An Investigation into the Impact of Customer Loyalty Programs on Customer Retention: A Case Study of Lulu Mall, Trivandrum

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ABSTRACT:

Purpose: The project aimed to assess the effectiveness of Lulu Mall's loyalty program in sustaining customer loyalty, proposing strategies for improvement.

Theoretical framework: The study employed a blend of quantitative and qualitative methodologies to assess the effectiveness of Lulu Mall's loyalty program.

Design/methodology/approach: The study employed a blend of quantitative and qualitative methodologies, including surveys and interviews with the mall management team.

Findings: The findings indicated that Lulu's Mall loyalty program was not effective in retaining customers, highlighting limitations, and proposing strategies for improvement.

Research, Practical & Social implications: The research highlights the ineffectiveness of Lulu's Mall loyalty program, proposing strategies for improvement, emphasizing enhanced promotion and innovation for customer engagement.

Originality/value: The research offers original insights into the inefficacy of Lulu's Mall loyalty program, proposing strategies for improvement and emphasizing innovative loyalty initiatives.

1. Introduction

Loyalty programs, sponsored by retailers and other businesses, serve as mechanisms to entice and maintain customers through rewards, discounts, and special incentives. These programs, aptly named Loyalty programs, aim to foster repeat business by offering rewards to customers demonstrating brand loyalty, with greater patronage resulting in more substantial rewards.

Typically, customers register for loyalty programs by providing personal information to create an account. Upon registration, customers receive a unique identifier, which they can use during purchases to accumulate points in their loyalty account. These points can then be redeemed for discounts, constituting one of the tangible benefits of loyalty programs. However, the advantages extend beyond mere discounts, encompassing various other ways to enhance customer experience. In addition to rewarding customers for repeated patronage, loyalty programs serve as a valuable source of consumer information and data for the issuing companies. While companies can evaluate anonymous purchases, loyalty programs offer additional details, such as insights into products frequently purchased together and the efficacy of specific incentives. Particularly applicable to high volume businesses based on repeat customers, loyalty programs address the challenge of acquiring new customers, which is more expensive than retaining existing ones. When executed effectively, these programs not only retain customers but also facilitate the recruitment of new ones at a fraction of the cost associated with traditional marketing methods.

In a fiercely competitive market, attracting and retaining customers is a formidable task. The central question becomes: What incentivizes customers to return and shop consistently at a particular store? The key lies in offering customers tangible benefits, and this is where loyalty programs come into play. In a market where customers have numerous options, loyalty programs influence their purchasing decisions by providing compelling reasons to choose one store over another. Key objectives of loyalty programs include attracting new customers, increasing customer lifetime value, and retaining existing customers.

Customer retention, a direct outcome of loyalty programs, contributes to revenue generation,

increased referrals, and overall organizational growth. The revenue generated from existing customers often requires less investment than revenue from new customers. While customer acquisition is crucial, the ideal scenario is built on repeat business. Beyond customer retention, loyalty programs serve as conduits for collecting valuable customer data and firsthand feedback, providing marketing teams with crucial insights.

In today's market, where customer satisfaction is paramount, generating and retaining customers are pivotal to a company's success. The success of a company hinges on its ability to attract new customers and, more critically, to retain existing ones by fostering loyalty. A well-designed loyalty program serves as a competitive advantage, encouraging repeat business by rewarding customers for their purchases and thereby increasing customer lifetime value. Marketers, faced with the challenge of navigating a vast and intricate market, find solace in loyalty programs as effective tools for customer registration. By capturing customer information through registration, businesses gain insights into purchasing patterns, enabling them to understand current trends and tailor marketing strategies for maximum returns.

The objectives of this study are fourfold:

- Evaluate customer awareness of the Lulu loyalty program.
- Examine customer perceptions of the loyalty program.
- Assess the effectiveness of the loyalty program.
- Propose strategies to enhance Lulu Loyalty program patronage.

2. Literature Review

The existing literature provides valuable insights that guide the focus of this study towards unexplored areas, ensuring its distinctiveness from prior research. The literature review encompasses diverse perspectives on customer retention, emphasizing various factors influencing customer behavior and strategies to enhance customer loyalty.

Hung et al. emphasize the significance of suitable service improvement plans, even with limited resources, to achieve higher user retention Nguyen et al. (2020). Tripathy & Jain et al. highlight the importance of considering technological comfort, especially for rural customers, suggesting that innovations reliant on smartphone apps may alienate customers in areas with low smartphone penetration. Prepaid card-based innovations are proposed as a successful alternative for rural customers Jain et al. (2021). S. Chang et al. delves into the nuanced dynamics of acquisition and retention expenditure strategies, asserting that optimal strategies depend on a firm's marginal customer equity rather than market share or customer numbers Chang et al. (2020).

J. Kim et al. explores the impact of promotional strategies on customer retention intentions, finding that a free monthly fee promotion leads to higher retention intentions than a free joining fee promotion Kim et al. (2019). Echchakoui & Ghilal et al. contribute insights into optimal commission calculations based on customer retention and salesperson attributes, aiding sales managers in classifying salespeople and implementing equitable pay structures Echchakoui and Ghilal (2019). Buttle et al. conceptualizes the customer lifecycle, comprising acquisition, retention, and development phases Buttle and Maklan (2015). Hanaysha et al. underscores the positive effect of perceived value on customer retention and explores the role of social media marketing in this context Hanaysha (2018).

Xhema et al. identify key elements influencing customer loyalty, including quality products, market reputation, store location, and pricing Xhema et al. (2018). Ascarza et al. notes the proactive management of customer churn, focusing on detecting high-risk customers and targeting retention efforts Ascarza (2016). Hague & Hague at al. stress the significance of product features, reliability, sales activity, and customer support in satisfying customers, leading to increased loyalty and positive word-of-mouth communication Al-Dmour et al. (2023).Degbey et al. introduces variables such as serial acquirers' acquisition experience, managerial overconfidence/hubris, and technological context, which impact customer retention of acquired firms Degbey (2015). Tao et al. accentuates the role of increased customer satisfaction in fostering loyalty, extending the customer life cycle, and promoting positive word-of-mouth communication Xu et al. (2007).

In summary, the literature review informs the current study by shedding light on the multifaceted aspects of customer retention. It emphasizes the need for strategic service improvements, considerations for technological comfort, the interplay of acquisition and retention strategies, and the impact of promotional tactics. Insights from optimal commission calculations, the customer lifecycle, proactive churn management, and the role of perceived value and social media marketing contribute to a comprehensive understanding. The literature collectively underscores the importance of customer satisfaction, quality products, and

effective management strategies in building and sustaining customer loyalty.

3. Research Methodology

This study aims to gather and analyze customer opinions and perspectives regarding a specific loyalty program, seeking to ascertain whether this particular loyalty program model influences customer retention.

Research Hypothesis

The following are the hypotheses of this study:

1. For analysis of gender and customer satisfaction
−   Ho - There is no significant difference between the satisfaction level of the respondents based on their gender.
−   H1 - There is a significant difference between the satisfaction level of the respondents based on their gender.
2. For analysis between age and customer satisfaction
−   Ho - There is no significant difference between the satisfaction level of the respondents based on their age.
−   H1 - There is a significant difference between the satisfaction level of the respondents based on their age.

Research Design

This study was conducted over a period of two months, from September 19 to November 14, 2022. A detailed and structured questionnaire was designed, and about 70 customers of Lulu Mall Trivandrum were surveyed. The methodologies used were the primary method and the secondary method. The questionnaire was designed in such a way to collect responses that would give information about the customer's opinion and perception of the loyalty program and its effectiveness in retaining

3. Experimental Results
Statistical analysis

From Figure 1(a), majority of the respondents i.e., 72.9% of the respondents are under the age group of 18-27, 14.3% of the respondents are under the age group 28-37, 7% of the respondents are under the

customers. For this research, a structured questionnaire was administered to 70 respondents who were customers of Lulu Mall, Trivandrum.

Data Collection Methods

The data was collected through the questionnaire method, where the questionnaire designed to collect specific information regarding the project was sent to the customers, and their responses were collected. A properly structured questionnaire would reduce both interviewer and interpreter bias. The following are the various data sources:

*   Primary Data: A well-structured questionnaire was administered to the selected sample of customers of Lulu Mall, Trivandrum.
*   Secondary data was collected from Lulu management team and form various websites and articles.

Tools used for Analysis of Data

*   Fisher's Exact Test: It is a statistical method for detecting non-random associations between two categorical variables. It involves ordering tables by a criterion measuring dependence, like Pearson chi-square, and computing the P-value based on observed tables. The test is exactly when row and column totals are fixed, suitable for various sample characteristics, but may pose challenges with large or well-balanced tables, conditions where the chi-squared test is more appropriate.
*   Percentage Analysis: It refers to a test where rates or percentage are used in making comparison between two or more series of data. A percentage is used to determine the relationship between the series.

$$Percentage = \frac{No.of\ Respondents}{Total\ No.of\ Repondents} \times 100 \qquad (1)$$

age group of 38-47, 2.9% of the respondents are under the age group of 48-57, and 2.9% are above the age group of 57. Figure 1(b) illustrates that around 60% of the total respondents were males and around 40% of the respondents were females. The income levels of the repondents is given in Figure 1(b).
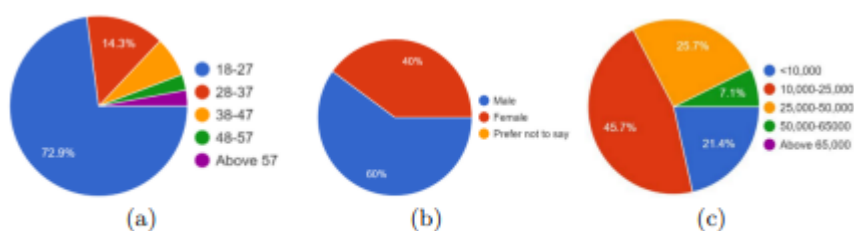
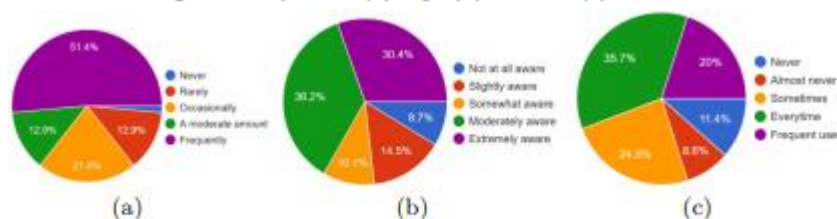**Fig. 1.** Analysis on (a) Age (b) Gender (c) Income

Fig. 2. Analysis on (a) Frequency of visit (b) Gender (c) Use of Loyalty

From Figure 2(a) about 51.4% of the total respondents visit the mall frequently, 12.9% of the respondents visit a moderate amount, 12.9% visits the mall rarely, 21.4% of the respondents visits the mall occasionally and 1.4% of the total respondents has never visited the mall. Figure 2(b) illustrates that out of the total respondents, 8.7% are not at all aware of Lulu's loyalty program, 14.5% are slightly aware of the loyalty program, 36.2% are somewhat aware of the loyalty program, 30.4% are moderately aware and around 30.4% are extremely aware of Lulu's loyalty program. around 11.4% of the respondents have never used the loyalty program, 8.6% voted for almost never, 24.3% for sometimes, 35.7% for every time and 20% of the respondents are found to be the frequent users of the program.
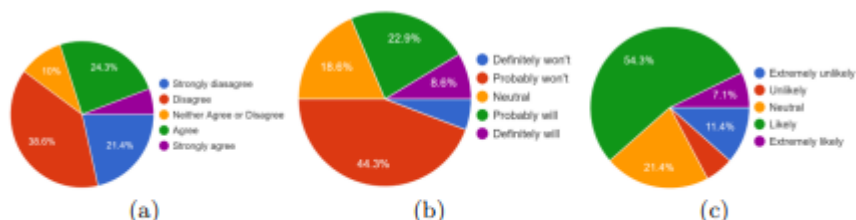

Fig. 3. Analysis on (a) Retaining Customers (b) Basis of recommendation (c) commitment to organization

From Figure 3(a), it is evident that majority of the customers are not influenced by the loyalty program by making a visit to the mall. It was found that 21.4% strongly disagreed with the statement that loyalty program influences making the customers revisit the mall, 38.6% disagree to the statement, 10% neither agree nor disagree, 24.3% agree, and 5.7% agree with the statement. Thus, this analysis shows that majority of the customers feel that the current loyalty program is not effective in making them revisit the mall. From Figure 3(b) about 5.7% of the respondents won't recommend the loyalty program, 44.3% probably won't, 22.9 probably will and 8.6% went with will. It can also be seen that around 18.6% of the 58 respondents were neutral about recommending the loyalty program to others. Most of the respondents will not be recommending the loyalty program to others which could indicate that the loyalty program is not achieving what it is supposed to be achieving. Figure 3(c) demonstrates that most of the respondents (54.3%) were likely to switch to a competing organization, which means the loyalty program that Lulu is offering is not able to achieve its objectives, which is retaining customers. If we have a look at the data, around 7.1% were extremely likely to switch, 11.4% were extremely unlikely to switch, and 5.7% were unlikely to switch to a competing organization.
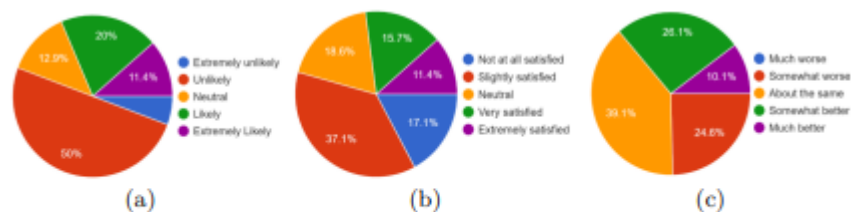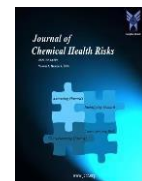
Fig. 4. Analysis on (a) Expand the usage of loyalty (b) Satisfaction level of users (c) Rate comparing with competitors

From Figure 4(a) around 5.7% of the respondents are extremely unlikely to expand the use of loyalty services, 50% are unlikely to expand the use, 12.9% are neutral, 20% are likely to expand the use and 11.4% are extremely likely to expand the use of loyalty services. Thus, it can be concluded that most of the respondents are unlikely to expand their use of the loyalty service. Figure 4(b) shows a massive 37.1% of the respondents were only slightly satisfied with the effectiveness of the loyalty program whereas 17.1% were not at all satisfied,

15.7% were very satisfied and only 11.4% of the total respondents were extremely satisfied. It is found from Figure 4(c) that most of the respondents feel that Lulu's loyalty program is somewhat like that of its competitors. That is, even though most of the respondents think that it is about the same as its competitors from question number 10, that most of the customers are unsatisfied with the loyalty program and are not planning to expand the use of the loyalty program.
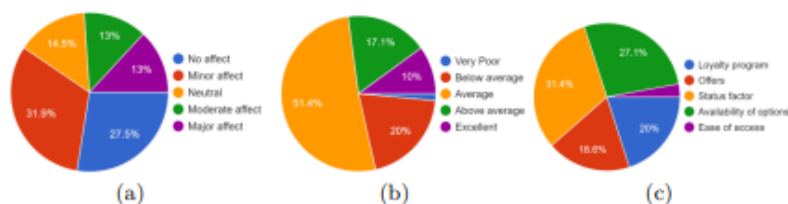

Fig. 5. Analysis on (a) Effectiveness of the loyalty program (b) Rating the coupons provided (c) Motivational factors that Influence customer's decision-making

From Figure 5(a), about 27.5% had no affect, 31.9% had minor affect, 14.5 were neutral, 13% had moderate affect, and 13% had major affect. Most respondents think that the loyalty program has only a minor affect on retaining them as customers. From Figure 5(b) it is understandable that most of the respondents, that is around 51.4% rated the coupons "average", while 1.4% rated the coupons "very poor", 17.1% rated the coupons "above average" and around 10% of the respondents rated the coupons "excellent". The above analysis in Figure 5(c) shows the major factor that influences a customer into Visit the mall is the Status factor (31.4%), whereas other factors such as loyalty program, offers, availability of offers and ease of access have a percentage of 20%, 18.6%, 27.1%, and 2.9% respectively.

Fishers Exact Test

– Hypothesis 1 The study employed Fisher's exact test to examine the association between age

groups and the satisfaction level concerning Lulu Group's loyalty program. The null hypothesis posited no significant relationship, while the alternative hypothesis suggested a significant correlation. Among 70 respondents, the majority were aged 18-27. The Fisher's exact test, with 2000 replicates, yielded a p-value of 0.001499, below the 0.05 significance level. Consequently, the null hypothesis was rejected, indicating a significant link between satisfaction levels and age groups. This implies variations in satisfaction with Lulu Group's loyalty program across different age groups, warranting further exploration of contributing factors.

– Hypothesis 2 The null hypothesis posits no significant correlation between respondents' satisfaction levels and gender, while the alternative hypothesis suggests a significant association. Conducting the Fisher's exact test resulted in a remarkably low p-value of 9.528e-06, well below the conventional 0.05 threshold for significance.

Rejecting the null hypothesis indicates a substantial relationship between gender and satisfaction levels regarding Lulu Group's loyalty program. However, the statistical test doesn't elucidate the relationship's direction or strength. Additional analysis is imperative to delve into specific factors contributing to this relationship, such as reward types, program usability, or other gender-related variables.

4. Research Methodology

The data collected and analysed shows the following findings –

– Most of the respondents were very familiar with Lulu mall, Trivandrum and were frequent visitors of the mall. The mall is successful in establishing its presence over the target region.

– Most of the respondents were moderately aware of the loyalty program that lulu provides and a considerable percentage of the respondents were extremely aware of the loyalty program. Thus, it can be concluded that most of the customers are aware of the loyalty program that Lulu mall, Trivandrum provides.

– Out of the total respondents, it is clear from the responses that most of the respondents were frequent users of the loyalty program thus making them eligible to rate the loyalty program as they have experienced the positives and negatives of the loyalty program.

– The primary objective of any loyalty program is customer retention. However, most respondents weren't swayed by Lulu Mall's loyalty program, indicating its ineffectiveness in retention.

– Customer perception of Lulu Mall, Trivandrum's loyalty program, is reflected in their recommendation levels, with most unlikely to recommend and consider a switch to competitors.

– Most of the respondents rated the competitor's loyalty programs much higher compared to what Lulu offers.

– It is understood that Lulu mall, Trivandrum, uses coupons to retain the customers but from the data collected and analysed it is evident that the coupons provided by Lulu mall is rated at a much lower level to that what the competitor provides.

5. Conclusion

The research aimed to evaluate the efficacy of Lulu Mall's loyalty program in customer retention, focusing on data collected from Lulu Mall, Trivandrum customers. Lulu Mall employs a coupon-based loyalty system, rewarding customers with coins or points based on their purchases. The point system is categorized for normal and luxury items, with customers earning one point for every Rs.100 spent on regular goods and one point for every Rs.1000 spent on luxury items. Despite the coupon-based incentives, the study found that most customers were dissatisfied with coupon values, leading many to express readiness to switch to rival organizations.

Typically, a loyalty program is designed to retain customers and encourage repeated purchases; however, in this case, an adverse effect was observed. The dissatisfaction might stem from heightened expectations due to Lulu's status as a world-class mall, with customers anticipating more valuable incentives. The study recommends swift action by the mall management to address these concerns, particularly since customers are signaling interest in exploring alternatives. Understanding the urgency is crucial, given that the primary objective of any loyalty program is customer retention, critical for sustained business success. The findings underscore the need for strategic alterations to Lulu's loyalty program to maximize its benefits.

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