RESEARCH ARTICLE

Perception of Loyalty Programmes and their Influence on Purchase Behaviour, Store Attractiveness and Loyalty

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Abstract

The most important challenge faced by retailers in India and across the world is that of appropriate and actionable use of the customer database and successful implementation of the CRM programs to improve profitability and Loyalty programmes being one of the most important tools of customer relationship management are used by retailers to build strong relationships with customers that leads to long-run profitability. The ever increasing number of factors influencing customers' shopping decisions, have made retailers look for every opportunity to creatively improve customer experience and boost customer loyalty. Large format, chain retail stores in India (also known as departmental stores) like Lifestyle, Pantaloons, Shoppers Stop and Westside who have implemented loyalty programmes as relationship management tools, have been considered for the this study. The purpose of this study is to understanding the perceptions of the 'member' customers of the respective stores' loyalty programmes, towards the program benefits, influence of their perception on purchase behaviour, store attractiveness and loyalty. A non-probabilistic method of sampling was used for the purpose of data collection. Correlation was done to find the perception of Loyalty program benefits on Purchase behaviour, store attractiveness and Loyalty. Factor analysis and regression was carried out to find the influence of customer perception of loyalty program and its benefits towards purchase behaviour, store attractiveness and loyalty. The finding of the research will help retailers to understand their customers better and thus design more effective loyalty programmes in the coming years.

Keywords: *Customer benefits, Customer satisfaction, Long-term relationship, Profitability.*

Introduction

The Indian Retail sector is one of the important, enormously growing and successful industries which attract global retailers to enter into India. According to India Brand Equity Foundation (IBEF), India ranked fourth among the 30 countries in Global Retail Development Index and ranked sixth in the 2011 Global Apparel Index [1]. The fashion apparel & related / complementary retail businesses form a considerable portion of the huge Indian Retail Market, especially in organized retail. Increased customer satisfaction and service is one of the means through which the retailers can be able to fulfil their goals. The use and implementation of Customer Relation Management tools like Loyalty Programmes is one of the ways in which customer satisfaction can be achieved.

The loyalty programme market in India is estimated to be about Rs. 5,000 crore of which retail alone accounts for two-thirds of the market [2]. According to Colloquy, there are about 35

million loyalty programme members in India [2] which is a small number compared to the 2.65 billion loyalty club members across retail stores in US as per the 2013 Colloquy Loyalty Census [3]. This indicates that loyalty programmes in India are still in their infancy, as against the retail industry in developed countries where the programmes have been taken to a higher level with multi-partner coalitions with many tiered benefits and differential treatment of customers based on their value and frequency of purchase.

In India, most of the programmes are offered by the independent retailers and are driven mainly by accumulated points and offering of discounts. This study about loyalty program is directed towards understanding the perceptions of the 'member' customers towards the program benefits, influence of perception on purchase behaviour, store attractiveness and loyalty. The finding of the research will help retailers understand their customers better and design

more effective loyalty programmes. There are numerous studies customer loyalty and loyalty programmes pertaining to national & international product brands and retail formats dealing with airlines, value retail chains, food retail (grocery stores/supermarkets), medical goods (pharmacies) and hypermarkets, but very few for assessing the effectiveness of loyalty programmes of competing departmental stores.

In this study, retail stores which are large, have extensive assortment and variety of merchandise that are segregated into various departments all under one roof, know as departmental stores have been considered for the study. The largest retail chain stores that have implemented loyalty programmes as relationship management tools namely, Lifestyle, Pantaloons, Shoppers Stop and Westside have been selected for the study.

Review of Literature

A Study by Parvathiyar & Shet regarded loyalty and customer satisfaction as one aspect of CRM performance, in addition to strategic and financial goals. According to them the purpose of CRM is to improve marketing productivity and enhance the mutual value for both the parties involved in the relationship. This concept is based on rewarding customers based on the accumulation of purchases [4]. The customers today have a plethora of store alternatives to shop at. It has been evidenced by Meyer, that to gain customer loyalty there has been widespread implementation of customer satisfaction and service quality programmes by retailers [5]. Once customers develop loyalty to a store, the customers will downplay the negative aspects and enhance the positive [6].

Loyalty programmes are very popularly used by retailers today. According to Sharp & Sharp the loyalty card does have a positive impact on increasing customer loyalty [7]. This is yet again emphasised by Gilbert who states "loyalty cards aim to build greater customer loyalty and retention; develop methods of creating longer-term relationships and lead ultimately to increased sales and profits" [8].

The programmes are intended to boost customer retention and the profits can be enhanced when the retailer's strategies focus on retaining customers. Profits can be dramatically increased even with small increases in retention rates. The study concluded that there will be a gradual increase in the store's customer base especially in times when sales are slow and more profits can be earned from every retained customer [9]. According to Peters the costs of retaining customers are about 80 percent lower than acquiring new customers. This study explains the degree of proliferation of retailer loyalty programmes. Focusing on the existing customers helps in increasing customer satisfaction as well as brings benefits to the retailer in the form of repeat purchases, positive word of mouth advertising and sustainable competitive advantage [10].

The programmes provide members with value in the form of rewards and create switching costs. Economic oriented research has used the switching cost argument as a rationale for the existence of loyalty programmes [11, 12 & 13]. DeWulf, Odekerken-Schröder & Iacobucci show for relational investments in consumer-firm relationships the existence of a reciprocity norm: customers evoke obligation towards those who treat them well or provide value [14]. Thereby loyalty programmes can create affective commitment, general positive regard for, and attachment to, the organization. In this manner loyalty programmes not only buy, but also earn, customer loyalty [15]. The empirical study conducted by Leenheer, et al. in 2006 on grocery loyalty programmes, highlights the substantial differences in share-of-wallet (SOW) between members and non-members of the loyalty programmes: the average share-of-wallet of members was 36%, which is 29 percentage points higher than the average share-of wallet of non-members (7%) [16].This clearly shows that customer loyalty programmes definitely impact customer purchases at a store / brand that the customer is a member of. There are studies which have shown the positive effects of loyalty programmes on purchase behaviour [16-19]. There are some others have provided evidence of how loyalty programmes are not effective [14, 20]. This ambiguity in results may be due to the methodological limitations that hinder assessment of loyalty programs, or possibilities that a customer who is already loyal to a brand or store may have enrolled to the program or others though being loyal may not prefer to apply for the store's loyalty program, which actually leads to the over estimation of the effects of loyalty programs. This creates expenditure differences between members and non-members of the program, which is driven by self-selection of customers into a loyalty program [21]. A study by Grewal et al. on customer loyalty acknowledged that for loyalty programmes to work, customers must find them valuable, which means that the

rewards justify their investment. Careful and well researched planning and implementation of strong relationship based loyalty programmes is the answer to building stronger customer loyalty [22]. It must be noted however that, for a loyalty program to be successful the customers must feel that they are economically and psychologically gaining something from the membership to such a retail program.

Research Methodology

A well structured questionnaire was administered to informally or randomly selected member customers of loyalty programmes of the four departmental stores namely Shopper's Stop, Lifestyle, Pantaloons and Westside to fulfil the research objectives. A total of 200 customers were considered for the study of which only 168 responses were usable. Convenience sampling which is a non-probabilistic method of sampling

Inferential Analysis of Loyalty program benefits on Purchase Behaviour, Store Attractiveness and Store Loyalty

was used for the purpose of data collection. Cronbach Alpha test was administered for the purpose of testing the reliability of items in the questionnaire. The higher the score of the test the more reliable the generated scale is. However, 0.7 has been indicated to be an acceptable reliability coefficient [23].

Analysis and Interpretation

The data was analysed in two stages.
In the first stage, Correlation was done to find the significance between benefits (monetary and non monetary) with respect to purchase behaviour, store attractiveness and store loyalty.
In the second stage, Factor Analysis and Regression was carried out to find the influence of customer perception of loyalty program and its benefits towards purchase behaviour, store attractiveness and store loyalty

Stage I: Karl Pearson's Correlationto Establish the Association between the Variables under Consideration for the Study

Table 1: Correlation between Monetary& Non-Monetary Benefits and Purchase Behaviour

Benefits	Variables		Frequent to store	Spend more before member ship	Purchase more at this store than stores	Amount Spend more	Reduce purchase from other stores
	(a) Save more money	P. Correlation	0.431	0.361	0.412	0.38	0.168
		Sig. (2-tailed)	0	0	0	0	0.029
	(b) Enjoy more discounts	P. Correlation	0.354	0.236	0.329	0.227	-0.038
		Sig. (2-tailed)	0	0.002	0	0.003	0.624
	(c) Get Free Gifts	P. Correlation	0.307	0.391	0.339	0.297	0.092
Monetary Benefits		Sig. (2-tailed)	0	0	0	0	0.238
	(d) Avail free Parking	P. Correlation	0.087	0.222	0.156	0.195	0.128
		Sig. (2-tailed)	0.262	0.004	0.043	0.011	0.099
	(e) Avail better offers from partner businesses	P. Correlation	0.144	0.366	0.158	0.12	0.111
		Sig. (2-tailed)	0.062	0	0.041	0.121	0.152
	(f) Collect more points from Affiliate Stores	P. Correlation	0.337	0.33	0.301	0.327	0.062
		Sig. (2-tailed)	0	0	0	0	0.426
	(g) Enjoy collecting redeemable loyalty points	P. Correlation	0.356	0.394	0.337	0.268	0.083
		Sig. (2-tailed)	0	0	0	0	0.286
	(h) See / buy new merchandise before non-members	P. Correlation	0.104	0.068	0.169	0.069	0.074
		Sig. (2-tailed)	0.181	0.379	0.029	0.376	0.338
	(i)Updated on Store events	P. Correlation	0.022	0.061	0.096	0.004	0.02
		Sig. (2-tailed)	0.772	0.431	0.217	0.959	0.799
Non-Monetary Benefits	(j) Avail better service than non-members	P. Correlation	0.133	0.21	0.286	0.179	0.182
		Sig. (2-tailed)	0.085	0.006	0	0.02	0.018
	(k) Feel Special to the business / store	P. Correlation	0.307	0.365	0.315	0.357	0.252
		Sig. (2-tailed)	0	0	0	0	0.001
	(l) Get Personal attention	P. Correlation	0.239	0.34	0.354	0.329	0.336
		Sig. (2-tailed)	0.002	0	0	0	0
	(m) Feel a sense of Belonging	P. Correlation	0.199	0.355	0.312	0.308	0.26
		Sig. (2-tailed)	0.01	0	0	0	0.001
	(n) Feel Closer to Retailer	P. Correlation	0.185	0.304	0.237	0.343	0.351
		Sig. (2-tailed)	0.016	0	0.002	0	0
	(o) Feel recognised for doing business with the store	P. Correlation	0.188	0.253	0.27	0.243	0.245
		Sig. (2-tailed)	0.015	0.001	0	0.001	0.001

5% level of significance

Table 2: Correlations between monetary & non- monetary benefits and store loyalty

	Variables		Shop at store again	Prefer shopping at this store than stores	Recommend to others	Continue if shifted to new location	Recommend this LP to others	Renew my membership on its expiry
Monetary benefits	(a) Save more money	P. Correlation	0.369	0.278	0.106	0.133	0.095	0.199
		Sig. (2-tailed)	0	0	0.171	0.086	0.219	0.01
	(b) Enjoy more discounts	P. Correlation	0.352	0.257	0.096	0.224	0.058	0.234
		Sig. (2-tailed)	0	0.001	0.217	0.004	0.454	0.002
	(c) Get Free Gifts	P. Correlation	0.233	0.252	0.189	0.185	0.094	0.175
		Sig. (2-tailed)	0.002	0.001	0.014	0.016	0.225	0.023
	(d) Avail free Parking	P. Correlation	0.108	0.144	0.211	0.21	0.193	0.221
		Sig. (2-tailed)	0.163	0.062	0.006	0.006	0.012	0.004
	(e) Avail better offers from partner businesses	P. Correlation	0.129	0.183	0.121	0.198	0.16	0.078
		Sig. (2-tailed)	0.096	0.018	0.117	0.01	0.038	0.318
	(f) Collect more points from Affiliate Stores	P. Correlation	0.305	0.336	0.293	0.364	0.291	0.324
		Sig. (2-tailed)	0	0	0	0	0	0
	(g) Enjoy collecting redeemable loyalty points	P. Correlation	0.423	0.431	0.423	0.359	0.372	0.446
		Sig. (2-tailed)	0	0	0	0	0	0
	(h) See / buy new merchandise before non-members	P. Correlation	0.115	0.235	0.166	0.219	0.24	0.205
		Sig. (2-tailed)	0.138	0.002	0.031	0.004	0.002	0.008
	(i)Updated on Store events	P. Correlation	0.031	0.139	0.137	0.188	0.131	0.244
		Sig. (2-tailed)	0.693	0.073	0.076	0.014	0.09	0.001
Non-Monetary benefits	(j) Avail better service than non-members	P. Correlation	0.093	0.292	0.312	0.265	0.322	0.359
		Sig. (2-tailed)	0.229	0	0	0.001	0	0
	(k) Feel Special to the business / store	P. Correlation	0.212	0.436	0.365	0.252	0.307	0.373
		Sig. (2-tailed)	0.006	0	0	0.001	0	0
	(l) Get Personal attention	P. Correlation	0.183	0.341	0.336	0.232	0.345	0.233
		Sig. (2-tailed)	0.017	0	0	0.002	0	0.002
	(m) Feel a sense of Belonging	P. Correlation	0.202	0.338	0.246	0.179	0.199	0.279
		Sig. (2-tailed)	0.009	0	0.001	0.02	0.01	0
	(n) Feel Closer to Retailer	P. Correlation	0.072	0.208	0.236	0.15	0.243	0.184
		Sig. (2-tailed)	0.356	0.007	0.002	0.052	0.002	0.017
	(o) Feel recognised for doing business with the store	P. Correlation	0.077	0.283	0.315	0.157	0.276	0.313
		Sig. (2-tailed)	0.324	0	0	0.042	0	0

5% level of significance

It can be inferred from *Table 1*. that the variables-'enjoy more discounts', 'free gifts', 'free parking', 'avail offers from partner businesses', 'collecting more points' and 'enjoy collecting redeemable loyalty points' show that there is no significant association between the monetary benefits and purchase behaviour at 5 percent level of significance.It is evident from Table 1 that 'see/buy new merchandise' and'updates on store events' do not show any significant association between the non-monetary benefits and the purchase behaviour at 5 percent level of significance. The inference from the correlation indicates that monetary benefits considered for the study do influence purchase behaviour which in turn increases profitability. However it will not

stop member customer from purchasing at competing stores. When it comes to non-monetary benefits, emotional behaviour may have a positive influence on purchase behaviour, but not the other factors like preview of merchandise and updation on store events.

It is clear from ***Table 2*** that monetary benefits like saving money, enjoy discounts, free gifts, free parking and offers from partner business do show association with store loyalty but collecting points doesnot show associations with variables related to store loyalty at 5 percent level of significance. The table also shows that most of the non-monetary benefits of loyalty programmes do influence building of store loyalty resulting in increasing profits for the store. Benefits like preview of merchandise, updation on store events, customer service do not influence repeat shopping, store preference or recommendation of store. The inference from the Correlation analysis shows that there is a good association between the independent (loyalty program benefits) and dependent variables (purchase behaviour and store loyalty).

Stage II: Factor Analysis and Regression to find the influence of customer perception of loyalty program and its benefits towards purchase behaviour, store attractiveness and loyalty.

Factor Analysis was performed on a set of fifteen variables i.e the Independent Variables (IV) – Benefits of Loyalty Program. First and a set of eleven variables, the dependent variables (DV) related to Purchase Behaviour and Store Loyalty. The variables were put through the KMO and Bartlett's Test for sampling adequacy and sphericity and result was 0.807 and 0.835, with an approximate Chi Sq. of 1058.472 and Chi Sq. of 932.421 significant at 5% which shows that there is sampling adequacy. Four components were extracted through Factor Analysis, using the Principal Component Analysis with Varimax rotation and Kaiser Normalisation process. Based on this, four components of Independent variables were called "Emotional Benefits"(EB),"Monetary Benefits" (MB), "Relationship Nourishment Benefits" (RNB) and "Extended Benefits" (EXB). The three dependent components called "Purchase Behaviour" (PB), "Store Attractiveness" (SA) which is a prelude to store loyalty and "Store Loyalty" (SL).

Regression analysis was done for Purchase behaviour, Store Attractiveness and Store Loyalty

Ho1: There is significant relationship between perception of loyalty program benefits and customer purchase behaviour, store attractiveness and store loyalty.

Table 3: Summary for purchase behaviour, store attractiveness and store loyalty

Model	R	R square	Adjusted R Square	Std. error of the estimate	Durbin-watson
1	.548a	.300	.283	.84661015	2.077
2	.465a	.216	.197	.89623018	1.581
3	.357a	.127	.106	.94546882	1.775

a. Predictors: (Constant), Extended Benefits - REGR factor score   4 for analysis 1, Relation Nourishment Benefits - REGR factor score   3 for analysis 1, Monetary Benefits - REGR factor score   2 for analysis 1, Emotional Benefits - REGR factor score   1 for analysis 1
1.   Dependent Variable: Purchase Behaviour - REGR factor score   1 for analysis 3
2.   Dependent Variable: Store Attractiveness - REGR factor score   2 for analysis 3
3.   Dependent Variable: Store Loyalty - REGR factor score   3 for analysis 3

Table 4: Analysis of variance for purchase behaviour, store attractiveness and store loyalty

ANOVAa						
Model		Sum of squares	Df	Mean square	F	Sig.
1	Regression	50.170	4	12.542	17.499	.000b
2		36.074	4	9.018	11.228	.000b
3		21.292	4	5.323	5.955	.000b

a. Dependent Variable:
1. Purchase Behaviour - REGR factor score   1 for analysis 3
2. Store Attractiveness - REGR factor score   2 for analysis 3
3. Store Loyalty - REGR factor score   3 for analysis 3
b. Predictors: (Constant), Extended Benefits - REGR factor score   4 for analysis 1, Relation Nourishment Benefits - REGR factor score   3 for analysis 1, Monetary Benefits - REGR factor score   2 for analysis 1, Emotional Benefits - REGR factor score   1 for analysis 1

Hypothesis Related Findings for Purchase Behaviour (PB)

Regression was performed to estimate the influence of perception of loyalty program benefits on Purchase Behaviour (PB) component of dependent variable with the four components. The **Adjusted R²**(Table 3) was found to be 0.283 showing that the independent variables cause a 28.3 percent variance in the dependent variable i.e. purchase behaviour and the **F-statistic**(Table 4) was found to be 17.499 showing that the explained variance in the model is 17.499 percent which was found to be significant at 5 percent. Only two regression coefficients EB and MB for the model with unstandardised co-efficient values .217 and .497 (Table 5) were found to be significant at 5 percent level of significance. The results indicate that there is a significant relationship between EB and PB and MB and PB. There is no significant relationship between RNB and PB and EXB and PB.

Hypothesis Related Findings for Store Attractiveness (SA)

Regression was performed to estimate the influence of perception of loyalty program benefits on Store Attractiveness (SA) component of dependent variables. The **Adjusted R²**(Table 3) was found to be .197 showing that the independent variables cause a 19.7 percent variance in the dependent variable i.e. store attractiveness and the **F-statistic**(Table 4) was found to be 11.228 showing that the explained variance in the model is 11.228 percent which was found to be significant at 5 percent. The coefficients for the model EB, MB, RNB and EXB were found to be .255, .173, .317 and -.144 (Table 5) respectively, all significant at 5 percent level of significance. The results indicate that there is a significant relationship between EB and SA; MB and SA; RNB and SA and EXB and SA.

Table 5: Coefficients of variation for dependent variable - purchase behavior, store attractiveness and store loyalty

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
(Constant)	1.467E-016	.065		.000	1.000	-.129	.129
	7.038E-017	.069		.000	1.000	-.137	.137
	1.355E-016	.073		.000	1.000	-.144	.144
Emotional Benefits	.217	.066	.217	3.308	.001	.087	.346
	.255	.069	.255	3.672	.000	.118	.392
	.318	.073	.318	4.343	.000	.173	.462
Monetary Benefits	.497	.066	.497	7.587	.000	.368	.626
	.173	.069	.173	2.500	.013	.036	.310
	-.054	.073	-.054	-.743	.459	-.199	.090
Relation Nourishment Benefits	.062	.066	.062	.940	.348	-.068	.191
	.317	.069	.317	4.569	.000	.180	.454
	-.007	.073	-.007	-.099	.921	-.152	.137
Extended Benefits	-.051	.066	-.051	-.777	.438	-.180	.078
	-.144	.069	-.144	-2.073	.040	-.281	-.007
	.153	.073	.153	2.097	.038	.009	.298

a. Dependent Variable:
   Purchase Behaviour - REGR factor score   1 for analysis 3
   Store Attractiveness - REGR factor score   2 for analysis 3
   Store Loyalty - REGR factor score   3 for analysis 3

Hypothesis Related Findings for Store Loyalty (SL)

Regression was performed to estimate the influence of perception of loyalty program benefits (IV) on Store Loyalty (SL) component of dependent variable (DV) with the four components of independent variables. The **Adjusted R²**(Table 3) was found to be .106 showing that the independent variables cause a 10.6 percent variance in the dependent variable i.e. store loyalty and the **F-statistic**(Table 4) was

found to be 5.955 showing that the explained variance in the model is 5.955 percent which was found to be significant at 5 percent. The coefficients i.e. EB and EXB for the model were found to be .318 and. 0.153 (Table 5), and were significant at 5 percent level of significance. The results indicate that there is significant relationship between EB and SL and EXB and SL. The null hypothesis is accepted that there is significant relationship between perception of loyalty program benefits' and Store Loyalty

Conclusion

Customer perception indicates that monetary benefits offered by loyalty programmes are very important to them. Loyalty programmes have failed to deliver satisfaction through non-monetary benefits. The inferential analysis clearly indicates that customer perception of loyalty programmes influences purchase behaviour of customers, the attractiveness of the store and store loyalty. The findings of this research are vital for retailers to re-strategies and integrate this CRM tool (loyalty programmes) better to build loyalty and achieve organizational objectives. This research would be useful in designing tactics to improve store profitability and increasing store attractiveness. As mentioned in the literature review it is less expensive to retain customers than find new ones. Research does indicate that though loyalty programmes positively impact purchase behavior, store attractiveness and loyalty, the tool by itself is not strong enough the increase profitability and create loyalty however attractive it is. It has to be designed, implemented and strengthened in conjunction with the entire store offering based on the market strategy and limitations of the retailer's budget.

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