Exploring the Relationship Between Customer Loyalty and Electronic Loyalty Schemes: an Organisational Perspective

Edmund O'Callaghan
Technological University Dublin, edmund.ocallaghan@tudublin.ie

Joan Keegan
Technological University Dublin, joan.keegan@tudublin.ie

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Dublin Institute of Technology, edmund.ocallaghan@dit.ie

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Edmund O' CALLAGHAN, School of Retail & Services Management, Faculty of Business, Dublin Institute of Technology, Aungier St. Dublin 1. Ireland.
Tel. O0353-1-4027062. Fax 00353-1-4027199. e-mail Edmund.ocallaghan @dit.ie

Joan KEEGAN, School of Retail & Services Management, Faculty of Business, Dublin Institute of Technology, Aungier St. Dublin 1. Ireland.
Tel. 00353-1-4027047. Fax 00353-1-4027199. e-mail Joan.keegan@dit.ie

Abstract

Electronic loyalty schemes (ELSs) first appeared on the Irish retail landscape when Superclub was launched by the Irish grocery multiple Superquinn in 1993. While ELSs are now commonplace in the Irish retail sector, the rationale for their introduction remains unclear. Loyalty measurability remains a ubiquitous concern within the business literature. This paper offers an organisational perspective on the role and operation of one electronic loyalty scheme. It investigates the benefits of ELSs and their contribution or otherwise to the development of loyalty. The paper reiterates the belief that the real advantage of ELSs resides with their data mining potential to produce rich marketing information for strategic advantage. The article concludes that in a competitive context, the true value of any advantage arising from loyalty schemes is questionable, that strategic decisions based on behavioural measures alone are suspect and that greater opportunities exist to employ more innovative and creative strategies in rewarding 'loyal' customers.

Keywords: Retail; customer loyalty; electronic loyalty scheme; database; grocery; Ireland

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Edmund O' CALLAGHAN, School of Retail & Services Management, Faculty of Business, Dublin Institute of Technology, Aungier St. Dublin 1. Ireland.
Tel. O0353-1-4027062. Fax 00353-1-4027199. e-mail Edmund.ocallaghan @dit.ie

Joan KEEGAN, School of Retail & Services Management, Faculty of Business, Dublin Institute of Technology, Aungier St. Dublin 1. Ireland.
Tel. 00353-1-4027047. Fax 00353-1-4027199. e-mail Joan.keegan@dit.ie

Introduction

The concept behind customer loyalty schemes is not new. McGoldrick and Andre (1997) remind us that cooperatives were "distributing dividends to customers, proportionate to their purchases some 150 years ago" and Cuthberthson (1998) cites co-operative members 'retrospective dividend' based on levels of expenditure. In the past decade, technological developments have allowed the emergence of electronic loyalty schemes with practically unlimited capability for the collection of customer information and whose potential has yet to be fully realised.

Electronic loyalty schemes (ELS) first appeared on the Irish retail landscape when *SuperClub* was launched by the Irish grocery multiple Superquinn in 1993. Since that time, a wide variety of loyalty schemes have been introduced and are now commonplace in the Irish retail sector as a whole, but the three Irish multiples, Dunnes Stores, Tesco Ireland and Superquinn, are the exclusive operators of such schemes within the grocery sector. Despite this, the rationale for their introduction remains unclear. Dowling & Uncles (1997) express the view that in the United Kingdom, many customer loyalty programmes were introduced without much forethought. While this view may have resonance in an Irish context, it has yet to be tested.

Research on the role and objectives of loyalty schemes has primarily adopted a customer perspective (Mitchell et al, 1996; Conneran & Lawlor, 1997; Evans et al, 1997; Hart et al, 1999); fewer studies have sought a retailer perspective, with some noted exceptions (Palmer et al, 2000b; Byrom, 2001; Humby et al, 2003; Smith et al, 2004). Conneran & Lawlor (1997) provided an Irish consumer perspective on ELS, whereas this paper attempts to add an organisational perspective. The paper is based on depth interviews with Superquinn executives and secondary sources. The importance of a clear vision on the objectives, role and value of an electronic loyalty scheme is of crucial importance in an increasingly competitive marketplace. Therefore, the purpose of this exploratory paper is threefold

1. To identify how one Irish based grocery multiple measures customer loyalty.
2. To explore the principal objectives of one electronic loyalty scheme, from an organisational perspective.
3. To investigate the benefits of the ELSs from an organisational perspective.

Literature Overview

Loyalty

The conceptualisation of loyalty schemes within the marketing literature is surprisingly challenging. Whether such schemes are best contextualised within the literature on relationship marketing, database marketing, direct marketing, consumer behaviour, one-to-one marketing, brand loyalty or loyalty marketing is open to debate. Duffy (1998) captures the essence of the loyalty concept when he states that the pursuit of customer loyalty is a perpetual one, '*more a journey than a destination'*. While the importance of nurturing customer/store loyalty, thereby propelling customers up the 'loyalty ladder' (Raphel & Raphel, 1995) is well accepted as a pre-requisite for business success, arriving at a precise and agreed definition of customer loyalty has proved problematic. The proportion of expenditure devoted by a consumer to a specific brand or store (behaviour) emerges as a common theme from loyalty definitions (Jacoby &Chestnut, 1978). Similarly, Knox & Denison (2000) define store loyalty as consumers inclination to patronise a given store or chain of stores over time. Other definitions favour attitudinal measures to the store or brand or hybrid measures that combine both behavioural and attitudinal measures (Dick & Basu, 1994; Bloemer & de Ruyter, 1998)

The problematic nature of loyalty measurability is widely acknowledged (Dick & Basu, 1994; Dowling & Uncles, 1997; McGoldrick & Andre, 1997; Aasael, 1998). Knox & Denison (2000) argue that loyalty is a relative term and difficult to measure, because customers are unlikely to show exclusive loyalty to one store or group. Emphases within definitions range from emotional dimensions such as commitment/ positive attitude to a store or brand (McGoldrick & Andre, 1997; Oliver, 1999) to behavioural dimensions based on actual purchase behaviour (Uncles, 1994). The behavioural approach aligns loyalty with repeat purchase (Uncles, 1994), and advocates the appropriateness of behavioural measures of loyalty based on actual purchase behaviour such as recency, frequency and monetary value. The attitudinal approach advocates the primacy of consumers 'overall feelings' toward a product or service and their purchase intentions as the critical measure of loyalty and claim that behaviour alone is an insufficient measure of store or brand loyalty (Olson and Jacoby, 1971; Raphel & Raphel, 1995; Oliver, 1999). They argue that while repeat purchase is the behavioural manifestation of loyalty, it is under-pinned by attitude, a view shared by Woolf (2002) who considers loyalty to be a positive attitude built up over a series of favourable interactions resulting in increased purchase behaviour with the firm.

Others support a hybrid measure that combines both attitudes and behaviour (Dick and Basu, 1994; Knox, 1996; McGoldrick & Andre, 1997; Aasael, 1998). Macintosh & Lockshin's (1997) study of store loyalty also supported the attitude/ behaviour combination proposed by Dick and Basu (1994). Raphel & Raphel (1995) use their five customer classification 'loyalty ladder' to differentiate between attitude and behaviour and view the primacy of attitude in defining a loyal customer. Customers at the summit of the 'loyalty ladder' are 'advocates' and have strong positive attitudes towards the company as distinct from 'clients' who are regular purchasers. Despite the ability of behavioural measures to give a more accurate picture of where and how much consumers are spending, both Aasael (1998) and Dick & Basu (1994) contend that continuous purchase of a brand over a period cannot be relied upon to infer loyalty. In contrast, D'all'Olmo Riley et al (1997) highlight the temporal nature of consumer attitudes and Dowling & Uncles, (1997) argue that attitudinal measures of satisfaction are poor predictors or measures of behaviour. They regard one hundred per cent loyalty as unachievable. This stochastic nature of consumer loyalty (Uncles & Laurent, 1997; Knox & Denison, 2000; Humby et al, 2003) effectively discounts one hundred per cent loyalty and re-enforces the view that consumers are more likely to have a repertoire of favourites (polygamous loyalty) from which they will regularly purchase. Humby et al (2003: 9) articulate this view by asserting the fact that no store in any retail sector will satisfy the totality of an individual's consumption needs.

Loyalty Schemes

Definitions of the general role of loyalty programs range from motivating the consumer to spend more in one store group and less in others (Knox & Denison, 2000) to '*structured marketing efforts*' that reward loyal behaviour (Sharp & Sharp, 1997). The common denominator of loyalty schemes is that they all offer some kind of inducement as a reward to the consumer for their custom. Davies (1998) rightly points to the fact that loyalty schemes are simply one component of a company's effort to improve customer commitment to a store.

Retail loyalty schemes can differ in technological sophistication, operational complexity and administrative requirements. This is reflected in the diversity of opinion expressed as to their role and benefit. Thus, the loyalty scheme spectrum runs from simple to complex ie. a simple issue of stamps for a short period of time for a specific reward versus a long-term commitment to issue rewards based on the electronic collation of household purchase behavioural information. Obviously, Electronic loyalty schemes (ELS's) reside at the complex end of this spectrum. Contrasting themes on whether loyalty schemes play a tactical or strategic role emerge and are provided in Exhibit A.

Exhibit A: Motives for the Introduction of Retail Loyalty Schemes

Tactical	**Strategic**
Increase the number of customers visiting the store and reward loyal customers ***(Smith et al. 2004)***	**Improve loyalty** ***(McIllroy & Barnett, 2000; Smith et al 2004)***
Deepen the retailer's understanding of individual customer behaviour ***(Dick & Basu, 1994; Byrom, 2001; Byrom et al, 2001)***	**Improve customer retention** ***(Reichheld & Sasser, 1990; Sharp & Sharp, 1997; Knox, 1998)*** **and minimise defections** ***(Rosenberg & Czepiel, 1984; Gronroos, 1994)***
Allow retailer access to individual customer behaviour ***(Mitchell et al, 1996; Conneran &Lawlor, 1997; Evans, 1999; Palmer et al, 2000b)***	**Facilitate customer profiling and market segmentation** ***(Uncles,1994; Conneran &Lawlor, 1997; Palmer et al, 2000a, 2000b)***
Increase customer spend per visit ***(Evans, 1999)***	**Improvement of retail communication with customers** ***(Conneran & Lawlor, 1997; O'Malley,1998; Smith et al. 2004)***

Used as a sales promotion tool ***(O'Brien & Jones, 1995; Evans, 1999; Wright & Sparks, 1999; McIllroy & Barnett, 2000).***	**Competitive Motives** • **as a defensive measure to combat a competing scheme** ***(Uncles, 1994; O'Malley, 1998)*** • **both defensive and pre-emptive** ***(Dowling & Uncles, 1997)***
	As a means of differentiation for competitive advantage if exclusively operated ***(Conneran &Lawlor, 1997; McGoldrick, 2000; Palmer et al, 2000a);***

Much of the debate on the role of loyalty schemes revolves around whether they have strategic significance for the retailer. The ability to produce short term benefit is not in question. The retailers' data mining capability will often determine a strategic or tactical role for an individual loyalty scheme. However, it is clear that without collection and proper analysis of consumer data, that many loyalty schemes may only play a tactical role. The importance of this data mining capability for strategic advantage is emphasised (Conneran & Lawlor, 1997; Worthington, 2000; Byrom et al. 2001) as is the brand building potential, if correctly integrated within the firms' marketing communications mix (Conneran & Lawlor, 1997). Conneran & Lawlor (1997) challenge the short term sales promotion perspective on electronic loyalty schemes (Jones, 1994), arguing that ELS's have a greater degree of sophistication, and are more likely to have a strategic orientation. Humby et al (2003) support this view by testifying that Tesco always saw the *Tesco Clubcard* in the UK in a strategic context.

The effectiveness of reward-based loyalty schemes to generate loyalty has often been questioned (Dowling and Uncles, 1997; Davies, 1998; Worthington, 2000; Byrom, 2001). Worthington (2000) cites a limited use of consumer data, a lack of resources and competence necessary to process efficiently and effectively huge amounts of data as significant contributors to the lack of success of loyalty cards. Wright and Sparks (1999) question the reliability of loyalty card data bases to capture an accurate picture of behavioural customer information, having found that loyalty cards are not always used when purchasing goods. These findings are in line with a claim by UK grocery retailers that six out of every ten transactions are accompanied by the use of a loyalty card (Davies, 1998). However Hart et al (1999) found that loyalty cardholders were more emotionally involved with the company and spent significantly more than non-card holders. Cuthbertson (1998) argues that profitable customers are more important than loyal customers to the retailer and that business effectiveness measures are more important than loyalty measures.

McIlroy and Barnett (2000) suggest a strategic role for loyalty cards when introduced to improve customer retention, and therefore minimise defections. Gronroos (1996) agrees with this strategic role, but questions the extent to which retailers attempt to measure rates of customer defections. He suggests that market share can cover up a host of inadequacies because it can disguise the level of customer defection. Rosenburg and Czepiel (1984: 46) share this view when they state that '*some companies seem hooked on steady doses of fresh customers to cover up regular losses of existing ones.*' The importance of retention is highlighted by research findings that suggest the cost of recruiting a customer, in a grocery context is considerably higher than the cost of retention (Sirohi et al, 1998). Reichfeld & Sasser (1990) also argue the wisdom of a strategy of gaining and maintaining loyalty based on the higher costs of enticing a new customer as distinct from getting an existing one to re-purchase. While several studies in a banking context have demonstrated a strong relationship between customer retention and improved profitability (Reichheld & Sasser, 1990; Christopher et al,1991), the relationship between customer loyalty and business profitability in the retailing of FMCG goods has not been widely studied (Knox & Denison, 2000). Dunn and Wrigley (1994) argue that many loyalty programmes contribute neither to organizational profitability nor to customer commitment to the organization. In general, there is little evidence on the precise impact of ELS's on a reduction in customer defections in a grocery context, despite the undoubted success of the Tesco Clubcard in the UK (Humby et al, 2003)

While Humby et al, (2003) provide a compelling case for strategic potential of retail loyalty schemes, considerable scepticism on their strategic role has been expressed. Dunn and Wrigley (1994) question the ability of loyalty schemes to generate competitive advantage, arguing that if shoppers are rewarded in all stores, then there is no reason to be loyal to any one particular store. Similarly, Uncles (1994) questions the usefulness of such schemes when he argues that they may simply raise the cost of doing business. He also suggests that the final result may be no more than a minor tactical advantage in a zero sum game, if competitors introduce a similar scheme. Worthington (2000) echoes similar sentiment when he states that

"Involvement in loyalty schemes and the associated incentive rewards have become just another part of the shopping experience rather then an expression of loyalty"

Irish grocery context

The Irish grocery retail market is an extremely competitive market, with an estimated market value of €5.35 billion (Mintel, 2003**).** It is contested by four categories of operator; the full service multiple, symbol groups, limited range discounters and independents. The market is highly concentrated with the three multiple operators, Tesco, Dunnes and Superquinn, controlling some fifty three per cent of the market. The symbol groups and the limited range discounters account for approximately thirty per cent and the independent operators account for the remaining seventeen per cent of the market. A myriad of factors have contributed to a changing grocery landscape. Keegan et al (2001) cite intense competition, a booming economy, changing socio economic profiles and technological developments as some of the factors underpinning the process of change. Discounters are now firmly established in the marketplace and have re-awakened the importance of price as a critical purchasing variable in the Irish consumer mindset. While the discounters' "no frills" approach concedes the operation of any loyalty scheme, the symbol operators continuously run short-term stamp-based reward mechanisms for their customers offering miscellaneous rewards, e.g. flights, hotel breaks and furniture offers. The supermarket multiples are the exclusive operators of electronic loyalty schemes with all cards enjoying widespread acceptance, see table 1.

Table 1: Loyalty Card Penetration in the Irish Marketplace

Operator	Date of introduction	No. Of members	Description of card
Superquinn	May 1993	800,000	Points based
Dunnes	June 1997	900,000	Points based
Tesco Irl.	October, 1997	800,000	Coalition Points based

Source : Company Websites

Typically loyalty programmes in operation in the Irish retail market tend to be either points based, price based and or coalition based schemes (see table two below). The loyalty programmes operated by the three grocery multiples are *points based* schemes and award one point for every one-euro spent.

Table 2 Electronic Loyalty Schemes in the Irish Market

TYPES OF LOYALTY SCHEMES		
Type of loyalty scheme	Strengths	Weaknesses
Points based schemes A *Points* based loyalty scheme allows customers to collect points on the basis of their spending in store.	• Has flexibility to influence consumer behaviour • Its ability to increase or decrease store traffic and frequency of store visits	• The greatest potential weakness of such a scheme is in its costs.
Price based schemes The most common manifestation of these schemes is in the two-tiered pricing model where a wide range of advertised and unadvertised items are sold at a reduced price to customers who present their loyalty card at the checkout. Regular shelf prices are charged to those customers without a loyalty card.	Generally have lower costs than points based schemes.	
Coalition schemes Sponsors share marketing, database and administration costs. Are said to be the way forward in loyalty marketing	• They facilitate more, and easily collected points • Allow for the high costs of running the schemes to be shared among the partners.	

Superquinn and SuperClub

Superquinn is a privately owned company that operates from nineteen locations and employs approximately 3,500 staff (full-time, part-time and casual). The company has the reputation for being Ireland's most innovative supermarket (O'Callaghan and Wilcox, 2000). Feargal Quinn, its founder, articulates the company's philosophy in his book (Quinn, 1987) as 'delighting' the customer and ensuring the customer returns

(Boomerang Principle) and this principle continues to drive current Superquinn strategy. In January 2005, Superquinn was sold to a consortium of Irish investors (Select Retail Holdings) in a €450million deal. It is suggested that the company was frustrated in its inability to secure new sites as a result of competitor willingness to pay exorbitant sums to acquire new locations.

The company places considerable emphasis on its 'listening channels' that range from formal (monthly consumer panels) to informal (store management time spent on shop-floor). Superquinn was the first grocery multiple in Ireland to use its information technology to promote customer loyalty via its 'SuperClub' coalition programme. *SuperClub Target Marketing (*STM) was established in 1993 as a wholly owned subsidiary of Superquinn. Twenty-four different corporate sponsors were recruited over its life to reward customers with *SuperClub* points at more than three hundred and fifty establishments. Customers could than redeem their *SuperClub* points against items in the *SuperClub* catalogue. The data base was used for targeted and relevant marketing offers, all of which had to be pre-approved by STM. The database also allowed cross-sell advertising, i.e. Superquinn was able to advertise to its partner customers and vice-versa.

In 2003, STM conducted a radical overhaul of its loyalty scheme. The original *SuperClub* coalition concept was discontinued in favour of a points based programme. Superquinn entered into an alliance with Argos whereby the Argos catalogue would replace the original *SuperClub* catalogue. The rationale for the change lay with the costs associated with sourcing, warehousing and distribution of merchandise for the *SuperClub* catalogue, the production of the catalogue itself and inherent difficulties of working with multiple partners. The new *SuperClub* loyalty scheme is points based where customers are awarded one SuperCent for every Euro spent. Customers have three redemption options: 'Take it' and get an instant discount on their shopping, 'Save it' to their *SuperClub* account to redeem at a later date (for gifts from the Argos catalogue or future instant discounts at the checkout) or '50:50', take half and save half their SuperCent.

From the outset, the objective of *SuperClub* was to grow Superquinn's business through rewarding loyalty among the stores most valued customers and encouraging other customers to become more loyal to the store. For example, in the first month of operation, the company found a high representation of guesthouse owners in its top one hundred point earners. Promotional materials were subsequently dispatched into tourist offices, and guest house owners were individually targeted with an offer of free double points for a six month period. It uses recency, frequency and spend to analyse customer behaviour and defines its current customer as someone who has shopped in any previous twelve-week period. Another key objective of *SuperClub* is to ensure that the level of overall members of its loyalty programme is not falling and is ideally rising. It monitors this through what it terms a 'Bath Tub Analysis'. If the level of the bathtub is falling, Superquinn conducts research to identify the key issues behind its customer defection. There has been an increase in the number of people visiting Superquinn's stores since the introduction of *SuperClub*. The company believes that this increase in customers and sales has ensured that *SuperClub* is a self-funding scheme with customers effectively covering the cost of the scheme themselves.

Through the *SuperClub* scheme Superquinn can now identify its customer base, segment them according to their loyalty status, examine individual customers shopping patterns and ultimately forge closer links with its customers and suppliers. On the basis of database information, Superquinn has categorised its customers, based on Woolf's (2002) customer classification system as Diamonds, Rubies, Opals, Pearls and New (DROP'N) as outlined in table three below. Customer classification is based on threshold breakpoints of customer spend in store for the previous quarter:

Table 3 Superquinn Customer Categorisation

Best Customers	***Potential Best Customers***	***New customers/ Reactivated customers***
Diamonds* and *Rubies • Superquinn's best customers. • Accounts for 40% of Customer Database • Segment accounts for 80% business	***Opals*** • Promiscuity characterises their shopping behaviour ***Pearls*** • Occasional customers • Buy most of their products from competitors • Targeted offers to this group usually results in a poorer response than from the Diamonds or Rubies.	Grouped into one segment because • Two groups have similar characteristics and • Consumer behaviour of the two groups is very similar ❖ *The average new customer shops for only half of the quarter (as new ones are joining each week during the whole quarter) and they have a high drop out rate.*

Superquinn offers exclusive promotions to its 'diamonds' and 'rubies'. They will receive regular mailings that offer additional bonus points or special offers unique to them and tailored to purchasing requirements. They also positively discriminate in favour of this category by gifting them with additional points for loyalty in the recent past. STM estimates that to lose one of the *Best Customers* is equivalent to losing some twenty other shoppers. The company interprets a decline in the *Best Customer* numbers as usually indicating that part of its current offering (service, friendliness, assortment, price and cleanliness) is disappointing its core customer constituency and needs immediate investigation and correction. The data from its *Best Customers* is now increasingly being linked to its category management systems and shelf plannograms. For example, *Best Customers* behaviour is a major determinant of shelf space allocation. Merchandisers now check spend patterns in the *Best Customer* dataset before any decision to delete or replace a product is made. The company recognises that *drop-in (**no id**entification NOID'S)* infrequent shopper's transactions can be profitable. The objective with *PBCs (Potential Best Customers)* is to transform them into *Best Customers* and to ensure that over time they remain loyal to the store and don't defect to competitors.

The *SuperClub* scheme has been used to develop a database of individual customers shopping patterns in a bid to identify key consumer segments and to forge closer links with its customers and suppliers. The company studies consumer behaviour, explores what people are buying, and develops lifestyle analysis of its customer and target promotions much more effectively. Superquinn also uses promotional points to manipulate consumer behaviour on a store by store basis and even on a department by department basis. For example it uses bonus points to shift customer traffic to quieter, less busy times of the day or week or simply to promote particular departments within the store. Points are also used to build the frequency of visits. In addition, *SuperClub* offers database services to Superquinn suppliers and other companies. It boasts that a further competitive advantage is in providing suppliers with live information updated on a daily basis in comparison to other Irish databases that are static, holding information at a fixed point in time.

Discussion

Duffy's (1998) analogy of loyalty being more a journey than a destination has resonance in the Superquinn approach to customer loyalty. Its "Boomerang Principle" of bringing the customer back is the cornerstone of its business philosophy. The use of recency, frequency and spend to identify its most loyal customers and analyse customer behaviour reflects a purely behavioural view of loyalty in line with the views of Uncles (1994) and Dowling and Uncles (1997). The underpinning of behaviour by attitude, strongly advocated in the loyalty literature (Dick and Basu, 1994; Knox and Walker, 1995; Knox, 1996; McGoldrick and Andre, 1997; Aasael, 1998; Woolf, 2002) is not reflected in the operation of the *SuperClub* loyalty scheme. While it uses customer panels to explore attitudinal issues towards the store, its departments, its products and services, these attitudes are not aligned with behavioural data, as proposed by Dick and Basu (1994), Bloemer and Ruyter (1998) and Denison and Knox (1993). Superquinn's behavioural data provides empirical evidence for claims about the non-existence of one hundred per cent loyalty and the existence of a promiscuous grocery consumer (Dowling and Uncles, 1997; Knox and Dennison, 2000)

Coalition schemes are said to be the way forward in loyalty marketing as they facilitate more, and easily collected points (Wright and Sparks, 1999). They also allow for the high costs of running the schemes to be shared among the partners as recommended by (O 'Brien & Jones, 1995). In contrast to this Superquinn has recently moved away from the coalition scheme model in favour of a single source scheme. Its rationale for this was to avoid the heavy administrative burden inherent in working with multiple partners. The learning curve for partners was also very steep. Superquinn was constantly trying to educate and motivate partners' staff to issue *SuperClub* points. In addition, when the economy began to dip, and costs needed to be cut, for some of the partners, *SuperClub* was a soft cost-cutting exercise.

The literature identifies a myriad of both tactical and operational motives for the introduction of loyalty schemes. In the case of Superquinn, a number of factors emerged as key drivers of its loyalty programme. One of the key objectives of *SuperClub* is to grow its business through rewarding loyalty among its most valued customers (best customers/ most loyal) (Smith et al, 2004) and propel other customers further up the loyalty ladder (Raphel & Raphel, 1995). The disproportionate 'rewarding' of additional SuperCents to its most loyal customers confirms its belief that all customers are not the same (O'Brien & Jones, 1995). Considerable effort is invested in rewarding and retaining this most valuable segment of customers, a view which supports the findings of Sirohi et al (1998) in which they concluded that the cost of recruiting a new customer was considerably higher that the cost of retaining existing customers.

The range and scope of motives for the introduction of the Superquinn loyalty scheme reflects the diversity of themes of both a tactical and strategic nature occurring in the literature. The identification and reward of its best customers, a deeper understanding of customer behaviour and application of that knowledge for segmentation and market targeting reflects the strategic role of a loyalty scheme. Marketing communications with its *Best Customers* are more frequent and more relevant to the individual customer. This integrated approach has allowed the company to measure marketing effectiveness at store, section (category) and departmental level and therefore build loyalty on a store-by-store basis. The tactical role of loyalty schemes is reflected in the measurement of the rate of new customers and the monitoring of store data on a weekly basis to identify changes in customer preference. While the *SuperClub* database is unlikely to represent all customer transactions (Wright and Sparks, 1999; Davies, 1998), it has allowed the creation of the type of customer behavioural information of which retail marketers could only have dreamed about in the past.

Superquinn's loyalty programme has enabled it to identify and develop a much deeper understanding of its customer base and gleam greater insights into their shopping behaviour in line with the findings of a host of writers e.g. Dick & Basu (1994), Palmer et al, (2000), Evans (1999), Conneran &Lawlor (1997) and Mitchell et al, (1996). At present data harnessed from its database has enabled them to profile and segment its customer base into a number of categories depending on their degree of loyalty as espoused by Uncles (1994), and Conneran &Lawlor (1997). Appropriate strategies are then designed on the basis of this information to target and ultimately manipulate behaviour of these segments in a more cost efficient and effective manner. Many of its initiatives are in line with a host of writers in this area and involve such activities as better targeted marketing communication (O'Malley,1998; Conneran & Lawlor, 1997; Smith et al. 2004), rewarding behaviour from most valued customer segments (Smith et al. 2004), increasing the frequency of visits among Opals, Pearls and even Noid's (McIllroy and Barnett, 2000 and Smith et al 2004) and shifting customer demand across different days of the week, on a store by store basis and even on a department by department basis (Evans 1999). STM also views its data mining capability as a critical success factor for strategic advantage in line with the views of Worthington (2000) and Conneran & Lawlor (1997).

The company realises the importance of customer retention and minimisation of defections (Reichheld & Sasser, 1990; Gronroos, 1994; Rosenberg & Czepiel, 1984). Focus on the retention of its best customers is one of the primary objectives of the *SuperClub* programme and is in line with the company's core philosophy. Disappointing its core customer constituency is the antithesis of Feargal Quinn's core philosophy of "crowning the customer" (Quinn, 1997) and warrants immediate investigation and correction.

Concluding Remarks

In a competitive context, the true value of any competitive advantage arising from loyalty schemes is questionable. It might more realistically be argued that given a strong propensity for the Irish consumer to hold several ‘loyalty cards’, and a general trend of greater loyalty promiscuity of multiple card-holders (Davies 1998), that loyalty cards have a negative impact on loyalty. The facts show that loyalty card penetration in the Irish grocery market is relatively high but this cannot be construed as any measure of loyalty given the aforementioned high incidence of multi-card ownership. It would equally be erroneous to attribute multiple market share gains to better customer information gained through the operation of loyalty schemes. The inescapable fact is that limited range discounters (Aldi and Lidl) have also made significant market share advances without the benefit of electronic loyalty scheme data.

There is a danger of an over reliance on behavioural data does not fully reflect the true customer dynamic and their rationale for loyalty. Given that the company already collects attitudinal data from its customers in a less structured manner, there are undoubtedly significant opportunities to expand its current measurement approach to one that incorporates the richness of this attitudinal data in a more formalised and integrated manner. It is commendable that Superquinn has harnessed data in a valuable and useful manner to truly identify and understand the different segments of customers patronising its business. However, greater opportunities must exist to employ more innovative and creative strategies in rewarding its most loyal segment of customers. Additional SuperCents and more regular communications are no doubt welcomed by its most loyal customers but whether they are a key differentiator of its loyalty scheme or a critical determinant of store choice is unlikely. The linking of *best customer* database with category management systems demonstrates a degree of sophistication and integrated data mining capability that will undoubtedly improve retention, but correct and timely measurement is essential.

Undoubtedly the real advantage of the *SuperClub* loyalty scheme lies in its data mining capability. The database offers endless opportunities for meaningful data mining and Superquinn clearly harnesses this information to implement more effective and efficient strategies. The most progressive companies readily accept that significant advances in harnessing the marketing power of electronic loyalty schemes have yet to be realised. The correct interpretation of this information is also vital for commercially sound business decisions to be made.

Superquinn executives confirm store footfall and average store spend has increased since the introduction of *SuperClub* even though increased footfall was not an explicitly stated objective for the scheme at its inception. Not surprisingly, the simplistic objective of rewarding loyalty is cited by Superquinn, but the sophistication of its loyalty scheme and on-going investment in the development of data mining capability has undoubtedly a strategic role in increasing marketing effectiveness. All electronic loyalty cards capture data, but the conversion of such data into useful information that the company can effectively use in its marketing communications strategy for competitive advantage would appear to be crucial. Technology is undoubtedly creating ‘data rich’ retailers, but perhaps the greatest challenge for the operators of electronic loyalty schemes is how to ensure that they are also ‘information rich’. It would appear that Superquinn has climbed the learning curve with *SuperClub;* it has developed greater integrative capability with supply chain management systems and appears ready to extract real marketing value from its customer database in the future.

The case of *SuperClub* illustrates the fact that loyalty schemes are appropriate for relatively small retail organisations. Superquinn is a small player in a small market, but its size has never fettered its ability to be innovative with its business model. Superquinn's loyalty scheme was a manifestation of this innovative culture. It was one of the first electronic loyalty schemes in Europe and pre-dated the introduction of the Tesco Clubcard. Despite the fact that Superquinn, through *SuperClub* is 'information rich', its' market share has remained relatively static in recent years. Many would argue that the desire to expand was stifled by competitor desire and capability to outbid them for prime locations. It may also reflect an increase in the competitive trading temperature in the Irish grocery market with market share advances by symbol operators, discounters and Tesco Ireland. Ultimately a loyalty programme constitutes only one aspect of the totality of a company's effort to improve customer commitment to a store. A myriad of factors contribute both to market share gains and business effectiveness including location, opening hours, service level, product choice, own brands, prices and the strategic use of electronic loyalty schemes.

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