

Using loyalty programs as tools of marketing

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University of Zagreb
Faculty of Economics and Business
Bachelor Degree in Business

USING LOYALTY PROGRAMS AS TOOLS OF MARKETING

Undergraduate thesis

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Zagreb, September 2021.

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1. INTRODUCTION

The topic discussed in brief is about loyalty programs. While every program is specific, in principle the same definition remains for all: a loyalty program is a marketing system introduced by a company which rewards purchasing behavior, subsequently expanding the customer's urge to remain loyal to the business. Loyalty programs can offer convenience, awards, credit or other benefits that could lure the loyalty of customers. Undeniably, as all other marketing tools, a good loyalty program craves resources that may presently be assigned towards other projects.

1.1. The object and purpose of the paper

The aim of this paper is to describe the usage of loyalty programs as marketing tools, being an ever-present instrument of customer relationship management. Modern businesses are getting more complex and managers struggle to implement innovations to attain and preserve customers on the product market field. However, obtaining new customers becomes costlier every day, loyalty programs are shown as a great solution to hold and reward present customers and build relationships with them.

Outstanding amongst other approaches to keep clients returning for more is by setting up a viable loyalty or rewards program. Loyal customers are worth aspiring to. They spread positive experiences, reduce withdrawal rates and amplify the purchase frequency.

But how to reach that loyalty? In this paper, we investigate if loyalty cards issued by businesses have any influence on customer loyalty. The aim of the research is to enrich our knowledge about the effectiveness of loyalty programs.

1.2. Sources of data and methodology

As the aim of this paper is to analyze the effectiveness of loyalty programs as marketing tools, the data was collected through books and scientific papers of mainly foreign authors, as well as

websites and company reports, especially from the domestic MultiPlusCard program. Moreover, an online survey is conducted by the author about the usage and opinion about loyalty programs.

1.3. Content and structure of the paper

The thesis is divided into seven main sections. In the second section the theoretical part about loyalty programs is explained, their increasing popularity as well as customers' attitude towards them. Further on, the third one observes the interconnection between marketing, loyalty programs and loyalty in general. In the fourth part sales promotions and types of them are being described as well as loyalty programs being a part of them. The domestic MultiPlusCard program serves as an example of a loyalty program in the fifth section, which is followed by a survey conducted by the author about loyalty programs in the sixth. Finally, a brief concise conclusion makes up the last section.

2. LOYALTY PROGRAMS

2.1. Loyalty programs

Loyalty programs are a vital part in holding and drawing in new customers. A company which offers loyalty program benefits partakes in an upper hand over their rivals. Loyalty programs entice clients to visit the stores and spend more. It aids in establishing a long-lasting and beneficial relation with customers in addition to a personal connection with them.

2.1.1. The success of loyalty programs

Liu and Yang (2009) said that while analyzing loyalty program performance, it is essential to distinguish that loyalty programs do not function as separate bodies in a private environment and that their success relies not only on the programs themselves but also on other helping or restricting factors existing in the environment.

Therefore, the success largely relies upon how well they oblige the changes around them by persistently updating and keeping up with the data set of clients just as recognizing the decisions and individual preferences which helps increase of customer well-being. Still, loyalty programs should not affect the profitability and an appropriate mechanism for customer feedback should be designed.

The terms and conditions related to the loyalty program should be clear to the customers and an implementation of technology should be made as digital purchases are progressively increasing.

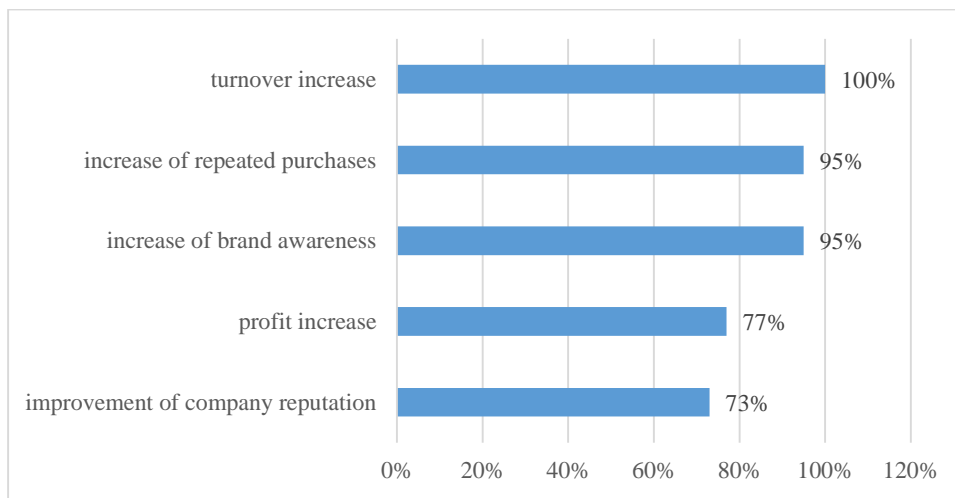
2.1.2. Benefits of loyalty programs

Loyalty programs have many benefits for the customers as well as for the company. Help in acquiring new customers including giving the opportunity to win back lost clients. Further, improvement of the relationship with customers hence improving company's reputation. In

addition, they provide better knowledge of customers' preferences therefore making it easier to aim for specific groups and allocate resources in a more efficient way.

Tahal (2014) made a research about the effects of loyalty programs in e-commerce. He collected data on businesses that are running e-shops along with asking thoughts of classic online customers. The results of his research are shown below in Figure 1 and Figure 2.

Figure 1: Company benefits from using loyalty programs

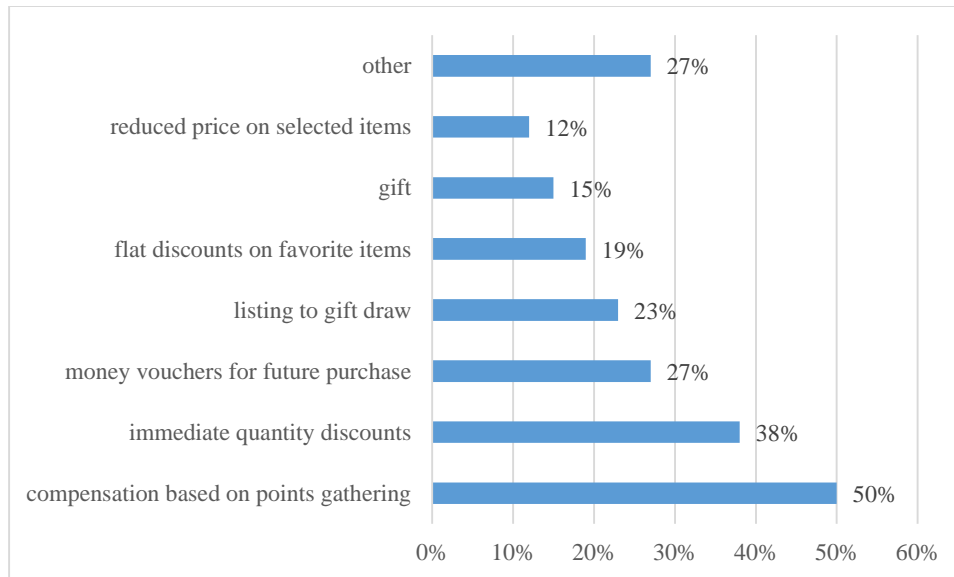


Source: Tahal (2014)

From the table it is possible to see that the turnover amplified by 100%, repeated purchases and brand awareness increased by 95%, profits jumped by 77% and company's reputation improved by 73%.

In the second table it is visible that customers benefit from loyalty programs too. Some of the benefits mentioned in the research are remuneration based on gathered points (50%), instant quantity discounts (38%) and gifts (15%).

Figure 2: Customers benefits from using loyalty programs



Source: Tahal (2014)

2.2. Increasing popularity of loyalty programs

In their research Szczepańska and Gawron (2011) say that the increasing popularity of loyalty programs is a result of changes in modern marketplace, where the customer is in the center and free to choose from a wide specter of providers of apparently homogenous products. The market is characterized by a great number of competitors that offer various products and battling for attention of alike customers. (Szczepańska & Gawron, 2011)

The described marketplace puts the beforehand irrelevant customers into the center where they become privileged and therefore become a new challenge for businesses. Now the businesses need to develop new strategies in order to win customers' attention and strengthen their connection in order to retain them.

One of the possible strategies is offering incentives that the customers may find appealing, finally explaining why loyalty programs are viewed as important marketing tools that aid in customer relationship building, changing their buying preferences and thus growing sales.

2.3. Types of loyalty programs

Loyalty programs are a powerful tool today that can vary based on the way they function. Evaluation and development of them through time has established many different approaches and types. Every program type might fit better to one type of businesses more than the other. Therefore, it is crucial to identify which program type is the best choice for the company so as to be as effective as possible. The seven main types of loyalty programs were defined by Wolfer (2021) in his article as points, cash back, punch card, tiered, coalition, premium and hybrid programs. Each type is explained below.

2.3.1. Points programs

Long ago, retailers started awarding their customers with copper tokens that they could later on be used for deals and price cuts. As the time passed, they became papers, stamps and other types but in principle the program remained mainly the same up to today. The customers need to make a purchase now in order to get rewards afterwards. But, as said before, customers have changed in comparison to the past. This type of program does not offer as much as the customer needs in order to remain loyal. Even though they are free to join and easily attract new customers, the long time required to become profitable are not favorable for the company as they don't increase purchases that much and aren't very appealing to customers. Another problem regarding this type of programs is that they don't differentiate that much from the competition.

2.3.2. Cash back programs

Cash back programs are very similar to points programs. The consumer needs to spend an amount in order to get some part of it back in the form of money or coupons that can be redeemed only at the same retailer. As they are almost the same as points programs, they have the same problems such as no instant rewards or not that different than other programs made by the competitors.

2.3.3. Punch card programs

Punch card are also one of the older types of loyalty programs. In this type customers would give paper cards to their member which are “punched” when the customer makes a purchase. After the card is filled out it becomes redeemable for certain rewards. Just like the two types mentioned above, punch card programs also require spending in order to get rewards later. Even though they are easy to understand, they are easy faked and don’t capture enough customer data neither do they affect customers’ loyalty a lot. In the end, it turns out that the customers may be awarded for purchases that they would make no matter the program.

2.3.4. Tiered programs

Tiered programs are tier-based programs that provide their members different rewards based on the tier they are in. Usually these tiers are upgraded based on the value that the member has spent. The consumer progresses through tiers as he spends more. Higher tiers bring better rewards for the member. In this way a gamification factor brings additional fun for its members and may act like a kind of addiction. Percentages of members in each tier may be presented to the members and make it more competitive for them. It makes the members feel more valued as they level up in tiers. This type of programs spotlights higher-value members and offer better involvement through tiers than points programs. It is also more customizable which makes them easier to differentiate and by giving better rewards to higher-tiered members, diminishes their chance of canceling their memberships. On the other hand, these programs offer less rewards to members in lower tiers and hence may be less appealing to consumers that don’t want to spend much. In addition, the whole tier system might be confusing to its members and purchases are still mandatory for acquiring rewards.

2.3.5. Coalition programs

Coalition programs, as their name suggests, run among several businesses. These programs are very attractive as the members are not limited to just one business. However, they don't follow up with the original doctrine of loyalty programs that is to deliver loyalty to a specific brand or company. Coalition programs create more loyalty towards the program itself than to the brand or company. Also, these kind of programs lack at differentiating because they work more by standards that work for all partners rather than developing specific plans for each one. These programs also raise the risk of earning points in one brand that are later used at a competitor. However, these programs give members opportunity to earn rewards quicker while the costs of the program are distributed amongst all partners. As the consumers have a wider range of their usage, brands widen their customer base. Meanwhile, as Aaker (2013) states that differentiation is nowadays crucial for a company to win its advantage on the marketplace, these programs might not be the best choice.

2.3.6. Premium programs

Premium programs are the complete opposite of the before mentioned types. The core of this program is that members actually pay a fee in order to become and remain members. This can represent a barrier for new members. However, these programs are considered the most outstanding way to increase customer loyalty because the consumers are truly satisfied with the brand or company and are ready to compensate for it. According to various studies, members of payed loyalty programs are more probable to pay out more on the brand than members of free ones. Another great difference with this program is that its offers and rewards are available to its members immediately after they become one. This has a great significance nowadays and therefore results in a great increase of orders and its value. This also means that retailers have an opportunity to collect more data about their most valued customers. Though, this type of programs requires additional training of employees that is more difficult than the ones for traditional program types. At the end of the day, these customers are paying for their membership and therefore ought to get the best treatment. All of these factors represent a great challenge for retailers and their implementation is much more demanding than free loyalty programs.

2.3.7. Hybrid programs

Hybrid programs are the ones that implement different features from various types. For instance, a program might be a tiered type which offers free lower tier membership to their customers with point collection systems while charging the higher tier which brings other more appealing rewards to its members. Some companies analyze different approaches in order to make the best possible program mix for their customers.

2.4. Customer loyalty

As reported by Tabaku and Zerellari (2015), there are two types of customer loyalty: behavioral and attitudinal. The behavioral loyalty states that the customer is persistently buying from the same supplier. However, attitudinal loyalty is an outcome of a psychological connection with the good, involving a preference and factors like commitment and positive point of view. (Tabaku & Zerellari, 2015)

Ludin and Cheng (2014) think of customer loyalty steady relationship between the customer and the brand. They say that the customer isn't likely to change the brand no matter the situation or issue with the brand.

The best way to accomplish this is by making the customer feel important and not just as a number. This feeling can be realized by rewarding him for his choice and repetitive purchases of the brand or company. That's exactly what loyalty programs are there for. However, it is important to develop a program that is cooperating with the whole company so as to get to know their customers, track their needs and meet their demands in order to be as effective as possible.

2.5. The core of a loyalty program

A loyalty program needs to be viewed a marketing tool that aids to realize the goal of a marketing strategy that is a company's reinforced relationship with its customers, as admitted in its customer relationship plan. In their book Keller and Swaminathan (2019) state that: "Their purpose is

identifying, maintaining, and increasing the yield from a firm's 'best' customers through long-term, interactive, value-added relationships.”

Any action attempted by the company (no matter its size or attributes) which targets remunerating its clients for repeated support might be seen as a loyalty program. The core reason for any loyalty drive is to amplify the level of customer's overall connection toward their preferred products. That is accomplished, through execution of well-organized set of marketing tools, which jointly structure an organization's loyalty system.

3. MARKETING AND LOYALTY

3.1. Marketing and loyalty programs

When companies are fronting growing global competition, the main strategies helping them differentiate are relationship marketing and loyalty programs. These two strategies are greatly influenced by external factors from the global market.

As mentioned before, we live in a society where we have unlimited options to choose from when purchasing something. Whether it is where to drink coffee, what kind of bread we buy or which car brand we choose. This is great, as it gives the customers freedom to choose between endless possibilities around them. However, it can be too much for the customers and start to be a challenge to choose the right product to purchase. Hence, it is a task for businesses to win as many customers as possible, and potentially retain them so that they repurchase their goods and/or services by keeping them satisfied.

As we talk about satisfaction and loyalty of the customers, the possibility of spreading a positive reputation amongst customers is increasing in parallel. In research from Ferguson et al. (2006) it is stated that customers that have had a positive experience are more likely to come back for more and spread the word about it to their family, friends and colleagues. By gaining a positive feedback from customers and them being able to rely on products, the connection between the brand and the customer is being build.

In order to hold and strengthen that connection with existing and new clients, loyalty programs are of great help. They establish an emotional connection, promote recurring purchases to increase the loyalty of the customer to the brand itself. Singh and Khan (2012) state that through retention of customers the business gains better reputation and advantage in a fast-paced and competitive environment.

In research from Kim et al. (2001) a good loyalty program makes sure that the customer identifies himself with the brand by its personality. This gives a higher chance of customers becoming members and diminishes the possibility of brand switching. This enhances the company's

possibility to keep track of their customers' preferences, needs and opinions in order to keep their gained devotion.

That being said, loyalty programs are a part of marketing focused on customer relationships through various incentives in order to increase the value customers receive by choosing to buy products of their company.

3.2. Designing a simple program

When starting a loyalty program, it is hard to know what exact strategy works the best, so it is easier to implement a smaller number of features in the beginning as to make the assessment of them easier later on.

It is important that the loyalty program is simple and understandable, both for the sales team and for the customers. Sales team and all of the firm's employees should be educated about the program and know it very well to promote it to their customers, while customers need to understand the program in order to use it. The base concept of the program, such as benefits from it or points accumulation, need to be simple. The terms and conditions of the program, as well as its usage and potential app designed for it ought to be user-friendly.

In research from Dowling and Uncles (1997) a few guidelines are mentioned that should increase the success rate of a new program if followed. They state that the loyalty program needs to improve the value proposition of the provided product or service. Also, the marketing budget should be carefully allocated instead of investing all of it into the program. Lastly, a reward scheme that triggers the maximum motivation of the customers to repurchase the product should be designed.

To showcase a new loyalty program quickly, an incentive can be offered just for the registering step. This will subconsciously make a better picture about the program in the customer's mind right from the start. Also another noninvasive way of promoting the program to a customer can be prioritizing the card at the start of the conversation with the customer. Just asking him for his loyalty card to apply the benefits will promote to that client both the presence and the advantage of the program.

A mobile app may also attract many customers, giving them the opportunity to track their progress, get insights in current promotions available and other useful information about the program wherever they are. In this way the customer's awareness of the brand may be increased by push notifications, as an example. Also it should ease up the process of using and understanding the program itself.

3.3. Improving profits and reducing costs

Loyalty programs may implement various tools that subconsciously encourage customers to experiment with various products provided by the company, consequently increasing their frequency of purchasing and spending. The programs can help companies to empty their supplies, by offering various discounts and promotions of the targeted products. By diversifying benefits that the customers get, based on their purchase behavior, programs may advance the sales of items that bring more profit to the company. The more the customer relates with the brand and uses the loyalty program benefits, the more the revenue increases.

Wansink (2003) states in his research that loyalty programs that have long-term propositions are more successful than the ones with short-term. It is important that the company engages with the program in order for it to last longer. In that way the program becomes more cost-effective.

Loyalty programs are not just discounts and costly incentives in order to attract customers. In order to reduce the costs while still keeping and perhaps increasing customer's satisfaction, a precise strategy needs to be conducted that has that effect. That strategy can bring other benefits to the customers rather than price reductions. Offering more points by purchasing some higher-margin products rather than other may all help in increasing company's revenues. Friendly gestures, small gifts, collecting of points in order to buy some products could all rise the customer's feeling of existence, importance and engagement with the brand. According to Meyer-Waarden (2008) when feeling like special clients, the buyers start to relate more with the company. Accordingly, customers buy more frequently and thus increase the overall profit.

To generate benefits, customers must make a minimum purchase. Consequently, the value of the purchases made rises, meaning that more orders from clients increment the average income per

client. Loyalty programs with a precise technique planned after cautious analysis may help in further developing the recurrent purchasing rate. Customers like to be awarded for their consistent involvement. Companies need to focus more on increasing the aforementioned frequency of purchases rather than expenditure on marketing. If loyal customers that purchase more are attained, companies may decrease their marketing spending for a bit.

3.4. Data analytics systems and collecting customer data

“With the growth of mobile payments, and the rise of networks of data-gathering sensors, there is a sudden availability of troves of data which can enable continuous tracking of customers.” (Keller & Swaminathan, 2019)

Many companies have implemented systems for tracking and analyzing their customers’ buying preferences. Meyer-Waarden (2008) states that a personalized relationship with customers gained through loyalty programs largely aids in data collection. Social media platforms are also a continuously increasing source of data nowadays. All this allows the company to establish a more prominent grasp of their client base, just as make additional opportunities for marketing promotions.

Because of the huge access to data that is currently provided to companies, investments in data analytics systems could be a good choice. In order to get their benefits from the purchase made, customers need to “register” themselves during the purchasing process. Swiping their loyalty card or by entering their unique code are just some examples. After that, the system should analyze their purchase, e.g. size and type of purchase, collect data about that particular customer and compare it with other customers. Bigger organizations could actually advance this more through database marketing. Still, even moderate sized and numerous private companies could bear the cost of some sort of customer relationship management system. In that way, the company can effectively use the collected information in order to offer more personalized benefits to its customers while tracking their activity in order to upgrade its business. As a result, the relationship may again be strengthened and customer’s satisfaction growing as well.

As mentioned, social media platforms are a great way to gather data about customers that is constantly increasing in popularity. McDonald's decision for an all-day breakfast was influenced by millennials using Twitter who were complaining about the original policy that the breakfast is only until 10:30AM, stating that it was too early. By analyzing the data, McDonald's identified these complaints and decided to change the policy and make breakfast available all-day. After this decision, the number of millennials visiting increased.

3.4.1. Identifying and encouragement of optimal consumer behavior

The data collected through loyalty programs may also help identify and encourage specific consumer behaviors. Desired behaviors are the ones that will support and help achieving main business goals of the company.

Salai and Kovac-Znidarsic (2012) state that in the advanced environment, the spectrum of consumer's tastes and preferences is rapidly expanding, as is the list of desired goods. Consumer behavior is constantly modified and adapted to the requirements of the environment. (Salai & Kovac-Znidarsic, 2012)

The company should think about which behaviors are desirable and how to achieve them. Whether it is widening the range of products customers purchase, selling specific products to them or encouraging them to review your products. Targeting also may vary according to the location of the store, its size and attributes, and customer types.

3.4.2. Customer's positive opinion

Loyalty program benefits offered to customers may not have a direct impact on goods and services sold to customers. However, various incentives and rewards it offers to loyal customers differentiates the company from other, uninvolved competitors.

A good loyalty program makes an impression on current and future customers that solely making profit out of sales isn't their interest, yet also that the connection and cooperation with customers

is mutually favorable. Even though they sell products, the benefits the program provides are designed specifically for the customer. This demonstration of generosity will improve client's viewpoint on the business, and in the end have a positive influence on it.

3.4.3. Community

In research from Rosenbaum et al. (2005) it is found that the sense of community has a positive impact on the customer's loyalty towards the brand. A community forum could help loyalty programs, consequently companies, in a way that allows customers to review products, share their experiences and ideas about the program for the future. This can then be analyzed by the company and implemented in further business. It also allows companies to give both proactive and responsive customer service through one asset. As online networks progress, it is good to formalize them to keep things coordinated. Having a steady framework set up guarantees decency and keeps clients pleased.

3.4.4. Loyalty programs and social media

Loyalty programs can be joined with social media marketing. The idea of loyalty marketing will in general get categorized as repeated spending. However, even though the ultimate objective of loyalty marketing is certainly to grow profits and expand sales, the engagement of customers is the best approach toward this goal.

Allowing customers to register for a loyalty program through social media profiles is a good way to improve their loyalty. It is an easier and faster way for the customers that allows companies to link their activity on social media with the program. In that way customers can be encouraged to share content about the brand for some loyalty rewards in exchange. These customers can become representatives by spreading posts about your business. Many companies are doing it for a long time, with L'Oréal's Worth It Rewards program being a great example.

Davis (2020) states in his article that L'Oréal has figured out how to get its clients to put YouTube make-up tutorials, write product reviews and refer friends, all to acquire loyalty points.

4. SALES PROMOTIONS

4.1. Sales promotions

According to van Heerde and Neslin (2017) sales promotion is one of the main elements of the firm's marketing mix. It has been the routine marketing of businesses attracting consumers to make orders and expand media exposure as of late. Sales promotions can be characterized as a marketing tool whose aim is to have a straight influence on the behavior of the company's customers. Sales promotions incorporate discounts, coupons, trade deals, reward and loyalty programs, rebates, contests, special displays, and feature advertising. Sales promotions have a distinct impact on consumer behavior, by activating essential psychological processes in the customer.

Sales promotion is very important for businesses because they help rise sales in competitive markets. By increasing sales companies will increase their profits that automatically gives them more resources to spend. Still, consumers can easily and rapidly change their preferences. With so many options around them and constant changes in the environment consumers can easily do unexpected alternations in their demands.

In the research from Gardener and Trivedi (1998) it can be seen that sales promotions have an impact on consumer's perception and behavior. Sales promotions help companies to benefit of that rather than to lose customers. It is proven by numerous studies that sales promotions attract a huge portion of brand switchers, therefore making new customers and connections every day. These two are intensely related because sales promotions generate a huge instant increase in sales and brand switchers buy brands that are currently on promotion making them a big portion of the increase itself. The perfect way of conducting promotions is the one in which by using the promotions loyal customers will pay more, as they are willing to buy the product even at a higher price, while switchers will pay less since they will only buy at a lower price.

In the research from Yurova et al. (2015) the impact of sales promotions on loyalty to the brand has been studied. The study shows that some promotions can have a positive effect on consumer loyalty. Consumers might have more interest in the brand itself and start tracking future promotions. Sales promotions can help analyzing customers and get perceptions of their consumer behavior and price responsiveness. Nevertheless, many companies are unadvisedly running more

and more promotions in order to increase their sales as soon as possible, not realizing that they might fall into a loop where customers only keep coming back because they expect some promotions. In that way we gained the opposite of what we wanted to activate in our customers' minds.

While conducting sales promotions, keeping track of clients' demands is an important thing. In order to attract and keep those consumers, the company needs a deep analysis of their customers' activity and affection as well as the activity and deals of competitors.

One might think that promotions and deals are not good for businesses, but the benefits from it are numerous if they are carefully adjusted. In the research from Mishra et al. (2012) the importance of a well-planned promotion is shown. If the offerings are well calculated and published with certainty in their success, the risk is almost nothing. Everything a company makes should be wisely implemented in order to avoid loss. If the company succeeds in that, both the company and customers benefit from the promotion.

4.2. Types of sales promotion

Blattberg and Neslin (1990) state that sales promotions can be divided into three main types: trade deals, retailer promotions and consumer promotions. Consumer promotions are designated by producers straight to consumers, retailer promotions are presented by retailers to consumers and trade deals are targeted by producers precisely to retailers. The three types are going to be more closely explained below.

4.2.1. Retailer promotions

As said, retailer promotions are aimed by retailers to consumers in order to upturn sales for the specific item, brand or company. The fundamentals of these promotions are price discounts, the channel through which these deductions are provided, transmission of promotions and goals of the promotion itself.

Price discounts have many types. Whereas every type of discount has a specific result as in efficiency and impact on consumer behavior. The most common ones are:

- Price deduction (retailers decrease product prices for a period of time)
- Free goods (free goods represent the discount itself, e.g. buy one product, get another for free)
- Free testers
- Sweepstakes (competition where participants have chances to win prizes)
- Retailer coupons (issued by the retailer on advertised products)
- Discounted prices based on the quantity purchased (e.g. two for HRK 4,99)
- Rebates (displayed notices about rebates on shelves)
- Discount cards (some products have a reduced price only for cardholders)
- Bundled promotion (consumers gain a discount if paired products are purchased)

The channel through which the retailer offers its discounts is based on the retailer's aim. Some of the choices are discounts offered in store, redemption cards or rewards for recurrent customers. The rise of the Internet has opened many new possibilities such as mailing codes to customers which they redeem in the store (e.g. Diesel sends e-mails with a "D:CODE" to their registered customers on their birthdays which usually is a small gift that is redeemed at the store using the code provided in the mail).

Transmission of promotions is typically through large ads, displays on the store's shelves. Again, the Internet offers possibilities as mailing lists and posting on social media which is a great and easy way to spread the word about the promotion.

There are many potential goals the retailer may try to achieve through promotions. The most common ones are to increase traffic, sell overstocked products and advertising of new or higher-margin goods.

All of the types of sales promotions are interconnected, therefore many of the retail promotions are actually a follow up result of trade promotions that the producer previously offered to the retailer.

4.2.2. Trade promotions

Producers use trade promotions in order to realize objectives including price deductions by retailers to buyers, enhanced distributing of a new product or in general increase sales of their products by motivating retailers to communicate retail promotions to customers.

Just as retailers, producers may offer trade promotions in order to reduce and clear old inventory. One of the most important objectives of the producer is to gain displays, in-store advertisement and shelf space from the retailer.

There are numerous kinds of trade promotions, while the four most frequent are off-invoice promotion, scan-back promotion, accrual funds as well as slotting fees.

Off-invoice promotions are the most prevalent type of trade promotions in which producers offer their products to the retailers at a lower price so that the retailers offer retailer promotions to the consumer. The two main concerns regarding this type of trade promotion are pass-through and forward buying. Pass-through is essentially the amount of discount that the retailer passes to the consumer. In other words, retailers may buy the product from the producer at a larger discount than they are offering to the consumer. Forward buying is a situation in which the retailer buys more product while they are discounted than they actually plan to sell to the customers. The retailer might keep the excessive products in their inventory in order to sell it sometime later at regular price which automatically lowers the profitability of the producer.

Scan-back promotion acts as a solution to these problems because it allows retailers to pay for the items sold to the customer at the previously agreed discount during a specific period. In order to measure the amount of sold products a retailer's scanner (Point-of-Sale) system is used. While this type of promotions helps against pass-through and forward buying, the weakness is that not all markets have Point-of-Sale systems and that the manufacturer must trust the correctness of the system.

Another trade promotion that may solve the problems is accrual funds. These funds are generally founded on the sales in a previous period so as to calculate the funding level for the upcoming period. They are usually used together by the producer and retailer to meet particular goals during a given period.

Cooperative funds are used to persuade the retailer to highlight discounts and install exceptional displays about discounts on producer's products. Retailers usually set up prices to the producers based on types and sizes of the advertisement.

Slotting fees are a different type of trade promotion whose main task is to increase distribution for a new product. The intent of slotting fees is to cover retailer's cost regarding new product launch such as making more shelf space for the new products by taking away of the old ones which additionally need to go through reclamation and the costs of the risk of holding new products if they are not sold. However, slotting fees are rising controversies as many believe that they restrict competition for smaller producers.

4.2.3. Consumer promotions

Lastly, consumer promotions are promotions which purpose is direct communication of discounts from producers right to the consumers without any intermediaries that may affect the discount desired by producers. In that way producers have full control over their offers. The most important parts of planning these kind of promotions are the channel of communication, how they are redeemed, limits and breakage.

The channel used depends on the type of promotion, but the most frequent ones are print and the Internet. They can be distributed in various ways such as handouts and in-pack promotions. When it comes to redemption options, they are important as to avoid fraudulent activity. Mostly coupons and rebates. The problem is that some retailers may redeem discounts even though there were no purchases made by the consumers nor did they redeem anything. Limits in these kind of promotions can be ones that restrict the period (e.g. deadline until the promotion is valid) or the amount of usage (e.g. only one can be redeemed per purchase or customer).

Breakages are a great benefit in these kind of promotions. The term breakage remarks the difference between the number of discounts offered and the number of actually redeemed ones. In order to gain a rebate, consumers need to send some kind of proof that the purchase has been made (e.g. receipt) with the rebate paper included to a particular address in order to get the rebate. Many of the consumers are lured in to purchase the product because of the rebated price. An interesting

phenomenon that may occur is slippage. Slippage occurs when consumer buy because of the rebated price but fail to redeem the rebate. Subsequently, breakages actually increase the efficiency of consumer promotions due to higher net prices.

4.2.4. Internet promotions

Although they weren't mentioned by Blattberg and Neslin, nowadays the Internet offers a great potential for promotions. Due to the huge number of information and users on the Internet worldwide, it represents a great opportunity to target customers with promotions at very low or no costs at all. Aforementioned promotions through e-mail or social media are just a few of many different options of distribution on the Internet. Today almost every company has their own website that not only distributes promotions but offers many information about the business and its products all in one place.

4.3. Loyalty programs as part of sales promotions

Loyalty programs are also a type of sales promotion but the main difference that can be deducted from above is that the main goal of loyalty programs is to retain existing rather than attract new customers. They provide promotions and rewards to customers for their recurrent purchases, hence praising and stimulating more of this behavior. There are many benefits from these programs such as increasing revenue, more efficient direct marketing and lower costs of retaining existing customers.

5. MULTIPLUSCARD LOYALTY PROGRAM

5.1. About MultiPlusCard

The MultiPlusCard program is a domestic loyalty card program with around 1.5 million active cards issued and listed in it. The card is presently utilized by more than 70 per cent of homes in Croatia, whereas its mobile application has more than 100,000 members.

5.2. BONUS kuna

BONUS kuna are the main benefit for MultiPlusCard members. They are points collected by purchases at the program's partners. They can be collected by users in Konzum, Sancta Domenica, Abracadabra, Booking.com and Tisak, and with each payment with their Zagrebačka banka's Maestro or Mastercard cards at any store in the country, in a foreign country or online. After that, BONUS kuna can be used in Konzum and Sancta Domenica.

One hundred reward points corresponds to one BONUS kuna. The BONUS kuna represents the prize amount that the member can use as a discount with the Program partner for a limited period. One BONUS kuna corresponds to a discount of one kuna. The member independently decides when and how to use his BONUS kuna within the Program Rules. BONUS kuna that have been collected in the current year, program members can use until the end of next year, after which BONUS kuna is canceled. The BONUS kuna balance can be checked in the MultiPlusCard mobile application, on the website, Konzum's receipt, Konzum's cash desk or by calling the customer service.

5.3. MultiPlusCard partners and benefits

Some of the partners of the program in Croatia are Konzum, Sancta Domenica, Zagrebačka banka, Abrakadabra, Tisak, Poliklinika Aviva and Meblo. Each partner has specific benefits for the cardholder.

Konzum plus d.o.o. is the largest Croatian retail chain with a share of about 30% in the Croatian market. Cardholders have the possibility to collect and redeem BONUS kuna as well as to gain coupons. Collection of BONUS kuna is done by swiping the MultiPlus card while purchasing at the point of sale or by entering the number of MultiPlus card on the Konzum website. After the purchase has been made, the points are immediately available on the card. You can collect even more BONUS kuna by buying products with the special MultiPlus BONUS label. These products offer a specific amount of points that are added to the MultiPlus BONUS kuna realized on the total amount of the same purchase in Konzum. Regardless of the payment method, for every HRK 3 spent, you get one reward point. Konzum also offers coupons with discounts on selected products on a monthly basis that are available on the MultiPlusCard app, as well as some printed with the receipt.

Zagrebačka banka has been the leading bank in Croatia for years. As said, it gives points that are converted into BONUS kuna on the member's MultiPlus card for each purchase at any store, online, once or in installments, to each Visa, Maestro or Mastercard card user enrolled in the program. As the member pays with their cards, he collects BONUS kuna from Zagrebačka banka without the need to show the MultiPlus card. One reward point is gained for every HRK 5 spent on a Mastercard card or HRK 9 on a Visa and Maestro debit card.

Booking.com is a Dutch online travel agency for booking accommodation and other travel products. When booking accommodation on Booking.com through the website of Zagrebačka banka, the member attains 4% of the value as BONUS kuna if he pays for the accommodation with his Zagrebačka banka Mastercard.

Tisak, Sancta Domenica and Abrakadabra offer point collection as well as coupons on selected items for MultiPlusCard members. With each purchase, by swiping the MultiPlus card at the point of sale, you collect 1 reward point for every HRK 2 spent at Sancta Domenica and Abrakadabra and every HRK 3 spent at Tisak. Sancta Domenica also offers point redemption.

Meblotrade, Kare, Poliklinika Aviva and Aquapark Istralandia offer numerous discounts and coupons for MultiPlusCard members to redeem.

5.4. Kids Club

MultiPlusCard Kids Club is intended for pregnant women and parents. To welcome to the Kids Club, new members receive a coupon with which they can choose one diaper package for free in Konzum stores. In addition, they receive other coupons which are specifically made for baby products. Furthermore, a birthday coupon with a 30% discount on a toy of choice in Konzum stores is sent every year until the child reaches the age of six.

6. RESEARCH: USING LOYALTY PROGRAMS AS TOOLS OF MARKETING

6.1. Subject and aim of the research

The subject of research is to analyze the knowledge, usage and opinion of people about loyalty programs. Loyalty programs have a large impact on company's sales. Their main goal is to retain existing customers. It has shown that retaining customers and gaining their loyalty has increased company's profits as these customers tend to buy more frequent and are prepared to spend more money on products of brands they are loyal to. However, not all customers are members of a loyalty program.

The aim of this research is to evaluate how many respondents are actually familiar with the term loyalty program. Further on, the research wants to determine the ratio between respondents being members of a loyalty program and the ones that are not, as well as the motives behind their decisions. Lastly, their opinions about loyalty programs are gathered and examined.

6.2. Research methodology

The primary descriptive survey was conducted through an online survey questionnaire. The data collected by this research are anonymous. The survey was made in Croatian and English. A total of 123 answers were collected. The first part of the questionnaire is made of two basic demographic question about the gender and age of the respondent followed up by two questions about their general standpoint regarding loyalty programs. The last question of the first part examines if the respondent is a member of a loyalty program or not. Based on the answer on that question two new parts are created. If the answer was yes, respondents were brought to the second part where they were questioned where they use their loyalty programs and what do they think are the best benefits of loyalty programs, after which the survey is finished. On the other hand, if the answer was no, the third part of the survey would open that consists of two questions. The first one questioning why the individual is not a member of a loyalty program and the second one asking if he would

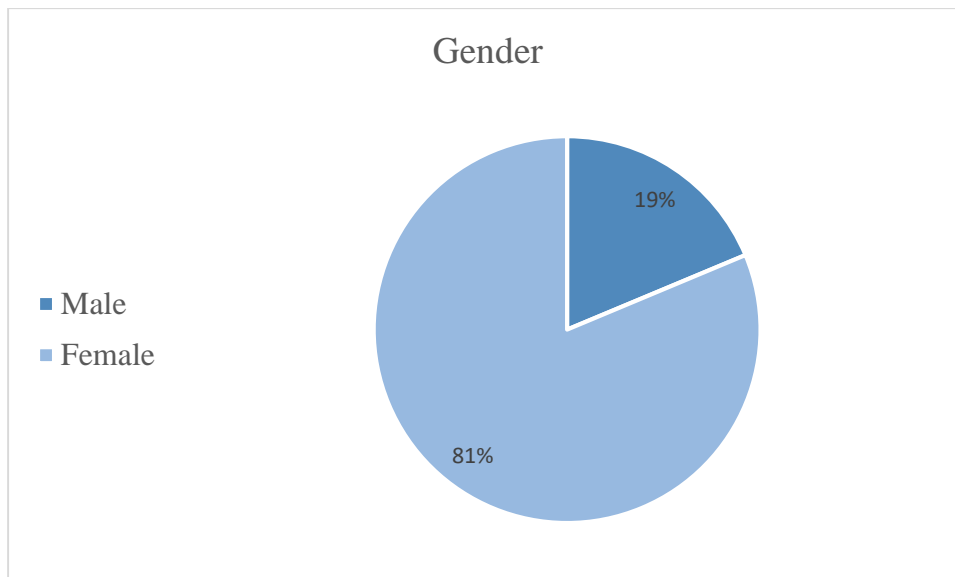
become a member of one in the future if his knowledge about it increased. After that the survey is complete. The first part consisted of single-answer questions while the other two parts consisted of multiple choice questions. The questions in the survey are available in Annex 1.

6.3. Survey results

6.3.1. First group of questions

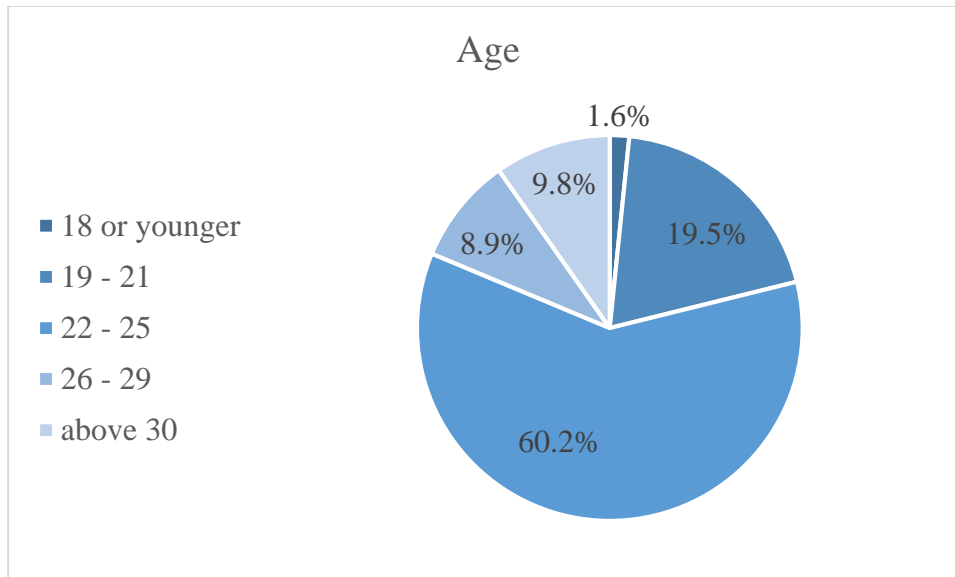
First we will define the overall survey results. The total number of answers is 123 out of which 100 respondents (81,3%) were female and 23 respondents (18,7%) were male. Most of the respondents are aged between 22 and 25 (74), followed by the age group 19 to 21 (24). There were 12 respondents older than 30 and 11 aged between 26 and 29. Only 2 respondents were aged 18 and below.

Figure 3: Gender ratio of respondents



Source: made by author, based on survey

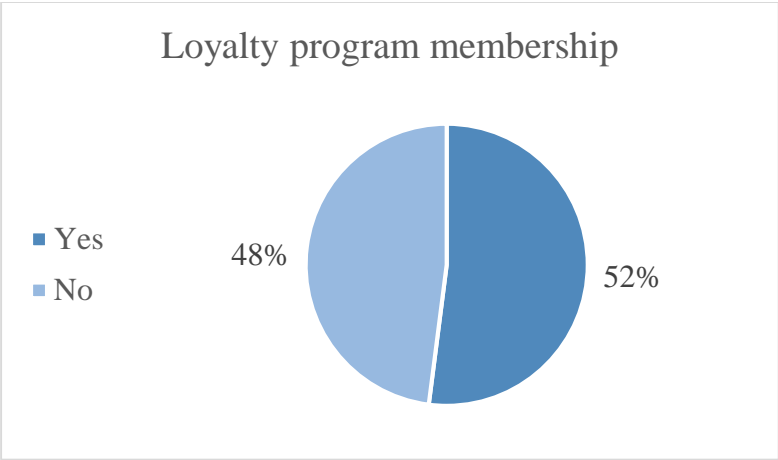
Figure 4: Age of respondents



Source: made by author, based on survey

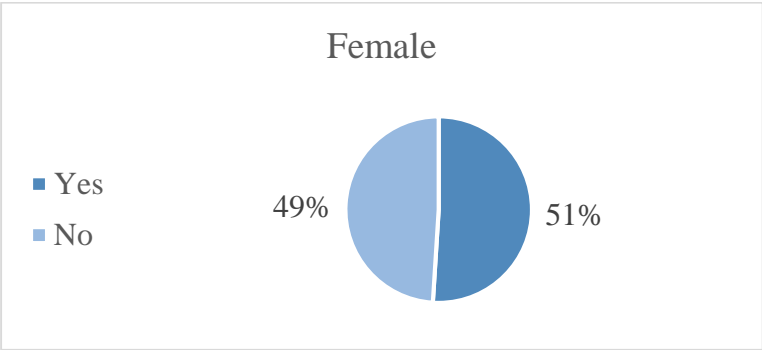
Out of all respondents 85 (69,1%) of them are familiar with loyalty programs and 80 (65%) have been offered to become a member of a loyalty program. It is fascinating that 30,9% of respondents are not familiar with loyalty programs, but the reason for this might be that they know some examples, but have not heard of the term loyalty programs. On the answer if they are a member of a loyalty program, 64 respondents answered yes while 59 answered no. These results are interesting since they are almost fifty-fifty. Other thought-provoking results are loyalty memberships based on gender. The assumption that females will have a significantly larger percentage of the once having the loyalty program made before the survey turned out to be wrong. Moreover, it turns out that males have larger percentage of the ones being members than females.

Figure 5: Loyalty program membership



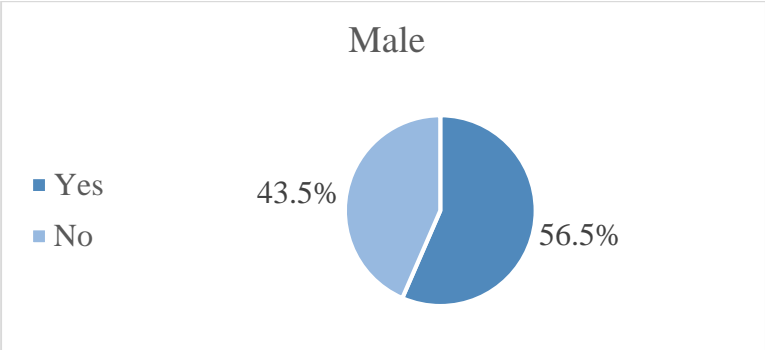
Source: made by author, based on survey

Figure 6: Loyalty program membership – Female



Source: made by author, based on survey

Figure 7: Loyalty program membership – Male

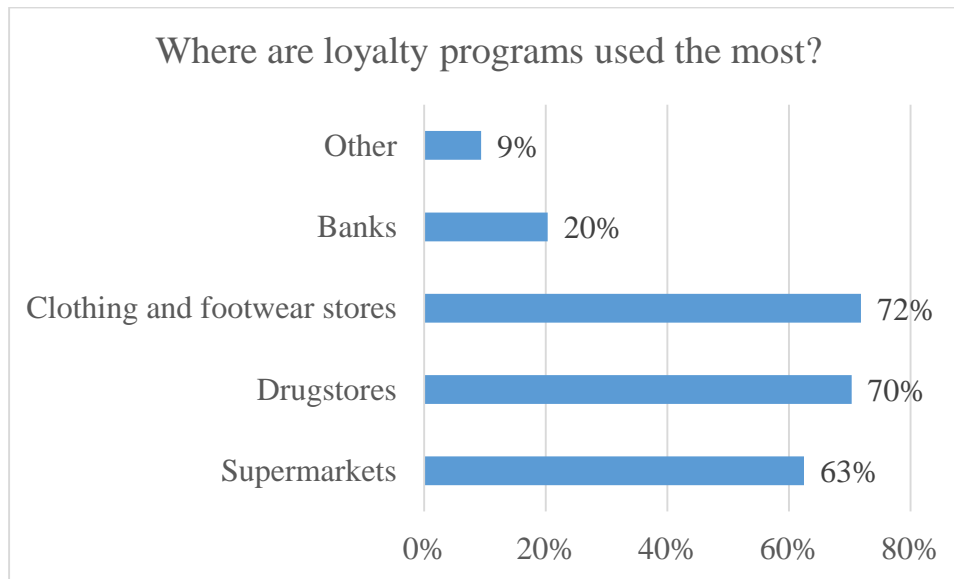


Source: made by author, based on survey

6.3.2. Second group of questions

The second group of questions is dedicated to the respondents who have answered that they are a member of a loyalty program. The first question in the second part is regarding the type of businesses where the loyalty programs are used. Out of the possible answers clothing and footwear stores (e.g. Sportina, Shooster) are the leading ones with 46 respondents being their loyal customers. Right behind them, with just one vote less (45) are drugstores (e.g. DM, Müller). Supermarkets (e.g. Lidl, Kaufland) took the third place with 40 votes, while banks are last with 13 respondents using their loyalty programs. Only 6 respondents said that they use loyalty programs of another kind of businesses.

Figure 8: Where are loyalty programs used the most?

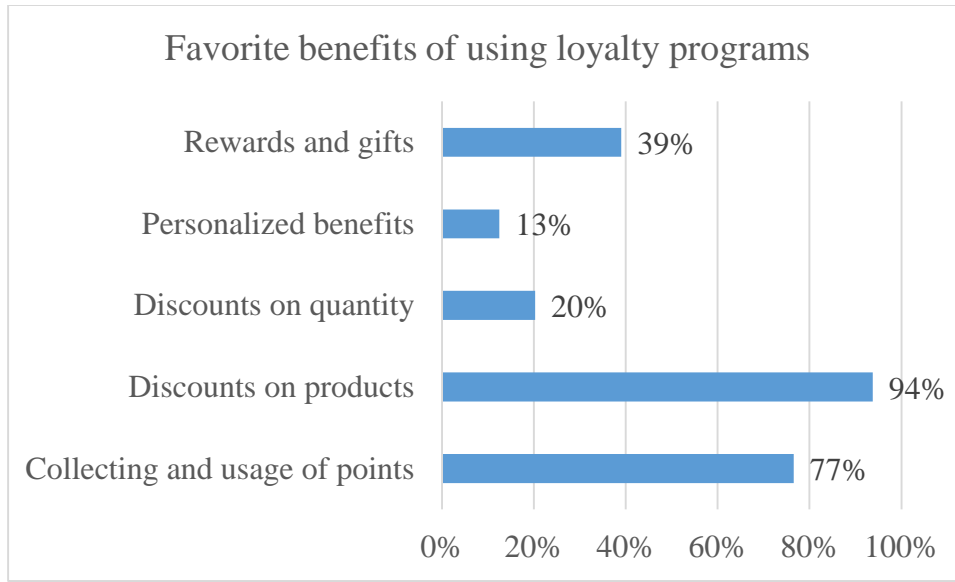


Source: made by author, based on survey

The second question examines which of the benefits of loyalty programs are most appealing to customers. As expected, discounts on products are the most appreciated ones with 60 votes out of 64. Next in the line is the collecting and usage of points with 49 votes. Rewards and gifts gained 25, discounts on quantity 13 and on the last place are personalized benefits with 8 votes.

Information like this can largely benefit businesses to realize what their customers demand and what incentives attract customers more in order to drive them to come again.

Figure 9: Favorite benefits of using loyalty programs

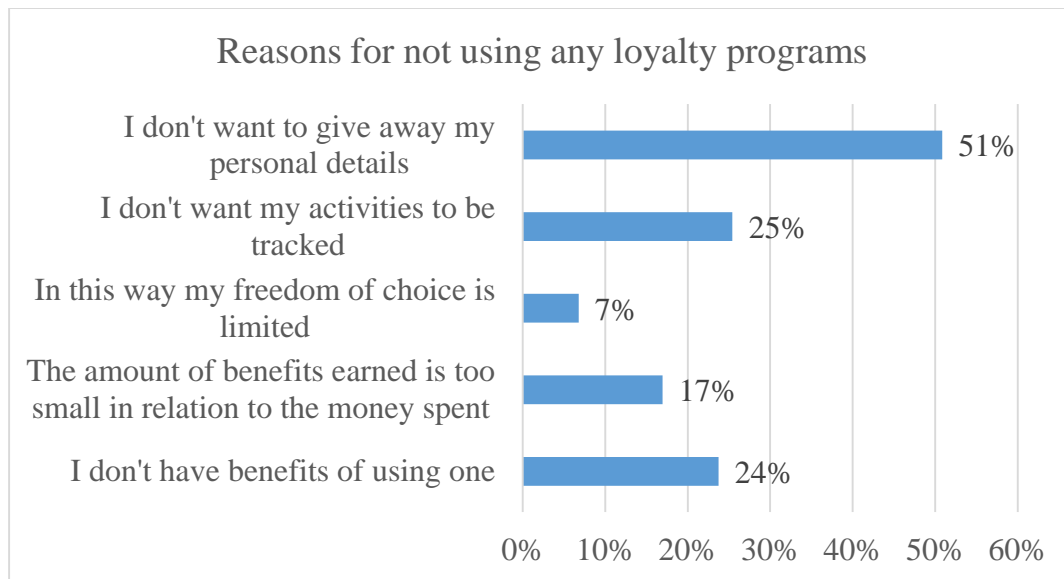


Source: made by author, based on survey

6.3.3. Third group of questions

The third and last group of question is targeting the respondents who have answered that they are not a member of a loyalty program. The first question tries to understand why the correspondent is not a member. There are many possible reasons of why an individual would not like to be a member, thus the aim of these questions is to determine the main ones so as to work on fixing them.

Figure 10: Reasons for not using any loyalty programs

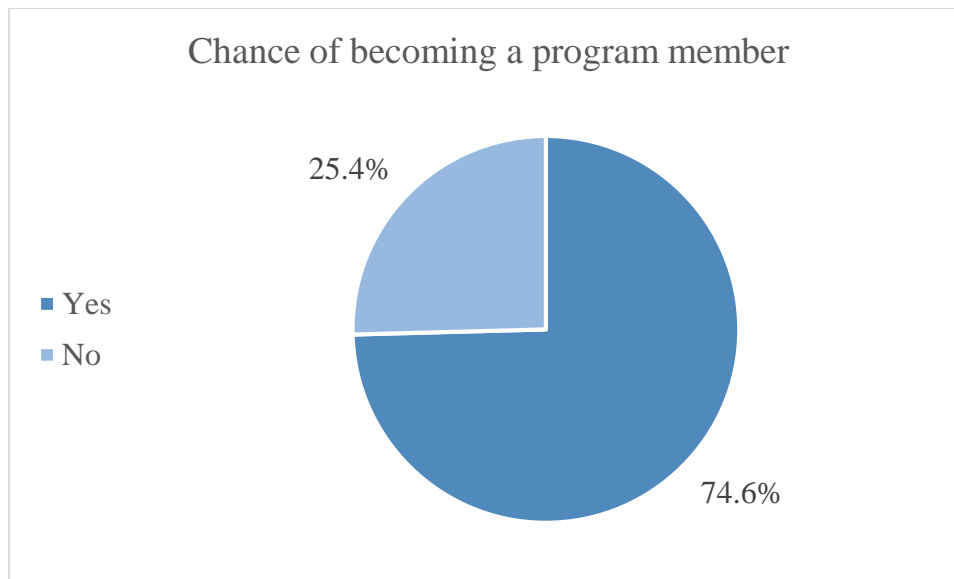


Source: made by author, based on survey

Giving away personal data is undoubtedly the main concern for our respondents with 30 votes. That could be expected, because nowadays people are increasingly talking about the problems of data selling and exposure risks. For the same reason, concerns about activity tracking are on the second place with 15 votes. Slightly under is the opinion that there are no real benefits from being a member with 14 votes. Last two places go to the belief that the amount of benefits earned is too small in relation to the money spent with 10 votes and the fear of limiting freedom of choice with only 4 votes. A few respondents added their own reasons with many of them having the same core problem of not knowing exactly what loyalty programs are. One respondent mentioned she never got a chance to become one, while one respondent said that it's too complicated and exhausting (e.g. registering, carrying the cards).

With the assumption that there will be respondents that are not that well informed about the existence and benefits of loyalty programs, which turns out to be true looking at the results above, the last question is aiming at those individuals. The question's objective is to discover if an increase in knowledge about loyalty programs may attract new members.

Figure 11: Chance of becoming a program member



Source: made by author, based on survey

As the results show, 44 out of 59 respondents expressed their willingness to become a member if the information and knowledge about it would be better communicated to them. The fact that 30% of respondents is not even familiar with the term loyalty programs is a bit concerning today. Better consumer informing and advertisement of loyalty programs should help in attracting new members and consequently gain frequent consumers.

6.4. Concluding remarks

The survey results show us how a big portion of people still doesn't know about loyalty programs and how they work. The survey also demonstrates that there is not a rule about which gender is more likely to be a member of loyalty programs. People that are members of one mostly prefer the benefit of discounted products, while the biggest concerns for those who aren't members is giving away their personal data and tracking of their activity. To conclude, better promotion and education about loyalty programs to the public should have a positive impact on the awareness and opinion about them.

7. CONCLUSION

Loyalty programs are seen as one of the vital components and one of the key instruments of a company's customer relationship management framework. Arrangement, execution and upkeep of them is costly, and therefore ought to be seen as a continuing responsibility and a necessary piece of a long-term marketing system. Nowadays, the consumer moved in the center of attention and therefore needs to be treated as the main character. The main challenge is to win its attention and to achieve his loyalty to the company so as to keep him as a returning and satisfied customer. By achieving this, the sales increase as is the company's profit. The best way to accomplish this is by making the consumer feel important and not just as a number. This feeling can be realized by rewarding him for his choice and repetitive purchases of the brand or company. That's exactly what loyalty programs are there for. However, it is important to develop a well-planned and organized program that is perfectly fused with the whole company.

Businesses are increasingly implementing loyalty programs in their marketing strategy. They do so because loyalty programs represent a strong approach which aim is primarily to preserve their frequent customers, earn their loyalty towards the brand and lower the risk of consumers switching to competitors.

However, loyalty programs need to be planned out precisely and implemented carefully in order for them to actually serve their purpose. Retailers need to choose wisely between various types of loyalty programs so as to pick the one that suits the company's type the best. Further, constant monitoring and refurbishing is necessary to reach their full potential.

Loyalty programs are a great marketing tool to generate returning and devoted customers by offering them special incentives from the business. While loyalty programs have the end goal to increase company's profit, they do so by jointly benefiting with their consumers. The core of loyalty programs is to increase the company's sales through various incentives which aid them in increasing of the value the consumer gained by purchasing the company's products. Various offers such as discounts and rewards increase consumer's satisfaction with the product which eventually strengthens their connection with the brand itself. Many types of loyalty programs have been developed through time in order to achieve the best outcomes. Some of them proved to be very effective but with the ever-changing customer's demand new strategies need to be designed.

Premium loyalty programs are said to be the future of loyalty programs but their implementation is still very complex for most retailers.

Furthermore, these programs open up various methods which offer the possibility to track consumers' activity and purchases in order to understand them and develop more efficient future decisions. If done well, businesses should be able to use their loyalty programs in order to impact consumer behavior in their favor. The company should aim for behaviors that help in achieving company's objectives and find a strategy to accomplish these behaviors.

Loyalty program is additionally a kind of sales promotions yet the main contrast is that the principle objective of loyalty programs is to hold existing instead of draw in new clients. They give advancements and compensations to clients for their recurrent purchases, subsequently applauding and encouraging more of that behavior.

From the consumer's perspective, a loyalty program gives a large group of exceptional benefits to him. However, companies should be careful because customer's loyalty can easily become a loyalty towards the program instead loyalty to the product or brand.

MultiPlusCard is an excellent example of a well-planned loyalty program with a vast number of users in Croatia and a thought through strategy and great cooperation with partners. However, in order to have a better insight about the consumers' stance towards loyalty programs, a survey has been conducted.

The research in this paper shows us how a major portion of individuals isn't familiar with loyalty programs and their function. The survey additionally shows that there isn't a standard with regards to which gender is more likely to be a member of loyalty programs. Individuals that are members generally lean toward the advantage of discounted prices and point collecting, while the greatest worries for the people who aren't individuals is giving their own information and following of their activity. To finish up, better advancement, education and instruction about loyalty programs to the general population should benefit the knowledge and assessment on them, as well as increase the chances of acquiring new members.

Finally, it is crucial to realize that loyalty programs don't work as separate bodies in a secluded environment, thus their advancement should progress by precise assessment of existing loyalty plans. Competitors' actions as well as consumers' demand should all be taken into consideration. In that way, together with the joint work of the whole company, will loyalty programs be most efficient in retaining devoted and pleased consumers, and accomplishing the company's end goals.

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ANNEX 1

SURVEY QUESTIONS

Korištenje programa lojalnosti kao marketinški alat - Using loyalty programs as tools of marketing

Section 1

1. Gender?
 - Male
 - Female
2. Age?
 - 18 or younger
 - 19 – 21
 - 22 – 25
 - 26 – 29
 - above 30
3. Are you familiar with the term loyalty program?
 - Yes
 - No
4. Have you been offered a loyalty program so far?
 - Yes
 - No
5. Are you a member of a loyalty program?
 - Yes
 - No

Section 2 (for respondents who have said that they are a member of a loyalty program)

6. Where do you use them most often?
- Supermarkets (Lidl, Kaufland...)
 - Drugstores (DM, Müller...)
 - Clothing and footwear stores (Sportina, Shooster...)
 - Banks (OTPetica, Zlatna Rbica...)
 - Other
7. What would you list as the best benefits of using a loyalty program?
- Collecting and usage of points
 - Discounts on products
 - Discounts on quantity
 - Personalized benefits
 - Rewards and gifts
 - Other...

Section 3 (for respondents who have said that they are not a member of a loyalty program)

8. What is your reason for not using any loyalty programs?
- I don't have benefits of using one
 - The amount of benefits earned is too small in relation to the money spent
 - In this way my freedom of choice is limited
 - I don't want my activities to be tracked
 - I don't want to give away my personal details
 - Other...
9. Do you think you could become a member of a program if your knowledge about it increased?
- Yes
 - No