THE IMPACT OF LOYALTY PROGRAM TOOLS ON RETAIL CUSTOMER SATISFACTION IN MALAYSIA

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ABSTRACT

Customer loyalty program has become a norm for many organisations which is designed to create and enhance customer's satisfaction. This is because customer satisfaction in retail industry has a great impact to influence customers' repurchase intentions and the dominant reason for a customer to leave or switch to other brands. However, previous studies on the impact of program tools on retail customer satisfaction were mostly non-Malaysia-based. Hence, the purpose of this paper is to study on the effectiveness of loyalty program on customer satisfaction focusing on the impact of the loyalty program tools such as social benefits, program value and special treatment. The explanatory study was conducted using an on-line questionnaire to collect empirical data from 130 respondents through judgement sampling for the quantitative data analysis. The present study discovered that loyalty program was found to have a significant effect on retail customer satisfaction and it shows that program social benefits is the most favourable tool of a loyalty program to increase retail customer satisfaction.

Keywords: *Customer loyalty, retail customer satisfaction, loyalty program tools, services, value-added.*

INTRODUCTION

The importance of customers has been highlighted by many researchers all around the world (Parasuraman, Ziethaml, and Berry, 1988; Verhoef, 2003). Many organizations believe that customers are the purpose of what they do and they are very dependent on customers and they should never make any wish to ask customers to go away because this might affect the business and their security will put in jeopardy.

Customer loyalty program has become a norm for many organisations which is designed to create and enhance stronger bond with profitable customers (Baloglu, 2002). It is part of the program to maintain customer loyalty and gain financial benefit (Verhoeft, 2003). Customers are rewarded with according to their purchasing frequency and amount spent. A successful loyalty program will increase value proposition of the product, retain loyalty and gain profitability from customers.

However, there are lacks of findings on the impact of customer loyalty program and customer satisfaction for retailers in Malaysia as most research were non-Malaysian based. Most research that have conducted are on automotive industry, financial services, department stores, hotel and airline industry which is based in western countries (Martin et al., 2011).

There is a need to identify the relationship between loyalty program and customer satisfaction. In order to allow Malaysian retailers to understand the potential of loyalty program on customer satisfaction, this research paper will study on Malaysians retail customers.

LITERATURE REVIEW

Loyalty Programs

Some researchers question the value of loyalty programs. Dowling and Uncles (1997) suggests that loyalty programs do not necessarily encourage loyalty and are not cost effective and that extend of loyalty program is hype. This is also of strategic importance because of programs are costly investments and require a firm's commitment to customer retention. It is vital for managers to know whether and how these programs work before they take the plunge.

According to Verhoef (2003), customer loyalty means a commitment that customers have with the company's products and services and the customer have intention to repurchase those products & services again in the future. For this reason, customer loyalty can affect the company's sales and profits.

However, another research done by Meyer-Waarden (2007) says loyalty program is expensive to be established if it depends on rewards and maintain and show little or no evidence to indicate there are changes in customer behaviours to justify the expenditures. There is a mixed support impact caused by loyalty cards on customers' share of wallet which leads to question on the profitability of schemes (Arunmuhil and Arumugam, 2013). According to Leenheer, et al, 2007) has highlighted the primary role of selection and points out differentiated effects of different segments in terms of purchase size.

The following are the type of loyalty programs based on characteristics (Berman, 2006):

1. Type I – Registered members get additional discount.

2. Type II - Members are rewarding with free products when they are purchasing the estimated amount of products.

3. Type III – Members get points depending on purchases amount.

4. Type IV – Members want to get offers and discounts only for them.

Effects of Customer Loyalty Programs

According to Hill (2006), a business averagely loses ten to thirty percent of its customers in a year, but they often do not know which customers they have lost, the reason they were lost, or how much sales revenue and profit this group of customers had cost them. The fundamental reason of customer decline is dissatisfaction. Thus, there are five gaps that were created by Hill. In this study, Gap 1 The promotional, Gap 4 The behavioural, and Gap 5 The perception will be discussed in this study.

Gap 1: The promotional gap
According to a research conducted by Omar, CheWel, Abd Aziz and Shah Alam (2013), the dimension of service quality of a loyalty program is influenced by the strategies and program operations in terms of redemption procedures, rebate calculations, entry requirements and renewal terms. Customers are more likely to sign up for a loyalty program that portrays realistic benefits, identifiable and attainable rewards (Fowler, 2003). The effectiveness of loyalty programs also depends on the program's policy (Grant, 2008). An example would be customers are reluctant to adapt to new loyalty program if they experience some difficulties to understand and learn the function of loyalty programs.

Gap 4: The behavioural gap
A loyalty program is important to deliver all promises that are agreed between customers and retailers. This is because customer frustration may occur when customers do not received the promised rewards which include hard attributes and soft attributes. Hard attributes are discounts, vouchers and coupons. Soft attributes are better service, special feeling and recognition which lead to satisfaction (Haynes, 2012). Courteousness is a dimension to capture how members of loyalty programs are treated by the employee. This represents the extent to which the members of loyalty programs perceived the quality provided by the employees as to handle their complaints and listening to their suggestions.

Gap 5: The perception gap
It is possible that gaps 1 and 4 do not exist, but customers are still dissatisfied. This is because customers' perception of the performance of your organization may differ from reality. Customers unpleasant past experience might have form an attitude against the company and in order to mend this mistake might take a long time.

Customer Satisfaction

Customer satisfaction occurs when the value and customer service provided through a retailing experience meet or exceed consumer expectations. If the expectations of value and customer service are not met, the consumer will be dissatisfied. In the research, mostly only customers who are very satisfied are likely to remain loyal in long term (Michael, 2004).

In retailing, there are two groups of customers which are the repeating customers and the new ones. It is crucial to focus on existing customer rather than replace dissatisfied customers with new ones because attracting new customers is likely to cost company five times as much as pleasing an existing customer.

According to Kotler (2003), a highly satisfied customer will bring benefits to the company. Customers will stay longer with the company and buy more as the retailer introduces new products and upgrades existing. A satisfied customer also talks favourably about retailer and pay less attention to competing brands and advertising.

Drivers of Loyalty Programs

Based on Gwinner et al. (1998) study, three relational benefits that were identified are social benefits, program value and special treatment. Social benefits are placed as the first in importance among the three relational benefits which objective is to focus on the relationship with customers rather than on the outcome of transactions. The development of loyalty which makes customers to commit in a relationship with retailers is called social relationship concept which involves liking, tolerance and respect (Selnes and Hansen, 2001). Social bonds between customers and employees can be used to foster customer loyalty and encourage customers to be more motivated to be part of the company (Balonglu, 2002). One of the keys is handle their needs by routing their calls to elite support, have more flexibility return policy, and personal note from the retailers. According to Evanschitzky, et al, (2011) social benefits is a sustainable competitive advantage rather than financial program as social bonds may not be able to be copied by other competitors.

Perceived value of a program is defined as the consumer's overall assessment of the utility of a product or service that is given and received (Zeithaml, 2013). From a consumer's point of view, perceived costs include monetary payments, expenditure of time, and any feelings of stress. Value refers to the evaluation of costs and sacrifices they have obtained. According to Yang and Peterson (2004) a company is always assessed by consumers by comparing the competitors' offerings. This is also link to personal referrals when customers are willing to recommend the loyalty program to others. There are multiple ways for personal referrals for instance one-on-one communications and media forums. When customers are willing to share, indirectly it will create customers trust that the brand is reliable and thus, higher customer satisfaction (Hennig-Thurau & Klee, 1997).

Special treatment offered by loyalty program is part of retailers' strategy to increase customer loyalty towards the program. Retailers frequently award members with non-monetary special treatment benefits such as gifts, birthday cards and privileges which is an important drives of loyalty to a program (Gwinner et al., 1998). This benefit bring advantage to company as customers will spread the news to others and is very efficient until customers found higher rewards provided by competitors (Fowler, 2003). One example would be a hotel loyalty program where the main focus is to attract high-value travellers by offering rewards for personal leisure travel. The offers that are given can be redeem on weekdays when hotels have relatively low occupancy According to Melnyk and van Osselaer (2012), customers have greater satisfaction when they receive gifts or items that have higher perceived value.

PROBLEM STATEMENT

Loyalty programs recently gained many researchers attention in the context of customer relationship management (Stauss, Schmidt and Schoeler, 2005). A trend of using loyalty program by retailers is used to create customer satisfaction according to a research done by

Jacobsen, Olsson and Sjovall (2011). Retailers have started to focus on the present customers more, seeking to keep them by using various loyalty programs. However, most research was non-Malaysian based which the results may not be applied to Malaysian retailers.

This study is attempting to identify whether loyalty program will increase customer satisfaction and which tools has the greatest impact on customer satisfaction. The current research aims to answer the following questions:

i.   Does loyalty program increase customer satisfaction?
ii. Which tools has the greatest influence on customer satisfaction?

RESEARCH METHODOLOGY

Quantitative method has been chosen for this research to create a better understanding of the factors affecting customer satisfaction. According to Hair, et al (2007) quantitative data is a measurement that numbers are used directly to represent the characteristics of a factor. This study uses explanatory study which the quantitative aspect will be covered by questionnaires survey to collect empirical data. The type of measurement used for this research is cross-sectional research design. The impact of loyalty program tools on customer satisfaction is depending on Independent Variables (IV) which is social benefits, program value and special treatment. The Dependent Variable (DV) would be retail customer satisfaction in Malaysia.

In this questionnaire, it is constructed with a combination of closed questions and five point (strongly disagree, disagree, neutral, agree and strongly agree) Liker scale questions related to impacts of retail loyalty program on retail customer satisfaction which are divided into three sections. A total of 130 respondents were collected for this research paper which 68.5% are members of loyalty program and the remaining 31.5% respondents do not own a loyalty program. A majority of 67% of the respondents are full time employee which has been a loyalty program member for two years or less. Mainly the respondents were introduced by the staff to join a loyalty program.

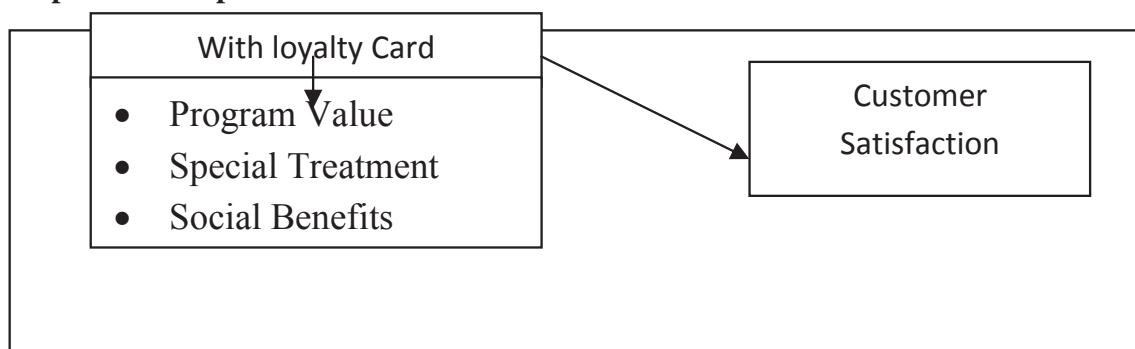**Proposed Conceptual framework**

Figure 1: Proposed Conceptual Framework of Dependent and Independent Variables

The concept of this study is to find out the relationship between independent variables and dependent variables which influence retail customer satisfaction. Based on

Figure 3.4.1, it shows the framework of dependent and independent variables. Independent variable is the variable that is varied or manipulated by the researcher, and the dependent variable is the response that is measured (Sekaran & Bougie, 2010). An independent variable (program value, special treatment, and social benefits) is the presumed cause, whereas the dependent variable (customer satisfaction) is the presumed effect. To measure the relationship independent variables and dependent variable, correlation and regression methods are used to identify the relationship of variables.

FINDINGS

Descriptive Statistics for Independent and Dependent Variables

Table 1: **Descriptive Statistics for Program Value (For Members)**

Program Value			
	N	Mean	Std. Deviation
3.1) What influence your decision to sign up for a loyalty program?			
a) Receive special discounts, vouchers	89	4.47	.676
b) Products exchange for reward	89	4.43	.737
c) Having access to in-store items first	89	3.26	.899
d) Image (VVIP,VIP members)	89	3.63	1.016
e) Follow the current trend	89	3.85	.632
f) For own loyalty programs card collection	89	3.61	.778
g) Family and Friends' influence	89	3.64	.895
h) Loyalty towards the store	89	3.56	.768
3.2) Your feedbacks on the loyalty program			
a)The proposed rewards have high cash value	89	4.39	.701
b)The scheme is easy to use	89	3.70	.592
c)The proposed rewards are desired rewards	89	3.75	1.003
d) It is highly likely that I will get the proposed rewards	89	4.47	.676

Based on Table 1, it shows the descriptive statistics of mean and standard deviation for independent variable for members (Program Value), a total of 12 components. The highest and lowest mean and standard deviation for each variable are circled as shown on above table.

The statistics show the highest mean value for independent variables component for Program Value are "Receive Special Discounts or Vouchers" and "It is highly likely that I will get the proposed rewards". It means most respondents agree that they sign up for a loyalty program to receive discounts or vouchers and also they are confident that they will receive the rewards from the program. The lowest mean value would be "Having access to in-store items first" which signifies that respondents are neutral towards this component.

The highest standard deviation of the Program Value is "Image (VVIP, VIP members)" and the lowest standard deviation is 'The scheme is easy to use". It clearly

shows that the overall satisfaction score is higher in case of image of VIP and VVIP than the user-friendly loyalty program.

Table 2: Descriptive Statistics for Program Special Treatment

Program Special Treatment			
	N	Mean	Std. Deviation
4.1) As I am a member of the loyalty program,			
a) I receive services that are specially for members only (e.g.: transferring rewards to others)	89	3.67	1.020
b) I received special treatment that is specially for members only (e.g.: received 1 complimentary slice of cake during birthday month)	89	3.72	.941
c) I get discounts or special deals that is specially for members only	89	3.72	.826
d) I get treated better than other customers (e.g.: friendliness)	89	3.73	.750

From Table 2 the statistics show the highest mean value for independent variables component for Program Special Treatment is "I get treated better than other customers (e.g.: friendliness)". It means most respondents felt neutral towards these. The lowest mean value would be "I receive services that are specially catered to members only". This shows that respondents felt neutral towards the program special treatments that are offered to members. The highest standard deviation of the Program Special Treatment is "I receive services that are specifically catered for members only (e.g.: "transferring rewards to others)" and the lowest standard deviation is 'I get treated better than other customers (e.g.: friendliness)". It clearly shows that the overall satisfaction score is higher in case of receive special service than better treatment receive that non-members.

Table 3: Descriptive Statistics for Program Social Benefits

Program Social Benefits			
	N	Mean	Std. Deviation
5.1As I am a member of the loyalty program			
a) I have developed a friendship with the retail store staffs	89	3.28	.839
b) I am recognized by the retail store staff	89	3.29	1.014
c) Staffs know my name	89	3.20	1.110
d) I am familiar with the staff who works at retail store	89	3.83	.711
e) I feel I am more distinguished than other customers	89	4.09	.685

Table 3 shows the descriptive statistics of mean and standard deviation for independent variable for members (Programme Special Treatment), a total of 5 components.

The high and low mean and standard deviation for each variable are circled as shown on above table.

The results show the highest mean value for independent variables component for Program Special Treatment is "I feel I am more distinguished than other customers ". It means that customer's feel more worthwhile compared to other customers. The lowest mean value would be "Staffs know my name". This shows that respondents do not agree that staff knows their names.

The highest standard deviation of the Program Social Benefits is "Staffs know my name" and the lowest standard deviation is 'I feel I am more distinguished than other customers". It clearly shows that the overall satisfaction score is higher in the case of staffs know their names than distinguishing them with other customers.

Table 4: Descriptive Statistics for Customer Satisfaction

Customer Satisfaction			
	N	Mean	Std. Deviation
7.1The relationship with Starbucks staff			
a) I am happy with the efforts of the retail store is making toward customers	89	3.52	.881
b) I feel emotional attached to the retail store	89	2.98	.965
c) I am willing to pay a higher price for products and services at retail store than other retail stores	89	2.99	1.143
8.1 Point of view as a customer			
a) I would repurchase products and services from the retail store	89	3.79	.761
b) I would recommend this card to friends and family	89	4.11	.714
c) The retail store is my first choice of coffeehouse	89	3.58	.915

Table 4 show the highest mean value for dependent variable component for Customer Satisfaction on the willingness to recommend this card to friends and family (8.1b). It means most respondents agree that they would recommend the retail store's loyalty program to their friends and family. The lowest mean value would be "I feel emotional attached to the retail store". This shows that respondents disagree that the reason that they are emotional attached to the retail store.

The highest standard deviation of the Customer Satisfaction is "I am willing to pay a higher price for products and services at the retail store than other retail stores" and the lowest standard deviation is 'I would recommend this card to friends and family". It clearly shows that the overall satisfaction score is higher in case respondents are willing to pay higher price to support the retail store than recommending the loyalty card to others.

Table 5: Correlations for Independent and Dependent Variables

Correlations		Program Value	Program Special Treatment	Program Social Benefits	Customer Satisfaction
Program Value	Pearson Correlation	1	.531**	.644**	.579**
	Sig. (2-tailed)		.000	.000	.000
	N	89	89	89	89
Program Special Treatment	Pearson Correlation	.531**	1	.482**	.355**
	Sig. (2-tailed)	.000		.000	.001
	N	89	89	89	89
Program Social Benefits	Pearson Correlation	.644**	.482**	1	.742**
	Sig. (2-tailed)	.000	.000		.000
	N	89	89	89	89
Customer Satisfaction	Pearson Correlation	.579**	.355**	.742**	1
	Sig. (2-tailed)	.000	.001	.000	
	N	89	89	89	89

**Correlation is significant at 0.01 level (2-tailed)

Table 5 shows Pearson Correlation value for the three independent variables of members (Program Value, Program Special Treatment and Program Social Benefits) and a dependent variable (Customer Satisfaction). The correlation value for each variable is circled on table above. The correlation value for Program Value is (0.579), Program Special Treatment (0.355) and Program Social Benefits (0.742) which means highest value would be Program Social Benefits followed by Program Value and Program Special Treatment. These show that all three independent variables have a positive influence on the dependent variable (Customer Satisfaction).

Table 6: Regression Coefficients for Independent Variables (For Members)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
1	B	Std. Error	Beta		
(Constant)	1.023	.387		2.646	.010
Program Value	.093	.138	.066	.675	.501
Program Special Treatment	-.020	.081	-.020	-.251	.803
Program Social Benefits	.645	.083	.736	7.770	.000

a. Dependent Variable: Customer Satisfaction

Based on Table 6, it shows the coefficients for independent variables for members. The highest beta value is Program Social Benefits with 0.736 which means it has the highest influencing factor of customer satisfaction. As such, researcher believes that consumers would prefer a loyalty program that brings a closer touch on their relationships between the employees and customers. The second factor that has the highest influencing factor of customer satisfaction would be Program Value with beta value of 0.066. It means respondents would like to receive something in return which has value such as discounts and rewards. The least influencing factor would be Program Special Treatment as the beta value is -0.20.

DISCUSSION AND CONCLUSION

Many studies have been done by researchers regarding customer relationship management. According to Jacobsen, Olsson and Sjovall (2011), it is said that the trend of loyalty program used by retailers is to create customer satisfaction. However, previous research were mostly non-Malaysia based which the results may not be suitable to be used for Malaysian retailers. Based on this, a study has been conducted on a retail loyalty program in Malaysia to identify the impacts on customer loyalty program tools on customer satisfaction. The following questions are identified to be part of the problem statement for this study;

1)   Does loyalty program increase customer satisfaction?

2)   Which loyalty program tools have the greatest influence on customer satisfaction in Starbucks Berjaya Times Square?

With these three questions, it can be used as a reference or guide for Malaysian retailers to have a clearer picture on how to manage their customer relationship management.

The first question aims to identify whether loyalty program increase customer satisfaction. Based on the findings, it shows that the top 3 reasons consumers choose to purchase from a retail outlet is because of Quality of the products, Choice of products and Location. Only a few of the respondents (6 respondents) choose to purchase from a retail outlet because of loyalty card benefits. From the study, it was notable that respondents who joined loyalty program are more satisfied, with a mean value of 3.52 as compared to those who are non-member to any loyalty program (mean value: 2.85). In addition, respondents who joined a retail store loyalty programs are also more emotional attached to the retail store and they are willing to pay a higher price for products and services.

Using the descriptive statistics and by simple regression coefficients on Table 6 which shown that Program Social Benefits has the highest beta value of 0.736, it can be concluded that loyalty program tools has the highest influence on customer satisfaction. According to Evanschitzky, et al. (2011), social benefits is one of the most important factors as it is more difficult for competitors to duplicate the same service provided by a company. Every company has their own personalized ways to attract customers and create greater satisfaction and not all companies are able to provide the same service although they have the same elements.

The findings show that there is an impact on customer satisfaction for a loyalty program holder. Customers who own loyalty program are more likely to be more happy and have stronger emotional attached to a retail outlet. This is also proven by having a higher mean value that they are willing to pay higher price for products and services. Thus, it can be concluded that customer loyalty program does increase customer satisfaction. Program Social Benefits also an important tool for a loyalty program as customers feels that personalized touch in a relationship between customers and employees do gives a different image from other competitors.

Based on the correlations results, the three hypotheses are accepted. The independent variables (Program Value, Program Special Treatment, Program Social Benefits) are positively correlated to the dependent variable (Customer Satisfaction). As shown on the table, program social benefit is the most influential (with Pearson Correlation value of 0.749) towards customer satisfaction. This can also be supported by Selnes and Hansen (2001) that social relationship concept is more important which involves liking, tolerance and respect. It is more important to focus on the way to make customer feel welcome and recognized. It is also more difficult for competitors to copy the service provided by a company.

The second most influential factor is program value. The value of a program value has to be attractive enough to attract customer's attention. Table 5 shows the Pearson Correlation value of 0.579 which customers would prefer to have benefits which they could actually receive them. This is also supported by Yang and Peterson (2004) that the company is assessed by consumers by comparing the competitors' offerings. This can be link to Gap 1 which is the promotional gap. According to Omar, et al (2013), the dimension of the service quality is influenced by the strategies and program operations.

The third factor with Pearson Correlation value of 0.355 is program special treatment. Customers would like to receive treatments that will distinguish them from other customers who do not own a loyalty program. This shows customers care about their social status. This is also supported Berman's Type IV where this group of members only want to receive benefits only for them (Berman, 2006).

To summarise, loyalty program that provides program value and social benefits does have a significant impact on customer satisfaction. Malaysian retailers can take further studies on the factors to identify other customer loyalty program tools. Besides, retailers in Malaysia could improve on social benefits to further enhance its customer satisfaction which could lead to higher customer retention rate.

LIMITATION OF STUDY

As in most studies, this research contains some limitations. Since this study was to be test on the impacts of loyalty program on customer satisfaction, there are many types of loyalty programs that offer different benefits and promotions, which future studies should consider to examine all of it. Some of the loyalty programs are rebate (giving customers money back when they buy more), visit frequency program (each visit points automatically convert into a product reward) and tiered programs (add multiple rewards levels to loyalty program. Further efforts are needed to generate general instruments for measuring the effectiveness of the loyalty program tools. Perhaps with additional studies it may be possible, over time, to

divulge a better framework or theory of customer loyalty program by marketers that is valid across retailing industry.

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