

Full Length Research Paper

Exploring relationship drivers' toward loyalty card programs

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Retail loyalty programs are normally used as a mechanism to develop a retailer-consumer relationship. Retailer had clear relationship drivers, yet little research examines consumers' relationship drivers towards loyalty program. To address this gap, this article investigates the true reason of why consumers engage in relationship with retailers through loyalty programs. A qualitative study involving six focus groups of 60 members of various Malaysians' loyalty programs resulted in four types of relationship drivers such as monetary saving, recognition, social benefits, and entertainment. This article discusses managerial implications of the findings and suggests improvement for future research.

Key words: Relationship drivers, loyalty programs, retailing.

INTRODUCTION

Customer relationship strategies in retailing typically takes in the form of loyalty program, that is, card-based reward program. Loyalty programs had been adopted by a large variety of companies ranging from airlines, hotels, retailers and car manufacturers (Minouni-Chaabane and Volle, 2010). This program had become a mechanism to manage retailers' customer bases. The development of loyalty programs and club marketing program by various retailers is regarded as a significant way to build customer loyalty and customer-retailer relationship (Hanley and Leahy, 2008).

Among the benefits of loyalty programs for the customers are, immediate cost savings, members-only deals, rebates, redeemable points and/or eligibility for drawings and contests. In Malaysia, the S-Card (Sogo Card), Isetan and Jusco Cards are among the popular retail loyalty programs. The objective of these loyalty card programs is to motivate customers to choose one retail chain or outlet over others. In other words, the loyalty programs through card membership are aimed at getting consumers to be loyal to a particular store by preferring

one outlet over others.

Benefits of loyalty programs for retailers are proven with the significant increase in card-membership each year. In Malaysia, the loyalty card business is expected to touch RM 3.5 billion in the year 2010 (Ganesan, 2006). However, little research had examined customer perception towards loyalty card that is what actually drives them to enroll as members of loyalty programs. The current study intends to discover relationship drivers that motivate customers to enter a relationship with a retailer that is what factors drive customers to have a relationship with their retailer.

Relationship drivers

What drives customers to engage into a relationship with retailers has been a topic of interest among academics and industry players alike. Of date, very little empirical studies have examined the relationship drivers among customers who are engaged with retailers through loyalty programs and club marketing programs. Customer-retailer relationships are most profoundly evident in loyalty and club marketing programs.

Relationship involves interaction over time. A relationship is composed of a series of interactive episodes

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between dyadic parties over time (Buttle, 2009). Loyalty programs have been shown to provide benefits to both customers and retailers in such a way that this motivates both parties to engage in a customer-retailer relationship. Studies have also found that there are several factors that influence this relationship. For example, Gutiérrez (2005) found that trust, satisfaction and commitment are key variables when it comes to establishing and maintaining a solid and long-lasting relationship.

Past studies have also shown that there is a relationship between loyalty program and store patronage. The effect of loyalty program membership on store attraction can be divided into economic, psychological and sociological influences. Firstly, from an economic perspective, loyalty programs provide members with value in the form of rewards. Secondly, several psychological drivers enhance customer loyalty. According to (Feinberg et al., 2002), consumers appreciate rewards. Thirdly, loyalty programs can also have sociological effects. According to Baumeister and Leary (1995), the need to belong to groups is a fundamental human motivation. Bhattacharya and Sen (2003) suggested that loyalty programs to be implemented in industries where consumers purchase frequently, and differentiation between suppliers is low. This may refer to retailing. In addition, customers who become members of the loyalty program are likely to identify more strongly with the company, because the membership relates them to a group of privileged customers (Bhattacharya et al., 1995; Oliver, 1999). Hence, loyalty programs can help enhance the attractiveness of the retail store and create a better relationship between retailer and customers.

RESEARCH METHODOLOGY

Focus group interviews formed the basis for the study. Snowball sampling method was adopted in selecting the eligible respondents for the focus group. The eligibility of the respondents depends upon the enrolment of any retailers' loyalty program in Malaysia.

Six focus groups with 10 participants in each group were held in Klang Valley, Malaysia. The focus group discussions were guided by a semi-structured interview which allowed the facilitator to probe into the main research issues and at the same time enabled participants to voice up their opinions without interruptions from the facilitators. This ensured that the discussions minimize bias or leading questions by the facilitators.

Overall, the focus group discussions were successful in getting information from the participants regarding various issues and in particular, motivations and drivers of their relationships with the selected loyalty programs by their chosen retailers.

RESULTS

Participants were asked to discuss about their participations with loyalty programs of major retailers in Malaysia. Among all, the loyalty programs include card memberships by (1) departments stores such as Isetan, Robinson, Sogo and Jusco; (2) hypermarkets such as

Tesco and Mydin; (3) petrol station such as Mesra (Petronas) and Smiles (Esso); (4) by bookstores such as MPH; (5) Airlines company such as Enrich (Malaysia Airlines); (6) apparel stores such as Padini, Roxy, and G2000; and (6) other types of retail stores such as Body Shop, Coffee Bean, Aussino, and Watsons. In addition, RealRewards and BonusLink card are multi-partners loyalty cards programs run by an independent party who grouped together few types of retailers (banking, insurance, fashion, food and beverage, household appliances, supermarket, hotel, utilities, etc.) under one card.

The background information regarding the card membership includes membership requirements; number of cards owned by the respondents; frequency of card usage and the most preferred card. Respondents were then asked about the reasons why they join the loyalty program. The focus group discussions resulted in the generation of rich and detailed qualitative information. The qualitative data merged into few relationship drivers or reasons that drive the customers to become a loyalty card member. The relationship driver ranges from; (1) monetary saving; (2) recognition; (3) social benefits and (4) entertainment.

Monetary savings

Monetary saving seems to be the first and the most important driver to the respondent's relationship with retailers. In order to engage in relationship with retailers, customer must perceive that the retailers will provide more value at a lower cost (Parvatiyar and Sheth, 2000). In fact, monetary savings provide the major motivation for joining frequent flyer program and books clubs (Peterson, 1995). Loyalty programs can also reduce consumer search and decision costs, through value added benefits such as frequent flyers/mail direct to customer address to update the current prices and offers, member's price, member's privileges day and so forth. Therefore, customers enjoy greater shopping convenience and can save more time.

Among the popular response from the respondents when asked why they join loyalty program are:

"Being a member of this loyalty programs save lots of my money" Female, 34.

"I became a member because I know that, by just becoming members, I will be entitled to purchase at member's price and will be invited to member's day special which offers great discounts not offered to non-members" Female, 30.

"I'm a member of all retailers that I frequently go for shopping, I went; (1) to hypermarket A to purchase grocery and household items; (2) to department store B to purchase apparel and clothing; (3) to retailer C to

purchase electrical appliances and so fourth" Female, 36

"Like it or not, I have to go for shopping, instead of shopping for nothing, I rather become a member of their loyalty card to collect points and redeem cash vouchers". Male, 38.

"If I'm not a member, I'll not enjoy the monetary savings enjoyed by other members, so I decide to join this loyalty programs. I earn cash vouchers every six months, and it is worth it" Male, 32.

"Everybody is talking about the monetary saving of becoming a member of loyalty program, that's the main reason why I was attracted to join" Female, 31.

Recognition

Psychologically, when the customers become members of the loyalty programs, they consequently experience recognition benefits (Csikszentmihalyi, 2000); they may feel like the firm and frontline personnel treat them better than they would treat non-members (Gwinner et al., 1998). Recognition can be defined as the customer feeling of a special status, feel distinguished and treated better (Mimoumi-Chaabane and Volle, 2010). Customer's responses when asked whether they experience recognition benefit from their retailers (for which they are members of the retailer's loyalty programs) are:

"I feel proud holding this membership card, when I showed this card, the store personnel recognized and treated me as a good customer". Female, 33

"When the cashier swipes my loyalty card, the tag 'Good Customer Mr. R' appear on the cash register, feels really good as if I'm part of the store. It gives me a sense of belonging to the store". Male, 36

"I receive better treatment from the store personnel because I'm a loyalty card member". Male, 40

"I feel privileged because they treat me better than non-members". Male, 31

"I feel very happy every time I visit the store because I know I'll receive better treatment than others (non-members), I'm recognized just because I'm a member of their loyalty card programs". Female, 36

Social benefits

Social benefits can be defined as "to belong to a group that shares the same values" (Mimoumi-Chaabane and Volle, 2010). Loyalty program also focuses on experience of ownership and consumptions (McAlexander et al.,

2002), which enhance perception of social benefits (Libermann, 1999), such that customers who are members feel themselves part of an exclusive group of privileged customers, identify with that group, and share values associated with the brand (Muniz and O'Guinn, 2001; Mimoumi-Chaabane and Volle, 2010). Among the popular response that portrays the social benefits that the customers enjoyed for being a member are as follows:

"I belong to retailer X community, that's the reason why I am always invited to member's special day, where only members are invited to enjoy special discount and offers not available to others" Female, 31.

"I feel close to retailer Y, so every time I think of buying Y products, I will visit retailer Y without miss, I rather not shop for certain product if it is not at retailer Y". Male, 35

"When I wear brand G, I feel I share the same values with it. It portrays my status, the status that is being recognized by the public and it is exclusive for selected people only" Male, 32.

"I feel proud showing this card to others, since they will recognize me as one that belongs to that brand community" Female, 37.

Entertainment

Loyalty programs attract consumers because of the pleasure associated with collecting and redeeming points (Johnson, 1999). This scenario brings customers to experience a feeling of entertainment (Mimoumi-Chaabane and Volle, 2010), that is, they feel that collecting and redeeming points is entertaining.

Some response that appear to prove that customers perceive collecting and redeeming points as entertainment are as follows:

"I really enjoy the time when I can collect points during member's day. I'm being rewarded with cash vouchers in addition to discount that I enjoyed as members". Female, 36

"Every year, I wait for the time when they send me cash vouchers as rewards from my shopping at their outlets, it's really and enjoying and entertaining experience. I feel appreciated by the stores". Female, 31

"It's really entertaining when my retailer rewards me because of my commitment at frequently shopping at their store" Female, 30.

"I frequently shop at the store where I'm a member of their loyalty programs to ensure that I'll be rewarded for my purchase, feels really good when someone rewards me because I keep shopping there, it's really entertaining" Female, 32.

Although customers voice out few key drivers that motivate them towards a relationship with retailers, majority of them say that monetary savings is the most important drivers, that is, other drivers will no longer be important if monetary drivers are absent. Since becoming a member for any loyalty program is easy, most respondents choose to hold more than one card in their wallet. This enables them to choose any retailer which offers the greatest discounts.

Respondents were also asked about their perceptions on the effectiveness of these loyalty programs in building relationship between customer and retailer. Their responses are as follows:

"I will not be a loyal customer to any particular store, and will be members of all loyalty programs that can save my money" Female, 31.

"I'll have a relationship with any retailer who can promise something in return to my patronage". Male, 38

"I will rather have a relationship with the stores that are conveniently located, rather than the store which is far away, travelling to their store will waste lots of my time" Female, 32

"Cost is not just money, time and efforts must also be calculated" Male, 34.

"The newspaper and the store website keep me up-to-date of the current offers; it saves lots of my time since I do not have to shop around to find the best deal in town" Female, 31.

CONCLUSIONS AND RECOMMENDATIONS

Data generated from this study formed an understanding of the likes and dislikes of consumers and how they perceived relationship marketing in retail store from their own experiences. Several factors emerged as the key drivers for customer-retailer relationship. The factors can be classified as monetary savings, recognition, social benefits and entertainment.

It is quite common to find the similarities among card memberships offered by the selected retailers in this study. However, participants highlighted the importance of social benefits that is recognition as one of the key drivers that glued their relationships with the selected retailers. For example, participants noted the importance of front-line personnel when applying for store card. At this stage, the more personalized the service offered by the front line personnel, the better the customers feel about applying for the card and later, leads to a better relationship especially when they have to deal with the front line personnel again to redeem points, etc.

One interesting finding from this study is regarding the different feedback from respondents depending on the

type of products/retailers offered by the selected retailer. Retail loyalty program of high-end products/retailers results in better customer-retailer relationship. Respondent who frequented high-end retailers (Robinson and Mother Care) and high-end product (SKII and G2000), feel a sense of belonging to the retailer and they commented that they feel proud to own a card from such retailers compared to owning card from lower end retailers. To these respondents, the loyalty programs by these high-end retailers create a personal meaning to the customers.

For middle to low income customers, monetary saving becomes the main drivers towards a relationship with a retailer. This finding might be due to the increasing cost of living in Malaysia especially in Klang Valley, which push them to become smart spender. Loyalty card which entitled them for special prices and discounts as well as periodic point redemptions becomes a mechanism to plan their purchases.

It can be concluded that the degree of importance of the customer-retailer relationship is highly dependent upon; (1) the types of products purchased; and (2) customers level of income. For the grocery items and household products, monetary savings and convenience of the store become the most important drivers for a relationship with retailers. However, for the apparel and clothing items, customer choices are highly dependent upon their level of income. It can be said that customers are not really attached to the store where they shop for the grocery and household items but they feel more sense of belonging towards the store/loyalty cards of the high-end products.

ACADEMIC AND MANAGERIAL IMPLICATIONS

This study should prove valuable to academic researchers as well as practicing managers. It is among the earlier efforts to determine meaningful drivers of customer-retailer relationships as being manifested in retailers' loyalty program. It shows that driver variables range from monetary savings, recognition, social benefits and entertainment.

From the academic perspectives, this study contributes to the existing body of knowledge about relationship marketing. The study provides deeper understanding of the reasons why customers engage in relationship with retailers. The current study provides a basis to develop a multi-item scales measuring consumer relationship drivers towards retailers. The effects of these drivers on customer's inclination towards a relationship with retailers can be further explored and tested.

From managerial point of view, findings of the study signal the need for better marketing strategies which include emphasis on the promotion of variety of benefits offered by retailers, differentiation through non-monetary drivers such as recognition, social benefits and entertainment. Segmentation of customers should be based on

their portfolios, whereby customers can be categorized according to their purchased amount, purchase frequency and types of product purchased.

In addition, the number of loyalty card members of any loyalty card programs is not the only measurement of retailer's success since the number of loyalty card membership does not reflect the numbers of loyal customers. Thus, retailer should place more concern on the percentage of card members who are active and their frequency of visits to the store.

Although monetary savings is the most important driver, this strategy cannot be used as a point of differentiation among retailers since it can be copied overnight. Retailers who wish to have a good loyalty program should emphasize more on other drivers such as recognition, social benefits and entertainment. Lastly, retailer should decide whether to emphasize quantity or quality of their loyalty card programs, that is, quantity refers to number of card-members (mixed of active and non-active), and quality refers to active card-members who are really attached to the retailers.

SUGGESTIONS FOR FUTURE RESEARCH

The issue of customer relationship drivers significantly contributes to the understanding of retail relationship marketing and store loyalty. This study should provide a starting point to customer-retailer relationship study especially in Malaysia which consists of market with diverse customer background in terms of race, level of education, level of income and age group. Different races would have different perceptions towards relationship with retailers. In addition, future research may also group customers according to their income levels to see whether customers at different income group will have different lifestyles that may reflect their store patronage decisions.

Since this study is exploratory in nature, it provides great foundation and a starting point for future research to continue with the scale development and validation for the consumer relationship drivers towards retailers in the loyalty card.

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