

# Correlating Millennial Focused Customer Loyalty Programs with Experiential Retail

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## Abstract

In today's dopamine triggering, notifications have driven the digital era, the old loyalty programs of offering rewards and points have to be rethought while emphasizing the digital and in-store experience being provided to the new-age customers. Moreover, brand wars, thanks to the retail boom of the 21st century, have made it necessary to replace the traditional transactional concept of asking a customer to "pay" for loyalty with "earning" a customer's loyalty instead. Previous research findings in the arena of loyalty programs and their effectiveness seem irrelevant today owing to the shift in the mindset of the millennial consumer. The efforts being put in by organizations to ensure customer loyalty need to be channelized to satisfy and surprise expectations, especially that of millennial customers. This calls for practical research targeting millennials representing the major spenders shortly. This study examines the primary factors which influence millennials to opt for a loyalty program. A random sample of 385 millennials was analyzed to understand the relationship shared between customer loyalty programs and the aspirations of millennials concerning customer engagement. The sample data was subjected to factor analysis which indicated two major factors, "concern" and "connect" that seemed to influence millennials in developing brand loyalty. The results suggest the need for retailers and brands to re-strategize their customer loyalty programs and thereby reorient their desired customer experience to stand out in this tough brand competition.

**Keywords:** Retail, Loyalty Program, Retail experience, Millennial, Reward.

## Introduction

For a long time now, many industries have been successfully (and unsuccessfully) implementing their customer loyalty programs for a variety of reasons. Even though the definitions for customer loyalty differ, the understanding of the concept remains almost the same. One way of easily understanding customer loyalty is the repeated buying and utilization of an offer from a company with a positive attitude (Arantola, 2000).

One particular industry where loyalty programs have been in extensive use is the retail industry (Berman, 2006). Needless to say, industries today face a lot of competition with regards to their business environment (Ravisankar, 2011). One effect of this is the increased importance for a company to

differentiate itself in the mind of its customers. Loyalty programs, apart from just being a tool for differentiation, protect profits and sales; increases value for the existing customer, stimulates cross-product sales, makes it difficult for a new brand or a comparable loyalty program to enter, and finally, allows protection of market shares for the firms (Dowling, 1997).

As the marketing industry has come a long way to improve its pitch, the traditional offering by the loyalty programs has taken a hit too. Carrying forward the assumption that every generation does have its characteristics unique to its cohort, it becomes imperative to draw focus on the customer profile that these loyalty programs are catering to (Schmidt, 2010). Further, there exists a need to understand whether these traditional loyalty

programs are still serving their purpose or should be rethought to cater to the ever-changing demands of the consumer demographics.

With the onset of the 21st century, the demographics that marketers need to cater to are the millennials, people born in the year range of the 1980s' to 2000s'. Globally, they happen to be the first generation connected to social media, specifically the internet (Hennig-Thurau, 1997). The question then arises, how can customer loyalty be used as the medium of relationship marketing for this digital generation?

To answer that question, we begin this paper by reviewing the concept of customer loyalty. This sets the context for understanding the perception of loyalty programs for millennials.

The objective of the paper is to understand how millennials perceive loyalty programs, as a concept and what their aspirations are, in terms of experiential rewards.

## **Literature Review**

### **Review of Customer Loyalty Concept**

Customer loyalty originated from the concept of relationship marketing wherein the focus was on establishing and promoting productive and long-term relationships with the customer (Hunt, 1997). In the myriad of different explanations of loyalty, it becomes all the more essential to understand that loyalty programs are not only limited to repeated purchases done by a customer for a brand or a company. Loyalty does also include other consumer behavior such as cross-buying, the frequency of visits, the last time of store/brand visit, the transactional value extended to the brand, and the duration of the relationship between them (Söderlund, 2006). (Henderson, 2011) takes this thought forward when he suggests that companies are using such programs to get to know what customers think about the companies, by providing their unedited feedback. This plays a role in making the customer feel valued by the company while indirectly increasing their loyalty towards the company. Some firms are using loyalty programs to give access to the companies about their customers' shopping

attitudes and buying behavior (Demoulin, 2009).

With the intense competition within industries, retaining existing customers become a high priority. This fact holds increased importance if we consider the example of the retail industry (Sirohi, 1998). It has been found that the cost of retaining these customers is lower than attracting new customers with a definite number being placed on it which is three to five times less expensive than acquiring a new customer (Jang, 2005) At this juncture, a well-executed loyalty program can give a competitive edge to the company over others (Grönroos, 2009). (Risi, 2006) suggests a proper framework for going about it which can be understood as follows:

- Aim for the creation of a positive experience
- Emphasize the best customers
- Focus on your differentiator value and your Unique Selling Proposition (USP)
- Do not engage with every customer
- An Attempt at creating a group of brand advocates

While for the company, satisfied customers will possibly create new customers due to positive word-of-mouth marketing, (Biyalogorsky, 2001) suggests that such programs can even encourage referrals (O'Brien, 1995). On the other hand, from the perspective of a customer, the outcome of a successful loyalty program is (and not limited to) coupons, promotional offers, and discounts (Mimouni-Chaabane, 2010) financial benefits (Bolton, 2004); recognition benefits (Mimouni-Chaabane, 2010) personal recognition (Gwinner, 1998); social benefits (Fournier, 2005); creating a positive feeling of belongingness (McMillan, 1986).

With so many benefits extended to the customer, companies are not just creating a transactional relationship but an emotional one, too. Leveraging upon this attachment between the brand and the customer can be the difference between a thriving and a dying brand.

### **Millennial Aspirations From Customer Loyalty Programs**

The millennials serve to be a trillion-dollar demographic which needs special attention of their own when being marketed products and services. These young adults belonging to the age group of the 20s to the 30s happen to be known for their digital prowess which has in a way made it difficult for retailers and marketers alike to shift all their attention into satisfying their demands. Needless to say, millennials will exhibit a major impact on economies around the world. This makes it important to understand how should loyalty programs be devised to cater to this potent generation?

The traditional concept of loyalty programs needs a revamp concerning the changing customer expectations. Even though it becomes nearly impossible to satisfy the expectation of each customer owing to their varied shopping behavior and buying patterns, one can map out a loyalty strategy that serves the right customer experience. This strategy can be devised after studying a demographic and pointing out a few common functions as well as expectations from a loyalty program. For example, the traditional loyalty programs with their points-based schemes have always been huge on offering free products which may not even be of use to the customer. Such programs need a facelift to allow serving the new demographic better while assuring a better customer experience. As far as the millennials are concerned, utilizing technologies like the Internet of Things (IoT), Artificial Intelligence (AI), Virtual Reality (VR), and extending experiential rewards takes the center stage. For the ease of definition, “experiential rewards” are about giving customers access to valuable experiences and activities over products that they may not be able to gain access to, otherwise. Such rewards in return for a customer’s loyalty, when done right can set great examples in increasing the engagement rate of the customers.

### **Research Methodology**

The designed framework was tested by sampling data from a population covering various states of India. The target population was consumers who have already had access to experiential rewards via loyalty programs as well as those who have not experienced the

same but are part of loyalty programs. The only criterion of eligibility was being a millennial, i.e. the respondent should be born between 1980 and 2000. The survey spanned for 3 months wherein the responses were invited, provided the eligibility criteria were strictly maintained. The respondents were made familiar with the concept of experiential rewards in the case when they were not aware of it.

### **The behavior of Customers Towards Loyalty**

For this study, we examined the following factors while opting for experiential rewards via a loyalty program: Eagerness to save money, sense of connecting with the brand as well as a social group, the expectation of being taken care of by the loyalty program, and memorable experience offered by the brand. Customer loyalty programs have always been looked upon as a means of saving costs by showcasing loyalty towards a brand. (Bolton, 2004) suggests that loyalty programs provide financial benefits such as discounts and offers. Previous literature exists that suggests that experiences extend that personal touch to the customer which evokes a strong emotional response (Srinivasan, 2010). This can be perceived as the special status, a feeling of being distinguished while enjoying special treatments. Loyalty programs offering experiences as part of rewards are very successful in making the customer feel important while creating a sense of strong belonging (McMillan, 1986). Finally, (Mimouni-Chaabane, 2010) successfully points out that members are experiencing recognition benefits, important in determining their loyalty.

### **Survey Method**

The data was from filled-up questionnaires after being checked for completeness and consistency. The first step was to submit the reduced, valid, and complete data to exploratory factor analysis (EFA) to extract a relevant number of factors and to observe if the measurement items (questions) provide valid and meaningful results. The reduced set of response items and the extracted factors were used in the next step for confirmatory

factor analysis (CFA). These 385 responses recorded and analyzed covered 15 items (questions) labeled as follows in Table 1:

**Table 1: Labeling of Factors**

Items	Code
How likely are you to opt for a loyalty program which allows you to spend less?	sl
How likely are you to opt for a loyalty program which allows you to save money?	sm
How likely are you to opt for a loyalty program which allows you access to more product offerings?	po
How likely are you to opt for a loyalty program which entertains you while collecting and redeeming them?	pe
How likely are you to opt for a loyalty program which gives you respect?	rs
How likely are you to opt for a loyalty program that shows care for you?	cr
How likely are you to opt for a loyalty program which gives you a sense of belonging?	bl
How likely are you to opt for a loyalty program which allows you to share the same sentiments with the brand?	sn
How likely are you of the opinion that a loyalty program could do a better job at increasing loyalty?	wm
How likely are you to opt for a loyalty program which provides experiential rewards over products?	er
How likely are you to opt for a loyalty program which gives you a memorable experience?	me
How likely are you to opt for a loyalty program which allows you to have lasting memories?	lm
How likely are you to opt for a loyalty program which allows you to have a positive connection with the brand?	pc
How likely are you to opt for a loyalty program which allows you to connect with your social group?	sg
How likely are you to opt for a loyalty program which allows you to feel like a valued customer?	vl

### Data Analysis

Questions based on earlier research and literature survey are administered to millennial respondents across India. Of all the responses received, few of the responses were dropped owing to them being incomplete or invalid. In the end, we worked with 385 complete and valid responses.

We subject the data to EFA with three factors and considering the significant loadings (Table 1), we can discern a pattern. However, this pattern which we discerned, indicates the three extracted factors which, under the manifest variable loadings, are seen to be as follows (Table 2):

#### **Factor 1:** “Concern”

The concern is the measure of effort a loyalty program is putting to cater better to the millennials.

#### **Factor 2:** “Connect”

Connect is the measure of the association a millennial expresses for a loyalty program.

#### **Factor 3:** “Savings”

Savings is the measure of the savings being extended to the millennial for being a member of a loyalty program.

The remaining factors do not have significant loadings from manifested variables and thus are excluded from the EFA.

**Table 2: Factor Loadings**

	Factor 1	Factor 2	Factor 3
sl	0.01	-0.02	0.54
sm	0.11	0.15	0.98
po	0.26	0.17	0.05
pe	0.37	0.17	0.14

rs	0.73	0.16	0.03
cr	0.74	0.18	0.12
bl	0.81	0.18	-0.13
sn	0.78	0.17	-0.04
wm	0.04	0.41	0.06
er	0.11	0.59	-0.03
me	0.08	0.64	0.06
lm	0.35	0.64	0.04
pc	0.37	0.61	-0.06
sg	0.38	0.53	0.01
vl	0.34	0.58	0.09

After examining the loading table for items, which have a dominant loading from any of the three factors. This exercise results in dropping various items. For example, product offerings (po) seem to have evoked responses stemming from “concern,” while the belongingness (bl) towards the brand reflects the highest-ranking to the factor “concern.” bl loads heavily on Factor 1, again demonstrating the importance of “concern” which a brand should have for their millennial customer. Following the same logic, we decided to drop the factors which did not show

the influential effect on “concern” and “connect,” two major outcomes of the study.

### Factor Analysis

Next, we started with EFA on the manifest variables to find out the sufficient number of factors determining the perception of millennials. First, we conducted a four-factor EFA followed by a three-factor and a two-factor EFA (Table 3).

**Table 3. Exploratory Factor Analysis**

	<b>concern</b>	<b>connect</b>
<b>po</b>	0.299	
<b>pe</b>	0.421	
<b>Rs</b>	0.749	
<b>cr</b>	0.761	
<b>bl</b>	0.82	
<b>sn</b>	0.793	
<b>wm</b>		<b>0.357</b>
<b>er</b>		<b>0.525</b>
<b>me</b>		<b>0.56</b>
<b>lm</b>		<b>0.745</b>
<b>pc</b>		<b>0.746</b>
<b>sg</b>		<b>0.672</b>
<b>vl</b>		<b>0.674</b>
<b>AVE</b>	0.451	<b>0.39</b>
<b>CR</b>	0.416	<b>0.421</b>

$$AVE = 0.08955502747$$

As “sm” and “me” have a very low contribution to the factor analytic model, we dropped them from further analysis. The two-factor EFA (p-value = 0.0019) is not a sufficient model despite that, we have proceeded with the model because the third factor manifests with very low commonality.

We then submitted to CFA to confirm the EFA results. Here, we are breaking away from orthogonality. The following is the CFA model that has emerged (Figure 1).

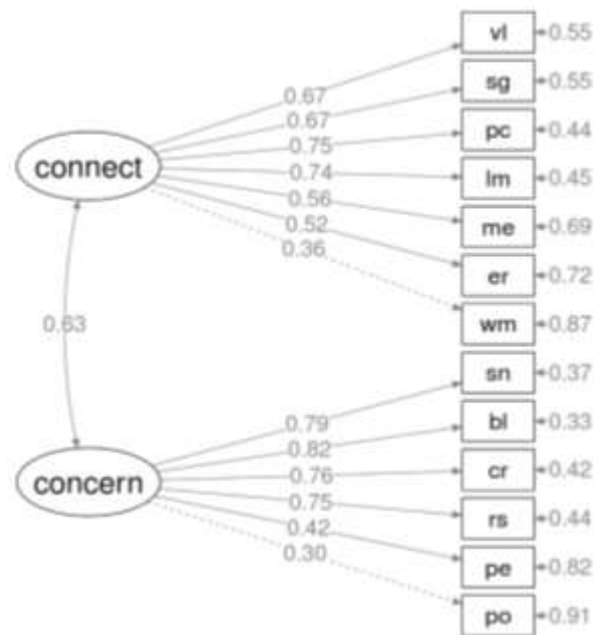


Figure 1: Confirmatory Factor Analysis Schema

From the CFA carried out, the two main extracted factors of “concern” and “connect” are seen to have a strong correlation of 0.63 indicating an overlap of causality. Consumer behavior is seen to be motivated by the perceptions of “concern” and “connect.” i.e. buying behavior tends to be influenced if there is a significant perceived connection between what the loyalty program has to offer and what the customer desires.

Additionally, the second factor, “connect” indicates that the buying behavior is also positively influenced by the “concern” shown by the program for its loyal customers.

“Connect” manifests on the measured variables vl (0.67), sg (0.67), pc (0.75), lm (0.74).

“Concern” manifests strongly on the measured variables sn (0.79), bl (0.82), cr (0.76), rs (0.75).

It is also seen that the two main extracted factors, “concern” and “connect” have a

strong correlation of 0.63 indicating an overlap of causality. This indicates a strong “connect” reinforces a perception of “concern” for the loyal customers and vice versa.

## Discussions and Future Scope

This research can be taken forward in the future by incorporating the scope for the third factor with a strong loading on “savings,” conducted during the EFA. Further, this research can be extended by asking more probed questions to arrive at and conclude specific attributes that millennials demand out of loyalty programs in the market.

## Conclusion

The research presents the first attempt at understanding the preferences of millennials

while opting for a loyalty program. What makes this research relevant in today's socially interconnected era is the fact that when these same millennials come to their highest potential of earnings, they would be contributing to as well as controlling almost one-third of total retail sales. Needless to say, for millennial customers' loyalty with a brand is a solid relationship and not just a mere scheme. This is why this relationship should ideally be based on having a nuanced understanding of what makes millennials relate to a brand and what makes them buy (Yarrow, 2009).

Our analysis suggests that two hitherto not very important factors, "concern" and "connect" which exhibit a strong correlation are the prime factors that are responsible for a millennial opting for a loyalty program. Being able to form a sense of relationship with the brand holds utmost importance for the millennial customer. This relationship may be extended via brick-and-mortar stores, online web presence, or omnichannel. All that the millennial customer cares about is feeling valued by the brand they are associating themselves with. The other important factor, "connect" emphasizes the ability of the marketer or the retailer to understand the aspirations, needs, and desires of the millennial customer, and be able to succinctly acknowledge the same and deliver. For this, experiential retail plays an important role in reorienting to the two major factors extracted from our research, i.e. "concern" and "connect."

Millennials constitute the largest market since baby boomers and are thrice the size of Generation X (Belleau, 2007). With such a magnitude of the loyalty market to be tapped into, marketers must realize that millennials cannot be "sold" loyalty programs as earlier. Rather, a relationship crafted with the millennial customer should be deeply invested, respected, and acknowledged. Crafting experiences into loyalty programs would help companies to do just that while creating an important source of strong competitive advantage.

Loyalty program designs are undergoing a sea change. While most of this ride on impulsive and innovative brand promotion is seen to be working wonders for the marketers, our research establishes that there is a change in

the millennial mindset that calls for pampering the customer through demonstrable concern and connection. If, as goes the adage, "the customer is king," he should also be treated like one.

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