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LOYALTY PROGRAMMES IN CROATIAN RETAIL COMPANIES

Davor Perkov

University Libertas, Trg J.F. Kennedyja 6b, Zagreb, Croatia
dperkov@libertas.hr

Dinko Primorac

University North, Koprivnica, Croatia
primoracdinko@gmail.com

Valentina Keblar

Unija Nova d.d., Radnička cesta 22, Zagreb, Croatia
vdkeblar@unija-nova.hr

ABSTRACT

Customer relationship management (CRM) is based on integrated market management, sales and special services for the clients, as organizational key functions of a company. On the whole it represents the strategic orientation of a company to put the customer in the spotlight. Customers are the most valuable asset, inasmuch as the success on the market and the future cash flow directly depend on their loyalty. The loyalty of the customer is reflected in a repeating purchase, forgiving possible errors and „recruiting“ of new customers by „word-of-mouth“ promotion. Loyalty programmes are already established praxis in service areas, but they have also been growing recently in retail business. The goal of this paper was to establish how CRM and loyalty programmes can influence the business result and competitiveness of the chosen two Croatian big retailers: Konzum as the biggest chain of retailers and dm as the leader in drugstore products. The main hypothesis is that loyalty programmes contribute to an increase in customer satisfaction and profitability of Croatian retail companies. The sample of fifty-one (N=51) Croatian consumers also took part in an online survey. The findings indicated that a loyalty programme is „very important“ to a fifth (19.6%) of respondents when deciding on where to shop. Besides, the material benefits in terms of discounts and rewards are „very important“ to a near third of consumers (31.4%) in creating satisfaction with individual loyalty programmes. While the variety of rewards is „sometimes important and sometimes not“ for almost three fifths (58.80%) of consumers, 45.10% of them deem the retailer's attitude „the most important“ or „very important“ in their satisfaction with a loyalty programme. The research has shown that 56.9% of consumers will recommend a retail chain, the loyalty programme of which they are satisfied with, to family, relatives and friends.

Keywords: *consumer orientation, customer relationship management, loyalty cards.*

1. INTRODUCTION

Achieving satisfaction and enthusiasm in consumers is a strong competitive edge, and this is why Customer Relationship Management (CRM)¹ has become an inevitable part of modern-day business. CRM is a strategic orientation toward placing the focus on the consumer who is aware, informed and demanding. It is based on an integrated approach of market, sales and

¹ Hereinafter: CRM.

customer service management as key organisational functions. Being entirely integrated into a company's business strategy and information-technology system CRM becomes basis of effective and measurable method of gaining new customers and enhancing loyalty and satisfaction of the existing ones. Considering that customers represent the most valuable asset of retail companies, their success on the market and their future cash flow directly depend on customer loyalty. Research has shown that the cost of acquiring new customers is five times larger than the cost of retaining the existing ones, and that even 68% of jobs fail due to a lack of after-sales contact (Perkov, 2015). This has sparked more intensive work on loyalty programmes aided by various marketing, sales and socio-psychological channels. Customer loyalty and enthusiasm are indicated in repeated purchase, greater understanding for possible errors, flexibility regarding price and recommendations by word-of-mouth. Introduction of loyalty programmes is common practice in the service sector, but their number has also been growing for the last several years in the retail sector.

The goal of this paper was to present how CRM and loyalty programmes can influence the business result and competitiveness of two Croatian retailers. The main hypothesis is that loyalty programmes contribute to an increase in customer satisfaction and profitability of these Croatian retail companies. This paper was structured in five major chapters. The first chapter briefly introduces the topic of research and presents the paper structure. The second chapter elaborates the literature review of the relevant CRM concepts and is broken into two subheadings. The third chapter analyses the loyalty programmes and cards. The fourth chapter describes the research method and design, population, sample and methods to test the hypothesis. The fifth chapter presents the research findings. The sixth chapter summarizes key points of the paper.

2. LITERATURE REVIEW

CRM is based on an integrated approach to market, sales and customer service management as key functions of a company. According to Meler and Dukić (2007), it is a comprehensive approach to creating, maintaining and enhancing relationships with customers. Müller and Srića (2005) interpret CRM as a business strategy comprising the choice and management of attitudes toward consumers aimed at achieving long-term value for a company. Authors Gray and Byun (2001) break up CRM to three components: customer, customer relationship and company management (Figure 1).

Customer represents the primary source of profit and future company growth. *Customer relationship* includes a continued two-directional communication and interaction. *Management* needs to understand that CRM is not just an activity within the marketing department but involves constant corporate changes in the business culture, strategies and processes. The information obtained from customers is converted into corporate knowledge that leads to the use and understanding of the information and exploitation of market policies. The establishment of good parameters of each of the three components is essential to achieving the all-encompassing efficacy of CRM. The need for a CRM strategy, i.e. company orientation toward customers is grounded in the paradigm explaining that during their growth companies often shift focus of their business operations away from the customer, concentrating on their internal processes, products and services.

According to Kalakota and Robinson (2002), CRM is a company strategy integrating sales, marketing and after-sales services that depends on the coordination of all company departments. The point of developing an adequate CRM strategy according to Kraljević and Perkov (2014) is to create the desire in customers to interact with the company, to experience emotional connection with it and to boast the relationship among others.

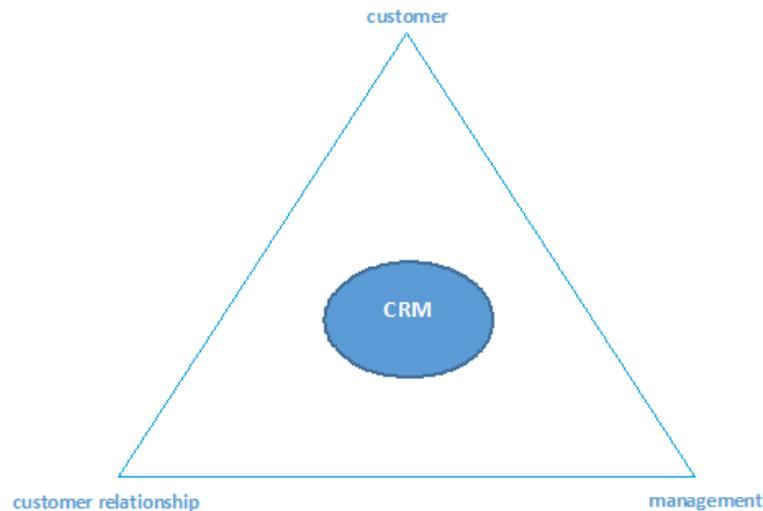


Figure 1. Three components of CRM (Gray, Byun, 2001, p.8)

Customer orientation and customer-oriented communication has a significant impact on creating innovation. Its presence in the current strong competitive environment ceases to be a competitive advantage; however, the lack of it becomes a competitive disadvantage. According to Stachova and Stacho (2015) when the focus on customers is very low they are just anonymous buyers. Most organisations are at the next level because they have specified their key market segments. Organisations in the middle of the scale, named „hostages“, know detailed data about their customers and try to achieve their loyalty through credit cards, loyalty programmes, consumer coupons, warrantee cancellation in case a customer uses competitor's components or some other CRM activities. The highest level of customer orientation is represented by a situation when customers are partners, highly recognised by the organisation and their cooperation is supported by mutual trust based on open communication.

2.1. Emergence and development of CRM

Sources say that 3,000 years ago facades of buildings in Babylon displayed signs advertising trades. Metaphorically, we can say that retention of customer loyalty began in the prehistoric era when Adam faced a fierce competitor, the snake, while competing for Eve's attention. Added value is seen at work when the snake convinced Eve in the benefits she would enjoy if she ate the forbidden fruit. And so Eve did!

The modern-day onsets of the CRM approach date back to the late 1950-s and are contributed to Drucker's view published in *The Practice of Management* (1954): „The purpose of a business is to create and keep a customer.“ This succinct truth is an apt and insightful definition of CRM, but a lot has changed. CRM now involves technology, software, inbound and outbound marketing, lead acquisition, databases, multiple touch points, multi-channel marketing, enterprise solutions and social media.

The outset of retail business of the 20th century was based on knowing consumer habits, needs and wants. The relationship between the retailer and customer was expressed as 1:1 ratio. Retailers could identify themselves with consumers and make everything their customers need possible. Changes started happening in the second half of the century with the emergence of wholesale and mass production. Various goods became easily accessible so consumers were

buying now from one retailer, now from another. Today the retailer-customer relationship has returned to the way it was, to 1:1 ratio. The retailer uses modern communication technologies with the purpose of getting to know each individual customer to the greatest extent possible.

Customer relationship management is a term that refers to practices, strategies and technologies that companies use to manage and analyse customer interactions and data throughout the customer lifecycle, with the goal of improving business relationships with customers, assisting in customer retention and driving sales growth. CRM systems are designed to compile information on customers across different channels -- or points of contact between the customer and the company -- which could include the company's website, telephone, live chat, direct mail, marketing materials and social media. CRM systems can also give customer-facing staff detailed information on customers' personal information, purchase history, buying preferences and concerns.

2.2. CRM concept

The basic concept underlying CRM is customer orientation rather than product and service orientation. Müller and Srića (2005) divide CRM into three stages:

1. acquisition of new customers
2. increase in profitability of existing customers
3. retention of profitable customers throughout the lifecycle.

Acquisition of new customers is achieved by a differentiation of supply through innovation and conveniences such as sales promotion, bonuses, rewards and loyalty programmes. The reduction of operating costs per employee ensures larger investment in creating after-sales services. This retains, but also enriches purchase habits with the purpose of increasing the profitability of existing customers. The secret is not in the increase in the number of customers, but in their retention. With this the retailer ensures the Customer Long-life Value (CLV), which is calculated as a product of all purchases a retailer realises if they achieve lifelong retention of a customer. In this context we can view Konzum's slogan: „*With You through Life*“! For example, the value generated by customers who will spend a mere 50 USD a month means a total of 3,000 USD in five years. If the same customer shares their dissatisfaction with a dozen of other customers (half of which will immediately cease to purchase from that retailer), it would represent a potential loss of 15,000 USD!

Martinaga (2007) claims that companies today are not competing for market but for customer share, i.e. for mind share. This share represents an important element because it is where the choice of product is made. The development of customer loyalty also raises profit, because with each passing year the service costs decrease, and marginal profit increases. Loyal customers are becoming business „developers“. They begin buying more, they pay higher prices and bring new customers through verbal praise. The more the retailer learns from the customer, the better they get at personalising services (Perkov, 2015).

3. LOYALTY CARDS AND PROGRAMMES

Customer loyalty is mainly evidenced in repeated purchases. Uncles, Dowling and Hammond (2003) differentiate two key loyalty programme types: the *first* aims at increasing sales (and accordingly retailer's profit), and the *second* is used to maintain customer satisfaction through a more peaceful and intimate approach. Modern programmes and their loyalty cards (Passcard) appeared in the 1980-s in Great Britain. Today most retail chains selling fast-

moving consumer goods (FMCG) offer some sort of loyalty programme, including a corresponding card.

Depending on their wishes, organisations choose the methods of rewarding loyal customers. Each loyalty programme needs to be determined by time, and they differ from each other in continuity and linearity of rewards. Continuity means that the customer is rewarded with each purchase, i.e. when they reach a specific threshold. Linearity defines the relationship between the amount of purchases and the amount of rewards (Čičković, 2012). Loyalty programme rewards can be divided into economic and non-economic. Economic rewards are connected to various financial conveniences for the loyal customer (e.g. bonuses, discounts, free products and cash bonuses). Non-economic rewards are psychological in nature and place the loyal customer above everyone else. Loyal customers enjoy in first-purchase deals at closed events and priority in receiving information on sales promotions, discounts and the like. An example of such rewards is provided by the Peek&Cloppenburg loyalty programme and their P&C loyalty card.

Loyalty programmes have arrived in Croatia later than the rest of Europe. According to the Customer Protection Act (Official Gazette 41/14, chapter I, article 5), a customer is a physical person who enters into legal business or acts on the market outside his or her trade, corporate, craft or professional activity“. Meler and Dukić (2007) differentiate between B2B (*business-to-business*) customers and B2C (*business-to-customer*) customer relationships. While B2B relates to a legal entity or institution (non-profit organisation), B2C is the end-consumer, i.e. an individual or household.

Customer satisfaction and quality of services are determined in the area of business efficacy, and their growingly significant role has forced a lot of companies to do research in this area. Satisfied and motivated employees represent an important factor in customer service management. Namely, they transfer their own satisfaction to the customer by providing them higher quality services, which in turn enhances the company's business.

3.1. Loyalty cards in Croatian retail

The greatest presence of loyalty programmes is seen in medium-size and large retail enterprises. This form of competition represents a valuable source of knowledge used by retailers for market segmentation, determination of product range and outlets as well as the definition of characteristics of different target markets. The more a company learns about their customer the better it gets at providing personalised services. Therefore, social media represent the largest database of potential customers in the world as well as an inexhaustible source of information about their environment and behaviour. For example, by adding FacebookAds (paid advertisements on Facebook) a retailer can choose the target market they want to win over, depending on their age, interests and various other criteria (Kraljević, Perkov, 2014).

Knežević (2015) classifies retail company loyalty cards as basic (most frequent in retail companies used to follow trends in customer habits) and complex (models used by retailers to associate themselves with companies operating in different business activities; e.g. MultiPlusCard). The mentioned card is the most widely present loyalty card on the Croatian market with almost 1.2 million members, i.e. used by 66% of Croatian households. This is the first joint loyalty reward programme in Croatia initiated in 2010, which links several partners and provides users with the opportunity to achieve rewards with one purchase.

Konzum cooperates with a number of companies that are distinguished in retail as well as finance, tourism and telecommunication services (MultiPlus mobile, Konzum, Zagrebačka banka, Hrvatski Telekom, Tisak, Kozmo, Atlas, Allianz and Pevec).

This enables users to collect points at several completely different outlets. Loyal customers quarterly receive the MultiPlusCard Savings Booklet containing coupons and other savings offers by which they are rewarded by all partners participating in the programme. They are offered year-long convenient discounts, sales promotion prices, gifts, sweepstakes, reward points upon purchase and the like. The next in rank after the MultiPlusCard are Active Beauty card (*dm*) with over 900,000 members and the Billa Club card with over 600,000 members.

4. RESEARCH METHODOLOGY AND SAMPLE ANALYSIS

The main working hypothesis of this paper was that loyalty programmes contribute to the increase in customer satisfaction and the profitability of Croatian retailers. This chapter describes the research method and design, population, sample and instruments. Using online service Google Forms and email, qualitative research was conducted during summer 2015 on the sample of 51 respondents aged from 20 to 56 years of age. 19.6% of them do not belong to any of the loyalty programmes, as many as 45.10% of them are members of 1 – 2 programmes and 35.30% participate in 3 or more loyalty programmes.

We used secondary and primary sources of information. Secondary sources included domestic and foreign scientific and professional literature, as well as relevant online databases. Primary information sources have been obtained through empirical research of loyalty programmes in Croatian retail companies. Using an online survey, 51 individual consumers were included. Key methods used in the conducted research include logical methods. Particularly the methods of analysis, synthesis, deduction and comparison were applied from this group of methods. Mathematical and statistical methods were also applied in this paper. The research of loyalty programmes of the two selected Croatian retailers were conducted by desk research method.

5. FINDINGS

This chapter was designed to present the study results and evaluate findings in a way to test the stated hypothesis. Respondents answered 10 questions about the effect of loyalty programmes on customer satisfaction with retail chains in Croatia. For purposes of this paper we analysed the answers to only a part of the questions (Figure 2).

The responses indicate that a loyalty programme is „*very important*“ to nearly a fifth (19.6%) of customers upon deciding where to purchase. Additionally, the material benefits in terms of discounts and rewards are „*very important*“ for almost a third (31.4%) of customers in creating satisfaction with particular loyalty programmes.

Whereas the variety of rewards is only „*sometimes important and sometimes not*“ for almost three fifths (58.80) of customers, the retailer’s attitude toward the customer is „*the most important*“ or „*very important*“ for almost half (45.10%) of the customers in creating satisfaction with a loyalty programme. The research also showed that 56.9% of customers would recommend a retailer to family and friends if they are satisfied with its loyalty programme.

| Variable | Structure (%) |
|---|----------------------|
| <i>Importance of loyalty programme upon deciding on the place of purchase</i> | |
| It is the most important | 5.9 |
| It is very important | 19.60 |
| It is sometimes important and sometimes not | 43.10 |
| It isn't important at all | 33.40 |
| <i>The effects of material benefit value of the loyalty programme on customer satisfaction</i> | |
| It is the most important | 3.90 |
| It is very important | 31.40 |
| It is sometimes important and sometimes not | 47.10 |
| It isn't important at all | 17.6 |
| <i>The effects of appeal, innovation and variety of rewards of the loyalty programme on customer satisfaction</i> | |
| It is the most important | 0 |
| It is very important | 27.50 |
| It is sometimes important and sometimes not | 58.80 |
| It isn't important at all | 13.70 |
| <i>The effects of the retailer's attitude toward the customer as member of loyalty programme</i> | |
| It is the most important | 3.90 |
| It is very important | 41.20 |
| It is sometimes important and sometimes not | 39.20 |
| It isn't important at all | 15.70 |

Figure 2: Importance and number of loyalty programmes, effects of material benefits, appeal of rewards and effect on customer relationship (n=51)

According to another recent study (Futivić, 2015) conducted online with 102 Croatian citizens, as much as 79% of them have used a loyalty card by a retail company. 70% among them claimed that a member of their family has also used loyalty cards. In relation to the number of cards used, 45% of them use 2 to 3 cards, 30% of them use only one, 15% use 3 to 5 cards and 10% of our citizens use more than five loyalty cards. With regard to the connection of their shopping habits and the use of loyalty cards, 74% of Croatian consumers responded that they use loyalty cards by issued by their favourite retailers.

For the purposes of this paper, we conducted a comparative analysis of loyalty programmes of two selected retailers operating on the Croatian market: Konzum – as the leading retail chain for fast-moving consumer goods and dm (drogerie-markt) – as the leading drugstore retailer. The objective of comparison was to determine how these retailers introduce loyalty programmes in their business.

Konzum

Konzum is the market leader in Croatian retail with a market share of approximately 30%. In their corporate mission they emphasise their desire to provide each customer with the best possible value for money through high quality service and satisfaction with purchase as well as carefully selected range of quality products with emphasis on fresh, healthy and domestic products (www.konzum.hr). With the purpose of better understanding customer needs, they

invested significantly in the informatisation of business processes, the electronic access to customers and analysis of data obtained. They implemented the „Seven CRM“ programme to modernise the call centre, to manage communication channels more effectively, to enhance the Plus Card functionality, to support users and to automatize information processes. Through their many services (MultiPlusCard, gift card, mobile apps, *web shop* delivery, m-buy, Internet store, PoKupi service, call centre and Freephone number), they wish to provide customers with the best value possible, as they claim in their mission. Customers can use their *online* services to get fast answers to their questions on products and services or file complaints and commendations. Their Facebook page has over 203,000 users.

The MultiPlusCard is the first joint loyalty reward programme in Croatia initiated in 2010, which links several partners from the retail, finance, tourism and telecommunication service area. It enables users to collect points at several completely different outlets (www.multipluscard.hr). Throughout the year members are offered convenient discounts, sales promotion prices, gifts, sweepstakes and rewards by all partners.

dm

This is one of the largest drugstore chains in Central and Southeast Europe. The first store in Croatia (Zagreb) was opened in 1996, and today it has 154 store throughout the country (www.dm-drogeriemarkt.hr). The product range includes over 15,500 drugstore products related to health and beauty, baby food and baby care, household, photo services and additional product range. Its corporate mission places people at the centre of everything they do, regardless of them being customers or employees. They are amongst the most favourable employers, giving gifts for all employees' children under the age of 15, bestowing jubilee awards, benefits with years of service, financial aid for deaths in the family or severe illnesses (Krilčić Fostač, 2010).

With their slogan „*Here's where I'm a human being. Here is where I shop*“ the customer is the focus of attention. The implementation of their loyalty programme and the function of a more effective customer management is based on the continued enhancement of the CRM system through following trends, wishes and habits of existing and potential customers. They communicate through catalogues, newsletters, web pages and smart phone apps about numerous shopping advantages. The Active Beauty loyalty programme provides them with a better connection with customer needs and encourages them to help the local community, to act ecologically and to care about health. This is why the programme includes direct communication, which is ensured by the *dm* Facebook page with over 295,000 users. According to the level of complexity (Knežević, 2015), the *dm* programme uses a more complex model based on the application of highly developed information technology. It has around 900,000 members, which has made them market leader on the drugstore market for 18 consecutive years.

6. CONCLUSION

This paper assesses loyalty programs in Croatian retail business. The goal was to present how CRM and loyalty programs can influence the business result and competitiveness of the chosen two Croatian leading retailers. The main hypothesis was that loyalty programmes contribute to the increase of customer satisfaction and the profitability of Croatian retail

companies. From our recent study conducted among fifty-one Croatian consumers it follows that:

- A loyalty programme is „*very important*“ to a fifth (19.6%) of customers in deciding on the place of purchase
- Material benefits (discounts and rewards) are „*very important*“ for the satisfaction of almost a third (31.4%) of customers.
- The retailer’s attitude toward the customer is „*the most important*“ or „*very important*“ for almost half (45.10%) of the customers in creating satisfaction with a loyalty programme.
- 56.9% of customers would recommend a retailer to family and friends if they are satisfied with its loyalty programme.
- Only 30% of Croatian customers own one loyalty card, and 10% of them own more than five cards.
- Two thirds of Croatian households use the MultiPlusCard.

The synergy of activities of all partners in the programme and the marketing-information-analysis team of the company greatly contributed to the growing presence of the MultiPlusCard, which is also enhanced by the most numerous and fast-growing database of Konzum's customers as a powerful CRM tool facilitating adaptation of supply to the needs of each individual. Although the data on the presence of loyalty cards on the Croatian market show impressive results, their massiveness comes into question because they have become standard and not a differentiation factor among retailers.

Considering the limitations which derive from inadequate number of respondents, the results of this research need to be taken with a grain of salt, i.e. they should not serve as the basis for making general conclusions about loyalty cards of Croatian retailers. However, the results are quite indicative and statistically reliable for deeper understanding of the importance of CRM in modern trading. In conclusion, this research might deserve an expansion with a larger sample in the future in order to make strong and general statements about CRM perspectives in the Croatian retail sector.

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