

THE USE OF LOYALTY PROGRAMS BY RETAIL TRADE ENTERPRISES OF CONSUMER COOPERATIVE SYSTEM OF UKRAINE

Setting the problem. The vast majority of domestic organizations and businesses perceive the market economy as the economic system based on competition, preference of competitive relations to partnership relations. If the first concept is based on a constant attracting new customers and pirating of competitors' unsatisfied customers, partner relations based on the keeping and collaboration with existing client base. According to results of the investigations made in the U.S. and many European countries, such regulation has been found out – among many branches the leading position is occupied by organizations that have stable consumer base. It is the stable consumer base for the company that is a source of financial results that it may have in the short and long term. Therefore the special importance for today's business plays the introduction of the concept of marketing relationships with consumers.

Under such circumstances, highly competitive retail environment, undoubtedly, depends largely on how to demonstrate the consumer the mutual benefit of such relationship. For businesses it is important to find optimal ways to interact with consumers, to develop the programs that would allow them to have confidence in a stable goods selling both at present and in the future. The optimal solution for such trading companies should be using such a marketing relations tool as loyalty program that will increase their competitiveness and work effectiveness in general.

The specified direction of the marketing function is particularly relevant to retailers of the Consumer Cooperative System in Ukraine. The constant increase in the number of trading companies of different legal forms in rural, inequality of taxation conditions of individuals - entrepreneurs and cooperative enterprises increased competition in the rural market. On the other hand, the cooperative system felt an urgent need to intensify relations with shareholders and serving public.

We believe that loyalty programs should become the mechanism, the implementation of which will enable the retail trade enterprises of consumer cooperatives to form relationships with its customers at a qualitatively new level, to restore confidence and maximize consumer loyalty of shareholders that will have an effective manifestation of economic performance.

The analysis of recent researches and publications. The theoretical foundation of loyalty programs was created in the works of American and European marketers S. Butcher, D. Gilbert, P. Gamble, M. Stone, N. Woodcock, and further developed in the works of Russian and Ukrainian scientists Vasin Yu.V., Lavrentiev L.G., Samsonov A.V., Khimich Yu.S., Evstyhnyeyeva T.V. However, in the works of these authors the value of loyalty has been highlighted as a factor of business competitiveness, the place of loyalty in the concept of relationship marketing, loyalty types, but there are no well-defined practical tools of the formation and maintenance of loyalty, the specific cooperative system is not considered. So, unfortunately, the majority of domestic cooperative enterprises do not use the program of loyalty in their activity to form the customer base of their adherents.

Setting the objective. The aim of the paper is to develop theoretical principles and practical recommendations for the use of loyalty programs by retail trade enterprises of consumer cooperatives. The object of the research is a trade company marketing of consumer cooperatives, and the subject is the methods of loyalty programs usage.

The account of the main research contents. Traditionally retail cooperative trade executed peculiar for it trade functions arising from the target task existence of trade - trade services, - and elements of commerce and manufacturing process. However, recently many retail businesses have started to perform functions previously alien to them in the normal course of business, the need for which is due to a sharp increase in the number of retail businesses, increased competition in the local markets, which took the form of "fighting for the buyer." Due to increased competition the consumer cooperatives began to lose market share. Thus, the share of trade in the total trade turnover of Ukraine tended to decrease and in 2000, 2006 and 2012 it was 5.4%, 2.3% and 1.3% respectively. The specified period is also characterized by a loss of consumer base, i.e. shareholders. Their total number decreased by 802.8 thousand people during 2000-2012 and in 2012 amounted to 397.2 thousand people against 1200 thousand people in 2000 [9, 10, 11].

Therefore, we believe that with regard to traditional trading activities of consumer cooperation one of the means of competition for the buyer should be effectively organized promotion of goods and services that becomes the main marketing function of retail system.

The system of consumer cooperatives is facing new challenges associated with attracting and retaining customers of cooperative stores and loyalty formation is one of the important issues of the concept implementation of relationship marketing with customers. The above concept is mostly relevant to targets to meet the shareholders' needs. And the necessity of its development is explained by the stressing

competition, increased communication costs of commercial enterprises, the emergence of the consumer deficiency effect.

The essence of this marketing concept is to establish long-term relationships with customers, which in economic terms is more advantageous as it guarantees regular purchases, requires less marketing costs and increases the number of buyers. A key element of the marketing partnerships concept is customer loyalty. This figure is also important from the point of view of the target company's interaction with its customers, which is due, firstly, to the fact that loyal customers are more susceptible to the offers of the company, which directly affects the economic efficiency of target interaction, and secondly, to the fact that achieving customer loyalty is one of the objectives of this interaction. The main part of the marketing partnerships in cooperative trade should become the loyalty programs.

You cannot argue that the concept of marketing partnerships with customers is something new and unknown for consumer cooperation, and loyalty programs were not used in practice to encourage customers at all. Historically, they took place in the process of social and economic interaction of cooperative organizations and its shareholders, but under some other conditions. Thus, one could argue that the very essence of the nature of consumer cooperatives is close to the concept of marketing partnerships and cooperative principles are similar or the same as loyalty programs.

The confirmation of this point of view can become the thought of such scholars as P. Gamble, M. Stone, N. Woodcock, who believe that to truly marketing partnerships with customers, expressed in terms of more or less conventional economic terms, is observed in the relationship between buyers and sellers in Rochdeylsk consumer society "Fair pioneers' society" (1844), and developed their principles – the control by Union, relations among its members, foundations of revenues reinvestment, profit-sharing, professional training of its members and concluding strategic alliances with other groups - could be well used in the operation of modern enterprises today [4, p. 11].

In turn, the English scientist D. Gilbert believes that prototype of loyalty programs were schemes enacted by Swedish consumer cooperative society, which owns supermarket chain Co-op. They were the first in the world who applied their scheme of "cash dividends" for 12 million of their own members who regularly did shopping at stores of Co-op, or used their services with the through delivery of goods [5, p. 250].

Unfortunately, at the absence of marketing departments and specialists in the organizational structure of Consumer Cooperatives in Ukraine, the development in this direction happened spontaneously and didn't obtain scientific grounds.

The theoretical foundation of loyalty programs was acquired at the end of the last millennium in the works of American and European marketers S. Butcher, D. Gilbert, and also was further developed in the works of Russian and Ukrainian scientists Vasin Yu.V., Lavrentiev L.G., Samsonov A.V., Khimich Yu.S., Evstyhnyeyeva T.V. Summarizing the achievements of these authors, we can formulate the definition of loyalty programs as a modern marketing tool aimed at optimizing the relations between trade organizations and their customers to improve the performance of loyalty to the store. The purpose of applying these programs is to increase and stabilize the profit of trade organization in the long term by attracting new customers and build long-term interactive relationships with regular customers [2, 3, 4, 6, 8]. Loyalty programs in retail define a set of organized actions to attract potential customers, keep customers in the store and promote the first and repeated purchases for the increase in sales.

Loyalty programs include a number of measures aimed at improving emotional (good attitude) and behavioral (repeated purchases) customer loyalty towards the market supply of goods or services of the provider [8]. The main thing in loyalty programs – are the benefits offered to their participants. Only having offered benefits that really have high value in their eyes to the customers trade organization can rely on the effectiveness of the program. These privileges offered to buyers of trade organizations can be divided into two basic types:

- tangible benefits (those, that give the buyer the opportunity to calculate the benefit in terms of money);
- intangible benefits (those, that provide indirect benefits to the buyer in the form of emotional benefits and special treatment by the trading company).

The first type of loyalty programs are programs in which it is possible to calculate consumer benefits, savings or added value, expressed in financial assets. They distinguish the following subtypes:

- discount programs (discount cards and their simplistic variety – one-time discount coupons). Their essence is to provide the buyer with discount on the purchase price from 2 to 7 per cent. They are the most common in the retailing of Ukraine, but because of the high spreading of discount cards for all retail chains such programs don't make the cardholders loyal to a particular store – a competitor can always offer a higher discount;

- accumulative discount programs. Unlike discount programs the benefit of the buyer depends on his purchasing activity. The customer can save up to 30% off of the purchase price at such programs;

- bonus encouraging programs. The essence of these programs is that when shopping, the customer receives reward points, bonuses, having accumulated a certain amount of them he can choose and receive a prize. Here there is a financial benefit, but the same or even far more reasonable are the other

components: the game (the accumulation of points) and emotional benefit, concurrent receipt of the prize, which is, by the way (unlike drawings), often desirable and necessary for a person because he can choose it himself, according to his wishes and needs;

– prize drawings among buyers. The sense is in the financial benefit of the buyer in the form of prize which is backed by an emotional component "fluke." However, the effectiveness of such programs is not too high: participation is passive ("luck - bad luck"), and a mechanism for determining the winner is often opaque and therefore only reinforces passivity of "participants";

– customer loyalty programs cash – back (allow the client to return a certain percentage to the specified bank card from each purchase).

At present some in some district consumer unions of Consumer Cooperatives in Ukraine the discount loyalty programs that offer discounts to shareholders in cooperative organizations are functioning. However, such cases are more arbitrary and are introduced only on the initiative of the head of the district, but at the level of the entire system such initiatives did not receive support from the administration of Ukrainian Cooperative Union.

In the world practice in consumer cooperatives the shareholder usually gets its share of profits in the form of a bonus on sales, i.e. for compensation of the share of amounts spent on purchases by the shareholder in their cooperative store (usually it is 1-5% of the purchase). It encourages the shareholders to purchase in his cooperative, providing him an additional cost involved in cooperative activities. The attempt of Ukrainian Cooperative Union to develop and introduce a similar customer loyalty program *cash - back* at the level of the cooperative system has failed because of too complex mechanism of money return from the amount of purchases per year by the shareholder in the cooperative stores.

Most loyalty programs that operate in Ukraine, offer the customers tangible benefits that, in fact, represent the usual discounts. Practice of trading activities shows that the loyalty programs are based exclusively on offered discounts rather than on a strong emotional inclination to a certain store; do not create a connection between the client and the trade organization that is the guarantee to long-term loyalty. Buying goods in cooperative stores only because of a low price, buyers leave the retail store as soon as competitors offer them something more profitable.

The only way to achieve long-term customer loyalty towards the stores of consumer cooperatives is to establish such relations with them that will not only be based on the financial incentives but also emotions, trust and partnership. These relationships can offer unique and valuable advantages for the buyer within loyalty programs. Pecuniary advantages can also become a part of the program, but these advantages should not play a special role.

To determine the optimal ratio of tangible and intangible benefits you should follow according to the special approach. This approach should be focused on customer value. A characteristic feature of cooperatives is their non-profit nature. We must admit that they differ from enterprise structures. Cooperatives focused on providing work or services for its members rather than on receiving profits from invested capital.

The emergence of cooperation is associated first of all with the complicated social situation of classes, groups and populations. So, the availability of social function of cooperation is fully justified, which is linked with the social environment of its origin and function. This function envisages the search of social guarantees and social protection poorly protected low-income people who joins together to achieve social goals. Therefore, cooperation is characterized by [1, с. 14]:

- social protection and social support of members of the shareholders, employees;
- providing social guarantees members of cooperatives
- social justice and responsibility;
- social orientation of economic activity.

We must admit that social orientation of consumer cooperatives should become the basis of intangible benefits of loyalty programs cooperative system.

The main connection of social policy of consumer cooperation in Ukraine is a shop. The shop is the center of a cooperative area, which provides direct work with shareholders and the served population. This is the main role of the store. The vast majority of areas of social mission of consumer cooperation should be implemented at the level of store through loyalty programs.

The most widespread loyalty programs that are used in some district consumer unions are [7]:

- organization the playgrounds and recreation zones at the adjacent territory to the shop;
- conducting exhibitions and fairs that are traditional for consumer cooperatives;
- organizing folk festivals and mass celebrations with the involvement of the entire population of the village near the cooperative shops;
- organization of public leisure centers of rural population on the free areas of shops;
- equipment of sports grounds.

Cooperative stores can use programs that will provide the role of rural center to the trade organization for the purpose of attracting more buyers. Among the services that can be used by the stores of consumer cooperation in the process of expansion of their functions, we can identified such as organization and creating resting places (cafeterias, tea table, etc.), creating conditions for fast preparation of semi-finished

products (cooking sausages, ravioli, baked flour products from the frozen dough, etc.) for a food customers directly at the store or at home, creating pharmaceutical and veterinary stalls.

The presented list is not complete, because the lists of measures that can be used in loyalty programs by the stores of consumer cooperation will be constantly expanded, due to emergence of new demands of the rural population. Some kinds of services, if there is necessary conditions and employees find themselves directly in the store (for example, household the appliance repair, exchange of the gas cylinders, photography, hairdressing, etc.). According to the more labor intensive types of services, shops accept orders for their execution, and transmit information to the higher cooperative organization.

Thus, the basic principles of cooperation are implemented when proper developing and using of loyalty programs as a part of the marketing strategy. First of all, the development and functioning of the cooperative is provided within of specifically organizational norms. Secondly, cooperative values are appeared and their implementation is predetermined. Furthermore, the principles of cooperation contribute to the achievement of identity of cooperatives and cooperative organizations [1].

Conclusions and further research. According original sources of cooperative movement, shareholders are not only the loyal customers, but also the owners of commercial enterprises. We must admit that the members of consumer associations should shape trade policies of cooperative enterprises, getting the benefits together with the cooperative system. Essentially, loyalty programs in the cooperative system are the social function of consumer cooperatives, which are hardly implemented in practice. Social support in the area of health, education, recreation, pension provision and insurance along with trading function should be determinative for shareholders. The practical arrangements in this direction should return shareholders to the cooperative system and make it loyal to the system of cooperation.

Wide range of factors significantly hinders the transition to marketing partnerships in the system of consumer cooperatives in Ukraine. One of the major factors is the lack of confidence of rural residents to the system of consumer cooperatives that has been formed over the last twenty years. Another factor that hinders the implementation of the marketing concept is the psychology of managers, professionals and sellers towards shareholders as inefficient owners, unnecessary in the management system of consumer societies. In addition, a systematic approach to the management of customer loyalty in the cooperative system of Ukraine is missing, insufficient the scientific and methodological developments in the formation of the concept of marketing partnership relations.

These circumstances determine the necessity of further study of the presented challenges and conduct research in this direction.

References:

1. Babenko, S.G. (2003), "Transformation of cooperative systems in the transition economy", monograph, Naukova dumka, Kyiv, p. 332.
2. Butcher, Stephan (2004), "Customer Loyalty Programmes and Clubs", Publishing House "Williams", Moscow, p. 272.
3. Vasin, Yu.V., Lavrentiev, L.G. and Samsonov, A.V. (2004), "Effective loyalty programs. How to attract and retain customers", Alpina Business Books, Moscow, p.152.
4. Gamble, P., Stown M. and Woodcock N. (2002), "Consumer Relationship Marketing", Moscow, Fair-Press, p.168.
5. Gilbert, D. (2005), "Retail Marketing Management", Moscow, Infra-M, XVI, p. 571.
6. Evstihnyeyeva, T.V. (2008), "Creating a loyalty program based on the principles of marketing relationship". Quality. Innovation. Education, no. 11, pp. 42-47.
7. Klimenko, A.A. (2012), "Technology of Organization of branding in the system of consumer cooperatives" [Electronic resource], available at: www.rusnauka.com/29_DWS_2012/Economics/6_120986.doc.htm
8. Himich, Yu.S. (2011), "Increasing the competitiveness of enterprises through loyalty programs", Russian Entrepreneurship, no. 8, pp. 55-60.
9. The main indicators of economic and financial activities of enterprises and organizations of Ukrainian Cooperative Union in 2000, Kyiv, Ukrainian Cooperative Union, p. 131.
10. The main indicators of economic and financial activities of enterprises and organizations of Ukrainian Cooperative Union in 2006, Kyiv, Ukrainian Cooperative Union, p. 117.
11. The main indicators of economic and financial activities of enterprises and organizations of Ukrainian Cooperative Union and Regional Consumer Union in 2012, Kyiv, Ukrainian Cooperative Union, p. 53.

Karas O.M. THE USE OF LOYALTY PROGRAMS BY RETAIL TRADE ENTERPRISES OF CONSUMER COOPERATIVE SYSTEM OF UKRAINE

Purpose. The purpose of the article is to develop theoretical principles and practical recommendations for the use of loyalty programs by retail trade enterprises of consumer cooperatives.

Methodology. The methodological basis of the article is a systematic approach to substantiation areas of marketing activities in the retail trade of consumer cooperation. Resolving particular tasks we used special methods, among them are: the abstract and logical method – for the historical overview foundations of the creation of consumer societies and the process of their interaction with shareholders; the analysis and synthesis method – for detailing the object of research due to its division into separate components; comparison method – for comparison information about the essence of nature of consumer cooperation, marketing of partner relations and loyalty programs; monographic method – during the study of tangible and intangible incentives of loyalty programs in the process of organization of commercial activity in the retail trade of consumer cooperation.

Findings. The main directions of marketing activities in the retail trade of consumer cooperation have been investigated in the paper. During the process of the historical overview of the foundations of the creation of consumer societies and the process of their interaction with shareholders it has been found that the essence of nature of the system of consumer cooperation is similar to the concept of marketing of partner relations and the cooperative principles are similar or coincide with the loyalty programs.

However, due to the spontaneity of their formation and the lack of marketing departments the indicated concept has not received the theoretical substantiation and development of at the enterprises of Ukrainian Cooperative Union.

Expediency of using such tool as loyalty programs has been investigated on the basis of scientific research of American, European and Ukrainian marketers. Therefore, the essence has been substantiated and the directions of implementation of loyalty programs and realization of the marketing concept of relationships with customers at the enterprises of consumer cooperatives have been determined. The retail trade enterprises were selected as the element of this marketing policy.

Need to use complex of tangible and intangible incentives of loyalty programs in the process of commercial activity in retail trade of consumer cooperation has been analyzed. It has been established that the principal place is intangible privileges that serve straight element of social function of consumer cooperation. The concrete recommendations to the using of loyalty programs by the enterprises of consumer cooperation in Ukraine have been provided.

A theoretical principles and practical recommendations for the using of loyalty programs by the retail trade enterprises of consumer cooperation of Ukraine taking into account specificity the functioning of the system and the basic principles of cooperation have been designed.

Originality. Loyalty programs for trading enterprises of consumer cooperation, founded on intangible privileges that are based on the social principles and the functions of cooperation were proposed.

Practical importance. Implementation of the recommendations for the use of loyalty programs will facilitate the formation of the regular customers' base and establishment of interactive relationships with them. It will increase revenues and profits in perspective and reduce operating costs and spending for attracting new customers.

Key words: consumer cooperation, enterprises of retail trade, loyalty programs, marketing, relationships with consumers.