

Customer Perceptions of Loyalty Programs in an Emerging Market Context

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Abstract

Difficult economic conditions place pressure on organisations to attract new customers and retain existing ones. One strategy employed to realise this goal is the use of loyalty programs. This paper sought to determine the drivers of customer participation and non-participation in loyalty programs and to determine customer perceptions of loyalty programs. Based on a sample of 181 respondents, the findings show that the main drivers of customer participation in loyalty programs include quality and price while the main reasons for non-participation include lack of offers of membership and the perception that the benefits of participation are not worth the effort. Customer perceptions of loyalty programs were found to be aligned with previous findings in the literature and focussed on rewarding frequent shoppers and ensuring repeat patronage. The study findings were mainly consistent with the literature.

Keywords: customer loyalty, loyalty programs, customer relationship management, customer perceptions

1. Introduction

With increasing economic uncertainty consumers practice more mindfulness regarding their spending regimes. This in turn has prompted organisations to focus on customer relationship management issues such as customer retention by maximising marketing instruments such as customer loyalty and reward programs (Mägi 2003; Meyer-Waarden 2008). The subject of customer loyalty therefore continues to arouse noticeable interest among both academics and practitioners (Jensen 2011). Though all firms are equally affected, they manage the effects of difficult economic times in different ways (Srinivasan, Rangaswamy & Lilien 2005). Some firms choose to establish an advantage over their competitors by investing and gaining market share. An example of such investments is the introduction of loyalty programs. Research affirms that market share can become impregnable to competition due to truly loyal customers (Corstjens & Lal 2000; Ailawadi 2001). However, the mismanagement of customer loyalty can also negatively influence the company's bottom-line and compromise profitability (Kumar & Shah 2004). Loyalty programs can therefore be strategic tools which aid in building a brand, but the programs' overall impact needs to be understood in its entirety (Taylor & Neslin 2005).

Firms from a wide array of sectors make use of various methods to entice customers to concentrate the majority their spending with them instead of their direct competitors. Not only do these firms make an effort to attract new customers, they also experiment with ways and means of retaining existing customers (Bolton, Kannan & Bramlett 2000). The implementation of loyalty programs brings about rewards such as cash rebates or redeemable gifts; methods whereby customers are rewarded or incentivised for their loyalty towards the firm or brand (Keh & Lee 2006). But the establishment of loyalty programs and the capital or profitability requirements are not the only concerns that organisations face (Uncles, Dowling & Hammond 2003). Questions of program viability and a lack of customer understanding can pose a risk to the program's success and in effect lead to deteriorating margins. Sands and Ferarro (2010) suggest that organisations need to achieve a new level of customer intimacy and can do so by mining available data in order to direct programs to specific customer segments and thus foster customer acquisition, retention and growth strategies.

The purpose of this article is thus to determine how loyalty programs are perceived by customers as well as the factors that influence customer participation in such programs. The specific objectives are a) to determine what the drivers of participation in loyalty programs, b) to determine customer perceptions of loyalty programs is with regards to purpose, and b) to determine the reasons for non-participation.

2. Customer Relationship Management and Loyalty Programs

Customer relationship management (CRM) is a business strategy that is focussed on creating, sustaining and growing long-term relationships with customers (Solanki 2011). Though a means to increasing revenue and profit, it is also a strategy which focuses the organisation towards fulfilling the customers' needs. These needs can be established and be fulfilled with the incorporation of a customer database into the workings of the organisation which allows access to past purchase details as well as other important customer segmentation information (Perreault, Cannon & McCarthy 2010). Customer loyalty to the organisation or its brand forms a key part of CRM. The employment of such loyalty programs in turn provides valuable customer data needed to run successful CRM initiatives (Liu 2007). The traditional transactional objective of marketing is therefore shifting to a more relationship focused objective with the adoption of CRM practices.

Barnard (2010: 3) views loyalty programs as "structured marketing efforts that are designed to enhance brand loyalty by cultivating an on-going relationship between a marketer and its customers." Oliver (1999) defines consumer loyalty as a deeply held commitment to rebuy or repatronise a preferred product or service consistently. This loyalty can occur at four different levels namely; cognitive, affective, conative and behavioural (Liu 2007). According to Pepe et al. (2011), attitudinal loyalty covers the affective and cognitive aspects and indicates the tendency to demonstrate certain behaviours. In order to achieve "true" loyalty, both attitudinal and behavioural loyalty must be promoted. There is debate around reasons why organisations adopt loyalty programs in part because there is no generally accepted definition for this term (Dick & Basu 1994). But according to Uncles et al. (2003), loyalty is an attitude that leads to a relationship; is expressed in terms of behaviour; and moderates buying due to the individual's specific characteristics, circumstances and purchase situation. The reasons why organisations may choose to adopt a loyalty program include retaining customers and limiting their movement to competitors (Leenheer, van Heerde, Bijmolt & Smidts 2007; Uncles, Dowling & Hammond 2003; Liu, Guo & Lee 2011; Wallace, Giese & Johnson 2004), increasing customer loyalty (Demoulin & Zidda 2009; Meyer-Waarden 2008; Mägi 2003), collecting data regarding consumer shopping behaviour (Kumar & Shah 2004; Mägi 2003; Rowley 2005; Uncles et al. 2003; Liu 2007; Sands & Ferraro 2010; Schoenbachler, Gordon, Foley & Spellman 1997), increasing sales (Uncles et al. 2003; Mägi 2003; Demoulin & Zidda 2009; Meyer-Waarden 2008), and enhancing commitment (Rowley 2005).

Gruen (1994) and Yi and Yeon (2003) contend that the reasons for participating in loyalty programs are not only economic or emotional benefit, but also prestige or recognition, and the exclusive treatment that accompanies them. Similarly, Liu (2007) states that the psychological feeling of appreciation and personal recognition is not all that customers want. Other psychological benefits include a sense of involvement or partaking in something greater than the purchase (Dowling & Uncles, 1997), or the ability to indulge in luxuries which would not be justifiable without these rewards (Kivetz and Simonson 2002). Hence the form or type of reward on offer has the ability to create or destroy value for the customer and subsequently either increase or decrease the switching costs from an organisation (Kim, Shi & Srinivasan 2001).

Customer loyalty can be conceptualised as the customer's attitudinal and behavioural inclination towards one organisation over its competitors (Wallace et al. 2004). But some researchers claim that loyalty programs, specifically those in the grocery sector, are ineffective despite their pervasiveness (Meyer-Waarden & Benavent 2009). A possible explanation for this is the occurrence of competing firms presenting the same rewards which results in competitive parity; thus minimising differentiation and repeat purchases from a firm (Uncles et al. 2003). Demoulin and Zidda (2009) argue that one of the most significant determinants of loyalty program adoption is not loyalty but commitment towards the organisation. Commitment is thus seen as the main driver responsible for repatronisation and bringing about customer loyalty (Prasad & Aryasri 2008). Commitment itself entails involvement, identification and loyalty (Rowley 2005).

Consumers in the current economy have low switching costs and thus move freely between brands for reasons such as price and convenience. These low switching costs create a challenge in CRM as customers do not commit to a single brand or retailer. The introduction of loyalty programs as part of the CRM strategy is one means to alleviating the lack of customer commitment and increasing the switching costs (Beerli, Martin & Quintana 2002; Kim, Shi & Srinivasan 2001; Wendlandt & Schrader 2007). Loyalty programs are said to increase the customer's perception of switching costs and ultimately foster customer retention (Bendapudi & Berry 1997; Wirtz, Matilla & Lwin 2007). For example, one such switching cost as opined by Taylor and Neslin (2005) is the foregone opportunity to accumulate sales points that contribute to rewards. As members of loyalty programs are rewarded for repeated patronage, they are in effect unconsciously bound to supporting a specific brand or retailer (Sharp & Sharp 1997).

Although the benefits to having a loyalty program appear to outweigh the negatives; there are various barriers to entry which should be considered. These barriers include (Barnard 2010; Dowling & Uncles 1997; Rowley 2005; Wendlandt & Schrader 2007):

- Implementation is expensive: IT operating systems are expensive and a program can take several years

before it begins making money;

- Signing up partners: Should partners be involved; it is necessary to sign up with those that will add value to your program;
- Strong membership base: Without enough active members the program will not make money. Further, members need to be enticed to use their cards when shopping instead of just signing;
- Late mover disadvantage: The industry is competitive and established programs may be hard to beat; and
- Unique offers: It is becoming increasingly difficult to present the customer with a proposition which is unique and encourages buy-in.

Customer loyalty can thus be driven by either behavioural (repeat purchases) or attitudinal (personal preference) measures (Jacoby & Chestnut, 1987 as cited by Jensen, 2011). Schoenbachler et al. (2004) note that loyalty does not end with the customer buying the brand, this customer also tends to refuse switching thus increasing spend on the brand or with the retailer they loyal to. For example, Knox and Denison (1999) found that loyal shoppers spend up to four times more than customers who switch-buy. Customer loyalty increases the market share of the preferred brand as consumers repeatedly purchase the brand or from the retailer with which the loyalty lies (Chaudhuri & Holbrook 2001). In addition to this, loyal customers also tend to make use of other services that the business to which they are loyal might present (Anisimova 2007). But contrary to the foregoing, Sharp and Sharp (1997) as well as Leenheer et al. (2007) contend that loyalty programs show little evidence of behavioural change in consumers. This is similar to Rothschild and Gaidis' (1981) view that loyalty programs only seem to create short-term behavioural changes which do not bring about attitudinal or commitment changes. These negative findings on loyalty programs can be attributed to the polygamous nature of consumers (Dowling & Uncles 1997; Yi & Yeon 2003; Gee, Coates & Nicholson 2008) and the competitive nature of organisations (Ghodeswar 2008; Baltas & Argouslidis 2007; Dowling & Uncles 1997).

3. Method

Survey data was gathered by making use of the survey host Survey Monkey. The initial sample consisted of 430 individuals whose contact details were available on one of the researcher's database. To facilitate snowballing, the initial sample members were encouraged to distribute the questionnaire to their contacts as well. Working on the base sample of 430 individuals, 191 completed the questionnaire in full resulting in a response rate of 44%. Out of the 191, a total of 181 individual responses were deemed usable. The data was analysed by using percentage splits and frequencies of response.

4. Results

4.1 Sample profile

The sample was made up of 103 (56.9%) female respondents and 78 (43.1%) male respondents. The majority of the respondents were in the 30-39 years old group (38.7%) as shown Table 1.

Table 1: Age category response count and percentage

| | Response Count | Response % |
|-------------|----------------|------------|
| 21-29 | 52 | 28.7% |
| 30-39 | 70 | 38.7% |
| 40-49 | 27 | 14.9% |
| 50-59 | 26 | 14.4% |
| 60 or older | 6 | 3.3% |
| Total | 181 | 100% |

Just over three quarters (75.1%) of the respondents had a post-Grade 12 (post-high school) level of education, indicating that the survey attracted mainly well-educated individuals (Table 2).

Table 2: Level of Education category response count and percentage

| | Response Count | Response % |
|---------------------|----------------|-------------|
| Grade 12 or less | 45 | 24.9% |
| Diploma/Certificate | 40 | 22.1% |
| 3 Year Degree | 30 | 16.6% |
| Post Graduate | 66 | 36.5% |
| <i>Total</i> | <i>181</i> | <i>100%</i> |

Out of the 181 respondents, 135 (74.6%) indicated that they were members of at least one loyalty program while rest (i.e., 46) were none members. The proportion of loyalty program members that had multiple memberships was 82.2% with 17.8% indicating that they had five or more memberships (Table 3). The majority of these memberships were held in the grocery (34.6%) and banking (25.3%) sectors as indicated in Table 4.

Table 3: Number of memberships per individual

| Number of Memberships | Response Count | Response % |
|-----------------------|----------------|-------------|
| 1 | 24 | 17.8% |
| 2 | 37 | 27.4% |
| 3 | 28 | 20.7% |
| 4 | 22 | 16.3% |
| 5-10 | 24 | 17.8% |
| <i>Total</i> | <i>135</i> | <i>100%</i> |

Table 4: Business Sectors within which memberships are held

| | Response Count | Response % |
|---------------|----------------|-------------|
| Clothing | 42 | 15.6% |
| Groceries | 93 | 34.6% |
| Entertainment | 29 | 10.8% |
| Travel | 37 | 13.8% |
| Banking | 68 | 25.3% |
| <i>Total</i> | <i>269*</i> | <i>100%</i> |

*The response count is greater than 135 because respondents were able to select more than one answer.

4.2 Reasons for non-membership

When non-member respondents were asked to indicate their reason for non-membership, the main reasons cited for non-membership was that they had not been offered any membership (43.5%) and that they did not find the benefits worth the effort (26.1%) (Table 5).

Table 5: Reasons for non-membership

| | Response Count | Response % |
|---|----------------|-------------|
| You find it irritating | 9 | 19.6% |
| You already have too many cards | 4 | 8.7% |
| You have not been offered any memberships | 20 | 43.5% |
| You do not find the benefits worth the effort | 12 | 26.1% |
| Other (please specify) | 1 | 2.2% |
| <i>Total</i> | <i>46</i> | <i>100%</i> |

4.3 Drivers of participation in loyalty programs

The 74.6% of respondents who indicated that they were members of loyalty programs were asked to answer a number of questions in order to gain a better understanding of their behaviour and reasons behind accepting membership. Their

main reasons for participation were quality, price and service as shown in Table 6.

Table 6: Factors promoting loyalty towards a company or brand

| | Response Count | Response % |
|--------------|----------------|-------------|
| Price | 88 | 33.0% |
| Quality | 92 | 34.5% |
| Service | 75 | 28.1% |
| Popularity | 12 | 4.5% |
| <i>Total</i> | <i>267*</i> | <i>100%</i> |

*The response count is greater than 135 because respondents were able to select more than one answer.

4.4 Customer perceptions regarding purpose of loyalty programs

Respondents who were members of loyalty programs were also asked to indicate what they perceived the purpose of these programs to be. The majority of respondents regarded the purpose of loyalty programs to be “to reward frequent shoppers” (44.7%) followed by “to ensure that customers return to the store” (Table 7). None of the respondents indicated that they did not understand the purpose of such programs. Respondents who answered “Other” gave the purpose of loyalty programs as to collect consumer data and analyse behaviours and patterns.

Table 7: Purpose of reward/loyalty programs

| | Response Count | Response % |
|---|----------------|-------------|
| To reward frequent shoppers | 55 | 44.7% |
| To keep customers from shopping at competing stores | 27 | 22.0% |
| To ensure that customers return to the store | 37 | 30.1% |
| I do not understand what the purpose of a loyalty/reward program is | 0 | 0.0% |
| Other (please specify) | 4 | 3.3% |
| <i>Total</i> | <i>123</i> | <i>100%</i> |

5. Discussion and Conclusion

The findings indicate that more females (103) than males (78) responded on the questionnaire. The marginal difference in acceptance between the two genders can also be attributed to the marginally higher degree of brand loyalty that is apparent in the female population when compared to their male counterparts (Beneke, 2010). Although all the different age groupings above 20 were represented, membership was especially prevalent in the 21-49 years range. This is unlike some previous studies that show that the biggest increase in memberships is in the 18-25 years old consumer group (Radder & Huang 2008). Previous studies also show that older individuals are more polygamous in part because they have more disposable time and thus the option to frequent more stores (Mägi, 2003). The proportion of respondents with memberships also increased with the level of education.

In order to better understand the reasons behind non-participation, the respondents who indicated that they were not members of loyalty programs were asked to indicate why they were not members. Nearly half of the respondents (43.5%) stated that their non-membership was due to the fact that they had not been offered memberships. In a time where loyalty programs are being introduced at a high rate, it is difficult to understand why the non-member respondents have not been offered memberships. It could be that organisations are becoming more aware of the polygamous nature of consumers and the low switching barriers for consumers (Beerli, Martin & Quintana 2002; Kim, Shi & Srinivasan 2001; Wendlandt & Schrader 2007). Other reasons could include barriers to entry for firms such as high implementation costs of loyalty programs, difficulties surrounding how to build a strong membership base or how to introduce a program with unique offers from a late mover disadvantaged (Barnard 2010; Dowling & Uncles 1997; Rowley 2005; Wendlandt & Schrader 2007). The second highest ranking reason for non-membership was that the respondents did not find the benefits worth the effort. Previous research shows that value for money is still one of the most important factors which secure consumer buy-in (Barnard 2010).

Out of the 267 responses regarding drivers of participation in loyalty programs, the majority of respondents identified quality as the main factor that promotes loyalty. This is consistent with researchers such as Rowley (2005) who found that the quality of a product or service can have either a positive or a negative effect on the consumer's acceptance

of loyalty programs. Although price was expected to be the number one loyalty promoting factor, it received the second highest score after quality. An important consumer characteristic that can possibly explain this phenomenon is that some consumers are willing to pay a premium for a product or service should it be of high level of quality (Beneke, 2010).

The majority of respondents gave the purpose of loyalty programs as "to reward frequent shoppers". From the literature it is clear that the main reasons behind the implementation of loyalty programs is the retention of customers (Bolton, Kannan & Bramlett 2000; Lewis 2004; Gee, Coates & Nicholson 2008). The second highest ranking purpose according to this study was "to ensure that customers return to the store" which is the intention of organisations when they use loyalty programs (Ghodeswar 2008; Kivets & Simonson 2002).

In conclusion, research indicates that difficult economic circumstances are placing pressure on organisations to attract new customers and to retain their current customers. Customer relationship management has subsequently been brought to the fore as a strategic imperative by which to design strategies that are focussed on building customer relationships. One such a strategy is the implementation of loyalty programs whereby consumers are rewarded for their loyalty and return patronage to an organisation. It is evident that the respondents' perceptions of loyalty programs are in line with the intent identified in the literature in terms of the focus on rewarding frequent shoppers and ensuring repeat patronage. The study findings were therefore in alignment with the literature. A major weakness of this paper is the way the sample was selected. Sample selection started with an initial sample of 430 people whose contact details were on one of the researcher's contact list. The initial sample members were encouraged to distribute the questionnaire to their contacts to create a snowball effect. Using this approach, it was not possible to acquire a sample which is truly representative of an entire country. This presents an opportunity for future studies to undertake studies based on truly representative samples whose findings would be more generalizable.

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