

Could the Loyalty Program Increase Store Loyalty?

Aang Curatman, Agus Suroso
 Department of Management
 Universitas Jenderal Soedirman
 Purwokerto, Indonesia
 aratman74@gmail.com

Junaedi Junaedi, Yono Maulana, Rahmadi Rahmadi,
 Soesanty Maulany
 Faculty of Economics
 Universitas Swadaya Gunung Jati
 Cirebon, Indonesia

Abstract—Developing and maintaining customer loyalty is crucial in the business competition. Thus, this study aims to examine the effect of customer and customer-company identification (CCID) loyalty cardholders on the store. The samples in this study were 100 respondents who were cardholders of the minimarkets in Cirebon, Indonesia. The sampling technique is a purposive random. The results show that the loyalty program has a significant influence on program loyalty. Loyalty Program has a significant positive impact on CCID and store loyalty, and CCID has also an effect to store loyalty. Further research recommendation and implication are also discussed.

Keywords—loyalty program; CCID; store loyalty

I. INTRODUCTION

Customer loyalty is very important for every company, both in services and manufacture sectors. This is because store loyalty is difficult to reach. However, once it established, it will provide benefits to overcome challenges and difficulties. Loyal customers will be able to reduce expenses for marketing and sales costs of the companies. They will achieve high sales volumes and will get new customers through positive spoken communication [1]. Customer loyalty will also increase future sales, price premiums, share of wallet, and share of visits [2]. Moreover, it can increase share of purchases [3].

It is reported that in the last decade, many companies adopted customer focus, often through formal programs namely Customer Relationship Management (CRM) [4]. The latest advances in information technology have provided marketing managers with the tools to create new generation CRM tactics. One tactic that has been considered and adopted by thousands of companies is building a store loyalty program.

The aim of the loyalty program is to establish a higher level of customer retention in a profitable segment by giving more customer satisfaction and values [5]. Today, loyalty programs are available in many industries such as supermarkets and fashion stores, retails, hotels and convenience stores [4,6].

The benefits of the loyalty program for its members are such as savings discounts and awards for making this program popular for the consumers. The importance of loyalty programs to establish customer loyalty has led to the store loyalty program for being concern for marketing researchers.

The effect of customer loyalty programs on loyalty is a topic that is still being debated [6]. Most loyalty programs do

not turn all customers into loyal customers or make loyal customers exclusively. But, this does not mean that the loyalty program cannot be a useful tool.

Extensive empirical research provides mixed evidence of the effect of loyalty programs on loyalty. Several studies have found a positive effect of retail loyalty programs on buying behavior while others provide evidence of loyalty programs not producing any influence [3].

It can summarized that there are differences in research results regarding the causal relationship between loyalty programs and loyalty. Therefore, this study focuses on the membership of the loyalty program and the Customer-Company Identification (CCID) as the mediation variable. The research questions are: 1) Is there an effect of loyalty program membership on store loyalty? 2) Is there an influence on the loyalty of the loyalty program to CCID, 3) Is there a CCID effect on store loyalty? and 4) Does CCID mediate the relationship between program loyalty and store loyalty?

A. Customer Loyalty

Actual loyalty behavior has been started to exist in the era of the 1970s [7]. Customer loyalty is a very complex involving a dimension of behavior and attitude. According to Hallowell, store loyalty is described as behavioral response and as a psychological process [8]. Customer loyalty is seen as the strength of the relationship between individual's attitudes and repurchase [9]. Customer loyalty is a condition of strong involvement in repurchase, or re-consumption of a product or brand [7].

Loyalty in general can be interpreted as a person's loyalty to a product, either as a particular item or as service. Loyalty to a certain goods or services depends on several factors: the cost of moving goods or other services. Equal to the quality of goods and services, the risk of changes in costs, due to the substitution of goods or services and changes in levels satisfaction is obtained from new goods or services compared to previous experience of goods or services that have been used.

B. Loyalty Program

The first modern loyalty program was instituted by the aviation industry when American Airlines introduced the frequent flyer program in 1981. The loyalty program is a system of integrated marketing actions that aims to reward and

encourage customer loyal behavior through incentives [6]. Considers loyalty programs as programs that allow consumers to collect gifts when they repeat purchases [10]. Consumers consider this loyalty program to be an organized market activity that gives additional rewards or benefits to customers [11].

The loyalty program provides benefits or value that is felt by its members as a token of appreciation for their loyalty to the organization. The main purpose is to maintain the relationship between customers and the company to maintain its level of sales, margins and profits.

C. Customer-Company Identification (CCID)

Social identity theory shows that people articulate a sense of self, i.e. self-concept by developing social identity [12]. Membership in various social categories and associations with various organizations is an important source of social identity. Organizational identification occurs when a person feels an association with an organization and begins to define himself in terms of the organization. Organizational members can identify with companies, as well as customers, in the form of CCID [13].

Customers use corporate identity to define themselves socially. Customers can also develop cognitive perceptions about their sense of belonging and use the company to satisfy their own needs [5]. In general, people want to maintain a positive sense of selfness and thus, try to identify with companies that have the desired attributes.

D. Conceptual Model and Hypotheses Development

Loyalty program with store loyalty. Loyalty programs were run by companies can increase store loyalty. Previous studies showed loyalty programs influence store loyalty. In addition, research revealed that the loyalty program has a positive and significant effect on store loyalty [14]. From the overall previous research, the first hypothesis can be proposed as follows.

H1: Membership of the loyalty program has a positive and significant impact on store loyalty.

According to Kang et al. [15], joining customers in the loyalty program makes customers part of a special and exclusive customer group. Customers who are loyal to the program tend to develop more inherent relationships with the sponsor company. According to Uncles and Dowling [4], customers involved in the loyalty program can also access the information and interact directly with the company. As customers join the loyalty program, customers can grow relatively immune to external and negative information about the company. Therefore, a positive relationship must arise between the loyalty program and CCID. Therefore, the second hypothesis can be put forward as follows.

H2: The loyalty program has a positive and significant effect on CCID.

According to Kang et al. [15], CCID directs customers to develop long-term preferences for products or services provided by the company. In addition, CCID can increase store

loyalty to the company. Customers support companies by making re-purchases [13]. Customers identified by companies tend to remain loyal to the company reflecting a desire to express a consistent social identity. From these, the third hypothesis is as follows.

H3: CCID has a positive and significant effect on store loyalty.

Customers involved in the loyalty program can access information and interact directly with the company. By joining customers in the loyalty program, customers can grow relatively immune to external and negative information about the company. Therefore, a positive relationship must arise between the loyalty program and CCID.

CCID can encourage customers to stay close to the company. By the belief that such behavior also supports self-identity, it will result in higher corporate loyalty [6]. According to Pan et al. [14], CCID can increase store loyalty to companies. Thus, the fourth hypothesis is as follows.

H4: CCID mediates the relationship between program loyalty and store loyalty.

From the overall explanation and description as presented in the previous parts of the paper, the research framework can be presented as follows.

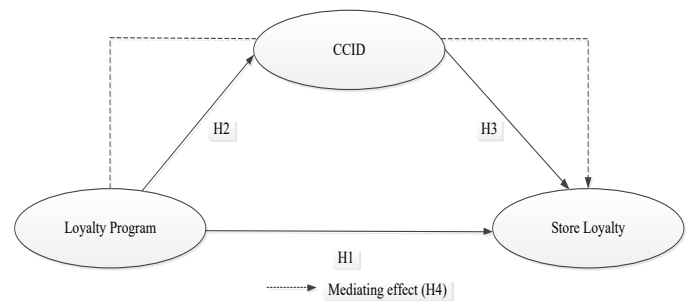


Fig. 1. Conceptual model.

II. RESEARCH METHODS

This is a survey. This survey was carried out by giving a list of statements (questionnaires) to a private retail customers who have member cards. The data were collected questionnaires and interviews. The questionnaire and the interview were administered regarding to the customer perceptions of loyalty programs, CCID and store loyalty.

A. Population and Sample

The respondents of this study were the customers who are members of the private retails in Cirebon who join loyalty program that was purposively taken. There was 96 respondents participated in the study. All respondents were selected based on their ages. The criteria of respondents were eighteens (assuming they can make choices at their own discretion). The sampling size was administered according to Umar [16].

$$n \geq p \cdot q (Za/2 / e)^2 \tag{1}$$

B. Instrumentation and Measurement

This study used interval data measurement. Interval data were generated by a bipolar adjective technique [17]. Semantic scale, the scale used in this study, is basically used to measure the meaning of psychological, social, and physical objects using 7 scale points that have two poles, which at both ends of the poles are adjectives that have the opposite meaning to measure certain attitudes or characteristics possessed by someone [18].

To test the effect of intervening variables, path analysis method is used. The instruments were constructed using Zeithaml and Berry [19], while the theory of Bojei et al. [20] and Brashear-alejandro et al. [21] were used for constructing the items of instruments.

III. RESULTS AND DISCUSSION

A. Regression Analysis

The results of regression analysis is presented in the following table [22].

TABLE I. ANALYSIS OF TABLE COEFFICIENTS

Regression Equations	Unstandardized Coefficients	Sig.	Information
LP → SL	0,579	0,000	Influence
LP → CCID	0,379	0,000	Influence
LP → LP through CCID	1,254	0,000	Influence
	0,104	0,247	Not Influential (Mediating)

B. Discussion

Unstandardized Coefficients in the first equation shows that the loyalty program for store loyalty is 0.579 in the significance level of 0.000. This means there is a positive influence on loyalty programs for store loyalty. Thus, the first hypothesis is accepted. The results of this study are in line with previous research [23]. It is revealed there is a positive and significant relationship between customer loyalty and loyalty programs at JUSCO AEON AU2 Taman Setiawangsa Kuala Lumpur Malaysia [22]. This finding also supports another study Zakaria [23]. In his study, it is found that loyalty programs succeed in changing customer behavior and motivation of the customers to increase purchases [24].

Unstandardized Coefficients on the second equation of the CCID loyalty program is 0.379 in a significance level of 0.000. This means that there is a positive influence on the loyalty program for CCID. Thus, hypothesis 2 is accepted. This is in line with the opinion stating that the joining of customers in the loyalty program makes customers part of a special and exclusive customer group [15]. It is also ensured that customers involved in the loyalty program can also access information and interaction directly to the company [5].

By entering CCID, unstandardized Coefficients loyalty program for store loyalty is 1.254 in a significance level of 0,000. So, there is a CCID positive influence on store loyalty. Thus, hypothesis 3 is accepted. This is to support findings that customer-company identification (CCID) can increase customer loyalty to the company [15].

The results of the Unstandardized Coefficients loyalty program for store loyalty by entering CCID into the equation is 0.104 in the significance level of 0.247. It means the loyalty program variable has no effect on store loyalty after entering the CCID variable. It concludes that the CCID variable mediates absolutely the relationship between loyalty programs and store loyalty. Therefore, hypothesis 4 is accepted. The overall hypothesis testing are presented in the following figure 2.

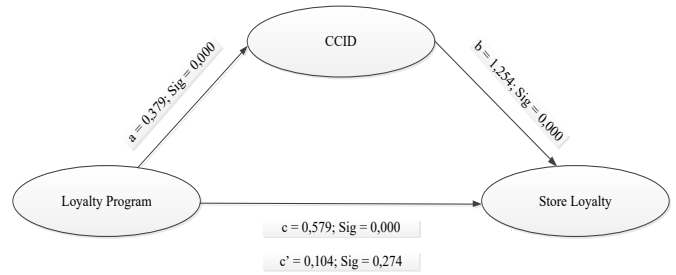


Fig. 2. Hypotheses testing.

IV. CONCLUSION

From the overall hypothetical testing, it can be summarized that:

- there is an effect of the loyalty program on CCID,
- CCID affects store loyalty, and
- CCID is a mediating variable between loyalty programs and store loyalty.

However, this research has several limitations such as the sample area and focuses. Consequently, the result may limit generalization. For future research, it is recommended to increase the number of samples and expand the research area.

REFERENCES

- [1] C.W.L. Hart, Extraordinary guarantees: A new way to build quality throughout your company & ensure satisfaction for your customers. AMACOM/American Management Association, 1993.
- [2] H. Evanschitzky, B. Ramaseshan, D.M. Woisetschlager, V. Richelsen, M. Blut, and C. Backhaus, "Consequences of customer loyalty to the loyalty program and to the company," Journal of the Academy of Marketing Science, vol. 40, no. 5, pp. 625-638, 2012.
- [3] A.W. Mägi, "Share of wallet in retailing: The effects of customer satisfaction, loyalty cards and shopper characteristics," vol. 79, pp. 97-106, 2003.
- [4] M. Uncles and G. Dowling, "Customer loyalty and customer loyalty programs," Of Consumer Marketing, July 2003.
- [5] R.N. Bolton and M.D. Bramlett, "Implications of loyalty program membership and service experiences for customer retention and value," vol. 28, no. 1, pp. 95-108, 2000.
- [6] J. Leenheer, H. J. Van Heerde, T.H.A. Bijmolt, and A. Smidts, "Do loyalty programs really enhance behavioral loyalty? An empirical analysis accounting for self-selecting members," vol. 24, pp. 31-47, 2007.
- [7] R.L. Oliver, "Whence consumer loyalty?," The Journal of Marketing, vol. 63, pp. 33-44, 1999.

- [8] R. Hallowell, "The relationships of customer satisfaction, customer loyalty, and profitability: An empirical study," *International Journal of Service Industry Management*, vol. 7, no. 4, pp. 27–42, 1996.
- [9] A.S. Dick and K. Basu, "Customer loyalty: Toward an integrated conceptual framework," *Journal of the Academy of Marketing Science*, vol. 22, no. 2, pp. 99–113, 1994.
- [10] Y. Liu, "The long-term impact of loyalty programs on consumer purchase behavior and loyalty," vol. 71, pp. 19–35, October 2007.
- [11] K. De Wulf and G. Odekerken-schröder, "Journal of relationship what drives consumer participation to loyalty programs?," pp. 37–41, October 2014.
- [12] Tajfel and Turner, 1986.
- [13] C.B. Bhattacharya and S. Sen, "Consumer–company identification: A framework for understanding consumers' relationships with companies," *Journal of Marketing*, vol. 67, no. 2, pp. 76–88, 2003.
- [14] Y. Pan, S. Sheng, and F.T. Xie, "Journal of retailing and consumer services antecedents of customer loyalty: An empirical synthesis and reexamination," *Journal of Retailing and Consumer Services*, vol. 19, no. 1, pp. 150–158, 2012.
- [15] J. Kang, T. Brashear, and M.D. Groza, "Customer – company identification and the effectiveness of loyalty programs," *Journal of Business Research*, vol. 68, no. 2, pp. 464–471, 2015.
- [16] H. Umar, *Riset Pemasaran dan Perilaku Konsumen*, Jakarta: Penerbit PT. Gramedia Pustaka Utama, 2000.
- [17] A. Ferdinand, *Struktural Equation Modeling Dalam Penelitian Manajemen: Aplikasi Model-Model Rumit Dalam Penelitian untuk Tesis Magister & Disertasi Doktor*, 3rd ed, Semarang: Badan Penerbit Universitas Diponegoro, 2005.
- [18] S. Rahayu, *SPSS dalam Riset Pemasaran*, Bandung: Penerbit Alfabeta, 2005.
- [19] V.A. Zeithaml, L.L. Berry, A. Parasuraman, "The behavioral consequences of service quality," *J. Mark.*, vol. 60, no. 2, 1996.
- [20] J. Bojei, C.C. Julian, C.H.E. Aniza, B. Che, and Z.U. Ahmed, "The empirical link between relationship marketing tools and consumer retention in retail marketing," vol. 181 (March), pp. 171–181, 2013.
- [21] T. Brashear-alejandro, J. Kang, and M.D. Groza, "Leveraging loyalty programs to build customer – company identification," *Journal of Business Research*, 2015.
- [22] Suliyanto, *Ekonometrika Terapan: Teori dan Aplikasi dengan SPSS*, Yogyakarta: Andi Offset, 2011.
- [23] I. Zakaria, "The relationship between loyalty program, customer satisfaction and customer loyalty in retail industry: A case study," *Procedia - Social and Behavioral Sciences*, vol. 129, pp. 23–30, 2014.
- [24] M. Lewis, "The influence of loyalty programs and short-term promotions on customer retention," *Journal of Marketing Research*, vol. 41, no. 3, pp. 281–292, 2004.