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THE IMPORTANCE OF LOYALTY PROGRAMS IN CRM

Abstract. The paper deals with the topic of the research and comparison of loyalty programs in the companies Tesco Stores ČR a.s. and Lidl Česká republika v.o.s. The purpose aims to investigate loyalty programs within the framework of customer relationship management and to compare different approaches of good practices with summarization of findings. The scientific methods used were analysis of internal documents, analysis of the internal environment of the selected companies, observation method, questionnaire survey, data analysis and classification, comparison method, deduction method and best practice method. The results of the study served to identify which loyalty program is more preferred and what are the reasons for preference. The limitations of the research include the research sample which elaborated the data for two enterprises namely Tesco Stores ČR a.s and Lidl Česká republika v.o.s. Future research may focus on the popularity of loyalty programs among wider range of store chains.

Keywords: loyalty program, repetitive purchase, customer.

JEL classification: M31, M21

Introduction

In the recent years, there is a significant competition in many industries. Many companies are trying to find competitive advantage to win and retain customer. The focus on marketing can moderate the competitive advantage (Dahmiri, 2024). A company will only be able to build a significant customer base if they use digital marketing. At the same time, the scholars believe that the challenging environment in digital marketing is partially caused by the lack of qualified professionals who possess innovative technologies and an understanding of consumer psychology (Melinevskiy, 2023).

Customers decide to make a purchase based on many factors, such as product price, product availability, or any other benefit. This can be crucial in the decision-making process. In the competitive struggle, companies try to motivate customers to repeat their purchases and thus be loyal to the company. On the other hand, a decrease in the customer base may be a major problem for most companies which leads to higher customer acquisition costs, lower service consumption, and lower product purchases. Therefore, it is very important for companies to adopt effective strategies to have long term satisfied customer base (Duan, 2022).

This paper aims to examine the importance of loyalty programs within customer relationship management. Additionally, there is also the concept of online reputation management which is relatively unknown, only few domestic authors focused their researched to this issue. Despite the fact that activities involved in building and protecting brand's image and reputation should be the core interest of any entity (Dorčák et al., 2017).

Promotion is one of the key components of the marketing mix and is vital to study as it leads to achieving market share. Promotion is an organizational tool to inform, persuade, and remind consumers directly and indirectly about its products and brands (Kotler & Keller, 2016). Promotion is designed by combining advertising, personal selling, sales promotion, and publicity into one integrated program to communicate with buyers and influence buying decisions (Mubarok et al., 2023).

Many enterprises focus on establishing strategies to meet the demands and needs of their customers, to seek alternatives to be competitive and

achieve economic performance, where they develop a process of continuous improvement. Companies seek to be competitive in the market, showing their customers better treatment and differentiated prices (Reynagonzález et al., 2024). During the purchase decision making process, the customers uses media to rationalize the decisions (Pollak et al. 2023).

The possible way to achieve it is by the use of loyalty programs. Loyalty programs may be classified based on their entity, financial entry threshold required, types of benefits offered, way they are organized, way of communication, legal form, moment of realizing benefits, tools used or based on the number of participating companies (Dziawgo, 2023). Traditional loyalty programs are mainly based on transactional rewards, such as earning points based on purchases, redeeming points to products, discounts or they often are related to some levels, when customers belong to different tiers based on their spending. Lot of loyalty programs are still based on discounts or coupons and are similar among competitors. Due to that, many companies are trying to develop new loyalty program strategies, seeking effectiveness and possibility to stand out among competitors (Zikienė et al., 2024). A further development of e-commerce in general can only contribute to improvement of the customer satisfaction, by improving of the services available. Nevertheless, the focus should be also to enhance the strategy and tools for customers (Dzilska, 2024).

1. Current State of the Solved Problem

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Loyalty programs are usually referred to the frequency such as reward programs, frequent flier program etc. Due to that, it can happen that the term “loyalty” is confused with “frequency”. These two terms have however different meaning and represent different concept. Frequency is not fully able to explain the drivers for the loyalty and a relative attitude towards a brand. As a result, frequency and loyalty programs differ from each other. According to this distinction, frequency programs are merely designed to provide repeat purchase behavior, and the customers’ continuity with the program depends on the economic benefits of the rewards (Başgöze et al. 2021).

The aim of loyalty programs is not only to generate repeat purchases but to capture the type of loyalty and form an emotional bond between the brand and the customer. Furthermore, loyalty programs confer status to customers can make them feel special, essential and respected. Loyalty programs can be a way to reward the most valuable customers and encourage them to spend even more with the service provider or can be a tool to attract and retain new consumers (O’Brien et al. 2020).

At the beginning, when customers decide whether to join a program, they seek a signal of future benefit. In the acquisition stage, customers

who want to achieve benefits from the loyalty program might need to grant more business to the loyalty providers. In order to retain customer in the long run, companies need to be careful about the potential situations which might influence the customer satisfaction with the program. This might be for example rewarding leaders for the social media engagement rather than purchasers. Companies need to respond to the situations and adapt the program to appeal to each customer (Kim et al. 2021).

In today world, nearly every individual possesses at least one mobile phone which is permanently available to the user. This can be seen as an alternative to the card-based loyalty program where mobile phone application can replace plastic card and paper coupons. Various loyalty programs from different retailers can be stored on consumer's mobile phone as soon as the customer agrees to the terms of use (Löffler & Bodendorf 2010).

Loyalty programs are the most common tool for sales promotion. The customer can get involved in these programs, where they can get a variety of discounts on their purchases or gifts. As a typical example, retail chains offer bonus programs which can be used at more than one store. This represents a very effective way to persuade customers to make regular purchases. Thanks to these programs, it is very efficient to build databases with customer contacts and study the purchasing behaviour (Jambal & Stuchlý 2019).

The increasing development of internet and social media users provide opportunity for companies to streamline communication through the application of social customer relationship management (CRM). CRM is an important strategy that can be used by companies to increase customer profits and loyalty (Curatman et al. 2022).

2. Materials and Methodology

In order to obtain relevant outputs, there were several scientific methods applied including analysis of internal documents and environ-

ment of the selected enterprise, observation method, classification analysis, comparison method, deduction and best practice method.

Analysis of internal documents, analysis of the internal environment of the company and the observation method were used primarily to collect data on a selected sample of companies, which were Lidl Česká republika v.o.s. and Tesco Stores ČR a.s. The data were focused on the characteristics of the company and their loyalty programs. The comparison method is used to compare the loyalty programs of Lidl Česká republika v.o.s. and Tesco Store a.s., and the CRM of the companies will also be compared. This method aims to identify differences that occur between the companies.

With an aim to provide relevant research, a quantitative method was chosen for the research survey, which was carried out through a questionnaire survey. Data collection took place from January 3 to January 17, 2023. The questionnaire survey was conducted using an online form - Google Forms, which was displayed on the vinted.cz website in the discussion forum for the given period. The research sample of respondents was narrowed down to the age category of twenty years and older and the respondents had to be members of the Lidl Plus and Tesco Clubcard loyalty programs at the same time. This data is further evaluated and presented. The deduction method served to establish logical and certain conclusions based on already known and general facts about the selected sample of companies. Another chosen method is the Best Practice method, which provided base to select examples of established and functioning loyalty program approaches. This method helped to suggest how a company should proceed correctly when creating a loyalty program and learn from the mistakes made by other companies.

3. Research Results

The paper discusses the loyalty programs in two food chain companies, namely Tesco Stores Czech Republic a.s. and Lidl Czech Republic. Cus-

tomer communication is one of the key aspects that leads to customer satisfaction which results in repetitive purchases and thus in profits for the enterprise. It can be assumed that both food chain companies put customer needs as priority, try to supply the best quality of goods and operate in environmentally responsible manner with limiting the wood waste. As an example, Tesco organizes a food collection every year with the involvement of wider public. Similarly, Lidl built a hundred playgrounds from 2012 to 2019 as part of its social responsibility. It can therefore be stated that both companies are committed to both the sustainability of the planet and social responsibility. Both companies do their best for their customers, offering their customers a number of benefits in the form of a loyalty program.

The loyalty programs of both companies operate in a similar manner with several differences. Tesco operates on Czech market for longer than Lidl does. Due to that, Tesco started loyalty program much earlier when technology was not so advanced and offered plastic loyalty card with the loyalty program operating on the paper discount coupon that were sent to consumers' mailboxes. Over time, the program has developed and currently Tesco also has mobile application for loyalty program. The mobile application is an Internet version of the loyalty program for mobile devices. Thus, customer is not required to own a smartphone to be able use the loyalty benefits, there is an option to use the plastic card as well. On the other hand, Lidl loyalty program operates on the principle of an application and the customer does not have a plastic card to collect points. The customer card is available in the application in virtual form. Given the company's policy and its responsibility to the environment, this is completely understandable. The problem arises when the customer does not own a smartphone and would like to use the loyalty program. It can also be said that due to the company policy of Lidl, there is a loss of certain group of customers, since the loyalty program targets only those customers who possess a smartphone. The ideal solution for those customers who do not have smart phone would be to have a possibility to obtain a plastic card upon request. Unfortunately, this solution is not possible, since the loyalty program is connected to a mobile application for smartphones.

The benefits that the loyalty program brings are found in the mobile application. Compared to that, Tesco provides a flexibility to serve customers who have smart phone by the possibility to use virtual card and those customers who do not have smart phone can still use physical loyalty card.

By the use of quantitative method, a questionnaire survey was carried out via the website vinted.cz. Participants were invited to fill out an electronic questionnaire via Google Form discussion forum. The questionnaire contained 9 questions, five of which were closed and four open. A total number of 120 respondents participated in the questionnaire, the questionnaire examined purchasing behavior within loyalty programs. There were two conditions for completing the questionnaire, namely the age of the respondents which needed to be 20 or more years old and the second condition was that the respondents needs to be a member of the Lidl Plus and Clubcard loyalty programs. Below, the details regarding the set of questions will be described in detail.

Question no. 1.

The first question aimed at finding out the respondent's gender. Out of the total number of 120 respondents, 90 were women and 30 were men.

Question no. 2.

The second question aimed at determining the age group of respondents. The biggest number of respondents were in the age category of 20-29 years (50), followed by the age category of 30-39 years (40), furthermore in the age category of 40-49 years (10), in the age category of 50-59 years (15) and the least number of participants was the age category over 60 years (5).

Question no. 3.

The third question asked about the reason for registering for loyalty program. The most frequently chosen answer was "saving money", the second most frequent answer was "They contacted me". Other answers are shown in Figure 1 below.



Figure 1: **Question no. 3, "What was your reason for registering with loyalty program?"**

Source: own elaboration

Question no. 4.

The fourth question was one of the key ones, respondents had to choose at which retail chain they shop more often, Lidl or Tesco. Most respondents indicated "Lidl" (44) which was followed by second most common answer "Tesco" (39). Other possible answers were "both equally" (17) and "unsure" (20).

Question no. 5.

The fifth question intended to give respondents a choice of which loyalty program they prefer, whether the Tesco Clubcard loyalty program or the Lidl loyalty program. Respondents indicated that the Clubcard loyalty program is more popular (77). Remaining part of respondents decided for Lidl loyalty program (43).

Question no. 6.

According to the preference provided in question 5, respondents were asked to provide reason for the preference of selected store. Respondents answers can be found on figure 2 below.



Figure 2: Question no. 6, “Why do you prefer chosen loyalty program?”

Source: own elaboration

Question no. 7.

Question no. 7 focused on the areas which respondents identify for potential improvements. Most respondents agreed that they had nothing to criticize about the Lidl loyalty program (15), the second most frequently mentioned answer was that they would like cash vouchers (11), bigger amount of discount coupons (8), inability to own a plastic card (4), people who do not own a smartphone cannot become members of the program (7). On the other hand, the Customers who prefer Tesco stores identified

different weak points such as unavailability of the receipt in the application (40), nothing to state (24), good in discount is usually sold out (10).

Question no. 8.

In this question the aim was to find out whether respondents would recommend the chosen store to their friends. In both cases, all the respondents would recommend the loyalty program to their friends.

Question no. 9.

The last question examined what benefits a loyalty program should offer to make customers want to register for the loyalty program. The answers included areas such as I like to convert collected points into vouchers (49), for purchase from a certain value a gifts for free (27), money back for the purchase (40), free of charge gift (3), other (1).

As a result, for customers, it is important to be provided with "something extra" that other loyalty programs do not offer. An excellent motivator for repeat purchases is for example, cash vouchers offered by the Tesco loyalty program. A repetitive purchase from loyal customers provides the core for the company's turnover as it is more expensive to acquire new customer than to retain existing ones.

Based on the questionnaire results it is possible to find answers to the research questions. According to the responses to question no. 5, it can be assumed that respondents have a greater preference for the Tesco Clubcard loyalty program. This may also be caused by the fact that Lidl's loyalty program has not been on the Czech market for as long as Tesco's.

Based on the responses to question no. 6, the reasons for the preference of the loyalty program were studied. In case of Lidl customers, they prefer the loyalty program for example, due to the more attractive benefits than Tesco. Everything works only through the application, this answer is also one of the parameters of a well-functioning loyalty program, the program must be simple. Additionally, the purchase receipts are stored in the application, so customers do not have to take paper receipts. These receipts are always at hand and in terms of subsequent complaints, it is more pleasant to have receipts together in the application. On the other hand, the most common reason why respondents preferred the Clubcard

loyalty program was that for the points they collect, they get a cash voucher, which they can then use when paying for their purchase. This reward is very attractive to customers. The next most common answer was that Tesco has many products on sale with a loyalty card. Respondents also stated that there is a discount with the card in the clothing department. In general, respondents and customers prefer benefits in the form of discounts or cash vouchers.

An additional aspect which can be assumed from the study is the aspects that customer are not satisfied with. At Lidl, respondents most often complained about the impossibility of owning a plastic card. Respondents would like a reward in the form of a cash voucher, like at Tesco. Furthermore, respondents mentioned that customers who do not have a smartphone cannot join the loyalty program and use the rewards associated with it. The most common answer was “I have nothing to complain about”, so it can be stated that Lidl’s loyalty program is set up well from a customer perspective, but there are shortcomings. For example, the lack of a plastic card or the loyalty program operating only on the principle of an application, as stated by respondents in the research survey. At Tesco, respondents complained most that their receipt for purchases is not saved anywhere. The application contains the sum of points earned for purchases, so it is possible that in the future customers will also be able to save receipts. Tesco has many goods on sale with the card, and respondents are dissatisfied that these sale goods are often sold out. The second most common answer was that respondents have nothing to complain about. Tesco's loyalty program is well-set up, it has undergone many changes over the years of its operation on the Czech market and has had time to develop, if the company would consider adding a receipt for purchases to the application, the program would work even more effectively.

4. Conclusion

The aim of the work is to examine the importance of loyalty programs within customer relationship management. By comparing different approaches, good practice practices will be identified, with the aim of sum-

marizing selected findings for application in the management of commercial companies.

Through research and application of the selected methods, the authors came to the conclusion that the effective functioning of a loyalty program according to good practice practices is important to capture at the very beginning of the creation of a loyalty program. A loyalty program must be as simple and easy to understand as possible for consumers. The consumer does not have time to deal with rules or a lengthy search for what conditions he or she must meet in order to receive a benefit. It is also important to analyze the competition that already has an established loyalty program. Because, here, companies can draw inspiration. Finally, it is more than necessary to conduct a survey among consumers, what advantages of a loyalty program they would appreciate and to subsequently implement them.

Additionally, it is important to also mention the study limitations. These include for example the research specification which targeted to two enterprises namely Tesco Stores ČR a.s and Lidl Česká republika v.o.s. it might be possible that with different food chain markets the results might differ. Additionally, to a certain extend the research limitation is the group of respondents who provided feedback to the questionnaire. It might happen that with different group of respondents the results of the paper may steer into a little different result. Regarding the future research, the focus may be on the popularity of loyalty programs among wider range of store chains.

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