

A Study on Loyalty Programs In Banks

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ABSTRACT

Fierce competition and complexity of modern business have compelled banks to strive for creative and innovating strategies to retain customers. Banks are now shifting their emphasis on keeping existing customers than acquiring new ones. Loyalty programs have become one of the most significant means by which companies manage their customer relationships. Loyal customers are means of consistent source of revenue to organizations. The study assesses the importance of loyalty programs in banks and measures its impact on customer satisfaction and customer retention. The findings of the research reveal that loyalty programs significantly impact customer satisfaction and customer retention.

Keywords : Customer Loyalty, Customer retention , Customer Satisfaction.

I. INTRODUCTION

Loyalty has been a critical concern for banks due to intense global competition, market saturation, technological advancement and increased customer awareness. In the present era of banking and financial sector customer loyalty has become the key foundation pillar for all marketing initiatives for promoting their products and services. Most banks have already geared themselves to work upon loyalty programs as a competitive differentiator for retaining their long-term relationship with existing clients, increasing market share and customer satisfaction.

Loyalty programs have proven to drive more usage or spend and enhance deep, long-lasting relationships that go beyond the discounts a brand offers to its customers. These programs drive valuable user behaviors and attitudes and generate favorable perception. Loyal customers are more committed and are willing to try out new products and services. A loyal customer base is a more profitable customer base which result into customer satisfaction and retention.

The banks have a significant opportunity to create more relevant and personalized customer experiences due to increase in the availability of rich data sets pertaining to behaviour, interests, and motivations.

Loyalty programs are having certain drawbacks and are not able to reap the desired benefits-. Firstly, they are not customised and are more generic in nature. They do not cater to unique customer needs, desires and purchasing habits as a result the customers easily slip away to rivals for more attractive proposal. For gaining more visible benefits, banks need to move away from traditional transactional relationships to something more emotionally engaging, personal and pleasurable, because if the customers have explicitly agreed to share their data then they expect superior services. The banks should make full use of the available modern technology tools that provide valuable insights on customers and introduce new approaches to customer retention.

II. REVIEW OF LITERATURE

Customer loyalty has been a real concern in banking industry because of fierce competition and sky high client expectations. Customer loyalty is described as the strength of the relationship between an individual’s relative attitudes and repeat patronage (Dick and Basu,1994). Consumer loyalty implies that a client or the user of service is decently battled with the execution (Johnson & Fornell, 1991). Consumer loyalty has significant impact on monetary execution of the clients. There is a positive immediate, relationship between service / product quality, customer satisfaction and consumer loyalty (Ali et al., 2010).

Shoemaker and Lewis (1999) stated that marketing has shifted from customer acquisition to customer retention and loyalty. In addition McIlory and Barnet (2000) state that to get new customer is five times costly to maintain existing customer.

Customer satisfaction has become extremely crucial and significant antecedent of customer retention and repeat purchase. Customer satisfaction is described as satisfying one’s desires or meeting one's criteria or it can be stated that delighted / satisfied customers have specific feelings or mentality towards a product or service it has utilized (Maikayi et al., 2011). Petterson

(2004) found significant relationship between customer loyalty and customer retention

OBJECTIVES OF STUDY

- 1) To assess the importance of loyalty programs in banking sector
- 2) To study the impact of loyalty programs on customer satisfaction and customer retention.

III. RESEARCH METHODOLOGY

Descriptive research design has been adopted in the study and primary data was collected from 500 bank customers through Specific self-designed Questionnaires based on the 5-Point Likert Scale. Correlation analysis and linear regression method was used to determine the relationship .

IV. RESULTS AND DISCUSSION

The study depicts the relationship between independent variable loyalty programs on dependent variables customer satisfaction and customer retention

H01: There is no significant effect of loyalty programs on customer satisfaction.

H02: There is no significant effect of loyalty programs on customer retention.

Table 1.1 Model Summary^{c,d} on Loyalty Programs & Customer Satisfaction

Model	R	R Square ^b	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.993 ^a	.986	.986	2.10864	.986	36225.750	1	499	.000

- a. Predictors: loyalty programs
- b. Dependent Variable: customer satisfaction

Table 1.2. Model Summary^{c,d} on Loyalty Programs & Customer Retention

Model	R	R Square ^b	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.967 ^a	.936	.935	2.79338	.936	7244.562	1	499	.000

- a. Predictors: loyalty programs
- b. Dependent Variable: customer retention

As per the table number 1.1 the independent variable was studied which explains 98.6 per cent of customer satisfaction as represented by the adjusted R² and beta value is .993. This therefore means that independent variable loyalty programs contribute about 98.6 per cent to customer satisfaction in banks.

As per the table number 1.2 the independent variable was studied which explains 93.6 per cent of customer retention as represented by the adjusted R² and beta value is .967. This therefore means that independent variable loyalty programs contribute about 93.6 per cent to customer retention in banks.

Since the p value is less than 0.05 the null hypothesis stands rejected which implies that independent variable loyalty programs affects dependent variable customer satisfaction and customer retention.

V. FINDINGS AND SUGGESTIONS

The study concluded that Loyalty programs have positive impact on customer satisfaction and customer retention. Loyalty programs are based on reward points for enhancing cumulative purchasing which results in higher customer retention. These programs encourage repeat buying by providing incentives for

customers to purchase more frequently and in larger volumes.

The loyalty programs should be designed in simple manner and the system of redeeming loyalty points should be convenient and transparent. The banks should offer special and differentiable schemes like member only benefits so that more number of customers enrols for such programs. There should be separate categories for different customers like silver, gold platinum which would thrive the customer to spend more and upgrade. Until and unless the customer does not seek any value or benefit in loyalty programs it has no meaning and it will be difficult task to retain them.

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