

LOYALTY CARDS: STRATEGIC MARKETING TOOL OR WASTED MARKETING EFFORT?

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Abstract

The rapid rise and distinctive demands of black consumers after the apartheid era in South Africa has brought forward many opportunities for retailers. One of these opportunities is examining the purchase behaviour of black consumers if they possess a loyalty card. The purpose of this research was to investigate the purchasing habits of black South African consumers who possess a loyalty card, looking specifically at purchase frequency and polygamous loyal customers. In order to test various hypotheses, 65 black South African clients of two pharmaceutical outlets were surveyed. The results of the study indicated that a relationship does exist between the possession of a loyalty card and shopping frequency, as well as the relationship between polygamous loyalty and shopping frequency.

Keywords: South Africa, Polygamous Loyalty, Purchase Frequency, Black Diamonds

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1. Introduction

Since independence in 1994, South Africa was transferred to a multi cultural democracy with major political, social and economic challenges and opportunities. The new “rainbow nation” that was born created a thirst and need for new products and services from a population long deprived.

Before independence black South Africans, who account for about 80% of the population, was largely excluded from the mainstream economy in the country (Cohen, 2008). This however changed and soon the emergence of a new black middle class attracted the attention of marketers in all sectors, but more so in the retail sector. De Bruyn and Freathy (2011) state that after the 1994-election, many organisations, and by implication marketers, struggled to fully understand and capitalise on the demands of the new South African consumer. Due to the way the South African society was structured and operated on racial lines, few retail companies accumulated a data bank on customers outside of their own account portfolios – that is white customers. Very few organisations considered it necessary or important to focus on any segment of the black population and therefore had little understanding of their purchasing habits (Bruyn & Freathy, 2011).

Under the pre-1994 social dispensation, the black community was viewed as one monolithic mass

that was generic in their needs and could not be segmented and who would not be responsive to a loyalty programme. Consequently loyalty programs were primarily targeted at historically advantaged communities (Olivier, 2007).

The purpose of this research is therefore to investigate the purchasing habits of black South African consumers who possess a loyalty card. Insight into shopping habits of black consumers will be provided by looking specifically at purchase frequency and polygamous loyal customers. The results aim to provide retail outlets with tools to attain a sustainable competitive advantage. Information pertaining to loyalty cards and their impact on buyer behaviour is of strategic importance to marketers because such programmes are costly investments and require an organisation’s long-term commitment (Maharaj, 2008). Obtained data can be used for decisions on segmentation, targeting and overall marketing strategy.

The research was conducted amongst the customers of a leading South African pharmaceutical retailer that offers loyalty cards to their customers. For the purpose of this article, and to honour the retailer’s wish to remain anonymous, we will refer to this leading South African pharmaceutical retailer as Retailer A. Retailer B refers to a direct competitor for Retailer A in the pharmaceutical retailing industry.

This article will report on literature regarding loyalty programmes and loyalty cards, followed by a discussion of the methodology used, results and will conclude with a discussion of the limitations of the study and direction for future research, managerial implications and a conclusion.

2. Literature review

The use of customer loyalty programmes is not new to the market as it has been developed across a variety of industries, including hotels, credit card issuers, retailers, airlines, car rental companies and entertainment firms (Lacey & Sneath, 2006). The growth and expansion of loyalty cards during the 1990s and early 2000s have been researched extensively in both trade and academic journals, and loyalty cards are considered one of the most successful marketing tools (Anon, 2005a; Gómez, Arranz & Cillán 2006; Wood, 2005). The motivation behind launching and upholding loyalty programmes is based on the belief that current customers are more profitable than new customers and that it is in the best interest of the company to try and build a loyal customer base (Melzer & Fulton, 2006). Loyalty cards can therefore be used as a successful marketing tool by retailers to stimulate customer retention and consumer buying behaviour (Meyer-Waarden, 2008).

The worldwide recession that has been going since 2008 has led to the rivalry amongst retailers to increase dramatically and this has led to an increased pressure on these retailers to deal with their customers more efficiently and to consistently provide customers with value (Baydar, 2002). Currently, many companies use customer relationship management (CRM) strategies to maximise the customer satisfaction level by trying to understand more about the behaviour of their customers (Baydar, 2002). According to Injazz and Popovich (2003), CRM is “a combination of people, processes and technology that seeks to understand a company’s customers and is an integrated approach to managing relationships by focusing on customer retention and relationship development”.

Many companies have CRM strategies in place and they tend to shift their focus more from attracting new customers to maintaining their customer base in adverse and turbulent economic times. By implementing CRM systems, they are able to build and strengthen relationships with their existing customers and in so doing retain these customers as loyal customers (Mendoza, Marius, Pérez & Grimán, 2007).

The Pareto Plus principle, which states that 80% of revenue comes from only 20% of customers (Svensson & Wood, 2006) has motivated the shift in focus from *finding* customers to *keeping or retaining* customers. Underlying this view, is the belief that it is generally less costly to invest in programmes designed to foster the retention of customer by

“enhancing customer satisfaction, providing better value or development of improved or expanded services, than the cost associated with acquiring of new customers” (Gable, Fiorito, and Topol: 2008:). McIlroy and Barnett (2000:) state that, if a company is unable to keep customers and build long-term relationships, “it will continue to operate with discreet, single transactions; and therefore a desired outcome of providing quality in all transactions is customer retention”.

Considerable time and financial resources are allocated by many organisations to the development of customer retention strategies (McIlroy & Barnett, 2000). There are various ways that companies reward their customers or loyalty card holders, of which the most widely used method is the accumulation of points (rewards) based on purchase frequency, which allows these customers to secure discounts on future purchases from a specific retail outlet. This is one way of trying to retain customers.

Consumers who possess loyalty cards could have a very large impact on the success of retail operations and retailers need to have a good understanding of how loyalty programmes may affect their business. Potential benefits of an effective loyalty programme can include fewer price-sensitive consumers, more positive attitudes towards retailers, higher average sales and customer retention (Berman, 2006)

Loyalty card usage

Internationally, loyalty cards seem to be very popular among consumers. A study by Berman (2006:124) found that almost 90% of American consumers actively participate in some type of loyalty programme and most of these consumers are registered with multiple loyalty programmes.

Similarly, 92% of UK consumers participate in a loyalty programme, with 78% being members of two or more programmes (Berman, 2006). Similar behaviour was found among Canadian consumers by ACNielsen in their 2005 study, in that 95% of Canadian consumers belong to loyalty programmes of department stores, mass retailers, general merchandise or warehouse clubs (Berman, 2006:123).

In South Africa – according to a survey conducted by Razor's Edge Business Intelligence (2005) and World Wide Worx (2005) – just over 10% of the population hold membership of loyalty clubs of commercial organisations which is low in comparison to international markets but at the same time is an indication of the untapped potential that exist. These loyalty cards generally fall into the areas of financial services, air travel, retail and wellness (Anon, 2005). The South African market shows potential for significant loyalty growth since there are currently 12 to 15 million registered loyalty members across a host of programmes, representing only 1 to 2 million households (Olivier, 2007).

Purchase frequency

Existing research does not offer consistent results in the area of purchasing frequency of consumers who are in possession of loyalty cards. Consumers with loyalty cards show different behaviour to non-participants, as they visit the retail store more frequently than non-participants (Drèze & Hoch, 1998; Meyer-Waarden: 2002). Contrary to these studies, Gomez *et al.* (2006) propose the inefficiency of loyalty programmes in causing behavioural change in the majority of participating consumers in their study. The following hypothesis was formulated based on these previous research results:

H₁: There is a positive relationship between possession of a loyalty card and shopping frequency at that specific pharmaceutical retail outlet among black South African consumers.

Polygamous loyalty

Previous studies have shown that consumers with multiple loyalty cards are less loyal to a specific retail outlet and that the effectiveness of a specific loyalty card is therefore much smaller (Anon, 2005a; Bellizzi & Bristol, 2004). Ergin, Parilti and Ozsacmaci (2007) support these findings when they observe that customers who use their loyalty cards frequently tend to shop at different stores with different loyalty cards. This is referred to as polygamous loyalty and should be of concern to all companies and specifically retailers as it has implications for the effectiveness of these cards and the impact that it may have on projected sales.

Although a considerable amount of international research has been conducted on the relationship between loyalty cards and loyalty behaviour to a single grocery market, (Bellizzi & Bristol, 2004; Lacey & Sneath, 2006; Mauri, 2003; Meyer-Waarden, 2007; Zhang & Peng, 2010), very few studies have so far considered examining consumers' multi-store (polygamous) loyalty and its effect on expectations by the issuers of these cards.

Polygamous loyalty seems to be rife among consumers today according to Forrester Research. Their study found that 54% of USA grocery shoppers belong to two or more loyalty programmes, 15% of consumers are enrolled in at least three programmes, and 4% are members of either four or five loyalty programmes (Berman, 2006). Steyn, Pitt, Strasheim, Boshoff and Abratt, (2010) noted that research conducted by the online community Pigsback.com and loyalty management company Reward, suggests that 98% of those they surveyed had a loyalty card and almost two thirds have three or more loyalty cards, which demonstrates that 'loyalty card fatigue' has set in among consumers.

Saturation may decrease the efficacy of loyalty initiatives with customers losing interest, or manipulating the system by holding multiple loyalty

cards so that advantages can be gained wherever a customer chooses to shop – and therefore negating the main purpose for the instigation of such a card i.e. loyalty (Anon, 2005a). Contrary to these findings, a similar study done by Maharaj (2008) found that multiple memberships to customer loyalty programmes did not primarily influence purchasing behaviour.

Uncles and Hammond (2003) argue that people, in general, do not only watch one television station, drink one brand of wine or eat at one restaurant only – and therefore, if consumers have good reasons for being multi-loyal, then it is perhaps unrealistic for brand managers to expect customers to become single-brand loyal. The issue however is that the more loyalty cards the customer has, the more he/she will be inclined to "spread their loyalty" resulting maybe in less loyalty. The conclusion of the study by Uncles *et al.* (2003) emphasises that the challenge lies with brand managers to convince their customers to reduce their brand repertoire and increase their propensity to buy their brand. This study is supported by findings by Leenheer, Bijmolt, Van Heerde and Smidts (2007) that state that the effect of a loyalty programme decreases with the number of competitive loyalty programme memberships. In order to address this research problem, the following hypothesis was formulated:

H₂: There is a negative relationship between polygamous loyalty and purchase frequency at the specific pharmaceutical retail outlet where the black South African consumer holds a loyalty card.

Pharmaceutical retailing

The introduction of pharmacies within retail outlets is a global phenomenon. In the USA, the world's largest retailer, WalMart, has barged into the pharmaceutical retailing industry with enthusiasm, having 3 500 in-store pharmacies (Planting, 2010). Loyalty card members of pharmaceutical chains account for the largest share of all USA loyalty programmes, outperforming those of the travel, hospitality and financial rewards sector (Blank, 2009). A market research study conducted in Ohio found that, regardless of the fact that sales declined in most retail sectors in 2008, retail pharmacy sales increased by 1.5% in the same period, and membership in pharmacy reward programmes in the USA grew to 73.9 million members by the end of 2008 (Blank, 2009).

With arguably the largest pool of professional services in the healthcare sector coupled with its reach into both urban and rural South Africa, the Independent Pharmacy sector plays a pivotal role in the delivery of pharmaceutical services to the public sector (The citizen, 2012)

The retail pharmaceutical landscape in South Africa has changed considerably over the past number

of years with small independent retailers making way for the larger corporate retailer pharmacy chains in South Africa. As a result, independent pharmacies are finding it difficult to compete and are consequently closing down (Euromonitor, 2012).

Until 2004, the pharmacy environment in South Africa was extremely fragmented with individually owned pharmacies. Retailer A evolved from a single pharmacy to a national group of retail pharmacies in the early-1980s. Retailer A's phenomenal growth and success can be attributed to a number of factors, such as discount pricing, importing directly, private label

manufacture and distribution. It also offers a loyalty programme to remain competitive, which gives customers the opportunity to earn points on all items in store. These points can be redeemed on their next purchase (Euromonitor, 2012).

Table 1 below demonstrates channel data of health and beauty retailers in South Africa. It is evident from the table that the value sales, outlets and selling space increased remarkably from 2006 – 2011, indicating a major growth in the pharmaceutical and beauty industry

Table 1. Channel data of Health and Beauty Retailers

	2006	2007	2008	2009	2010	2011
Value sales R million	24,502.3	25,258.6	26,001.1	28,167.1	29,588.3	31,991.5
Outlets	5,913.0	6,473.0	6,982.0	7,404.0	7,908.0	8,437.0
Selling space '000 sq m	850.1	919.0	995.0	1,049.4	1,117.6	1,196

Source: Euromonitor, 2012 (Dis-Chem Pharmacies (Pty) Ltd in Consumer Health (South Africa))

Emergence of the black diamonds

Since independence there has been a shift in the distribution of wealth and a strong black middle class has emerged – which is called or referred to black diamonds. This segment consist of young up and coming black consumers who have become successful in their own right or who have high profile jobs. They are in a position to purchase a wider range of products, live in upmarket areas, spend more money on entertainment and luxury goods and are between the ages of 25 to 35. These Black Diamonds are seen as the ideal target audience for loyalty cards – and most likely “collectors” of these cards. These consumers were seen as “educated”, “employed” and “on the way up” Olivier (2007).

Olivier (2007) asserted that although the Black Diamond market only consists of two million people, it represents about US\$20-25 billion in spending power annually. Cohen (2008) support these findings by referring to the study on Black Diamonds conducted by the University of Cape Town's Unilever Institute of Strategic Marketing that claims that the most astounding evidence of their financial resilience can be seen in a 39% increase in spending power, from 180 billion rand in 2007 to 250 billion rand in 2008. It is evident from these statistics that this segment is becoming wealthier and their spending patterns are starting to grow.

3. Methodology

In order to achieve the objectives of this study, a self-administered survey, in the form of a mall intercept was conducted among 65 Black South African consumers. Previous studies conducting research on the impact of loyalty cards on consumer behaviour have also made use of survey research in their

respective studies (Gomez *et al.*, 2006; Palmer, McMahon-Beattie & Beggs, 2000).

The units of analysis for the study were individuals (over 18 years old) who purchase goods from the pharmaceutical retail chains of Retailer A as well as Retailer B (as described above). The pharmacy-retailing sector was selected to examine the research hypotheses, restricting the sampling frame to a single industry, which minimises extraneous sources of variation (Bennett & Rundle-Thiele, 2002).

Non-probability sampling was used, which was supported by a similar study done by Turner and Wilson (2006) in their study of Tesco consumers, which also used non-probability sampling as their units of analysis belonged to particular group or population, in their case, customers of Tesco.

The researchers employed convenience sampling in this study and in order to eliminate researcher bias, the survey was conducted at varying times on different days of the week during a two-week period.

4. Findings

The sample included 65 usable surveys. The sample was dominated by female respondents (83%) while the majority of respondents fell in the 19-25 and 26-35 years age groups with 46% and 40% respectively. Of the total number of respondents, 34 % who were asked to complete the survey at Retailer A had Retailer A loyalty cards, while 26% had both a Retailer A and B loyalty card (Retailer B being a direct competitor of Retailer A).

Of the total number of respondents, 23% indicated that they do not possess any form of loyalty cards, while 17% of the respondents stated that they were not interested in having a Retailer A loyalty card. According to the research study, reasons given for not having a loyalty card included that there was

an element of distrust regarding cards (they were seen as a scam by 30%), or that they had never been approached to apply for a loyalty card (40%) or that they plan to become a loyalty card holder in the future. An interesting fact was that in total 44% of Retailer A shoppers who did not have a Retailer A loyalty card had never been approached by the retailer to become a loyalty cardholder.

In order to test the first hypothesis the researchers posited two one-tailed (directional)

hypotheses that were tested at a 5% level of significance (i.e. $\alpha=0.05$). A cross-tabulation was formulated to identify whether there is a positive relationship between possession of a loyalty card and shopping frequency at the specific retail outlet of which the consumer has a loyalty card. As is evident from Table 1 below, the one-tailed p-value is smaller than the significant level of 0.05 therefore H_2 is supported by the data and is accepted.

Table 2. Purchase frequency

		I shop at Retailer A		Total
		Less than once a month	1-3 times a month	
Retailer A Card	Yes	4.5%	95.5%	100%
	No	53.5%	46.5%	100%

Pearson's chi-square = 14.969 df=1 Sig = 0.000

The relationship between polygamous loyalty and shopping frequency was explored through cross-tabulation. It was observed that 94% of polygamous loyalty consumers purchase at Retailer A 1-3 times a month, while 1.5% shop at Retailer A less than once a month. A Pearson's chi-square was calculated to understand whether there is a significant relationship

between these two variables. The results of the chi-square ($\alpha=0.01$) indicates that there is a statically significant relationship between polygamous loyalty and shopping frequency of Black consumers. The one-tailed p-value is smaller than the significant level of 0.05; therefore H_1 is supported by the data and is accepted.

Table 3. Polygamous loyalty

		I shop at Retailer A		Total
		Less than once a month	1-3 times a month	
Loyalty Type	Polygamous	5.9%	94.1%	100.0%
	Retailer A Loyal	0.0%	100.0%	100.0%
	Retailer B Loyal	57.1%	42.9%	100.0%
	None	46.7%	53.3%	100.0%

Pearson's chi-square = 15.487 df=3 Sig = 0.01

Of the polygamous loyal respondents 59% agreed that they should get the most rewards out of whichever program you can get, 94% indicated they tend to lean towards the programme with the better rewards., 100% agreed or strongly agreed that stores should compete with each other for customer loyalty while 82% indicated that they want the best product available, however only 18% agreed that they only shop at the store for which they possess a loyalty card.

5. Discussion

As is evident from the analysis in the above section, the findings of this study show that the possession of a loyalty card indeed increases the shopping frequency of a consumer at a specific pharmaceutical

retail outlet. This indicates that loyalty card programs indeed hold value for retailers.

This study has proved that polygamous loyalty (consumers who hold loyalty card from a retailer as well as one or more of the retailer's competitors) has a negative effect on consumers' shopping frequency at a specific pharmaceutical retail outlet. The results indicates that 68% of participants who have Retailer A loyalty card still shop at Retailer B 1-3 times a month and 32% shop at Retailer B less than once a month. Furthermore, 62% of participants who have a Retailer B loyalty card still shop at Retailer A 1-3 times a month and 38% shop at retailer B less than once a month.

It is evident from these statistics that consumers try to get the best rewards where possible. Loyalty initiatives from retailers will decrease as customers

lose interest, or having multiple loyalty cards where they can gain rewards at every store that they shop. Retailers should re-examine how they want to keep their customers loyal.

6. Limitations of the study and direction for future research

Particular limitations of this research study should be noted. Firstly, the focus was only on behavioural loyalty (shopping frequency) of Black consumers and not on attitudinal loyalty (emotional state of customers towards loyalty cards). Prior research largely neglected the simultaneous impact of loyalty programmes and customer attitude and behaviour (Dorotic, Bijmolt & Verhoef, 2011). Future research could investigate how attitudinal loyalty measurements can provide more insight regarding the possible reasons as to why a customer demonstrates behavioural loyalty (Bandyopadhyay & Martell, 2007).

Secondly, shopping frequency is only one aspect related to measuring the influence of loyalty cards on consumer loyalty behaviour. To carry out an analysis of consumer loyalty behaviour, future research could focus on store loyalty, programme loyalty, basket size, habitual shopping, brand loyalty and cardholder satisfaction.

Thirdly, this study was confined to only two retailer outlets and that only in the Pretoria area. The results for polygamous loyalty and shopping frequency cannot therefore be generalised without further empirical research.

Future research could focus on cross-cultural or cross-racial studies of the perceived benefits of a retailer loyalty scheme in South Africa. The impact of culture on loyalty programmes can be significant as consumers rely on cultural norms in their decision-making (Steyn, Pitt, Strasheim, Boshoff & Abratt, 2010). The importance of individual differences and cultural norms (e.g. demographics, need for achievement and sensitivity to social comparisons) in the selection of types of reward benefits (Steyn *et al.*, 2010) may differ enormously in a multi-cultural country such as South Africa.

Another interesting result that emerged from the results is the substantial percentage of black consumers who are not interested in having a loyalty card (44%). Future research could investigate possible reasons for this and bring significant insight to loyalty card research.

7. Managerial implications

Important managerial implications can be derived from this study. The results of this study show that loyalty cards have a positive influence on black consumer purchasing behaviour. Therefore, retailers who do not have loyalty card programs should consider such programs as part of their marketing strategy. As this study shows, these programs are

likely to have a positive long-term effect on their consumers' buying behaviour, which in turn will have a positive effect on retailers' sales and profit.

Since loyalty programs not only allow retailers to build relationship with customers, but also allow retailer to analyse buying patterns of their customers, retailers should not treat all loyalty cardholders similarly. A retailer could target promotions and rewards to specific customer segments based on the products they often purchase or times that they usually shop. For example, retailers could provide card-holding customers discounts on products they frequently purchase or with seasonal discounts based on their purchase history. Retailers could, in this way provide these card-holding customer segments with value that pertains specifically to them (Leenheer & Bijmolt, 2008). Leenheer and Bijmolt (2008) further suggest that such segmentation can be based on profitability, category expenditures, cross-category buying and previous brand choices.

According to the above findings, polygamous loyalty has a negative effect on shopping frequency at one specific retailer. Marketing managers would therefore do well to constantly be aware of competitors' loyalty program and how this could possibly water down the effect of their own program. Retailers could possible offer single card holding customers extra discounts and special offers to reward their loyalty in order to deter customers from being part of competing loyalty programs.

8. Conclusion

This article examined the impact of loyalty cards on black consumer purchasing habits in a South African pharmaceutical context. Particular attention was given to shopping frequency and polygamous loyalty. The findings showed that loyalty cards had a positive effect on these consumers's shopping frequency, which provides opportunities for retailers who do not currently offer loyalty cards programs. Polygamous loyalty was also found to have a negative effect on shopping frequency at one specific retailer which might serve as a motivation to marketing managers to be fully aware of the offerings of their competitors. This paper thus provides marketing managers with some insights into South African pharmaceutical retailer loyalty cards and consumers' behaviour around these programs.

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