

The Evolution of Customer Loyalty Programs in Web Based Retail : An Overview

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Abstract:

This paper explores the evolution of customer loyalty programs in web-based retail, focusing on how these programs have transformed over time and the factors that drive their success today. Traditionally, loyalty programs were simple punch cards or discount offers in physical stores, but with the rise of online shopping, these programs have become more complex and personalized. Digital technologies, such as data analytics, mobile apps, and artificial intelligence, have allowed online retailers to offer tailored rewards, creating more engaging and customer-focused experiences. The study also examines how different types of loyalty programs—such as points systems, subscription services, and gamified rewards—have been used to increase customer retention and sales. The research provides a forward-looking view of how these technological advancements and changing consumer preferences might influence the design, functionality, and success of loyalty programs in online retail, offering valuable insights for brands seeking to stay ahead in a competitive market.

Keywords: Customer, Programme, Retail, Online. Etc.

Introduction:

In the rapidly evolving landscape of web-based retail, businesses are increasingly recognizing the critical importance of fostering strong relationships with their customers. One of the most effective strategies for building and maintaining customer loyalty is the implementation of loyalty programs. Historically, customer loyalty programs have been a cornerstone of traditional retail, but with the rise of online shopping and digital commerce, these programs have had to evolve. The shift from brick-and-mortar to web-based retail platforms has fundamentally transformed how businesses engage with customers, creating new opportunities and challenges in the realm of customer retention.

Customer loyalty, in general, increases profit and growth in many ways [Chow and Reed 1997; Heskett et al. 1994] to the extent that increasing the percentage of loyal customers by as little as 5% can increase profitability by as much as 30% to 85%, depending upon the industry involved.

The paper will focus on the various types of loyalty programs implemented by e-commerce companies, the role of digital platforms in reshaping customer engagement, and the increasing emphasis on customer experience over simple transactional rewards. It will also explore the challenges faced by retailers in managing these programs, such as data privacy concerns, the integration of Omni channel strategies, and the need for constant innovation to stay competitive in a crowded digital marketplace.

Objectives:

- 1) To Trace the Evolution of Customer Loyalty Programme in web-based retail Environment.
- 2) To know how online retailers have adopted and transformed Loyalty programme
- 3) Tactics and approaches for business to build and maintain loyal consumer base.
- 4) Advancement of digital technology in web-based retail.

Methodology:

This is an overview and hence methodology adopted is to consult all possible sources including papers published in journals, magazines, conferences' proceedings, websites and/or blogs articles. Analysis of existing Review is done to understand key findings and areas for future research.

Web Based Retail Market:

Web-based retailing, also referred to as e-commerce or electronic retailing, involves the buying and selling of products and services via the internet. It allows businesses to connect with a global customer base, eliminating the need for a physical store. Consumers can easily explore and purchase items through websites, mobile applications, or social media channels, making the shopping experience both convenient and streamlined. Web-based retailing typically involves payment processing, logistics, customer service, and various online marketing strategies to attract and retain customers.

Types of E-Retailers:

The rise in online commerce has led to many business models. Online Retailing is being practiced by several Companies, but there are different formats of E-retailers.

1) Pure Play E-retailers:

E-retailers that operate exclusively online, without any physical stores, are classified as **click-only companies**. These businesses sell their products solely on the internet and do not have any brick-and-mortar locations. The primary benefit is cost savings, as setting up a physical store involves significant expenses, such as rent, utilities, and staffing. Without these overheads, online-only retailers can reduce their operational costs.

2) Click and Mortar E-Retailers:

As the internet expanded, traditional brick-and-mortar businesses realized that in order to stay competitive, they needed to establish an online presence. As a result, many brick-and-mortar companies have evolved into **click-and-mortar companies**. These businesses now operate both physical stores and online platforms, combining the advantages of both channels to reach customers. By integrating online and offline sales, click-and-mortar retailers can offer enhanced

service to consumers. Customers can shop online, have products delivered to their homes, and if needed, easily return items at a nearby physical store. This approach allows customers to enjoy the convenience of online shopping while still having the option for in-store experiences, providing a seamless shopping journey.

3) E-Malls:

E malls, also known as **online malls**, are a variation of the virtual merchant business model. In this format, sellers who wish to sell their products online rent virtual space within an online mall. This setup allows smaller businesses to reach a broader audience by being part of a larger online market place. The concept of an online mall mirrors that of a physical shopping mall. Just as businesses rent physical store space in a mall to sell their products, in an online mall, sellers lease virtual space to showcase and sell their goods. In return, they pay rent to the online mall operator.

Consumer Loyalty:

The success of a business is largely dependent on customer loyalty, which refers to customers' tendency to consistently choose a particular brand or company over its competitors. This repeat patronage is vital for ensuring a steady and dependable revenue stream, as loyal customers are more likely to make frequent purchases and spend more than new customers. As a result, businesses can experience increased profits and greater financial stability.

Moreover, customer loyalty can generate positive word-of-mouth marketing, as satisfied customers are more inclined to recommend the business to others, leading to new customer acquisition and enhanced brand visibility. Loyal customers also provide valuable feedback, allowing businesses to refine their products, services, and overall customer experience.

Additionally, fostering customer loyalty can create a significant competitive advantage, helping businesses differentiate themselves in a crowded market. By delivering exceptional service and building strong relationships with customers, companies can establish a dedicated customer base that is less influenced by competitors. In summary, customer loyalty plays a critical role in driving business success. By focusing on customer satisfaction and nurturing long-term relationships, businesses can enjoy increased revenue, positive referrals, and a competitive edge.

Customer Rewards Scheme:

Here are various types of Customers Rewards Scheme used to incentivize and retain customers:

- **Points System:** This is a widely used loyalty program where customers earn points based on the value of their purchases, encouraging frequent shopping.
- **Upfront Fee for VIP Benefits:** In this model, customers pay an initial fee to receive exclusive VIP benefits with long-term rewards.
- **Non-Monetary Programs:** Instead of offering discounts, this program focuses on providing value through non-financial benefits, which some customers may find more valuable than monetary savings.
- **Inclusive Offers:** This involves partnering with other businesses to offer complementary products or services as added value, enhancing the overall customer experience.
- **Loyalty Card Program:** Companies issue loyalty cards that allow them to track consumer behaviour and preferences, offering rewards like discounts and points based on purchase history.

- **Frequent Buyer Program:** Customers are offered free services or products once they reach a specific purchase threshold, which helps to boost sales over time.
- **Gift Cards:** Customers receive cards with a set value, which they can use for purchases. The ability to spend beyond the card's value can increase overall sales.
- **Extended Return Policy:** Loyal customers are granted a more generous return window, adding an extra layer of convenience and trust.
- **Payback Money:** This program provides loyal customers with financial compensation or rewards as part of their loyalty benefits.
- **Discounts:** Customers receive discounts over time as part of their loyalty, encouraging repeat purchases.
- **Bundle Goods:** This strategy involves offering complementary products alongside the main item at no additional cost, increasing the perceived value and driving more sales.

According to Enzmann & Schneider (2005) the two types of programs are the rewarding system and virtual communities. The rewarding system is based on financial benefits. Virtual communities mainly focusing on the social aspect like a panel discussion on an issue relating to a product via online. Miranda et al. (2005) highlight the key elements influencing the satisfaction levels of the customers based on pricing structure, store location, incentives, offers, sales personnel, loyalty cards and the company reputation.

Consumer Loyalty Techniques:

Customer Retention Techniques. It is an essential aspect of maintaining a loyal customer base and driving long-term profitability. Numerous strategies can be employed to enhance customer retention, and here are some commonly used approaches.

- A) Personalized Interaction:** Interacting with customers on a personal basis helps build a stronger connection and encourages loyalty. This can involve sending personalized emails, offering targeted promotions, and providing product recommendations that are relevant to the customer. By utilizing customer data and segmentation, companies can customize their communication strategies to address the specific needs and preferences of each individual (Fournier & Lee, 2009).
- B) Outstanding Customer Service:** Delivering excellent customer service plays a crucial role in retaining customers. This includes quickly resolving issues, responding to inquiries efficiently, and offering support after purchases. A positive experience with customer service can greatly improve customer satisfaction and foster loyalty (Heskett et al., 1994).
- C) Customer Feedback and Involvement:** Listening to customer feedback and involving them in product development or service improvements shows that the business values their opinions. Regular surveys, reviews, and direct engagement can help businesses refine their offerings and create a more loyal customer base.

Advancement of Digital technology for loyalty programs in web-based retail:

The continuous advancement of digital technology is poised to significantly shape the future evolution of loyalty programs in web-based retail. As technology evolves, retailers will have new opportunities to create more personalized, engaging, and seamless loyalty experiences for their customers. Here are some key predictions for how emerging digital technologies will impact loyalty programs:

- 1) **Increased Personalization through Data and AI:** AI and Machine Learning will enable deeper **personalization** by analysing vast amounts of **customer data** from purchasing history to online behaviour allowing retailers to offer hyper-targeted rewards, promotions, and recommendations. Personalized loyalty programs will evolve from simple point systems to sophisticated, context-aware models that predict what the customer wants before they even ask for it.
- 2) **Blockchain for transparency and trust:** **Blockchain technology** could revolutionize loyalty programs by offering **transparency** and **security** in managing loyalty points and rewards. By creating an immutable ledger of transactions, blockchain ensures that customers' earned rewards are tamper-proof and transparent. This will increase trust in loyalty programs, particularly in industries where fraud or redemption manipulation can be a concern.
- 3) **Integration of Virtual Reality (VR) and Augmented Reality (AR):** **VR and AR technologies** are likely to enhance **engagement** within loyalty programs by providing immersive experiences that make loyalty more interactive. Retailers could offer **virtual shopping experiences** where loyal customers can explore a virtual store, try out products, and earn rewards through participation. **AR-based loyalty** could allow customers to engage with loyalty programs in physical spaces. For example, by using AR apps, customers could find hidden rewards or engage in treasure hunts within retail stores or online platforms, creating an interactive and gamified loyalty experience.

Conclusions:

The evolution of customer loyalty programs in web-based retail has been a dynamic journey, shaped by changing consumer behaviours, advancements in technology, and the increasing importance of customer experience. From the traditional stamp cards and points-based systems to the sophisticated, data-driven, and personalized programs of today, loyalty programs have continuously adapted to meet the demands of the modern digital consumer. Looking ahead, the future of loyalty programs in web-based retail will be heavily influenced by the continued advancement of **AI, blockchain, AR/VR, and NFTs**. These technologies will enable even greater personalization, transparency, and interactivity, creating loyalty programs that not only reward customers for repeat business but also foster emotional connections and brand advocacy. In conclusion, customer loyalty programs in web-based retail will continue to evolve in response to technological innovation and changing consumer expectations.

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