it is something that is connected with our behavior and therefore changes with all different life actions we go through, so we are unable to track them with numbers. Second, focusing on daily tasks that improve your product, brand or logistics will eventually improve your loyalty, and you will spot it by increased sales by the same people, positive reviews, and unexpected visits by someone who was sent to you by their friends.

### **Wondering how to create customer loyalty?**

We looked at some of the basics, and you are ready to see some real tips and how to implement them in your business?

From what you have heard so far, it is obvious that building a loyal customer is a long process; therefore, you won't find any quick wins here.

However, if you follow the principles listed below, you might be surprised by their impact in the long-run.

According to research, the average person is part of almost 15 loyalty programs. On top of that 75% of companies with them generate positive ROI, they

also increase retention rate by 5%, and if these are just pure statistics for you, even 83% of customers themselves agreed that these programs are what make them continue buying from a certain brand.

Let's be honest, we all love the feeling of "good purchase." This is something that is done by our sub-consciousness, and it often triggers those well-known spontaneous decisions. Creating a program to reward your loyal customers is a must these days. That's why we are listing it in the first place, because not having one might make someone go to one of your competitors even without thinking about the quality of actual product.

When crafting your loyalty program, there are numerous options you can consider, but in general you should explain everything clearly as well as make it fun and easy to maintain. We are listing some of the most well-known and used types of programs below.

**Types of loyalty programs:**

- Points Loyalty Program
- Tiered Loyalty Program
- Fee-Based Loyalty Program
- Cash Back Loyalty Program
- Spend Programs
- Punch Program

If you decide to go for a loyalty program or improve your current one, we recommend doing your homework carefully and spending some time on preparation, it will prevent confusion that often happens with these programs.

### **2. Create Community Around Your Customers**

Creating community is always easier said than done. To group people in one place and make them return without reminding them is the dream of every business. There are several ways you can group your customers in one place. The best is when they start sharing their experience with your product or services on their own and create buzz on their own. This is usually the scenario of very few online communities and often there are plenty of inactive ones.

### **3. Make Your Customers Stand Out**

There is usually a barrier between business and customers in the way that they hold their position in a purchase process. Businesses make offers, and customers search for them and make purchases. It's very hard to find a business that involves their customers in processes, photos or even decisions.

Why? Because businesses tend to display themselves in a promotion more than the benefits of the products for customers. And if they would include customers themselves, they would increase trust between each

other. Customers would trust businesses and feel they are honest and vice versa, businesses would benefit from good testimonials and feedback from them.

### **Focus deeply on personal reviews & case studies**

One thing that is super important to focus on early on is collecting feedback and displaying it in different formats. We recommend including all of this in the company’s processes and collect everything naturally on a regular basis.

Testimonials and positive reviews have been working forever, but negative “works” even better. Balancing a collection of those that are beneficial for your business and making sure every customer is getting the same support is a must for any business.

We are also listing the most common ways you can display customer reviews:

- Testimonials
- Reviews (internally or externally)
- Case Studies
- Use Cases



### **Improve Customer Experience**

Improving customer experience is something that we often overdo in a way that we try to make fancy and cool stuff in contact with customers, and they simply cannot consume all the information so they quit.

Improving customer experience for us is connected with removing any obstacles in the customer journey. We are listing some of the ideas which need to be intact with your brand and with best website practices.

Here they are:

#### **Design of your product/services**

- Packaging
- Following brand guidelines
- Promo materials
- History of the brand
- Behind the business content

#### **Design of your website**

- Color scheme
- Layout
- Fonts
- Styles

#### **Usability of your website**

- Responsivity & Hiding elements on mobile
- Loading time & reducing JavaScript
- Predictable reaction model
- Usability of your product/service
- Welcome email series

- Available customer support software

### **Findings and Suggestions**

Gathering honest feedback is something might be a clear eye-opener for your business. We have talked about getting reviews and testimonials, but you always get them from your top customers.

However, talking with those who are not always satisfied might bring up some serious issues or other problems that are connected with your business.

Some of the questions you might include in the survey:

- How satisfied are you with our product/services?
- Are there any obstacles that you have been facing with our product/services?
- Are there any other solutions you would welcome in our offerings?
- Would you recommend our solutions to your friends? Why?

Obviously, the list may be way longer, and all of the questions should be personalized for your business. In general, you should look for questions that will motivate your customer to write real and honest feedback instead of answering yes/no. Also, the survey shouldn't be too long.

### **Serve Better Content & Support than Your Competition**

You have expected this. But at the same time, this is something that is often ignored.

Just head to google and type in keywords that best describe a situation when someone is going to purchase any of your products and look for the alternatives over there.

Google became cleverer, so they reward quality more and more, so if you focus on serving better content and providing better support (in this case by guiding them on your website) your brand will benefit and ranking higher in search engines too.

Before you close the browser ask yourself:

- Do I really answer these questions better than other websites listed?
- Do I really provide better content on my blog that helps customers with decisions?
- Are there any technical issues with my website that are restricting my great content from being ranked higher?

If your website is easy to navigate, loads fast, and doesn't put up obstacles for your visitors, then having great content will eventually prevail for both customers and search engines.

### **Reward them, but not just with discounts**

Rewarding your key customers for their loyalty is what most businesses do via a loyalty program. They do their job well and give everyone the same conditions.

However, segmenting your customers by their impact on your business is something you will barely see. We recommend giving them something special, and it shouldn't be just a financial reward such as a discount.

Here are some ideas for rewards:

- Special place on your website
- Photo with their logo/brand in your office
- Invitation for lunch/dinner
- Special gift sent to their office
- New Year's thank you letter
- Extra support for their team

And the list could go on. Any sign of extra effort from you will be counted by your best customers. But don't push it too much. They can either be disrupted by their daily business or take it too far.

### **Thank you letters**

There is nothing more personal in business than a personal relationship. Sending out handwritten or at least a signed letter to your key customers is something that we see a bit more often, but still practiced by a small amount of companies?

Taking advantage of this simple and low-cost method will definitely decrease churn-rate, even though we can argue that the only important thing is your solution. It gives you an edge over someone else.

### **Follow their results**

If you care about the business of your customer, you might consider following them online and engaging with their announcements. It will give them a special feeling that you care about their work and aren't only trying to sell them your solution.

### **Managing The Expectations**

You know that not everything that is written on a product page is what you get in reality. Inability to deliver what your customers paid for is the most common way the returning customer ratio is decreased.

Persuading someone to buy your product is only a small win compared to turning them into a loyal customer. But you know that, we have been talking about this throughout the whole article.

If you are taking your business seriously, then focus on slow, but steady growth. There have been numerous cases where companies weren't prepared and failed while getting more customers.

You cannot serve to everyone on this planet.

Few tips on how to make sure you manage expectations well:

- Watch deadlines
- Keep track of customer status
- Always be transparent and honest with your product descriptions
- Never recommend products that are not beneficial for customers

### **Deliver more than you promise, but don't over-promise**

You should always promise only what your customers have paid for. Don't give false hopes that are unrealistic, only give a real scenario that you can deliver for sure.

It won't only give you free hands during your work, but it will give you a clear advantage when communicating something they didn't expect.

Did you sell them a basic audit? Throw in a bonus section.

Did you sell them protein powders? Throw in a new product sample.

Did you sell them a new pair of boots? Throw in boot cream.

Do you know how all of these little bonuses connected together are?

- They are extremely relevant to the product your customer purchases
- They are free or very low priced compared to the purchased products
- They motivate to keep buying from the same place because the relevant bonus you have included without their request was on their radar anyways

These small loyalty points gained by your natural proactivity will drastically change the way the audience is feeling about your brand.

## Conclusion

Building a stable customer base starts with a focus on your existing one. While it's always nice to onboard new customers each month, forgetting about your past clients will eventually lead to collapse.

Whether you decide to send thank you letters, announce news by CTA system such as Hello Bar or implement customer service software, you always have to think about customers as people. And all of them have their needs, dreams, and problems. And you need to fit well into all of them.

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