

Loyalty Cards and Personal Information

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Loyalty schemes are considered to be integral parts in the development of customer loyalty for companies within different sectors. For example, supermarkets within the Cypriot industry like Carrefour, Metro and Alfamega have in place loyalty cards while bonus or club cards are also present in retail industries like Stephanis or even within the hospitality sector with Starbucks and Costa coffee rewards cards. Even though the name of these schemes might differ from case to case from loyalty, rewards or membership cards, all are examples of loyalty schemes that seek to maximise the buy-rebuy behaviour of customers through the strategy of “grow and retain”, also known as customer loyalty.

Previous academic research identified customer loyalty to be linked not only to profit maximisation for businesses, but also to brand equity enhancement meaning that the business as a brand is positively perceived by consumers within the market.

Nevertheless, during the time of their introduction loyalty schemes had a secondary objective that is currently becoming more prominent than loyalty-development. This secondary objective is the gathering of customer information. With the introduction of loyalty schemes revolving around electronic cards in the 80s and 90s organisations were provided with the capability of recording the consumption volumes of specific products by customers as a whole. This enhanced the inventory management of organisations and improved efficiency by providing them with the ability to more effectively identify when to order in new volumes of a product. Additionally, this improved the efficiency of organisations by allowing them to identify which products performed well in terms of sales and which ones didn't, which would lead to increase or decrease of the volumes being ordered or even possible termination of requesting additional volumes for unpopular products.

As technology progressed, new analyses of patterns could be calculated from the data acquired through the loyalty cards. From seeing customers as a whole, larger organisations with the appropriate resources and devoted departments, could now identify patterns to the singular level, meaning for each customer individually.

By accumulating data of the shopping pattern of the individual over a period, say for example one month through the loyalty cards being scanned, organisations could now identify products to which that individual is loyal to and accordingly provide him/her with offers for particular brands to reinforce their loyalty to the company. See for example the table below.

Customer A		
Product type	Brand	Quantity (over a 1 month period)
	Lion (Nestle)	19
Chocolate	Mars (Mars inc)	6
	Kinder (Ferrero SpA)	3

From the table above, consumer A has a clear tendency to like Nestle’s Lion chocolate meaning that he/she is strongly preferring this brand over competitive ones. Large organisations with the capabilities of identifying patterns like these on an individual level can target customer A with tailored discounting schemes that involve his/her brand of choice, in this case the Lion chocolate. This ensures that buy-rebuy behaviour is in place which by extension leads to customer loyalty with the organisation who provides that product on offer.

Now the newest generation of customer analysis techniques seek to explain customer behaviour through shopping pattern. Smith and Sparks (2004) with their now more than 10-year old paper entitled “All about Eve?” demonstrate how customer information can shed light to demographic, lifestyle and up to a degree psychographic characteristics of individuals by simply analysing their shopping pattern and without any prior knowledge of that individual. To demonstrate this see for example the table below.

Consumer A	
Product type	Quantity (over a 1 month period)
Chocolate	28
High-calorie snack	18
Soft drink	19
Condoms (pack of 6)	1
Pampers for babies (pack of 12)	3

The table summarises the purchasing pattern, by product type, of Consumer A whose pattern was also previously analysed to see his/her strongest preference of chocolate. Through the table above specialists of data analytics can make inferences of what characterises this individual. For example by identifying the high number of unhealthy products being purchased, namely high-calorie snacks, soft drinks and chocolates, arguably and up to a degree it can be inferred that this individual must be following a relatively unhealthy lifestyle with a good chance to have some excess weight. Furthermore, the purchase of condoms can lead to the inference that this individual is sexually-active with a high probability to be a man while the pack of pampers hints us that he must be a father of a young baby. Therefore, the previously unknown Consumer A now is being translated to a relatively young father with a baby who has some excess weight and is sexually active. Arguably, the above description can also be relevant to a young mother who happened to buy condoms for her partner. Still the precision of the description is increased when examining the shopping pattern over a longer period (2 years for example) and by including other types of products to confirm gender (for example tampons). Through these, one can achieve statistical significance when describing customer A.

Now the uses of the information demonstrated above can arguably follow two paths. First, organisations through analyses like this have the ability to characterise and understand their customers and accordingly provide them with more related offers. For example for customer A, offers on healthier foods, cheaper products for babies through offers and so on can be found relevant and useful to improve lifestyle and alleviate some of the economic burdens that are linked to parenthood.

Still, ethical implications can also be present in the above example leading to a second and arguably unethical path for information usage. The above characteristics of customer A could lead to an organisation in selling this information to 3rd parties, say for example to a local gym, who targets this young father with offers to lose weight or being targeted by an email advertising campaign of a new baby carriage by another organisation knowing that he has a young baby. The possibilities are limitless and organisations in the past demonstrated this latter and shared information without the knowledge and consent of the individual. Previous research by Themistocleous et al (2014) sought to examine voluntary and ethical ways to facilitate information accumulation by consumers while attempts to regulate the unconsented selling of information have been made in the UK (Midata) and Central Europe (Data Protection Directive) but a definite sustainable result is yet to be achieved. Even though insinuation of the fact that the latter practises are present in the Cypriot market is not present in this paper, knowledge by consumers as to how their information could be used by organisations is key.

Based on the above we can see the evolution of loyalty schemes as well as the modern uses and implications of loyalty cards. Understanding the fact that loyalty cards are not devised to solely provide discounts and benefits to customers but to also return customer information to organisations, makes the personal decision of owning a loyalty card an informed one.

References

Smith A., and Sparks L., (2004), "All About Eve?", *Journal of Marketing Management*, Vol. 20 (3-4), pp. 363-385.

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