

Impact of Loyalty Programs on Customers' Loyalty: A Case Study of Shoes and Handbags Retail Outlets of Pakistan

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The aim of this research was to explore the impact and role of one of emerging techniques of customer relationship management in Pakistan. It was investigated that how the loyalty cards influence the loyalty of female consumers in the fashion retail-sector of Pakistan. Multi-item scales adopted from previous studies were used to measure affective and behavioural loyalty. The data were collected from 400 female customers of three branded outlets of Pakistan in three different regions of Pakistan by using convenience sampling method. The results showed that the card holders of a loyalty program had more favourable attitude towards retailer, higher level of trust in the retailer and retailer staff, commitment, and satisfaction than noncard holders. Compared to noncard holders, card holders also showed higher purchase behaviour in the retailer than its competitors. Overall, the findings showed that the loyalty card programs played an important role in building loyalty. These loyalty program are effective techniques and can be used by different companies to make long term relationships with the customers. However, the emotional bonding of customers is very necessary for any company to be successful, so the companies should focus a lot on affective loyalty.

Keywords: Loyalty cards, loyalty programs, relationship marketing

There has been a growing trend of making long-term relationships with the customers who can deliver long-term profits to the company (Crucerua & Moise, 2014). Managers of proficient

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companies often ask themselves questions regarding the need for application and development of certain methods and tools for developing long-term relationships with customers. Building relationships with customers represent a real challenge that requires knowledge and understanding of marketing concepts as well as their practical use (Crucerua & Moise, 2014). Customers' expectations are constantly changing throughout the world due to which customer relationship management has become increasingly important.

Relationship marketing is 'the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value at reduced cost' (Sheth & Parvatiyar, 2000, p. 9). Relationship marketing entails the development of strategies to build relationships with customers, to develop these relationships further, and maintain them over the long-term; and through this process, add value (Miquel-Romero, Caplliure-Giner, & Adame-Sánchez, 2014). The basis of relationship marketing is customer loyalty because retaining customers over their life will contribute to enhance profitability (Gandomi & Zolfaghari, 2013). The main theme of relationship marketing is building trust between the firm and the customers and keeping promises made to the customers (Abdul, Gaur, & Peñaloza, 2012). The relationship practices mainly consist of making the customers feel special by making long-term relations with them and providing them with customized services (Zhang & Wedel, 2009).

With the advancement in information technology, new customer relationship management techniques are being used. One such technique that many retail stores use is known as customer loyalty program. *Loyalty* means customers' commitment with a particular organization in terms of purchasing the organization's goods and services repeatedly and recommending the products and services of that organization to their friends and associates (Chen, 2015). Loyalty programs are basically used to offer some benefits to the customers who buy the brand (Leenheer, van Heerde, Bijmolt, & Smidts, 2007). They offer customers with accumulating economic benefits. They are usually in the form of points and when the members of the loyalty program obtain a card, they get 'points' based on their purchases. These points can be saved for rewards. In order to create switching costs and lengthen the relationship, loyalty programs offer the customers with rewards on the basis of cumulative buying and aim to result in repeat buying behavior (Kim, Lee, Choi, Wu, & Johnson, 2013).

The development and maintenance of customer loyalty occupies a lot of importance in companies' marketing plans, especially, when it

comes to the highly competitive markets with increased unpredictability and reduced product differentiation (Grönroos, 2009). Loyalty provides basis to the customers to engage themselves in the search of extended information with fewer reasons among different alternatives. Loyal customers require less persuasion compared to the customers who do not have any previous experience of an organization. Besides this, loyal customers are more devoted to recommend an organization and its products to other people (Bove & Johnson, 2009).

Loyalty programs are quite common in U.S. and Europe, but it is relatively a new concept in the Asian Pacific countries (Steyn, Pitt, Strasheim, Boshoff, & Abratt, 2010). People generally confuse loyalty programs with sales promotions. While the sales promotions have short-term focus to increase sales, the loyalty programs have long-term focus in establishing long-term relationships with the customers (Omar, Aziz, & Nazri, 2011). Retailers have introduced different schemes for loyalty programs in order to make customers feel special. Some retailers offer free clothing storage, complementary private dinner parties, fashion shows, personalized websites, and email communication (Parish & Holloway, 2010). The nature of the loyalty schemes varies from sector to sector. In Pakistan, loyalty programs have been introduced since the last decade and now many companies have their own loyalty programs, so there is a strong need to know about the impact of loyalty programs in Pakistan.

Researchers have classified the loyalty on two main dimensions that is Affective Loyalty and Behavioural Loyalty. *Affective Loyalty* focuses on an expression of psychological loyalty while *Behavioural Loyalty* focuses on process (Bijmolt et al., 2010). Retaining the loyalty of existing customers is regarded as a strategy to maintain a competitive advantage (Grönroos, 2009). In addition, several positive benefits can originate from the behaviour of loyal customers like; lower degree of searching for alternatives, favourable word-of-mouth, greater stability regardless of competitor efforts and more tolerance of minor mistakes. Avoiding customer attritions should, therefore, motivate service providers to make greater efforts to keep existing customers (Chen, 2015).

Loyalty cards are becoming increasingly common in retailing because in highly competitive but weak growth environments retailers strive to retain their customers, and they see loyalty card programs as a way to do so (Demoulin & Zidda, 2009). Loyalty cards basically consist of two types of rewards, tangible and the intangible rewards. *Tangible rewards* are in the form of gifts and discounts. While *intangible* rewards deal with the exclusive treatment with the card

holders. The exclusive and preferential treatment occurs in a number of ways, for example, the retailers offer the card holders with the preferential access to the products (Steyn et al., 2010). They are informed about the latest offerings of the company through newsletters (Dreze & Nunes, 2009) and the rewards can be altered to the needs of each customers as the customers who buy large amount of a company's products are given special discounts that are not offered to the noncard holders (Ho et al., 2009).

According to Berman (2006), loyalty programs are generally classified into four main types. The benefit of Type 1 is that they are usually free to join, however, the same amount of discount is offered to all the customers which leads to polygamous loyalty. Type 2 program rewards the members based on their purchase history so that they can get a free item in exchange of purchasing more. However, the disadvantages associated with it are reduced profit margins of the company and dubious loyalty. Type 3 of loyalty programs offer different types of rewards for the different tiers of customers that align with the interests of the customers. Type 4 program is an expanded form of Type 3 loyalty program and serve different tiers of customers with special promotions and benefits. Type 3 and Type 4 help in getting better insight into purchasing behavior of the consumers, but many customers get confused with these two types of loyalty programs as they are complex to understand; and it can be very costly to implement these programs. These four types of loyalty programs are also being used in Pakistan.

The implementation of loyalty programs makes customers believe that that they can receive higher economic value which reflects the higher level of trust towards the retailer (Ou, Shih, Chen, & Wang, 2011), commitment (Hedrick, Beverland, & Minahan, 2007), contribute more budget, and show greater interest in marketing policies as compared to noncard holders (Parish & Holloway, 2010). Incentives which are financial, emotional, and sociological in nature trigger higher trust, commitment, and development of long-term interactions and emotional link (Vyas & Sinha, 2008).

Behavioural loyalty is expressed by the actual revisiting of the store and the total budget ratio spent at a single store (Liao, Wang, & Yeh, 2014). The rewards obtained from the loyalty programs generate a feeling of obligatory response in customers and the company provides more rewards in turn (Smith & Sparks, 2009). Most retailers implicitly suggest that the aim of their scheme is to reward repeat purchasing. This is achieved through a combination of discounts and other rewards (Gandomi & Zolfaghari, 2013). Research on this phenomenon can benefit the retailers to establish good relationship

with customers. Like behavioural loyalty, the measurement of affective loyalty is also necessary to understand the processes that make customers loyal. Affective loyalty has a long term focus and it basically relates to the state of mind (Balakrishnan, 2011). The key indicators of affective loyalty are attitude, trust in the retailer, trust in the retailer staff, commitment, and satisfaction. The previous research conducted on loyalty programs reveal that the loyalty programs have a clear potential to contribute positively to attitudinal loyalty (Bijmolt et al., 2010; Demoulin & Zidda, 2009; Dimitriades, 2006; Steyn et al., 2010; Terblanche, 2011). The reward obtained from the loyalty program leads to the strong association in the customers' mind and they spread positive word-of-mouth in turn (Balakrishnan, 2011; Ladhari, Brun, & Morales, 2008).

The members of the loyalty program are treated in a preferential and exclusive manner as compared to the nonmembers (Gómez, Arranz, & Cillán, 2012) which has a significant and positive impact on customers' trust in the retailer staff as the company devotes efforts in developing long term relationships with the customers (Mimouni-Chaabane, & Volle, 2010). The refined results of superior quality of service contributes towards customer loyalty, likelihood of purchase, increased market share and well positioned corporate image (Omar et al., 2011). Loyalty programs positively affect the satisfaction, trust, and commitment (Liu, 2007; Meyer-Waarden, 2007; Ou et al., 2011). Customer satisfaction is an important indicator of affective loyalty. Past researchers have pointed out that satisfaction is an excellent and a credible predictor of repurchase intentions and also loyalty (Omar, Musa, Wel, & Aziz, 2012). When the members of the loyalty program are satisfied with the incentive strategy of the loyalty program, they become more faithful to the retailer and show less price sensitivity as compared to the nonmembers (Demoulin & Zidda, 2009; Omar et al., 2011).

Many retailers are using different methods and techniques to achieve customer satisfaction. One such technique is the implementation of loyalty programs to satisfy the customers (Gable, Fiorito, & Topol, 2008). The most widely accepted definition of loyalty is the behavioural response that is expressed over time by some decision-making customers with respect to one or more alternatives. It is not always possible to observe loyalty behavior directly, so researchers frequently use measures of behavioral intention. Two of the most commonly used indices are intentions to patronize the outlet in the future and/or visit more often and word-of-mouth, that is, intentions to say positive things about the business and recommend it to others (Tanford, Raab, & Kim, 2011).

There is very limited research on the impact of loyalty programs on customers' loyalty in Pakistan. One can find hardly any study dealing with this topic. However, it is a common practice of many famous and other companies in Pakistan to offer the loyalty cards to the customers. Many fashion companies and other companies in Pakistan are offering membership cards also known as loyalty cards to their customers. These cards are obtained after spending a certain amount of money on shopping from the outlet or obtained from the shop after paying some charges for the card. As this research focuses on fashion retail outlets in Pakistan that offer loyalty cards to the customers so the issue of concern was to decide about gender. In this research women were taken because numerous studies have found that they are much more involved in fashion products as compared to men (Parker, Hermans, & Schaefer, 2004; Pentecost & Andrews, 2010).

The conceptual framework for the present study (see Figure 1) is based on the work of Gómez , Arranz, and Cillán (2006). The independent variable is loyalty program which consists of loyalty card. The two dependent variables are affective loyalty and behavioural loyalty.

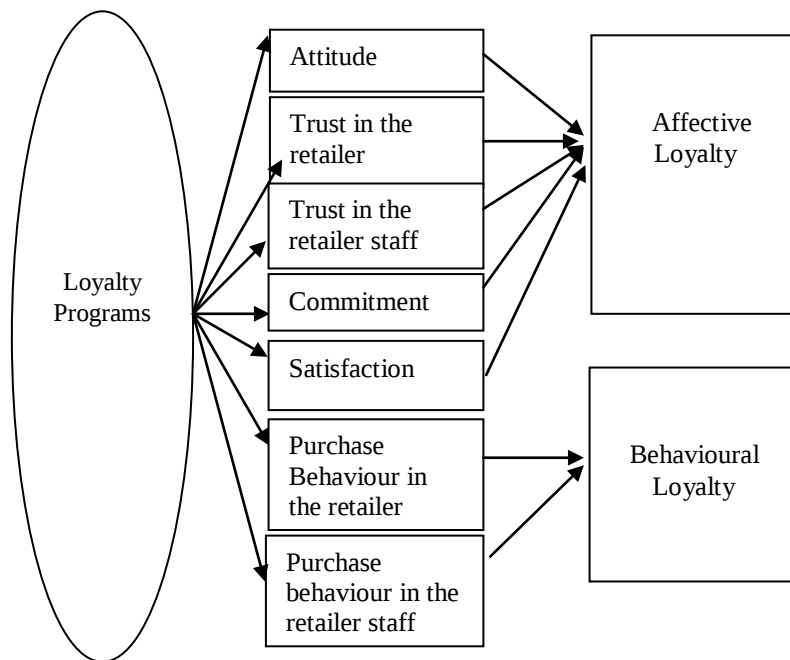


Figure 1: Conceptual framework based on Gómez et al. (2006)

Based on the above literature review, following hypotheses were formulated:

1. Card holders show greater level of positive attitude, trust towards the retailer and retailer staff, commitment, and satisfaction as compared to noncard holders.
2. Card holders possess higher level of purchase behaviour in the retailer and show lesser level of purchase behavior in competitor retailer as compared to noncard holders.

Method

Sample

The sample comprised 400 female customers including 178 cardholders and 222 noncard holders. Participants were aged between 15-64 years. Number of highly educated individuals (i.e., having degree of Masters or above) was more in the card holders group (22 %) as compared to the nonmembers (14 %). Similarly, there were more employed (51.8%) participants in card holder group than the noncard holders (42.7%) which indicated that working women had more knowledge about the loyalty programs and they were more inclined to possess them. Most of the card holders (24.2%) had the income between PKR. 16000-20000 while most of the noncard holders (18%) had the income between PKR. 6000-10000.

Instruments

The measure was based on three main parts. The first part was designed to obtain the demographic information about the respondents. The questions included information about their age, income, qualification, profession, and marital status. The second part consisted of questions related to their corresponding variables under study, whereas the third part of the questionnaire was designed just for members of a loyalty program to know the percentage of members who change their behavior after they get the membership card.

Multi-item scales based on a total of 27 items were adopted from past studies to measure affective loyalty, behavioural loyalty, and change in purchase behaviour. All the items were measured on 5-point Likert scale with response options of *strongly disagree* (1) to *strongly agree* (5).

Affective loyalty. To measure this dimension, five subscales derived from different sources were utilized. There were 3 items for measuring Attitude that were adapted from Chiang (2013). Items for Trust towards the Retailer (4 items) and Trust towards the Retailer Staff (3 items) were adapted from Gómez et al. (2006). Commitment had 3 items and were adapted from Evanschitzky, Iyer, Plassmann, Niessing, and Meffert (2006), whereas, Satisfaction had 7 items adapted from Mohsan, Nawaz, Khan, Shaukat, and Aslam (2011) and Gómez et al. (2006).

Behavioural loyalty. The 5 items for Behavioral Loyalty were adapted from Biscaia, Correia, Rosado, Ross, and Maroco (2013). This included 3 items for Purchase Behaviour in the Retailer and 2 items for Purchase Behaviour in Competitor Retailer. The third part of the questionnaire was designed just for card holders to know the percentage of card holders who change their behaviour after they get the membership card.

Procedure

Data were collected using convenience sampling technique. The self-administered questionnaire was distributed to different universities and retail outlets in the three regions of Pakistan that is Abbottabad, Islamabad, and Peshawar. Four hundred and fifty participants were approached and one hundred and fifty questionnaires were distributed in each region; fifty for each outlet in each region. Fifty questionnaires were discarded as these were incomplete.

Results

The data was analyzed using Cronbach alpha, descriptive statistics and independent sample *t*-test through SPSS-20.

Results in Table 1 show that all the subscales are sufficiently reliable. The reliability for all these variables is more than .6. A Cronbach's alpha value above .8 indicates good reliability, a value between .6 and .8 indicates acceptable reliability and a value below .6 indicates unacceptable reliability (Dempsey et al., 2014; Wanger, Bezuidenhout, & Roos, 2014). The overall reliability for the measure is .72. The value of Cronbach alpha for Attitude subscale is strongest that is .88.

Table 1

Descriptive Statistics and Cronbach Alpha for Study Variables (N= 400)

Variables	No. of items	M	SD	α
Affective loyalty				
A	3	3.66	0.95	.88
TR	4	3.38	1.13	.66
TRS	3	3.03	1.01	.67
C	3	3.63	1.01	.67
S	7	3.72	0.84	.83
Behavioural loyalty				
PBR	3	3.77	0.88	.72
PBC	2	2.44	0.57	.63
Loyalty (Total)	25			.72

Note. A = Attitude; TR = Trust in the Retailer; TRS = Trust in the Retailer Staff; C = Commitment; S = Satisfaction; PBR = Purchase Behaviour in the Retailer; PBC = Purchase Behaviour in Competitor Retailer.

Table 2

Differences between Card Holders and Noncard Holders on Study Variables (N = 400)

	Card Holders (<i>n</i> = 178)	Noncard Holders (<i>n</i> = 222)		95% CI <i>Cohen's</i>		
Scales	<i>M</i> (<i>SD</i>)	<i>M</i> (<i>SD</i>)	<i>t</i> (398)	<i>LL</i>	<i>UL</i>	<i>d</i>
Affective loyalty						
A	4.02(0.78)	3.34(0.82)	8.34**	-0.83	-0.51	0.84
TR	3.80(0.93)	3.13(0.96)	7.02**	-0.86	-0.48	0.70
TRS	3.76(0.82)	3.30(0.76)	5.72**	-0.61	-0.30	0.57
C	4.12(0.76)	3.36(0.68)	11.55**	-0.97	-0.69	1.04
S	4.16(0.75)	3.21(0.86)	11.60**	-1.11	-0.78	1.17
Behavioral loyalty						
PBR	4.04(1.11)	2.86(1.01)	11.03**	-1.38	-0.96	1.10
PBC	3.57(1.14)	3.79(1.09)	1.98**	-0.00	0.44	-0.19

Note. CI = Confidence Interval; LL = Lower Limit; UL = Upper Limit. A = Attitude; TR = Trust in the Retailer; TRS = Trust in the Retailer Staff; C = Commitment; S = Satisfaction; PBR = Purchase Behaviour in the Retailer; PBC = Purchase Behaviour in Competitor Retailer.

****** $p < .001$.

The results in Table 2 show that there exists significant mean difference between card holders and noncard holders on the subscales of affective loyalty. Card holders' scores are significantly higher than noncard holders on all indicators of affective loyalty which shows that card holders have more favourable attitude towards the retailer, have more trust in the retailer, trust in the retailer staff, have more commitment, and satisfaction than the noncard holders. The results confirmed hypothesis no. 1.

Table 2 also shows that card holders significantly show more purchase behaviour in the retailer as compared to the noncard holders while noncard holders show higher level of purchase behaviour in competitor retailers than card holders. These findings confirm hypothesis no. 2.

Discussion

The present research aimed at exploring the impact of loyalty programs on customers' loyalty comprising of two groups that is card holders and noncard holders. Findings of the study showed that loyalty program significantly affects the affective loyalty of card holders as compared to noncard holders. Earlier evidence has shown similar patterns of relationships across these constructs. For example, it has been observed that affective loyalty programs could make customers feel more perceived value of products and service through the more economic direct reward and value added service for members than nonmembers and provide convenience, saving time value, and cutting down search and decision costs (Saili, Mingli, & Zhichao, 2012). Similarly, Furinto, Pawitra, and Balqiah (2009) concluded that the loyalty programs that are perceived favorably by customers will in turn create stronger attitudinal loyalty and higher customer profitability. Customers who are likely to take part in loyalty programs show favorable attitude towards these programs (Gómez et al., 2012). Affective loyalty is very important for companies and they should pay due consideration in establishing it like demonstrating having the customers' interests at heart, providing financial incentives to selected customers, sending thank you notes to customers, and identifying customer preferences, and recording them to guide future actions (Gable et al., 2008).

Previous studies (see e.g., Liao, Wang, & Yeh, 2014) have also demonstrated the impact of loyalty programs on behavioral loyalty. It

has been observed that company loyalty primarily attracts customers to a particular provider and program loyalty ensures that once inside the store, more money is spent (Evanschitzky et al., 2012). Although, loyalty programs should provide resistance towards competitors' retailers, but the findings of this study show that although, the members do show the resistance towards competitors' retailers, but this resistance is quite weak due to number of factors like same amount of discount offered to all members. This finding is also supported by Meyer-Waarden and Benavent (2009).

Limitations and Suggestions

Like other studies, the present study had some limitations. This study focused on female consumers only; the extent of loyalty could be different for male consumers. Future research could also focus on men to know about the impact of loyalty programs on their loyalty. Respondents were found to be reluctant to respond to the questionnaire which could be overcome by establishing the rapport with customers before data collection. The study used small sample size; in future, a larger sample size can be taken to increase the generalizability of research findings. This study was limited to the branded shoes and handbags outlets. More work could be done for other goods and services.

Managerial Implications

The research revealed that loyalty programs could play a good role in affecting the affective loyalty of the customers. The loyal customers serve as a profitable source for any company. Companies are using different techniques to retain the customers in the age of this cut-throat competition. One of the effective ways to retain the customers is to offer them different loyalty programs.

The affective loyalty is important as it represents emotional bond with a company. It is difficult for competitors to copy the emotional bonding of the customers with a company. Card holders show more positive responses for all the indicators of affective loyalty as compared to the noncard holders. The companies can succeed in building good positioning of it, if it targets all the affective loyalty components.

The most important elements of affective loyalty are commitment and satisfaction which need to be given special attention by offering such types of incentives that can enhance these two components. Secondly, card holders show positive purchase behaviour in the

retailer as compared to noncard holders. They increase their purchase frequency due to the possession of the loyalty card. Nevertheless, this does not necessarily mean that card holders stop purchasing in other retailers due to membership card of any retailer. All of the chosen retailers in the study give ten percent discount to the customers. The point system cannot alone result in the luring of customers away from the competitors unless the customers are not offered some other rewards.

The companies can increase the behavioural loyalty by focusing more on the type of discounts and other rewards offered to the customers. The rate of discounts should vary with more expensive products in the outlets. Other things should be considered by the retailers to stop the customers going towards the competitors, for example, quality of the products, prices, and product varieties. This study can be done for different fast food outlets, clothing outlets, hotels, and supermarkets in order to know the nature of loyalty programs in the mentioned sectors and their impact on customers' loyalty.

Conclusion

Loyalty programs play a very important role in influencing affective and behavioral loyalty. Once the companies succeed in establishing loyalty among the customers then it becomes mutually beneficial for both the companies and the customers. Therefore, it can be concluded that companies should focus on different ways to significantly impact the purchase behavior of the customers by reconsidering on ways to design more effective loyalty programs.

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