The Development of Retailing in Ireland, 1900–2010

Dr Mary Wilcox (Dublin Institute of Technology)

INTRODUCTION

This introductory chapter considers the influences that shaped retailing in Ireland during the 20th century and into the second decade of the 21st century. It presents a brief overview of aspects of Irish retailing from 1900 to the present day and describes salient characteristics of the retail sector as it evolved in response to economic, legislative and social dynamics. These dynamics created trading environments that were by turns challenging and rewarding; only the most strategically focused retailers survived.

For ease of presentation, the 11 decades are divided into two sections: the first takes the reader from 1900 to 1960 and the second portrays the major changes and challenges that faced retailers in the latter half of the 20th century and the first decade of the 21st century.

1900–1960

The first 50 years of the 20th century were dramatic by any standards. They encompassed the lock-out of 1913, World War I (1913), the Easter Rising (1916), the War of Independence (1919–21) and the Civil War that followed (1921–3), the Great Depression (1929), an economic war with Britain that lasted until 1938 and World War II (1939–45). Many of these events affected the fortunes of retailers; they also constrained the Irish government’s attempts to deal effectively with the chronic poverty that afflicted both rural and urban populations. A measure of the government’s economic aspirations can be gauged from Taoiseach Éamon De Valera’s radio address to the Irish people on St Patrick’s Day, 1943, when he articulated his vision that people would be ‘satisfied with frugal comfort’. Much government effort went into preserving an idealised, traditional Ireland and in the years after independence, a combination of protectionist measures to encourage Irish industry and claustrophobic censorship served to preserve Ireland as an insular entity.
Up until the mid-1950s, which was ‘a period of unprecedented gloom and depression’ (Murphy, 1989: 142), the country struggled with economic depression, high inflation, high unemployment, poor standards of living and a rate of emigration that almost matched the birth rate. In the late 1950s, a new Taoiseach, Seán Lemass, worked in conjunction with a talented civil servant, T.K. Whitaker, then secretary of the Department of Finance, to implement the first Programme for Economic Expansion. This programme eschewed the sacred cow of protectionism and encouraged foreign investors. It is widely credited with heralding the relative economic boom that the country enjoyed in the 1960s.

**Economic Conditions Influenced Population Shifts**

Ireland entered the 20th century as a dominion of the British Empire. The census of 1821 shows the population of Ireland at almost 7 million; the 1901 census shows what was to become the Republic of Ireland with a population of almost 3.25 million. This decline in population continued throughout the first half of the century. Between 1901 and 1961 the birth rate halved and circa 1,720,000 people emigrated from Ireland. In addition to emigration outflow, there was a consistent drift from rural Ireland towards cities, particularly Dublin city and its environs. For example, the intercensal periods 1926–36, 1936–46 and 1946–51 show increases in the population of Dublin County and Dublin County Borough of 16.07 per cent, 8.39 per cent and 8.93 per cent, respectively.

**The Retail Offer In the Early 20th Century**

While city retailers undoubtedly benefitted from inward migration, the drift from country to city caused many small and medium-sized towns to become stagnant and dilapidated as their catchment areas became depopulated; these conditions did not improve until into the 1960s (Brown, 2004). A combination of self-sufficiency, poor public transport, meagre cash flow and a dispersed population influenced rural shopping patterns. These factors made frequent trips to towns difficult and perhaps unnecessary, except on special occasions such as fair days. Before the advent of shopping centres and franchised convenience stores, most small towns offered a collection of family-owned specialist shops, e.g. grocers, drapers, butchers and hardware stores. Indeed, the country was dotted with an abundance of small shops, the majority of which were grocery. Retailers in larger market towns tended to be steeped in a tradition of licence trade ownership with spin-off general grocery, funeral undertaking, hardware and animal feed products. Regional centres offered all these facilities, but on a larger scale. Many also had at least one department store. Woolworths arrived in Dublin’s Grafton Street in 1921 and in time, the company was to open more than 40 stores throughout the country during its 70 years of trading. Walsh (2011) claims that as well as creating affectionate folk memories, Woolworths’ low prices and fanfare arrival in a town always evoked a competitive response from
local retailers, to the benefit of consumers. In rural Ireland in particular, cash was often in short supply and shopping on extended credit was common practice. Customers settled their bills, or more likely reduced them, 'once or twice' a year (Daly, 2003: 358) in line with cash returns from harvests or marts.

Although both rural and urban poverty was widespread, most regional centres had well-established retail streetscapes. At the beginning of the 20th century, St Patrick Street in Cork was the city's major shopping thoroughfare, as were Grafton Street and its environs and the Henry Street/Mary Street retail axis in Dublin city. Many of the country's iconic stores were already thriving businesses, for example Cash's in Cork, Lyons in Sligo, Hearne's in Waterford and Arnotts, Clerys and Brown Thomas in Dublin.

As the country's capital city, Dublin was admired for its elegant architecture; it had once enjoyed the title 'second city of the Empire'. Unfortunately, just behind the facade of Sackville Street (now O'Connell Street) were some of the worst slums in Europe. James Plunkett's Strumpet City gives a flavour of the grinding poverty endured by the labouring classes of that time. (This poverty was not confined to Dublin, as is illustrated by Frank McCourt’s book Angela's Ashes, wherein he describes his childhood in Limerick in the late 1930s and 1940s.) Despite this widespread poverty, Dublin and most regional centres and sizeable towns had a thriving consumer culture facilitated by department stores patronised by the country's middle classes. According to Rains (2010: 200), by the early 20th century, 'the middle classes of the Dublin suburbs had developed a clear articulation of their class position and social values. Their suburban homes were now (in most cases) fully developed and surrounded by mature gardens and parks, as well as ordered streets and an unrivalled public transport system.' Seventeen electric tramlines, the most modern system in Europe at that time, converged on Sackville Street from the Dublin suburbs.

Cafés and tearooms were plentiful. Bewley's second Oriental Café opened in Westmoreland Street in 1900 and its Grafton Street café was already popular with middle-class clientele. Stores such as Arnotts, Brown Thomas and the New Mart (shortly to be Clerys) had established themselves in the mid-1850s as specialist drapery stores and had expanded into their now familiar format of department stores in the early 1900s. The New Mart was a purpose-built department store that lay claim to precede Le Bon Marché by a decade as the world's first purpose-built department store. In its day, it was considered more impressive than stores in London, Paris or New York (Costello and Farmar, 1992). A newly extended and ornately refurbished Switzers (situated at the bottom of Grafton Street on the site of what is now Brown Thomas's department store) had the largest plate glass windows in the city as well as an impressive exterior. Todd Burns in Mary Street, following refurbishment and expansion, offered a 3,000 square foot costume and mantle department, which was serviced by 78 shop girls and which claimed to be the largest of its kind in the UK. Although Clerys was the first store to install electricity in 1892, 'specifically to facilitate evening shopping' (Rains, 2010: 137), it was followed closely by Arnott's new store, built following a fire that destroyed its premises in 1894. The new store, fitted with electricity, included 'three electrically operated lifts
and electric fans to ventilate the shop floors’ (Ibid: 134). Interestingly, because the effects of electricity were not universally flattering, Arnotts’s new costume department incorporated a ‘dark room’ that simulated the conditions that might pertain in ballrooms. This innovation (as is the case with most retail innovations) was swiftly copied by Switzers for their revamped women’s department.

Most department stores were hives of industry. In addition to substantial wholesale departments from which they serviced smaller drapery shops throughout the country, their other activities included millinery, costume making and tailoring and occasionally even furniture making. All retail outlets offered a full counter service to customers with shop assistants at the ready to fetch products from glass cabinets or drawers, to display and discuss the merits of the desired product and finally to complete the sale.

Walsh’s (2011: 2) description of department store ambience is image-provoking:

Dublin’s largest emporiums nurtured an air of hushed formality. Male shopwalkers in morning suits ushered customers to the relevant departments where a few samples of stock were ensconced in glassed cabinets or special counters for this purpose. A chair would be brought for the intending shopper, and an attentive assistant behind one of the counters would then produce whatever selection of goods the customer requested. No open racks of ready to wear clothes and the best shops stocked huge bolts of cloth from which their customers could make selections. Ordinary folk didn’t go into these stores. Instead they patronised the less formidable drapery stores of substance that stocked clothing, hosiery, white goods and fabrics.

Although familiar store names might tempt one to assume that the retail experience in the early to mid-20th century was similar to what it is now, the reality was significantly different. As well as differences in levels of service and degrees of specialisation, working conditions for retail staff were difficult.

**WORKING CONDITIONS**

Industrial agitation was a feature of the early years of the century in both Britain and Ireland; the cost of living was high, conditions of employment were generally poor and people worked long hours for little money. Within stores, relationships between employers and shop assistants and their unions were often tense as the Merchant Drapers’ Association, boards of directors and store managers fought a rear-guard action against introducing improved working conditions. The Irish Drapers Assistants’ Association, which was affiliated to the Irish Congress of Trade Unions, was, *inter alia*, vocal on issues of low pay, arbitrary dismissals, apprenticeship and the living-in system. Live-in apprenticeship contracts might entail young employees being provided with free communal lodgings and food but no wages, although they might be entitled to commission on sales.
To illustrate the scale of living-in prevalent at the time, a fire in Arnotts in 1896 required the evacuation of 270 shop workers who lived on the third and fourth floors of the building (Nesbitt, 1993). The census of Clerys in 1901 reveals that 105 staff lived in the upper level of the store, all but one of whom were Catholic males and all were from counties Kerry, Cork or Limerick (Costello and Farmar, 1992). However, while living-in was a common practice, the quality of the living-in arrangements could vary considerably. The Todd Burns department store in Mary Street, Dublin dedicated the top two stories of an impressive building to staff accommodation, which included 'dining rooms, sittings rooms, reading rooms, a library and billiard rooms, as well as bedrooms and bathrooms' (Rains, 2010: 172). Unfortunately, the counter side to living-in accommodation could be cramped and unsafe conditions where staff lost their lives through fire when emergency exits were inadequate. In the very early years of the century, such a fire in a small department store in Camden Street took the lives of three female staff living above the store. This calamity became the focus of a union campaign to end the living-in regime. However, in some towns the tradition continued into the 1950s and even into the 1960s (Charleton, 2007).


The 50 years from 1960 to 2010 were rollercoaster years, both socially and economically. The 1960s and into the late 70s were vibrant times. The 1966 census showed an intercensal population rise of 3.27 per cent, reversing the population decline of previous decades. The election of John Fitzgerald Kennedy as president of the US, his visit to Ireland in 1963, the launch of the national television station, the introduction of free secondary school education (1966), Ireland’s accession to the European Union (1973) and the success of the first Programme for Economic Development all served to raise the spirits of the nation, generate wealth and create a dynamic trading environment. As standards of living rose, conspicuous consumption marked the late 1960s and 1970s.

While the 1960s and early 70s were positive trading years, two international oil crises marred the mid- to late 1970s and helped produce an economic depression that lasted through the 1980s. However, the 1990s saw a resurgence in the country’s fortunes and the beginning of what came to be known as the Celtic Tiger economy. In the 1990s, the Irish economy grew more strongly than any other OECD country and consistently recorded the highest growth rate among EU countries. By 2000, unemployment figures had fallen to negligible levels. The good times continued until circa 2007/8, helped by the government’s Special Savings Incentive Accounts, which released €14 billion into the economy when they matured in 2006 and 2007. Paradoxically, however, from 2002 on a national sense of disillusionment developed, partly fuelled by price discrepancies between Ireland and Europe, and particularly between Ireland and Northern Ireland, but also occasioned by evidence of political and clerical corruption.
During 2008, when the property bubble finally burst and the banks went bust, the economy began a descent into a deep recession. In 2010 the government was forced to involve the European Union (EU) and International Monetary Fund (IMF) in the nation’s finances. Unemployment rose to 14 per cent and thousands of well-educated young people left the country. In 2011, a newly elected government appeared to raise public confidence that Ireland could deal with its massive debt burden.

**POPULATION SHIFTS**

As mentioned previously, the 3.27 per cent increase in the 1966 population census was the first positive indicator of an upward population movement. However, a sustained drift towards urban living continued apace as major towns and cities acted as a magnet for rural populations. In the intercensal period 1971–79, the population of Galway grew by almost 33 per cent, while the population of Dublin grew by 66.5 per cent. By 1979, almost a third of the nation’s population was living in the Dublin area. In the 1980s, city planners moved whole populations from Dublin’s inner city to newly built suburbs in Tallaght, Clondalkin and Blanchardstown. This migration decimated the inner city population and destroyed the livelihood of small city centre retailers. During the Celtic Tiger years, population numbers continued to rise. Between 2002 and 2006, the country enjoyed its highest population gain, averaging 2 per cent per annum. Despite the current recession, when the 2011 census returns were published, commentators were astonished to find that instead of falling as a result of outward migration and emigration, population numbers had in fact increased by 8.1 per cent since 2006 (an annual average of 1.6 per cent) and now stood at 4,581,269.

**THE RETAIL OFFER FROM MID-CENTURY ONWARD**

Several critical retail events, influenced by government planning and legislative and fiscal policies, marked the decades from 1960 to 2010. These critical events etched the template that influenced how retailing would evolve into the 21st century. Most notable were the proliferation of shopping malls and retail parks, the efforts of department stores to reposition themselves in response to social and lifestyle changes and the affluence that pulled UK and international retailers into the Irish market. This section looks at how the retail landscape changed with the advent of shopping centres and the mass arrival of international retailers.

**First-generation Shopping Centres**

Dublin’s first purpose-built shopping centre was developed in the suburbs of Stillorgan in 1966. Designed as a mall and anchored by Dunnes Stores, the centre had ample car parking spaces, outdoor sculptures and inside seating. It also boasted a Bewleys Café and 62 outlets. Shortly thereafter, an eclectic mix of shopping centres began to cater to the needs of newly expanded Dublin suburbs; by the early 1970s,
up to 21 shopping centres were built in the greater Dublin area (Parker, 1987).
Shopping centres were generally anchored by a supermarket chain and proffered a retail offer that included a fashion boutique, a pharmacy, a dry cleaners/shoe repairer, a florist, a baker, a butcher and a hardware store. These local centres, precursors of the shopping malls, town centres and retail parks yet to be built, aspired to be one-stop shops for a progressively busier consumer.

Second-generation Shopping Centres
The Ilac Centre, which opened on Henry Street in 1981, was Dublin city’s first shopping mall. Roches Stores, an indigenous department store that also sold groceries, was its anchor tenant. (In 2006, Debenhams extended its presence in the Irish market by buying nine of the 11 Roches Stores outlets that were located in various Dublin suburbs and in countrywide regional centres.) In the late 1980s, the St Stephen’s Green Shopping Centre was built at the top of Grafton Street. This elegant building housed eateries, brand name stores, modern art and specialist shops. Its walkway galleries added a glamorous new dimension to the shopping experience. Its success initially changed footfall in the city centre to the detriment of the Henry Street area, and indeed contributed to the demise of neighbouring South Great George’s Street, once a vibrant retail street.

Third-generation Shopping Centres
The Square in Tallaght, which opened in 1990, marked a leap forward in shopping centre development. Tallaght, located on the Dublin/Wicklow border, was an urban spread used to rehouse some of the city centre residents in the mid-1980s. Government fiscal policy favoured urban renewal schemes and incentivised potential stakeholders by tax inducements. The government gave start-up tenants in Tallaght a tax allowance of 100 per cent of the construction costs of their shop units, double rent allowance against trading income for 10 years and a full remission of rates for the same period. For large retailers like the multiples, the tax advantages were particularly attractive (Corcoran, 2000). (In a similar fashion, government tax and rent incentives encouraged major development in the Henry Street/Mary Street area, which included the Jervis Centre (1996) and a massive extension to the Arnotts department store.) The Square in Tallaght was a phenomenal success and for many years drew footfall away from the city centre. It was so successful that it served as a prototype for a series of shopping malls on the periphery of the city, the most notable being Blanchardstown (1996), Liffey Valley (1998) and The Pavilions at Swords (2001).

The ultimate in shopping centre experiences happened in 2005 with the opening of South County Dublin’s Dundrum Town Centre. This event attracted a media frenzy that certainly supported the notion that retailing had replaced religion as a mainstream activity for Irish families. Familiar, well-established retailers like Tesco, Penneys and Marks & Spencer were anchor tenants, but the centre also offered the excitement of first-time entrants to the Irish market, e.g. House of Fraser (a former
owner of BT) and Sweden’s H&M made their début in the Irish market via Dundrum Town Centre. Other top brand outlets currently in the centre include Harvey Nichols Department Store, Zara, Hugo Boss, Hobbs, Lacoste, Coast and Molton. Hollister, the centre’s latest all-American big brand entrant (July 2011), was greeted by scores of teenagers queuing through the night to avail of opening offers. Three million people visited Dundrum’s new shopping centre in the first three months of its opening and the centre’s productivity, measured in terms of rent investment compared to current footfall estimates, has a consistently high ranking (Retail Excellence Ireland, 2009).

While Dublin’s shopping centre openings tend to attract national media coverage, all counties, with the exception of Leitrim, have thriving shopping centres. High-productivity performers include Manor West Shopping Centre in Tralee, Co. Kerry, Merchants Quay Centre in Cork, Crescent Shopping Centre in Limerick, George’s Court in Waterford and the Galway Shopping Centre; these all rate in the country’s top 14 shopping centres, although six of the top-performing centres are in Dublin’s environs (Retail Excellence Ireland, 2009). By early 2007, shopping centre accommodation in Ireland was circa 1.6 million square metres, while the stock of retail park accommodation was over 1 million square metres. While some commentators expressed concern that oversupply could reduce the value of development investments, if oversupply were to occur, competition for tenants could mean lower rents for retailers.

Hosting International Retailers

The year 1996 was a landmark year for Irish retailing. Although the early 1990s had seen a consistent trickle of UK multiples into the Dublin scene, the availability of prime retail space in the city centre and in the suburbs in the late 1990s fuelled what was referred to as an ‘invasion’ of British multiples into the Dublin market. Three spacious, state-of-the-art shopping malls – the Jervis Centre at the Mary Street/Jervis Street junction, Blanchardstown Town Centre and Liffey Valley – provided a springboard for UK retailers looking to Ireland, e.g. Boots, Dixons and Debenhams. Jervis was so dominated by UK retailers that Dublin wags christened it ‘Little Britain’.

While some retail parks were trading strongly since the early 1990s (e.g. Royal Liver’s Naas Road retail park), Blanchardstown’s Retail Park (1997) attracted large space users, known as ‘big box’ retailers. UK electrical retailer Currys traded out of a 30,000 square foot superstore, while its sister company, PC World, traded from 20,000 square feet. As the economy boomed, occupier demand remained strong for major retail warehouse schemes throughout the country, including The Poppyfields in Clonmel, Childers Road in Limerick, Wexford Retail Park and schemes in Drogheda, Sligo, Tullamore, Letterkenny and Naas. The impetus for even larger space users to enter the Irish market was triggered by 2005 amendments to the 2001 Retail Planning Guidelines. These amendments removed the floor space cap on non-food retail warehouses under certain circumstances for eight designated regions that included Dublin, Cork, Galway, Limerick and Waterford. This opened the way for
superstore operators to develop non-food stores; a significant outcome of its removal was IKEA's decision to locate a 30,500 square metre store on a 20-acre site in Dublin's Ballymun suburb. By the end of 2010, circa 1.4 million square metres of retail park accommodation has been developed.

Although Irish shopping malls and high streets may seem to have a surfeit of international brands, to the detriment of indigenous retailers, recent research carried out by CB Richard Ellis (CBRE, 2010) indicates that Ireland currently ranks only 32nd globally in terms of international retailer presence, with 27 per cent of international retailers now in the market compared to the UK, which has 58 per cent international retailers. CBRE argues that these figures indicate that Ireland still has 'a significant capacity for international brand expansion'.

Up to 2008, retail accommodation developed to meet what appeared to be an insatiable demand for space. Zone A rents in Dublin's Grafton Street had grown by 300 per cent in a decade, putting its retail space beyond the means of most indigenous retailers. (These rates were extremely high even by international standards, being in the top three in Europe.) However, strong economic conditions (retail sales grew by 70 per cent between 1997 and 2007) and favourable demographics (the population crested 4 million in the 2006 census) encouraged Irish retailers to implement growth strategies and continued to attract international retailers to establish themselves in the Irish market.

The Fate of Department Stores

From the late 1960s on, several social factors simultaneously militated against city centre department stores. In theory, the social mobility that swelled the middle classes and the increased prosperity that flowed from dual-income families should have benefited department stores. However, more working wives left less time for leisure shopping. Rising incomes and changing lifestyles shifted the emphasis from value and service to rapidly changing fashion in response to the needs of a more youthful market segment that now had money to spend. Small fashion boutiques offering fast-changing styles sprang up around the city and began to compete strongly for fashion-conscious spend. Additionally, the rash of suburban shopping centres reduced city centre footfall and although increased car ownership gave consumers greater mobility and expanded choice, it made city shopping unattractive because of traffic congestion and parking difficulties. None of the city centre department stores offered parking facilities, although this was to change over the decades.

In the 1960s and 1970s, three of Dublin's best-known department stores went out of business and others were threatened with extinction: Pim Bros. in South Great George's Street, Todd Burns on Mary Street and McBirneys on Aston Quay closed down. In 1970, Galen Weston, a wealthy Canadian who had interests in the Irish grocery sector (Powers Supermarkets) and who had connections with the famous department store Fortnum and Mason, bought Brown Thomas when closure threatened. Similarly, in 1971, a failing Switzers department store, which had had a
presence in Grafton Street since 1838, was taken over by a subsidiary of the House of Fraser.

As the 1990s attracted an increasing number of UK competitors into the market, the most potent threat to department stores came from the proliferation of multiple and specialist chain stores that crowded into city centres and new urban shopping centres. Product development, mainly driven by partnership concessions, became a central plank in orienting the stores to appeal to a younger customer. Thus, department stores began to concentrate on improving their concession offer. In early 2000, Roches Stores invested €65 million in extending and refurbishing its Henry Street store. Zara, Top Shop, Dune and Punt Romare were among the new concessions on offer. However, despite its upgrade, Roches Stores failed to make a profit in the face of tough domestic and international competition and in 2006, after trading for 106 years, it sold most of its stores to Debenhams.

Post 2007, retailers have been struggling to survive the recession. Retail sales have fallen for three consecutive years, with ladies’ fashions being worst hit. Retail Excellence Ireland’s (REI) chief executive officer estimates that 40,000 retail jobs have been lost since 2008. In January 2009 (excluding the motor trade), the volume of retail sales decreased by 8.1 per cent and the value of retail sales decreased by 6.3 per cent compared to January 2008. The suddenness of the recession can be gauged by the fact that the year-on-year decreases in both the value and volume of retail sales for January 2009 were the largest annual decreases on record.

The ongoing recession has not been kind to department stores. Clerys department store experienced losses of €1.9 million in 2009 as the volume of its sales fell by 26 per cent. The company has since introduced a four-day working week for all staff. In 2010, as Arnotts struggled with debts of €300 million on foot of its Northern Quarter extension proposals, the EU approved a move by Anglo Irish Bank and Ulster Bank to take control of the company. The new owners declare themselves intent on sustaining and growing the iconic Arnotts brand. However, problems around profitability are not confined to indigenous department stores – Debenhams reported losses of €12 million on its Irish operations in 2010 and introduced voluntary redundancies to help restore its financial position.

CONCLUSION

The nature of retailing in Ireland has changed substantially since 1900. Long gone is the notion of deferential, full-counter service from indentured staff. As the pace of social change accelerated from the 1960s onwards and competition became fiercer, many well-known retailers failed to adjust to the changing environment. Despite the vicissitudes of the current recession, the inflow of international retailers from the mid-1990s on has created a dynamic, vibrant shopping offer. Main streets, city centre malls, outlying shopping centres and retail parks now provide a rich, multi-option shopping experience that benefits all consumers.
Customer Loyalty and Loyalty Programmes

Dr Joan Keegan (Dublin Institute of Technology)

INTRODUCTION

The pursuit of customer loyalty is the cornerstone of a successful retail business strategy. Customer loyalty strategies are now a major preoccupation of all retailers, but especially within the grocery retail sector. An increasingly competitive environment, the economic benefits accruing from loyal customers and the stronger commitment levels displayed by loyal customers are just some of the arguments for focusing on customer loyalty. In response to this, there has been an avalanche of electronic loyalty schemes in recent years, both internationally and within Ireland. These schemes have offered retailers a practically unlimited capability for the collection of customer information and whose potential has yet to be fully realised. In the US, 80 per cent of all households are said to have at least one supermarket loyalty card, in France some 90 per cent of consumers hold a loyalty card (Meyer-Waarden and Benavent, 2006), while in the UK, 85 per cent of households are reported to hold at least one loyalty card (Shabi, 2003). In Europe the top 16 retailers collectively spent more than $1 billion in 2000 on their programmes (Meyer-Waarden, 2008). However, there is also evidence of retailers abandoning their loyalty programmes. For example, Safeway abandoned its loyalty scheme and vowed to pass on the $75 million per annum savings to its customer in the form of lower prices. United Airlines estimated that its loyalty programme represented a liability of $717 million.

There is a range of different perspectives relating to how loyalty is defined and measured and as such, loyalty remains an elusive concept for retailers. This chapter examines the different perspectives on loyalty. The debate surrounding the effectiveness of modern day loyalty programmes and their strategic significance is an important one and is also explored. Finally, the criteria for effective loyalty programmes and the information potential of these programmes are also outlined.
WHAT ARE THE BENEFITS OF CUSTOMER LOYALTY?

Loyal customers are valuable assets for the business and the link between customer retention and profitability is well established (Reichheld and Sasser, 1990). Loyal customers provide financial benefits for the organisation in the form of lower operating costs as a result of a reduction in the costs of recruiting new customers and contribute to greater profitability by spending more in the store than non-loyal customers. Loyal customers are also said to offer additional benefits by spreading positive messages and acting as a marketing force for the firm. Loyal customers provide long-term savings and profitability to the business arising from the lifetime revenue accruing from them.

Loyal customers have also been found to show higher commitment levels to the business. They are less susceptible to competitors’ actions and often have a greater tolerance of service glitches. There is also an inertia factor associated with loyal customers, which reduces their propensity to switch stores. Given that the cost of recruiting a new customer is significantly higher than the cost of retaining existing customers, the pursuit of customer loyalty makes for good business strategy.

HOW DO WE DEFINE LOYAL CUSTOMERS?

Essentially there are a number of definitions of customer loyalty, which can broadly be categorised into three groups: behavioural loyalty, attitudinal loyalty and a multidimensional perspective of loyalty. The behavioural approach advocates measuring loyalty on the basis of actual purchasing behaviour, such as the recency and frequency of store visit and monetary value of spend, and as such aligns loyalty with repeat purchase (Knox and Dennison, 2000). For example, Superquinn categorises its loyal customers on the basis of how much they spend each week and how frequently they have visited the store in the previous 12 weeks. On the basis of database information, Superquinn categorises its customers into Diamonds, Rubies, Opals and Pearls, where Diamonds are the highest spenders and Pearls the lowest. The behavioural approach has been criticised for its failure to identify customers’ true commitment levels to the business, which some would argue is a critical aspect of measuring loyalty (McGoldrick, 2002). Some have even suggested that repeat purchasing behaviour may not even be based on preferred choice but on the presence of switching barriers which prevent customers from moving.

Another perspective of loyalty is the attitudinal approach, which attempts to measure the emotional and psychological attachment to the brand or organisation. Supporters of the attitudinal approach argue that behaviour alone is insufficient to capture the true essence of loyalty and that consumers’ commitment towards a product or store and their purchase intentions are critical aspects in truly measuring loyalty.

However, in recent years there have been many suggestions that loyalty is more complex than previously understood and support has emerged for a multidimensional approach to understanding loyalty. This has resulted in the emergence of a spectrum
along which customers can be segmented or categorised. For example, Dick and Basu’s (1994) framework proposes four conditions of loyalty, ranging from no loyalty, latent loyalty, spurious loyalty and loyalty. Clearly, viewing loyalty in this way allows for much more effective target marketing strategies to be tailored towards each different loyalty segment.

WHY DO RETAILERS INTRODUCE CUSTOMER LOYALTY PROGRAMMES?

Retailers have been found to introduce loyalty programmes for a range of both tactical and strategic objectives. At a tactical level, they have been introduced to facilitate sales promotional activity and to improve communication and direct marketing activities with customers. But these programmes have an important strategic role within the organisation that opens up the realms of customer relationship marketing by providing retailers with the ability to develop fuller pictures of their consumers’ behaviour and lifestyles (Palmer et al., 2000b). Keegan and O’Callaghan (2004) conclude that the Irish supermarket operator Superquinn introduced its loyalty programme for a range of tactical and strategic motives, most notably to reward its most loyal customers and propel others further up what Raphel and Raphel (1995) refer to as the ‘loyalty ladder’. However, there is a view that many customer loyalty programmes were introduced without much forethought. Indeed, the Dunnes Stores Value Card was introduced soon after the announcement was made that Tesco was to re-enter the Irish market, bringing with it its highly acclaimed Clubcard.

HOW EFFECTIVE ARE LOYALTY PROGRAMMES IN GENERATING LOYALTY?

Loyalty programmes have become much more widespread in recent years. However, opinions vary as to whether loyalty programmes actually have the ability to generate loyalty and provide the firm with strategic advantage. There is a lot of evidence to support the contention that loyalty programmes improve loyalty and retention and minimise customer defections (Meyer-Waarden, 2008; Smith et al., 2004). In addition, their ability to increase the number of customers visiting the store, reward loyal customers and increase customer spend per visit have been well documented (Smith et al., 2004).

There is evidence of differences in the purchasing behaviour of members and non-members of loyalty programmes. Meyer-Waarden’s (2008) study of loyalty programme panel data found cardholders to have a significantly higher share of purchase and purchase frequency than non-cardholders. Meyer-Waarden and Benavent (2006) examined data from the Behaviour Scan panel to measure the effects of loyalty programmes on repeat purchasing behaviour. While they found that such programmes did not lead to greater market penetration, they did conclude that
loyalty was found to be higher among loyalty cardholders than non-holders. Other studies have found that consumers who were heavy buyers at the beginning of the loyalty programme were the most unlikely to change their purchase behaviour, but consumers whose initial patronage levels were low or moderate gradually purchased more and became more loyal to the firm (Liu, 2007). Promotional activities related to loyalty programmes result in shorter inter-purchase times among members than non-members and members of loyalty programmes identify more strongly with the company (Benavent et al., 2000; Oliver, 1999). Retailers with a loyalty programme typically offer more benefits and use more customer-centric activities than retailers who have no formal loyalty programme (Gable et al., 2008). Loyalty programmes have been found to have a defensive role in that they help to reduce the spread of purchases among retailers. Loyalty programme members have also been found to have a greater behavioural loyalty to the retailer that has implemented the programme and are less loyal to competitors compared with non-participants in loyalty programmes (Meyer-Waarden, 2008; Gomez et al., 2006).

While Humby et al. (2007) provide a compelling case for the strategic potential of retail loyalty schemes, these schemes are not without their critics. Loyalty schemes have often been described as short-term sales promotions gimmicks that can have a long-term negative impact on the organisation vis-à-vis costs and the creation of customer promiscuity. Critics argue that the costs of such schemes outweigh the benefits while some suggest that loyalty programmes do little to contribute to profitability or to increasing customer commitment to the organisation, while customer fatigue as a result of saturation of loyalty schemes is said to be evident across the retailing industry. Saturation of schemes in certain sectors, most notably in grocery retailing, questions their ability to provide retailers with any form of competitive advantage and the critics argue that saturation, duplication and lack of clear objectives for schemes has eroded their ability to generate any meaningful form of competitive advantage (Dunn and Wrigley, 1994; Uncles, 1994).

However, Humby et al. (2007) question this view by testifying that Tesco always saw the Tesco Clubcard in the UK in a strategic context. Smith et al.’s (2004) research exploring the employees’ role in loyalty programmes found that both management and employees believed that their loyalty schemes had the potential to increase both the numbers of customers and to create more loyal customers. The problem, however, was reconciling management’s goals for the scheme with employees’ actions at the customer interface. There is little evidence of employees utilising their customer contact position to collect additional customer information, something which is often due to the business not having the necessary mechanisms in place to facilitate the process. Employee training around loyalty schemes is often operational and there was a notable absence of retailers capitalising on the customer relationship-building opportunities that the schemes potentially provided.

The ability of loyalty programmes to actually change behaviour has also been questioned. Most studies have found that in many cases, members signing up to a loyalty programme were already customers of the retailer, suggesting that loyalty programmes are an inefficient tool for achieving market penetration. Some writers
even go so far as to suggest that loyalty schemes actually erode loyalty by creating promiscuous shoppers holding an average of 3.2 loyalty cards. The reality is that 100 per cent loyalty is unachievable and that consumers are more likely to have a repertoire of favourites from which they will regularly purchase, something which is referred to as polygamous loyalty. Interestingly, McGoldrick (2002) points out that many existing loyalty programmes fail to recognise this factor and in some instances actually alienate shoppers who may have a strong commitment to the store but as a result of time or frequency issues may not score high in terms of frequency of visits.

WHAT ARE THE CRITERIA FOR A SUCCESSFUL LOYALTY PROGRAMME?

The effectiveness of loyalty programmes is dependent to a large extent on the reward characteristics of the scheme, such as the timing of rewards, types of rewards, ease of use, consumers’ perceived value of the scheme and ease of redemption. Loyalty schemes are said to create a sense of belonging for the customer and customers are motivated to participate because people like to get something for nothing. Customers typically prefer instant rewards over delayed points system rewards, necessary rewards over luxury rewards and monetary rewards over non-monetary rewards. Interestingly, Hart et al. (1999) found some disparity between the retailers’ perspective of what the customer values in the programme and the customers’ perspective. It would appear that retailers highly rate the emotional benefits of belonging to such schemes, while consumers are far more rational and driven more by what they are getting from the scheme as opposed to how the scheme makes them feel. Users demonstrate the most frustration towards loyalty programmes around issues relating to the rewards system of the programme, such as difficulties in claiming the reward, the low value of the reward and other redemption problems (Stauss et al., 2005).

WHAT ABOUT INFORMATION AND DATA MINING?

There appears to be a widespread consensus that the real success and strategic advantage of loyalty schemes lies in the information captured by them and the retailers’ data mining capability. The true significance of a loyalty scheme is widely considered to lie in the consumer behaviour data generated, particularly in industries where information has traditionally been difficult to collect on an individual customer basis, such as grocery retailing (Rowley, 2004).

However, concerns have been raised about the quality of information generated and the data mining capabilities of retailers. Retailers’ failure to harness information strategically is well documented, while many consider the future sustainability of schemes to be dependent on the effective and strategic use of the data harnessed from the schemes. There is strong evidence of multiple card ownership, erratic, intermittent use of cards and sharing of cards within families, all of which have
implications for the reliability and accuracy of the data generated. It has been argued that the true strategic opportunities of such schemes have yet to be realised and that as retailers embrace more sophisticated data analysis, their strategic role will be enhanced, as will their role in developing sustainable loyalty.

CONCLUSION

Loyal customers are undoubtedly valuable assets for any retail business. There are a number of definitions of customer loyalty, but more recently there is a realisation that true loyalty is reflected both in customers’ behaviour and in their emotional attachment to the store or brand. There has been an avalanche of electronic loyalty schemes in recent years. However, the ability of schemes to offer strategic support for retailers has been questioned and the debate as to whether loyalty programmes can actually generate loyalty is an ongoing one. The real potential for loyalty schemes lies in the information potential that they provide for retailers. UK retailers such as Tesco have adopted sophisticated data mining capabilities that have allowed them to glean in-depth customer behaviour information that underpins many of their strategic decisions. However, Irish grocery retailers have some way to go in truly maximising their data harnessing abilities and the strategic information potential from their loyalty programmes.