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The use of loyalty cards by supermarkets: a review of literature.

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Abstract-Customer loyalty programmes has grown as a technology that becomes more practical to implement. The scheme has been around since early 1990s when businesses were looking for innovative ways of strengthening their customer relationships. The main aim of this report was to review literature on the use of loyalty cards by supermarkets. IEEE and Google Scholar electronic databases were searched for relevant literature. The findings suggest that technological advances have enabled supermarkets to carry out the loyalty cards scheme seamlessly. Other benefits include customer retention and satisfaction. However, the scheme is not immune from risks associated with holding large amounts of data. In conclusion, supermarkets need to ensure adequate security protocols are in place for managing the data on their customers and ensure that they obtain consent from their customers for any third-party use.

Index terms: Data Protection Act, RFID - Radio Frequency Identification, Near Field Communication, Customer Relationship Management, Point of Sale

1.0 Introduction

In recent decades, customer loyalty programmes have grown as a technology that becomes more practical to implement. Since early nineties, many companies have adopted customer focus via explicit customer relation management (CRM). Technological advancements have enabled companies or marketers to innovate strategies for retaining clients such as customer loyalty program, this program is achieved using a card known as Loyalty card (Nems 2016). In loyalty cards, retailers issue identity cards to their customers as part of a scheme, which attracts credit accumulation for future discounts. The credits are normally updated at the point of purchase, and at a certain threshold, discount vouchers are sent to customers as a reward for their loyalty.

The phenomenon for loyalty cards is not new. Supermarkets for several years have used different methods to encourage loyalty; in 1950s to 1960s, the supermarkets used merchandise set collection promotions, whereby different items were on offer to customers during a promotional period. The only method used for a customer to accumulate all promotional sets, was based on their regular visit to the supermarkets and spend the required amount on that particular item in the set offers at the time(Bellizzi and Bristol, 2004).

However, with the emergence of point of sales (POS) scanners and the cheaper means to collect and store consumer purchase histories in a computerized manner (databases), card-based loyalty programs started gaining prominence in 1990s (Karolefski j. (1998). The card-based programs require customers to acquire personal plastic cards that are scanned during the check-out process after shopping, thereby allowing the customers' identity and all their purchases to be recorded by the scanner. Of note, customers do not pay fees for obtaining the loyalty cards from supermarkets. Rather, joining the scheme is voluntary and when customers decide to join the scheme, they provide vital identifiable information to the supermarkets in exchange.

There are several studies evaluating the impact of loyalty card schemes. However, few literature review studies have examined the implications of loyalty cards in supermarkets.

1.1 Research Question

What are the implications of loyalty cards in supermarkets?

The overall aim of this report is to critically review literature on the use of loyalty cards by supermarkets.

Specific objectives include:

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- To obtain relevant and up to date literature from electronic databases, books, and the internet.
- To examine factors associated with the use of loyalty cards by supermarkets from the evidence.
- To propose recommendations that will inform the efficiency of the loyalty cards scheme in supermarkets based on the evidence.

1.3 Structure of the report

The first section provides a brief introduction on loyalty cards including their history and adoption by supermarkets. The research question, aims, objectives, and structure of the report was also presented.

The second section covers the methodology. This section discusses the search strategy and sources of information scrutinised for relevant literature on the use of loyalty cards by supermarkets.

The third section provides a discussion on the advantages, disadvantages, impact, satisfaction, and security issues associated with loyalty cards in supermarkets.

The fourth section provides the conclusion and lessons learnt.

2.0 Methodology

The methodology of this report is a literature review – defined by (Fink, 1998) as the procedure for obtaining, evaluating, and interpreting existing published records in a systematic manner.

2.1 Search Strategy and Sources of Information

The following electronic databases were searched: IEEE Xplore Digital Library and Google Scholar, using the following search terms and Boolean operators “loyalty cards” OR “reward cards” AND “supermarkets” OR “grocery stores”. There was no restriction to year of publication. Reference lists of retrieved studies were also scrutinised for additional studies. Of note, only literature published in English Language was included in this report.

2.2 Inclusion criteria

Studies were included in the review if they meet the following criteria:

- Studies focusing on loyalty cards schemes in supermarkets
- Studies addressing implications of loyalty card schemes in supermarkets

2.3 Quality Assessment

The quality of included studies was assessed based on the following:

- Clear aims and objectives
- Relevance of the study in answering the research question

2.4 Data synthesis

Narrative synthesis (Popay et al., 2006) was used to synthesise the findings of the review. This method entails the use of textual data from retrieved studies to summarise and interpret the findings of multiple sources.

3.0 Discussion of findings

This section presents the discussion of findings of the review which include; advantages, disadvantages, impact, satisfaction, and security issues associated with loyalty cards in supermarkets.

3.1 Advantages and disadvantages of loyalty card programs in supermarkets

The following sub-headings enumerate some of the merits and demerits of the loyalty card schemes in supermarkets

Advantages

a) Customer retention: this is largely driven by customer satisfaction. Albeit, a key to a healthy business is the retention of customers. Therefore, loyalty card schemes provide platforms for long-term customer relationships, which hitherto often lead to customers being loyal to the supermarkets offering them (Singh and Khan, 2012).

b) Loyalty programs offers an abundant consumer information to the supermarket, which enable them to evaluate variety of purchases, and give additional information to products that may be purchased, and also provide a clear distinction among coupons that will likely be desired by customers (Turner and Wilson, 2006).

In general, loyalty schemes that are well conducted and managed improves overall customer relationship managements.

Disadvantages

a) Loyalty card programs sometimes destroy business profits, when the program is not implemented or developed properly.

b) Loyalty point programs in most supermarkets make customers to wait longer than necessary to gather and collect points.

c) Majority of loyalty schemes do not offer customers instant gratification.

d) Some loyalty schemes lead customers to spend more money for the sake of vouchers

e) Most of these programs are managed by third parties. Hence, customer's privacy is at a stake.

3.2 Loyalty cards holder's satisfaction for supermarket

There is a significant relationship between customer satisfaction and customer loyalty. According to (Noordhoff, Pauwels and Odekerken-Schröder, 2004) the authors emphasized that store satisfaction significantly contributes to store loyalty for example in 1995 Tesco loyalty club card was introduced which provided rewards to customers that shop regularly while making the company to identify more about the customer needs. The Tesco loyalty club cards were launched in 2007 as their own way of thanking the customers for shopping with them (Turner and Wilson, 2006). Some authors emphasized Tesco club cards success stating, their card is almost legendary in grocery world. Therefore, satisfaction plays vital role in contributing high customer loyalty (Mahajar and Yunus, 2010).

3.3 Technology

In the UK, contactless cards were used to offer customer identification in the loyalty scheme.
Contactless loyalty cards refer to the cards that their data can be read without coming in direct contact with the reader. This is achieved through Radio Frequency Identification (RFID) – a technological innovation that allows identification using radio waves via a distance below 2-4 inches from the card reader. RFID tags supported large set of unique IDs which can attract extra data. E.g. products and manufacture type (Roussos, 2006). The deployment of this smart technology boosts the popularity of the loyalty cards schemes with customers.
Active and passive are two categories of RFID in which source is require by active tags and have limited lifespan to the energy stored in the power source. While passive tags that comprise an antenna, semi-conductor chips bind with the antenna and casing. The reader should be able to power and commence communication with the tag, the tag antenna, prior to the energy acquiring return of the tags to unique identifier (UID) which are organized by chips and antenna and chips were protected by the casing (Mellissa M, 2017).
NFC (Near Filed Communication) protocol allows communication between passive tags and active reader, however peer to peer provides NFC enable phone to both reads tags and receives and transmit data to NFC- capable device (Want, 2011).

3.4 Security in loyalty Cards

RFID tags read and write memory that permits information storage when tag is read its UID is acquired following by other content. So to prevent alteration of content without permission, a secure key is set to restrict all access in internal blocks of the data (Oswal and Foong, 2006). Albeit all technological innovations are prone to attacks by hackers, the supermarkets need to ensure robust firewalls and safety protocols are in place to protect the data they hold about their customers (Roussos, 2006).

3.5 Legal issues

Extensive effort has been made by the governments across the developed world to offer legal sanctions regarding the abuse of identifiable customer information gathered by supermarkets(Graeff and Harmon, 2002). In the UK, Data Protection Act (DPA) 1998 has been designed to safeguard the storage of personal date in computers of paper based filling system. However, the government must ensure that supermarkets gathering customers' identifiable information are being monitored and held responsible in the likely event of carelessness with customers data. (UK -Gov)

4.0 Conclusion

In conclusion, this report has briefly described the current state of knowledge about loyalty cards in supermarkets including their advantages, disadvantages, use of technology, and security concerns. It will be interesting to explore in more detail the technological and security issues of the scheme in future research. The report has afforded the author the opportunity to enhance skills on conducting literature reviews and data synthesis. Time was a limiting factor, otherwise a more detailed account would have been provided.

4.1 Recommendations

• Supermarkets should develop a transparent feedback system for the card holders and listen to their views, suggestion with regards to loyalty programs.

• Marketers should keep looking at new innovations, initiative tools to distinguish the loyalty cards to retain customers and encourage them to accelerate their purchasing power.

• Detailed explanation of how data gathered from the customers should be protected under the Data Protection Act 1998 and used for store only and not third parties. Furthermore, the information should not be kept longer than necessary to ensure privacy of the customer.

• Marketer's should set up a physical goal or target for customer to achieve not only voucher or coupons.

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