

The Value of Loyalty Programs

Loyalty programs have become increasingly popular in recent years. In this exercise, you just need to decide whether a large (and fictitious) retail chain should implement a similar program.

To help you decide, here is an excerpt from one of their manager's meetings, discussing the proposal.

- Larry:** I think that it's important that we introduce a major loyalty program, in order to match the widespread success of other programs. It must be a key decision factor for consumers, particularly when they make a major purchase.
- Olaf:** OK, there might be some consumers who behave like that, but the cost of setting up such a scheme and then maintaining and promoting it is quite substantial – I just can't see how we can make a positive return on the program.
- Yvonne:** But there should be some financial return. It should lead to greater customer loyalty over time – and in the long-term we should see a gradual increase in our market share.
- Anita:** That depends on what our other competitors do in the long-term as well. I mean if everyone copies our scheme and other successful schemes, then we end up with the same market share while having to maintain an expensive loyalty scheme.
- Lionel:** Sure, the scheme itself is expensive, but let's also consider the potential financial off-sets. For example, instead of offering discounts, we could simply offer bonus loyalty points.
- Therese:** That's a possible benefit. But a discount applies to everyone – it may even bring non-customers into the store, whereas bonus loyalty points probably only really appeal to our already loyal heavy users.
- Yasmin:** OK fair point, so let's look at the non-financial benefits instead. Surely, we will gain an incredible amount of data on customer behavior – we'll know who buys what and when. That's going to be enormously valuable in our merchandising and promotional planning.
- Paula:** There is probably good information available. But that also comes at a cost – of trained staff and suitable software.
- Ronnie:** Well obviously, there are pros and cons associated with this decision. But my main concern that this is a decision that we can't really walk away from. I mean, once we go down that track, we would face a significant customer backlash if ever tried to withdraw it.

Student Discussion Questions

1. What the arguments 'for' introducing the program?
2. What the arguments 'against' introducing the program?
3. Would you decide to introduce the program? Why/why not?