

# The Effectiveness of Loyalty Program Towards Customer Loyalty

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## Abstract

*Customer loyalty is a successful key to a business. However, the changes in customer preferences, market trend and high competitors are inevitable for business. Thus, marketing strategy as loyalty program smooths the business to encourage and promote customer loyalty. Several characteristics of loyalty program such as policy, reward, personalization, tangibility, information usefulness, courteousness or helpfulness, and communication quality predict to influence customer loyalty. Analysis of data using Partial Least Square (PLS) has been applied to investigate among 100 of customers who visit one of the selected retailers in Klang Valley. The finding revealed only personalization had small effects on customer loyalty. While others construct was not supported, and this finding implies for a business to critically identify more strategy to promote and encourage a customer to a loyalty program.*

## ARTICLE INFORMATION

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## 1.0. INTRODUCTION

In recent decades, the level of business competition has significantly intensified, thus constant efforts from entrepreneurs to adapt and thrive within these competitive conditions (Curatman & Suroso, 2022). The significance of retaining loyal customers in a business organization has captured the interest of numerous researchers and market practitioners alike. Consequently, loyalty has emerged as a compelling topic that has garnered ample attention from researchers. Customer loyalty plays a crucial role in the success of retail businesses, as it is one of the critical key factors in sustaining profitability and the cost of retaining an existing customer is significantly lower compared to acquiring new ones (Kimura, 2022). A loyalty program is a marketing strategy that offers an incentive to the customer. Ideally, the marketing strategy aims to maintain and enhance customer loyalty. In a business context, the loyalty program is important to contribute to maximizing profit, engagement with customers, and sustaining the business in the market. The loyalty program is capable to change the trend of customer preference and decision-making from single-period purchasing to multiple-period purchasing decisions (Magatef & Tomalieh, 2015). The increase in purchase frequency, customer advocacy, share of wallet, and operational profit by lowering expenses in recruiting new customers signifies customer loyalty

(Bowen & McCain, 2015). The approaches of loyalty programs practice as an incentive by providing benefits based on cumulative purchasing over time. These programs encourage repeat buying and improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes. More than that, loyalty programs offer points, rebates, discounts, or combinations of them. Loyalty programs are considered part of a comprehensive customer relationship strategy. A loyalty program also becomes a tool to collect as much many information increasing customer retention and enhancing the relationship between the customers and organizations (Kang, Alejandro & Groza, 2015).

A loyalty program can be seen to increase single-brand loyalty, decrease price sensitivity, and induce greater consumer resistance to counter offers. It also decreases the desire to consider alternative brands, encourages word-of-mouth support and endorsement, attracts a larger part of customers, and increases the amount of product bought. Other than that, the importance of a loyalty program will be part of a utilitarian value.

Peterson (1995) recommends that saving money provides the major to joining frequent flyer programs and book clubs. While convenience benefits lead to utilitarian value as well and encourage people to engage in loyalty

programs. In order, customers may acknowledge loyalty programs because the programs help consumer automate their decision-making process and avoid complex evaluations of available alternatives (Bolton, Kannan & Bramlett 2000). In addition, the loyalty program is a symbolic benefit that gives an advantage to the products or services provided concerning needs for personal expression, self-esteem, and social approval Keller (1993), shows the result from intangible and often non-product related attributes. It can build customer knowledge; loyalty programs offer an opportunity to differentiate and segregate among customers who likely perceive customized offers as a sign of respect Gordon et al. (1998). While loyalty programs further focus on not hardly the product but also the experience of ownership and consumption McAlexander et al. (2002). While loyalty programs continue to be favored by consumers, most individuals who participate in these programs remain inactive, with only a small number of members engaging with the company by redeeming rewards at least once a year (Berry, 2015).

### **1.1. Challenges of Loyalty Program and Customer Loyalty**

High competition in business causes a business to fail to sustain customer loyalty. The substitute product that has more benefits, less cost, and more to customers change the customer decides to be loyal and purchase the product. Most business struggle and strive to determine the tool and approaches to a unique and effective loyalty program.

In a case of a local retailer in Malaysia, one of the loyalty programs conducted is using a Clubcard which benefit customers to convert any purchase points from previous purchase to a cash voucher. Through the cash voucher, a customer can pay less and spend more on their purchase. The objective of this study is to determine the factors of effective loyalty programs that could give impact customer loyalty. Therefore, this study aimed to further investigate the determinants of effective loyalty program impact on customer loyalty among 100 a customer from the selected local retailer in Malaysia. The retailer was selected because of the number of loyalty program members that they currently have.

## **2.0. DETERMINANTS OF AN EFFECTIVE LOYALTY PROGRAM**

There are seven determinants of an effective loyalty program which relevant to the Malaysian context and were adapted from Asiah Omar et al., (2013). The following was the discussion:

### **2.1. Policy**

The policy dimension in this study reflects a retail loyalty program's policy such as the program operations in terms of the redemption procedures, entry requirements, rebate calculation, and renewal procedure (Asiah Omar et al, 2013). In examining the linkages between a program design and enrolment, Fowler (2003) suggests that customers are more likely to sign up for a loyalty program that communicates its benefits easily and has realistic, identifiable, and attainable rewards. According to Land, 2013 cited by Dorotic et al (2014) stated that, through the option of a no-expiration or long-term policy, a business can reduce or avoid creating a negative experience for customers who are involved in this loyalty program.

Without expiration pressure to redeem points, firms fear that the customer who involves in their loyalty program will decrease to a failure of the program and the business itself (Shugan, 2005). Recently, numerous researchers have identified the effectiveness of loyalty programs relies on the policy of the program (Dumoulin & Zidda, 2009; Liu & Yang, 2009). For example, a customer is reluctant to adapt to a new loyalty program when they experience some difficulties understanding and are not willing to learn the new functioning of the loyalty program (Demoulin et al, 2009). Hence, the following hypothesis as follows:

*Hypothesis 1: There is a relationship between policies and customer loyalty.*

### **2.2. Reward.**

By practicing reward activities for all customers that involve a loyalty program, a business can encourage them to repeat purchases with the organization (Dorotic et al, 2012). The benefits or reward offers are important to customers and difficult for competitors to duplicate to sustain and maintain engagement with a customer (Mauri, 2003). According to Stauss and Schmidt (2005) observed, if customers do not receive the promised reward or if the indicated benefits prove worthless to them, customer frustration may occur. Hence, by taking program attributes into account, find that an appropriate mix of

program attributes such as hard attributes (discounts, vouchers, and coupons) and soft attributes (better service, special feeling, and recognition) can affect store satisfaction and/or loyalty (Bridson Evans & Hickman, 2008). Meanwhile, according to Kivetz, Urminsky, & Zheng (2006), reward redemption has an important impact on the customer who is involved in the loyalty program, especially in their purchase behavior and they try to reach a specified threshold on time and to obtain a reward, then lead them to increase their purchase in the organization. Then Emmons (2004), stated that reward is the investment of the organization to build a relationship that might strong effective response, including a feeling of gratefulness, thankfulness, or appreciation from the customer towards them. Meanwhile, Dorotic et al (2012), stated that in the loyalty program the concept of the reward it must do in several ways such as special events, privileged treatment, internment, and upgrades to ensure customers see how the loyalty program work to customers. Hence, the following hypothesis as follows:

*Hypothesis 2: There is a relationship between rewards and customer loyalty.*

### 2.3. Personalization

Generally, a customer is made to feel special relative to other customers as firms customize their offerings to meet customers' specifications and requirements (Asiah Omar et al., 2013). Taking program attributes into account, find that an appropriate mix of program attributes such as hard attributes (discounts, vouchers, and coupons) and soft attributes (better service, special feeling, and recognition) can affect store satisfaction and loyalty (Bridson et al., 2008). Meanwhile, Eggert, Steinhoff, and Gannefald (2015) suggested, the organization should give a selected customer the choice of being endowed and make them able to elevate their status. Moreover, managers must be able to provide preferential treatment that is valued by customers. Hence, the following hypothesis as follows:

*Hypothesis 3: There is a relationship between personalization and customer loyalty.*

### 2.4. Tangibility.

The physical characteristics associated with the service encounter. It has been widely accepted as a key component of perceived service quality (Parasuraman et al., 1988). According to Dabholkar et al (1996), physical

aspects comprise more than the physical facilities it covers the convenience offered to the customer by the layout of the physical facilities. In a retail loyalty program context, this consists of the loyalty program service counters being easy to find with wide enough space to move around. Zeithaml, Parasuraman, and Berry (1990) stated that physical facilities such as uniforms, furniture, and all related equipment must be attractive, so the customers feel comfortable with the physical environment of the organization. Generally, from a customer's perspective, anything which makes receiving the service more difficult is likely to impinge negatively on his or her perception of the service quality (Asiah Omar et al., 2013). Hence, the following hypothesis as follows:

*Hypothesis 4: There is a relationship between tangibility and customer loyalty.*

### 2.5. Information Usefulness.

Information quality is defined as the cardholders' perception that the program provides relevant and accurate information such as reminding the cardholder about the expiring date of the points and informing the participating outlets that are involved in the loyalty program. Results of several studies suggested that the exchange of information is important in both traditional industrial selling as well as in relationship marketing (Anderson and Weitz, 1989). According to Salaun and Flores (2001), information is what forms or transforms a representation in the relation which links a system to its environment, where good-quality information is information that satisfies the criteria of appreciation specified by the user, together with a certain standard of requirement. Hence, the following hypothesis as follows:

*Hypothesis 5: There is a relationship between information usefulness and customer loyalty.*

### 2.6. Courteousness or Helpfulness

Courteousness/helpfulness is a dimension capturing how the cardholder is treated by staff members. Thus, courteousness/helpfulness represents the extent to which the cardholders perceived that the loyalty card program provides quality staff members in handling the program such as willingness to solve cardholder queries and listen to cardholder suggestions (Nor Asiah Omar et al., 2013). According to Demoulin et al (2009), launching a loyalty program often requires recruiting temporary employees or modifying temporary employees' job descriptions to

promote the program, provide customers with information about the program and help customers complete their enrolment forms.

In response to delivering a pleasant customer experience in a loyalty program, retailers need to constantly demonstrate that they have their customers' interests at heart and are willing to respond to the customers (Gable, Fiorito & Topol, 2008). Hence, the following hypothesis as follows:

*Hypothesis 6: There is a relationship between courteousness and customer loyalty.*

## 2.7. Communication Quality.

A communication tool is defined as the cardholder's perception of the extent to which the loyalty card program provides reliable communication tools to regularly communicate with cardholders through various means such as the web, pamphlets, and mail. Regular communication with customers is essential to understand customers' expectations and explaining the service they receive (Asiah Omar et al., 2013).

Meanwhile, Ou and Sia (2003), stated the improvement in the facilities of information technologies especially in the loyalty program website, is quite helpful especially to attract customers to revisit the page to seek information or any updates latest loyalty program for the members. Lacey (2003) noted that for some firms, loyalty program communications occur as one component of a much more extensive communications effort. For other firms, the loyalty program is the primary vehicle used to create a sense of community and establish a meaningful dialogue with its best customers to develop customer relationships. The website design which includes the content, organization, and structure of the site is important because it is directly related to the user interface (Mohd Kassim & Ismail, 2009). Implementing personalized communication can enhance the personal relevance of messages, thereby increasing the effectiveness of communication. Additionally, when a customer places a high value on their loyalty program membership, they are more motivated to perceive store communications as relevant and reliable, ultimately resulting in effective communication (Curatman et al, 2022). A study done by Maity and Gupta (2016) found that program loyalty does affect communication effectiveness. Hence, the following hypothesis as follows:

*Hypothesis 7: There is a relationship between communication qualities and customer loyalty.*

## 3.0. METHODOLOGY

A survey was conducted randomly among 100 customers who visit one of the selected retailers in Klang Valley. A total of 23 items of measurement of policy, reward, personalization, tangibility, information usefulness, courteousness or helpfulness, and communication quality were adopted from asiah omar et al., (2013). The data collected were analyzed using partial least square (pls) to determine the causal relationship between the loyalty program impact customer loyalty. Two assessments of measurement and structural model tested using pls result in the validation of the items and testing of the hypotheses. Model specification

## 4.0. DISCUSSION AND IMPLICATIONS

The majority of respondents in this study were female with a total of 63 percent (n=63) while the rest of the respondents were male which a total of 37 percent (n=37). Most of the respondent's majority 59 percent (n=59) were employed in the private sector, only 25 percent (n=25) of the respondents were employed in the public sector, and fewer numbers of respondents from others grouped in retired, unemployed, and self-employed. In addition, there was 37 percent (n=37) of the respondents are using less than one year of the Clubcard, followed by 23 percent (n=23) of the respondent who used the Clubcard within 1-2 years. More than that, 21 percent (n=21) of the customers used Clubcard within 3-4 years, and lastly 19 percent (n=19) the user that already used more than 5 years. From the background, this study interpreted that most of the customers of the selected retailer well experienced the loyalty program. All the items tested applied five Likert scales of 1=Strongly Disagree, 2=Disagree, 3=Neutral, 4=Agree, 5=Strongly Agree.

### 4.1. Measurement Model

In the measurement model, PLS accesses convergent and discriminant validity. Convergent validity determines the composite reliability (CR) and average variance extracted (AVE). For CR, the threshold values must be greater than 0.8 while AVE must be greater than 0.5 as recommended by Lin and Hsu (2015). As in Table 1, the results of reliability analysis for each construct are

presented in Table 1; the factor loadings for all of the question items were greater than 0.5; CR ranged between 0.715 and 0.904; AVE ranged between 0.537 and 0.759. There were two items of A03 and D03 deleted due to lower loading and all the constructs meet the threshold values as depicted in Table 1.

Table 1: Reliability Analysis

Constructs	No of Items	Composite Reliability (CR)	Average Variance Extracted (AVE)
Communication Quality	5	0.880	0.597
Courteousness	5	0.862	0.676
Customer Loyalty	3	0.850	0.537
Information Usefulness	3	0.904	0.759
Personalization	3	0.875	0.702
Policy	3	0.716	0.585
Rewards	3	0.872	0.695
Tangibility	3	0.715	0.556

## 4.2. Discriminant Validity

The discriminant validity assessment was measured based on the AVE of each variable must exceed the squared correlation between construct pairs (Fornell & Larcker, 1981). The results indicate all the constructs

have resulted in the square roots of the variable AVE values are all greater than the correlation values, and the variables in this study display acceptable discriminant validity.

## 4.3. Structural model

A structural model assesses the values of R square (R<sup>2</sup>) where all the constructs are tested to the dependent variables. The R square explains of this study explained that a 37 percent variance in customer loyalty is explained by policy, rewards, personalization, tangibility, communication quality, and courteousness. The relationships among the study variables and the significance of the paths hypothesized in this study are shown in Figure 2. The result revealed in Table 3, only the personalization relationship was significant for this study ( $\beta=0.413$ ,  $p<0.01$ ), therefore hypothesis 4 was supported as depicted in Figure 2. There was a large effect size of the personalization relationship towards customer loyalty. The results for these hypotheses are consistent with the views of Fowler (2003), customers are more likely to sign up for a loyalty program that communicates its benefits easily and has realistic, identifiable, and attainable rewards.

More than that, Bridson et al., (2008) claimed by having program attributes in accounts such as discounts, vouchers, and coupons, better service, special feelings,

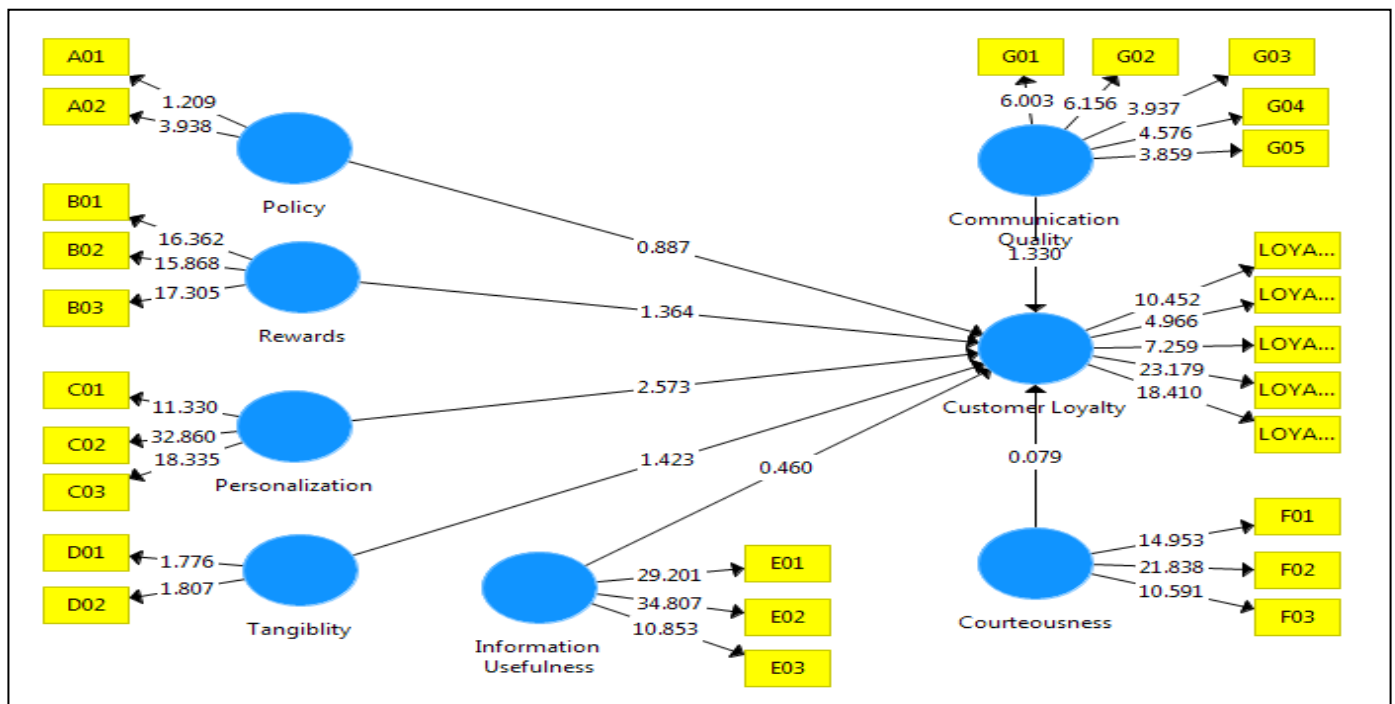


Figure 1: Measurement Model

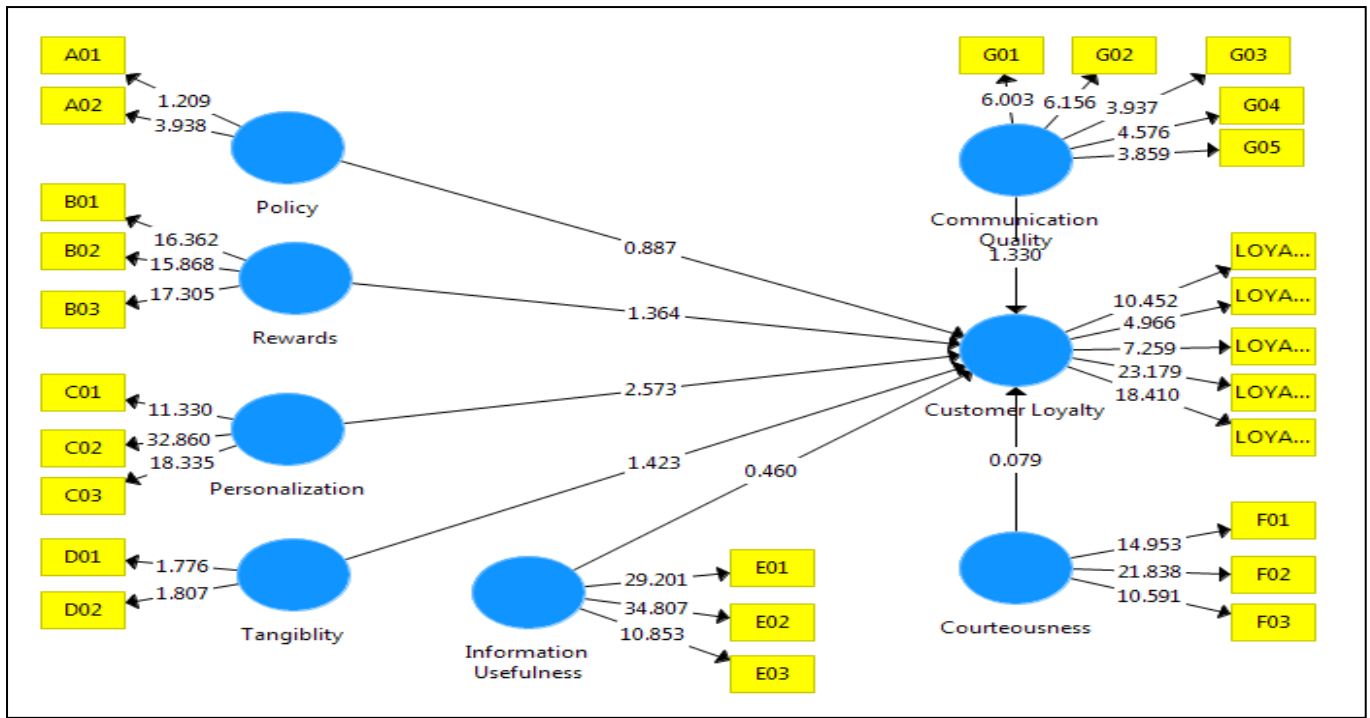


Figure 2: Structural Model

and recognition can affect store satisfaction and loyalty (Bridson et al., 2008).

There is a possibility take can considered can lead to a weak result of the relationship among the variable of policy and also the variable of tangibility. There is a possibility that respondent does not understand clearly the question in these variables section, then they are rushing to answer the question and finally, they do not satisfy with the policy and the tangibility provided by the retailer to make them stay loyal. For the policy, based on the previous study by Demoulin et al, (2009), policy and tangibility were effective in a loyalty program based on the policy created by the organization. Additionally, Dabholkar (1996) stated that the physical characteristics of the place are associated with the service encounter. Dabholkar (1996) adds, that the proper physical facilities provided can give convenience to the customer who comes to the organization and able to attract customers to come back to make any purchase from an organization.

## 5.0. CONCLUSION

In conclusion, this study aimed to investigate the determinants of effective loyalty program impact on customer loyalty among 100 a customer from the selected local retailer in Malaysia. Only personalization was significant with a small impact on customer loyalty. While the element of the other such as policy, rewards,

tangibility, courteousness, and communication quality was not supported for this study. The implications of this study highlight the influence of customer loyalty programs on customer loyalty. It will provide better knowledge and understanding of the importance of a loyalty program for an organization. It may encourage more profitable managerial practices and specifically more profitable to segment and target customer loyalty. In addition, loyalty programs provide an opportunity to build longer, stronger, and deeper relationships with customers thus leading to increased revenues in an organization. By delivering loyalty programs, a performance of an organization can be enhanced through customer loyalty. Moreover, this study also helps the organization understand that loyalty programs operate as a form of mass customization that strengthens customers' perceptions of the company's value proposition that led toward repeat purchase behavior. Therefore, this study could be beneficial to the organization in understanding how they can improve their loyalty programs and encourage a customer to be loyal to an organization.

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