



Entrepreneurship Challenges in a Third Party Loyalty Program : a Case Study

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ABSTRACT

As many foreign retail companies have already entered into India, the Indian retail companies have started feeling the heat. Retaining the existing customers is cheaper than getting the new customers. Loyalty programs provide a great way in reaching to the loyal customers and to offer them better value. Many Indian retailers have also started offering various loyalty programs to their customers for maintaining their long term competitive advantage. So the main objective of this paper is to identify the issues related to entrepreneurship in loyalty program in Odisha region. This paper uses case study approach in finding out the difficulties of entrepreneurship. Personal interview was conducted with the entrepreneur and also secondary data were collected from various sources for this paper. This paper will be helpful for young and prospective entrepreneurs in solving many difficulties they may face while starting their enterprise.

KEYWORDS: Entrepreneurship, Retail Startups, Loyalty Program

1. Introduction:

Organized retail is a new phenomenon in India and despite the worldwide recession, the market is growing exponentially. The concept of loyalty programs is also new in India. As per a report published in Business Standard, three years ago Shoppers Stop felt it needed a separate team to not just handle the loyalty programme but to also study and analyse the data thrown up by it. Last year i.e. in 2012, about 72 per cent of the total sales at Shoppers Stop came from loyalty programme customers.

Loyalty programs give benefit both to the company and also to the consumers. It is assumed that increased customer loyalty leads to higher profit & stronger brand recognition. Access to important information on consumers buying behavior enables the companies to design appropriate reward and communication programs which leads to greater customer satisfaction and loyalty. Large base of loyal customers give competitive advantage to a firm. Companies also use loyal customer in cross selling and up-selling other products. Loyalty programs enable the firm in targeting special consumer segments as their purchase history can be analyzed in relation to various demographic characteristics and other information. As loyalty programs use the latest technology related to data storage, it facilitates implementation of product recalls.

As per a report published in Hindustantimes which says, 83% of non-members who were not yet part of any loyalty programme, were willing to join a programme. Often, signing on is also free. It's sustaining and growing member commitment that still needs to prove itself in India at this nascent stage.

The major reason for the rapid growth of organized retailing in India can be attributed to the growing middle class in India. Economic growth brings India's people into the consuming classes which help organized retail lure more and more shoppers. As the business and job opportunities are growing in the cities, people prefer to stay in cities; this provides a lot of opportunities for young entrepreneurs in retail sector in India.

2. Literature Review:

Dick&Basu(1996) in their study categorized loyalty in four different types based on preferences and the level of patronage (repeat purchase)observed through the data. They suggested that consumers may demonstrate spurious loyalty if they show high repeat patronage but low preference; latent loyalty wherein there is low repeat patronage but high preference; sustainable loyalty if there is high repeat patronage and high preference and no loyalty, if there is low repeat patronage and low preference.

Uncles et. al (2003) explain that despite the general characteristic of all loyalty programs that they grant benefits to customers, depending on whether the benefit is in monetary or non-monetary incentives, certain demographic representatives may react reversely to loyalty programs.

In a study undertaken by Noble and Philips (2004), the authors found that customers reject loyalty program memberships out of their concern for time, unattractive program benefits and perceived personal losses such as - loss of social status or privacy. Loss of freedom in choosing brands and presenceof contractual bonds like minimum purchase levels etc. also discouraged customers from accepting loyalty program memberships.

In a study of grocery store customers' Demoulin and Zidda (2009) found that perception of loyalty program advantages, it's complexity, customers proximity to the store in question, and number of loyalty cards in their possession influenced the acceptance (or rejection) of loyalty program memberships. The researchers also found that customer loyalty in terms of attitudinal loyalty (customers' disposition towards the store) and behavioral loyalty (actual purchases made from the store) also influenced the chances of a customer accepting the membership of a loyalty program.

Stauss et al (2005) has more direct explanation as they state that certain customer loyalty programs may in fact cause frustration feelings in customers, which then makes a reversion of the objectives of the loyalty program. Their conclusion is that many of the marketing strategies in regard to customer loyalty may trigger negative feelings in the customers who feel they have been cheated if they lack one of the criteria of the program.

3. Research Methodology:

Case study approach is used in this study to find out the difficulties of the entrepreneur. For the purpose of this paper one case of a Loyalty Program was taken. Personal face-to-face and telephonic interviews were conducted for getting the primary data from the entrepreneur of this retail startup. Secondary data were collected from various sources such as Websites, Journals and book for this paper.

4. Objective of the Study:

The major objective of this study is to study various challenges faced by a new Loyalty Program in Odisha region.

5. The case of a Loyalty Program:

The entrepreneur is an engineer from Odisha who was working in USA, had prior knowledge of Retailing as his parents are the

owner of a big showroom for furnishings. As a young entrepreneur he started working on this concept since 8 years now i.e. the source and destination principle. The source is where the footfall is higher like supermarket and hypermarkets etc and destinations are spa, salons, restaurants, apparel retailers, book retailers and many more. The third party loyalty program try to pull customers from source to destination by giving attractive cash back immediately on their purchases made at source and also at destinations if they have opted for the same.

The loyalty program needs no plastic card or any number to remember but just your own phone number which to be registered by giving a missed call to a particular number. "A Smarter, Faster and Easier way to Save while you Shop" is the tag line of this loyalty program. The concept is new in India. This loyalty program is doing quite well in building its base of customers specifically in Bengaluru. It tried to enter Bhubaneswar market for expansion which didn't work well due to a lot of reasons. It is having plans to enter tier-2 cities of the country and are aggressively trying for that.

Various issues which cropped up for the Loyalty Program in Odisha are as follows:

- It deals with small and medium enterprises and the owners of these establishments had less understanding of loyalty programs and its benefits. Also some retailers wanted no Loyalty program as they are in high street.
- Small and medium enterprises prefer to accept the loyalty programs of big establishment such as PAYBACK instead of the new startups.
- As the loyalty program is not an essential requirement for any retail store and other enterprise they take long time to accept the loyalty programs.
- There were no licensing issues in Odisha as no physical presence is required but still it took more than usual time to start in Odisha.
- Business owners and entrepreneurs don't give priority to the word Loyalty, even though they understand importance of customer satisfaction.

- Developing most customer friendly software for the loyalty program by understanding the customer requirements was a big challenge.
- Tracking the owners and entrepreneurs of different retailers, restaurants, spas, gym, hotels, highway inns, bars, discos, and many others which were taken as destinations was also challenging.
- Recruiting local influential employees having good contacts and experience in similar field was difficult in Odisha.
- The retailers like Satyam Sivam Sundaram, Jagadish Creations, and other showrooms have their own loyalty program which are doing quite good for them so they are not interested for another loyalty program.
- The concept of sharing loyalty with other retailers annoyed many entrepreneurs.
- It is having a good customer perspective and ease for retailers, but retailers feel not so convinced in Odisha.
- As the company is new in Odisha the customer database is not big compared to other established loyalty programs because of which many establishments are hesitant to enroll with an extra loyalty program.
- Established Loyalty programs have exclusive contracts with the retailers so the retailers cannot enroll themselves with another loyalty program simultaneously which is a big issue for new third party loyalty programs.

6. Conclusion:

Government should have a single window licensing system for the retailers, where the retailers can get all types of permissions and licensees. Getting trained and experienced man power and retaining them is a big issue for new entrepreneurs. Getting affordable Information System (IS) for maintaining data and automated decision making is difficult for an entrepreneur in retail sector. Odisha needs a redesigned loyalty program with a better approach for both the loyal customers and the retailers. Many entrepreneurs are not aware about the benefits of the loyalty programs and will face a definite threat from big retailers with better loyalty program because of globalization. For better generalization of issues more startups in retail sector can be taken in future studies.

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