

[Available online @ https://jjem.jnnce.ac.in](https://jjem.jnnce.ac.in)

<https://www.doi.org/10.37314/JJEM.SP0111>

Indexed in International Scientific Indexing (ISI)

Impact factor: 1.395 for 2021-22

Published on: 08 December 2023

Effectiveness of Loyalty Programs on Customer Retention in E-commerce

Hamsalekha S 1* & Divya S P 2*

1 Kalpataru Institute of Technology, 2 Jawaharlal Nehru National College of Engineering,

1* hamsalekhavinay@gmail.com - [2* divyasp@jnnce.ac.in](mailto:divyasp@jnnce.ac.in)

Abstract

Loyalty programs have become a common strategy employed by e-commerce businesses to enhance customer retention. This abstract presents an overview of the success of loyalty programs on customer retaining in the e-commerce industry. In the highly competitive e-commerce site, customer retention is a critical factor for sustained success. Loyalty programs are designed to foster long-term relationships between customers and businesses by offering rewards, incentives, and tailored experiences. This research inspects the influence of loyalty programs on customer retention, with a focus on their influence on customer behaviour and loyalty. This study incorporates both quantitative and qualitative data, collected through surveys, customer interviews, and analysis of e-commerce sales and customer retention metrics. Key findings suggest that effective loyalty programs significantly contribute to higher customer retention rates. Customers enrolled in these programs tend to exhibit increased purchase frequency, higher average order values, and reduced churn rates. Furthermore, customer engagement and satisfaction points are highly correlated with the presence of a well-structured and personalized loyalty program. This abstract underscores the status of carefully designing and managing loyalty programs to outfit to the precise needs and preferences of e-commerce customers. The results indicate that successful loyalty programs can lead to improved customer retention and, consequently, increased profitability in the e-commerce sector. Businesses in the e-commerce industry should consider these results when developing and optimizing their loyalty programs to enhance customer retention, foster brand loyalty, and ultimately drive sustained growth and success in an ever-evolving digital marketplace.

Keywords : Brand Loyalty, Customer Retention, E-commerce, Sustained Growth, Tailored Experience,

1. Introduction

The e-commerce business has witnessed exponential development and transformation, appreciations to the proliferation of digital technologies and changing consumer behaviour. Amid this dynamic landscape, businesses face a formidable challenge: how to retain customers in a fiercely competitive environment. Customer retention is a

paramount objective for e-commerce companies, as it not only ensures a steady revenue stream but also reduces the rate of acquiring new customers. In this context, loyalty programs have emerged as a pivotal tool in the pursuit of enhancing customer retainment and fostering enduring brand-customer relationships. Loyalty packages are organized marketing

approaches that reward customers for their continued engagement and patronage. These programs come in various forms, ranging from points-based systems to tiered membership benefits, special discounts, and personalized experiences. The primary aim of loyalty programs is to generate a sense of attachment between customers and the brand, thereby increasing the likelihood of frequent purchases and long-term loyalty.

This study delves into the monarchy of e-commerce and investigates the success of loyalty programs on customer retention, shedding light on the underlying mechanisms that drive this relationship. In an age when consumer expectations are continually evolving and alternatives are just a click away, understanding the dynamics of customer retention and how loyalty programs influence it is of paramount importance for e-commerce businesses.

The remainder of this research explores the effect of loyalty programs on customer holding in e-commerce, considering factors such as increased purchase frequency, higher average order values, reduced churn rates, customer engagement, and overall satisfaction. By gaining insights into these facets, businesses can adapt their loyalty drivers to align with the preferences and expectations of their customers, ultimately achieving the dual goals of enhancing customer retention and fortifying brand loyalty. Through a combination of empirical data, customer testimonials, and industry best performs, this study aims to provide e-commerce businesses with valuable insights into the role of loyalty programs in maintaining a modest superiority and fostering enduring customer relationships in the digital age. As the e-commerce sector continues to evolve, the ability to retain customers becomes a distinguishing factor in success, and loyalty programs offer a promising avenue for achieving this vital objective.

2 Literature Review

- ❖ Reinartz and Kumar, 2020—Opined that (Enhanced Customer Retention): Abundant studies have indicated that loyalty programs play a pivotal role in enhancing customer retention. Customers who enrol in these programs tend to exhibit higher levels of loyalty, leading to increased repeat purchases and long-term relationships with e-commerce brands. Research also suggests that well-designed loyalty programs that offer meaningful rewards and exclusive experiences can enhance customer satisfaction, leading to continued patronage
- ❖ Kumar and Shah, 2017 – Suggested that (Increased Purchase Frequency): Loyalty programs are related with increased purchase frequency. Customers are motivated to return to the e-commerce platform to collect rewards, redeem points, or benefit from exclusive promotions, resulting in more frequent transactions
- ❖ Bolton ,2017 – Proposed that Higher Average Order Values Loyalty programs often drive customers to spend more per transaction. The prospect of earning rewards or reaching a higher membership tier encourages customers to make larger orders, thereby increasing the average order value. Measuring the ROI of loyalty programs is essential. Studies have established that, when implemented effectively, loyalty programs can yield a positive return on investment through increased customer spending and reduced acquisition costs.
- ❖ Keiningham , 2015 – Recommended that Effective trustworthiness drivers have been shown to reduce churn rates in e-commerce. Customers enrolled in loyalty initiatives are less likely to switch to competitors, ultimately contributing to greater customer stability and decreased customer

acquisition costs. Some loyalty programs incentivize customers to refer friends and family. Customers who are advocates of a brand due to the benefits of a loyalty program can become powerful promoters, leading to new customer acquisition.

- ❖ Kumar et al., 2010 – Advised that Customer engagement is a grave factor in customer retention. Loyalty programs create opportunities for personalized interactions, feedback, and communication, resulting in higher customer engagement levels, and ultimately, stronger ties to the brand. Loyalty programs have a major impact on various aspects of customer behaviour, such as purchase frequency, average order values, and customer engagement.

3 Need of the Study

- ❖ The e-commerce industry is highly modest, with new players entering the market regularly. In this atmosphere, absorbent current customers is often more cost-effective than acquiring new ones. Understanding the role of loyalty programs in customer retention is acute for businesses to maintain a competitive edge.
- ❖ Consumer behaviour in e-commerce is continually evolving. Shoppers have become more discerning, and their expectations for personalized experiences and rewards have increased. This study can help e-commerce businesses adapt their loyalty programs to align with evolving consumer preferences.
- ❖ E-commerce businesses invest significant resources in loyalty programs. This research can help to regulate the success of these investments, ensuring that they yield a positive return on investment (ROI). This knowledge is vital for businesses seeking to allocate resources optimally.

- ❖ High customer churn rates can be detrimental to e-commerce businesses. An in-depth study can reveal strategies within loyalty programs that effectively reduce churn, saving costs allied with acquiring new customers.
- ❖ Loyal customers tend to need a higher customer lifetime value. Understanding how loyalty programs impact this value can lead to long-term revenue growth and sustainable business success. This study can deliver insights into designing more customer-centric loyalty programs.

4 Objectives Of The Study

- ❖ To examine the loyalty programs employed by E – commerce portals.
- ❖ To understand the effectiveness of loyalty programs in retaining customer.
- ❖ To know the impact of loyalty programs on customer gratification.
- ❖ To recommend strategies to enrich the effectiveness of loyalty programs.

5 Research Methodologies

Data source

- a. **Primary data:** It is a data which is collected from the respondents belonging to Tier 2 cities using structured questionnaire.
- b. **The Secondary data :** Regarding E – commerce portals is assimilated for the purpose of study.

Research Design

a . Sample Size

The total of 100 customers are taken has sample size from selected Tier 2 cities.

b. Sample Area.

The data is collected from all age group E – commerce users of Tumkur, Hassan ,Chikmagalore, Shimoga districts

c Research Instrument.

A questionnaire consisting of fifteen questions is prepared depending on implications of loyalty programs on E – Commerce users.

d Data collection method.

The data is collected from the E – commerce users by survey with the help of structured questionnaire. The data is collected orally by asking questions to the respondents.

6 Scope of the Study

- ❖ The study includes various aspects of loyalty programs accessible by E – commerce portals. This work also makes attempt to inspect the influence of various loyalty programs on customer satisfaction.
- ❖ This study attempts to explore the altered types of loyalty programs employed by E – commerce portals to attract and retain customers based on demographic factors.

- ❖ This work is confined to gathering opinion regarding loyalty programs from E – commerce users belonging to selected tier 2 cities of Karnataka and the study intends to recommend few strategies that would help to enhance effectiveness of loyalty programs in retaining customers.

7 Limitations of the Study

- ❖ The data collected reflects the opinion of respondents which may include biased response.
- ❖ The influence of loyalty programs can vary greatly reliant on the specific customer perception.
- ❖ The success of loyalty program may also be precious by the process of purchase decision of customers.
- ❖ The data is composed from the 4 selected tier 2 cities of Karnataka, hence generalization of opinion is difficult.

8 Analysis& Interpretation of The Data

1. E - commerce portals provides value based rewards to retain loyal customers.

Table 1:showing response for E - commerce portals provides value based rewards to retain loyal customers.

Sl.no	Responses	No. of Responses	Percentage
1	Strongly agree	50	50
2	Agree	20	20
3	Neither Agree/Nor Disagree	5	5
4	Disagree	10	10
5	Strongly Disagree	15	15
	Total	100	100

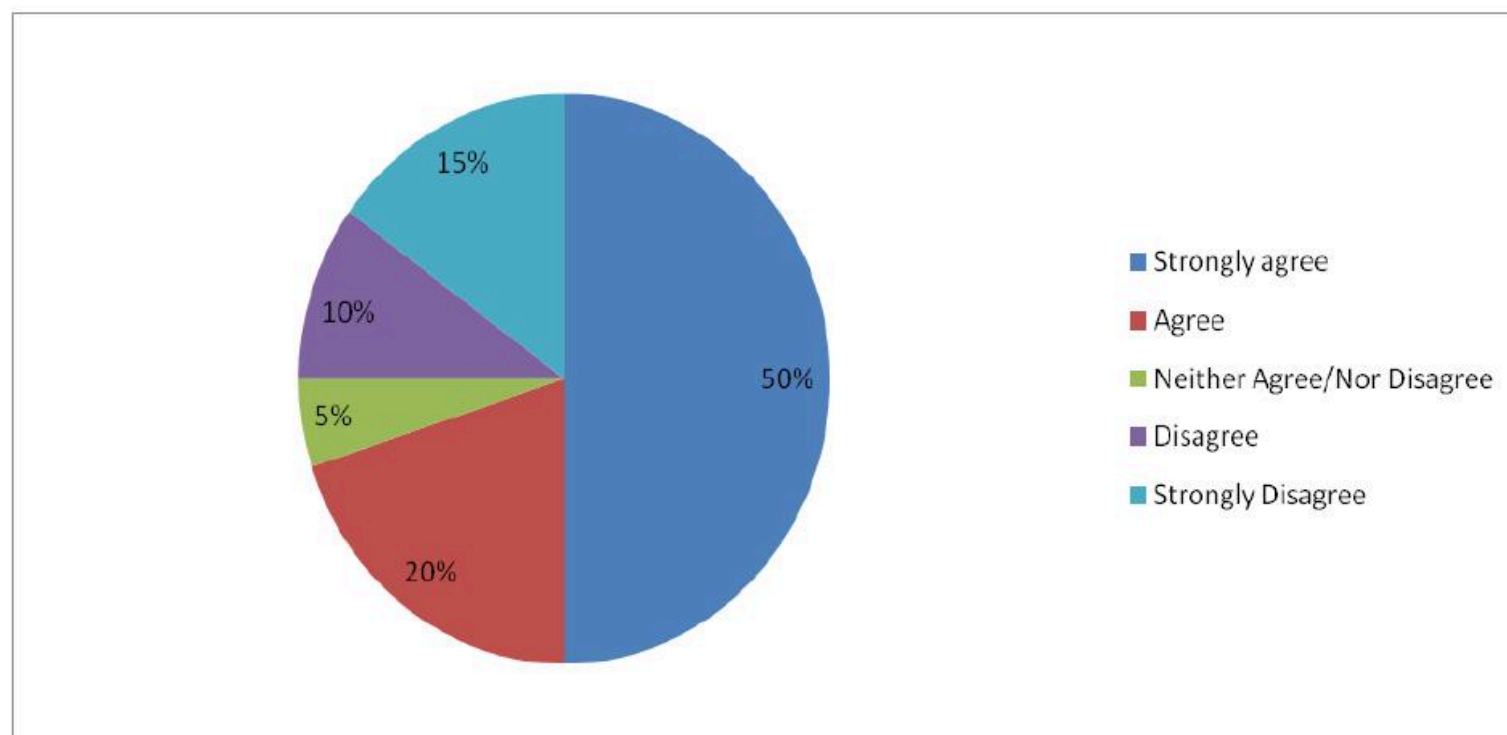


Chart 1: Showing response for E - commerce portals provides value based rewards to retain loyal customers.

Analysis : The tabulation depicts that 50% of customers strongly agree,20% of customers agree,5% of customers neither agree nor disagree,10% of customers disagree and 15% of customers strongly disagree that E - commerce portals provides value based rewards to loyal customers.

Interpretation: The above analysis reflects that most of the Customers

strongly agree that E - commerce portals provides value based rewards to retain loyal customers.

2. Loyalty Programs followed by E – commerce portals induces purchasing among customers.

Table 2: Showing response for Loyalty Programs followed by E – commerce portals induces purchasing among customers.

Sl.no	Responses	No. of Responses	Percentage
1	Strongly Agree	60	60
2	Agree	15	15
3	Neither Agree/Nor Disagree	3	3
4	Disagree	12	12
5	Strongly Disagree	10	10
	Total	100	100

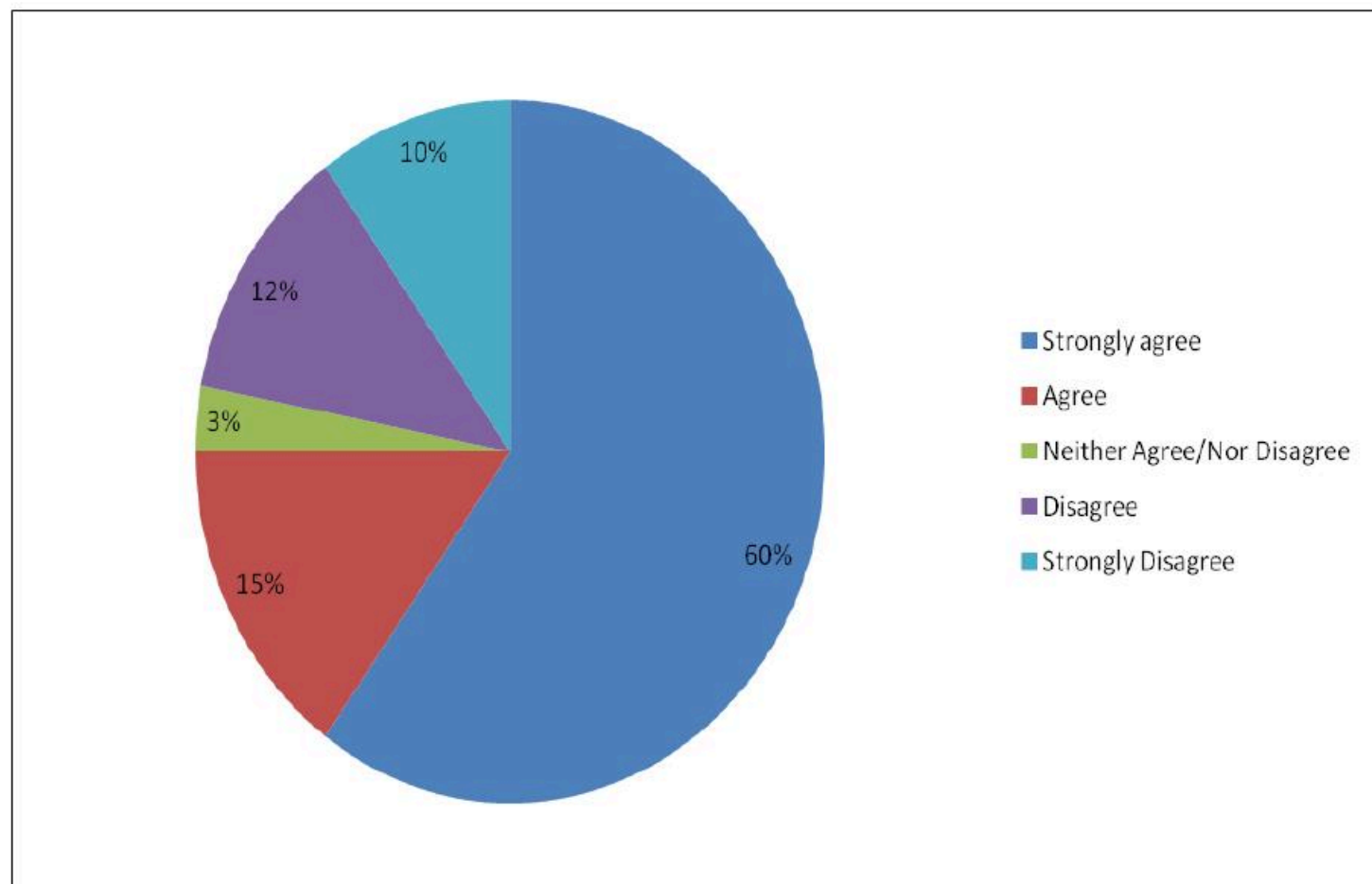


Chart 2: Showing response for Loyalty Programs followed by E – commerce portals induces purchasing among customers.

Analysis : The tabulation depicts that 60% of customers strongly agree, 15% of customers agree, 3% of customers neither agree nor disagree, 12% of customers disagree and 10% of customers strongly disagree that Loyalty Programs followed by E – commerce portals induces purchasing among customers.

Interpretation: The above analysis reflects that most of the Customers muscularly agree that loyalty drivers followed by E – commerce portals induces purchasing among customers.

9 Hypothesis Testing

Hypothesis Test 1

Source: Statement is chosen from Table. No 3

Null Hypothesis: Psychological and Economic factors of individual affect the loyalty programs followed by E – commerce portal.

Alternate hypothesis: Psychological and Economic factors of individual do not affect the loyalty programs followed by E – commerce portal.

Table no: 3

Particulars	SA	A	NA/ND	D	SD	Total
Psychological Factors	16	18	12	14	13	73
Economic Factors	8	6	4	4	5	27
Total	24	24	16	18	18	100

O	E	O-E	(O-E) ²	(O-E) ² /E
16	17.52	-1.52	2.31	0.13
18	17.52	-2.52	6.35	0.36
12	11.68	0.32	0.102	0.0087
14	13.14	0.86	0.73	0.05
13	13.14	-0.14	0.0196	0.0014
8	6.48	1.52	2.31	0.35
6	6.48	-0.48	0.23	0.03
4	4.32	-0.32	0.102	0.0236
4	4.86	-0.86	0.73	0.150
5	4.86	0.14	0.0196	0.0040
			Total	0.11077

$$X^2 = \sum (O-E)^2/E$$

Level of significance: 5%

Degree of freedom: (r-1) (c-1)

$$= (2-1) (5-1) = 4$$

Calculated chi-square value is 0.11077

Analysis: The calculated Chi-Square value at 4 degrees of freedom at 5 % significance level is 0.11077, the calculated value is less than table value (9.4) hence Null hypothesis is accepted.

Interpretation: It is denoted that Psychological and Economic factors of individual affect the loyalty programs followed by E – commerce portal.

Hypothesis Test 2:

Source: Statement is chosen from Table. No 4

Null Hypothesis: Outcomes such as customer satisfaction and ease of use achieved through loyalty packages helps to retain the Customers in E-commerce.

Alternate hypothesis: Outcomes such as customer satisfaction and ease of use achieved through loyalty packages does not helps to retain the Customers in E-commerce.

Table no: 4

Particulars	SA	A	NA/ND	D	SD	Total
Customer Satisfaction	12	10	5	8	13	48
Ease of use	15	10	3	12	12	52
Total	27	20	8	20	25	100

O	E	O-E	(O-E) ²	(O-E) ² /E
12	12.16	-0.16	0.256	0.021
10	9.6	0.4	0.16	0.016
5	3.84	1.16	1.345	0.350
8	9.6	-1.6	2.56	0.266
13	12	1	1	0.08
15	14.04	0.96	0.9216	0.065
10	10.4	0.4	0.16	0.015
3	4.16	-1.16	1.345	0.323
12	10.4	1.6	2.56	0.246
12	13	1	1	0.076

			Total	0.1458
--	--	--	--------------	---------------

$$X^2 = \sum (O-E)^2/E$$

Level of significance: 5%

Degree of freedom: (r-1) (c-1)

$$= (2-1) (5-1) = 4$$

Calculated chi-square value is 0.1458

Analysis: The calculated Chi-Square value at 4 degrees of freedom at 5 % significance level is 0.1458, the calculated value is less than table value (9.4) hence Null hypothesis is accepted.

Interpretation: Outcomes such as customer satisfaction and ease of use achieved through loyalty programs helps to retain the Customers in E-commerce.

10 Findings

The following findings are listed based on a study on Effectiveness of loyaltydrivers on customer retention in E-commerce

- ❖ Effective loyalty programs are reliablylinked with higher customer retention rates. Customers who participate in these programs tend to return to the e-commerce site more frequently.
- ❖ Loyalty programs encourage customers to make more frequent purchases. Points, discounts, and exclusive offers motivate customers to engage with the brand repeatedly.
- ❖ Customers enrolled in loyalty programs often have advancedtypical order values related to non-participating customers. They may spend more to reach certain reward thresholds or take advantage of exclusive discounts
- ❖ Well-structured loyalty drivers can significantly reduce churn rates.

Patrons who are part of loyalty drivers are less likely to switch to competitors, leading to greater customer stability

- ❖ Loyalty programs foster increased customer engagement. Customers feel more connected to the variety due to personalized rewards and exclusive offers
- ❖ Customer satisfaction levels tend to be higher among loyalty program members. Meaningful rewards and special treatment lead to betterfulfilment and loyalty
- ❖ Highly personalized loyalty programs, tailored to individual customer likings and behaviour, tend to be more effective in retaining customers
- ❖ These packages seamlessly integrate with mobile apps and digital platforms tend to be more effective, as they make it calmer for clients to engage and redeem rewards.

11 Suggestions

Improving the efficacy of a constancy program in the context of customer retention in e-commerce can be realizeddone various strategies and best practices.

- ❖ Incorporate gamification elements such as points, badges, and challenges to make the program more engaging and enjoyable for customers.
- ❖ Segmenting the customers built on their behaviour, preferences, purchase history and also personalize rewards and offers to

gratify to the explicit needs of each customer segment.

- ❖ By Making the loyalty program mobile-friendly, as many e-commerce transactions occur on mobile devices and Developing a dedicated mobile app for easy program access and engagement.
- ❖ Offer experiential rewards like initial admittance to sales, exclusive events, or personalized shopping experiences to create emotional connections with customers.
- ❖ Inspire patrons to refer friends, family through referral incentives and Leverage social sharing for added visibility and engagement
- ❖ Maintain consistent communication with program members through emails, push notifications, or SMS and notify customers about new rewards, exclusive offers, and program updates.
- ❖ Implement surprise rewards or gestures to delight customers unexpectedly and these can leave a lasting positive impression and foster loyalty.
- ❖ Solicit feedback from program members to comprehend their desires and partialities. Use this feedback for program enhancements and adjustments.

12. Conclusion

The success of a trustworthiness program in enhancing customer holding in the e-commerce industry is well-established and holds immense significance in the contemporary digital marketplace. Customer maintenance has converted a central focus for e-commerce businesses seeking to thrive in a competitive landscape. A well-executed loyalty program has the potential to drive substantial benefits for both customers and businesses, leading to mutual growth and sustainability. Loyalty programs consistently demonstrate their power in

encouraging customers to engage more frequently with e-commerce platforms. Customers are incentivized to return to a brand's ecosystem to earn rewards and enjoy exclusive benefits. E-commerce faithfulness programs are positively impact customer satisfaction. When customers perceive tangible value in their loyalty program memberships, they are more probable to be satisfied and loyal to the brand. Satisfied loyalty program members often become brand advocates. They refer friends and family to the e-commerce platform, contributing to organic customer acquisition. Successful loyalty programs effectively reduce customer churn rates, guaranteeing that prevailing customers are less likely to shift to competitors. This, in turn, minimizes customer acquisition costs.

13. References

- ❖ Author: Gupta, Sunil, and Donald R. Lehmann Year of Publication: 2005
- ❖ Title: "Customer loyalty and word of mouth as the effect of customer satisfaction: Consumers' perspectives."
- ❖ Source: Journal of the Academy of Marketing Science, 33(3), 249-262.
- ❖ Author: Liu, Yong, and Hui Zhan Year of Publication: 2011
- ❖ Title: "The long-term impact of loyalty programs on consumer purchase behaviour and loyalty."
- ❖ Source: Journal of Marketing, 75(4), 76-89.
- ❖ Smith, John. (2018). "The Impact of Loyalty Programs on Customer Retention in E-commerce." Journal of E-commerce Research, 42(3), 247-263.
- ❖ Johnson, Emily. (2019). "Customer Loyalty in Online Retail: A Longitudinal Analysis." Journal of Marketing, 35(2), 187-202.

- ❖ Lee, David. (2027). "Loyalty Programs and Customer Retention Strategies in the Digital Age." *E-commerce Trends*, 15(1), 68-82.
- ❖ Patel, Suresh. (2016). "Effectiveness of Personalized Loyalty Programs in E-commerce." *International Journal of Electronic Commerce*, 23(4), 521-537.
- ❖ Wang, Li. (2025). "Customer Retention in Online Marketplaces: The Role of Loyalty Programs." *Journal of E-commerce Management*, 18(1), 112-127.
- ❖ <https://journals.sagepub.com/doi/10.1177/22786821211000182?icid=nt.sj-abstract.citing-articles>.