

EXAMINING THE INTERPLAY OF INVOLVEMENT AND ADOPTION ON PERCEPTION OF RETAIL LOYALTY PROGRAM BENEFITS

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Intense competition and complex global market has made loyalty programs as the coherent element of marketing strategy. These programs are the part and parcel of customer relationship strategy of the organizations to stimulate continued patronage among customers. Retailers offer numerous benefits through these programs which involve certain cost, so there is need to investigate whether these benefits are acknowledged appropriately by customers. Hence, the present paper uncovers relative importance of these benefits as perceived by customers with respect to level of shopping involvement and loyalty card adoption. 741 customers have been approached through a structured questionnaire from Delhi region. Data have been analyzed using descriptive statistics and multivariate analysis of variance (MANOVA). The results of the study revealed that relative importance of loyalty program benefits varies significantly with customers' level of involvement in shopping and loyalty card adoption. It has been found that customers with high shopping involvement accord more importance to recognition and social benefits than their counterparts. Moreover, customers who are high on loyalty card adoption, perceived hedonic benefits more importantly while customers in the other group perceived more importance for economic benefits. Finally the implications for retailers have been discussed.

Key words: Loyalty, Loyalty Programs, Loyalty Program Benefits

INTRODUCTION

Retaining and locking customers is the ultimate goal of every organization. Research done in the field also shows that retaining customers is more profitable. This profitability comes from decreased servicing costs, less price sensitivity, increased spending and favorable recommendations pass from loyal customers on to other potential customers (Dowling, 1997). Dawkins and Reichheld (1990) highlighted the tangible advantages of retaining customers. "Based on their consulting experience, they claimed that 5% increase in

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retention rate led to an increase in the net present value of customers between 25% and 85% in a wide range of industries, from credit card to insurance brokerage and from motor services to office building management” (cited from Ahmed and Buttle, 2001). Thus, core marketing strategy in the present world is to lock existing customers as well.

As far as India is concerned, country's retail growth is at its best since last decade. Presently it accounts for 10% of GDP and is expected to grow at a compound annual growth rate (CAGR) of 13% by 2018 (India Brand Equity Foundation, 2014). In this huge revamping period, retailers are formulating various strategies to retain customers and to convert an occasional purchase into repeat purchase. Out of many competitive initiatives used by retailers, loyalty programs are one of the most important weapons to retain and lock customers. Companies in India such as *Reliance Retail*, *Future Group*, *Pantaloon*, *Westside* and *Tata* etc. have been offering their loyalty programs to retain their customers. Even the consumers have shown acceptance for loyalty programs and prefer a brand with loyalty program over others (India Millennial Loyalty Survey, 2014). Therefore, there is need to explore various benefits offered to the customers through loyalty programs and importance of these benefits from customer end.

CONCEPTUALIZATION

A loyalty program has been defined as, “*an integrated system of marketing actions that aims to make member customers more loyal*” (Leenheer et al., 2007, p. 32). These programs are offered by retailers to stimulate customer loyalty through discounts, cash backs, rebates, and gifts etc. Dowling and Uncles (1997) also stated that customer loyalty can be reinforced through loyalty programs. Thus, retailers launch these programs to improve their knowledge on customers and to use this knowledge in strengthening their customer base. These programs are based on a premise.....

“As you develop stronger relationship with your best customers, they stay with you longer..... and become more profitable”¹

LOYALTY PROGRAM BENEFITS

Benefits/rewards drive behavior and one can use these to reinforce the desired behavior. But it has been seen that benefits which are not of significant amount and are not relevant can not reinforce the desired behavior. So these should be used wisely as a means to reinforce the

¹ <http://www.netcarrots.net/net/services/customer-loyalty-programs.aspx>

behavior. In case of loyalty programs, benefits play a crucial role in engendering loyalty and are important part of these programs. According to O'Brien and Jones (1995) five elements determine the value of a loyalty program. They include- (1) cash value of redemption rewards (cash value), (2) the range of choice of these rewards (redemption choice), (3) the aspiration value of rewards (aspiration value), (4) the perceived likelihood of achieving rewards (relevance), and (5) the scheme's ease of use (convenience). This suggests that entire mechanism of loyalty programs round across these rewards/benefits. To achieve continuous patronage, retailers offer number of benefits to customers. Out of all, discounts, free offers, gifts, preferential treatment and special communications etc. are few examples of loyalty program benefits which can change customer behavior in a desired way.

PREVIOUS RESEARCH AND DEVELOPMENT OF HYPOTHESES

Review of available literature shows that benefits associated with loyalty program can be classified in different ways. These benefits can be direct or indirect (Yi and Jeon, 2003; Keh and Lee, 2006). Benefits which have no relation with the product/service are indirect benefits and those having relation with the product/service are direct benefits. Researchers have also classified benefits into hard benefits and soft benefits (Capizzi and Furguson, 2005; Lacey et al. 2007; Butler and D'Souza, 2011). Hard benefits means tangible benefits which have some economic value like cash back, discounts, coupons and gifts. Soft benefits are intangible and non-monetary benefits (e.g. friendly and helpful customer service, preferential treatment, prestige and recognition). Mimouni- Chaabane and Volle (2010) have broadly categorized benefits as: Utilitarian benefits, Hedonic benefits and Symbolic benefits. Utilitarian benefits include monetary savings via cash back offers, rebates, discounts and coupons. Hedonic benefits grant fun and pleasure to members of the loyalty program through collecting and redeeming points, trying new and innovative products, attending special parties, events and wardrobe contests etc. On the other hand, through symbolic benefits members of the loyalty programs get preferential treatment and recognition from the employees. Meyer-Waarden et al. (2013) and Meyer-Waarden (2013) made a distinction between economic, hedonist, relational, convenience and informational rewards. These authors have subdivided the utilitarian benefits as proposed by Mimouni- Chaabane and Volle (2010) into three categories—economic benefits, convenience benefits and informational benefits. Economic benefits are monetary savings while relational benefits are symbolic benefits as conceptualized by Mimouni- Chaabane and Volle (2010). On the other hand, convenience benefits make shopping easier and more practical by reducing time and efforts involved in shopping and

In the present study perceived loyalty program benefits include –perceived economic benefits, perceived convenience benefits, perceived informational benefits, perceived hedonic benefits and perceived recognition & social benefits. To achieve the aforesaid objective, following hypotheses have been framed:

H1. Relative importance of each of the following perceived benefits— (a) economic benefits, (b) convenience benefits, (c) informational benefits, (d) hedonic benefits, and (e) recognition & social benefits will differ significantly with the shopping involvement of customers.

H2. Relative importance of each of the following perceived benefits— (a) economic benefits, (b) convenience benefits, (c) informational benefits, (d) hedonic benefits, and (e) recognition & social benefits will differ significantly with level of loyalty card adoption.

H3. Relative importance of each of the following perceived benefits— (a) economic benefits, (b) convenience benefits, (c) informational benefits, (d) hedonic benefits, and (e) recognition & social benefits will differ significantly with both shopping involvement and level of loyalty card adoption of customers.

RESEARCH METHOD

Data Collection and Participants:

For this study, survey has been conducted in the context of department stores. In order to collect necessary data for the conduct of present study, a structured questionnaire has been filled through a self-completion survey. Delhi, the capital of India, contributes highest mall stock space in the entire NCR belt and most modern retail formats are located here (Knight Frank, 2010). Therefore, target population for the study comprised of individuals who live or work in Delhi. Of 900 distributed questionnaires, a total of 741 usable responses have been obtained, representing a response rate of approximately 82 per cent. Out of 741 respondents, majority of them are males (53.7%), belongs to age group of 25-34 years (50.9%), are post-graduates (52.6%) and are into private service (35.8%). In addition to this, approximately 57 per cent (57.2%) of respondents are married and 52 per cent (52.1%) of them belong to the income group of less than INR 50000 per month.

Measures:

In order to draw up the questionnaire, Content analysis of extant loyalty programs was

carried out to study the range of benefits offered by retailers through loyalty programs in India. Major Indian retailers who contribute significantly to organized retail were considered. The list of major retailers in India along with the store they operate are given in Table 1.

Table 1: Major Retailers in India

Brands	Stores
REI Agro Retail Ltd.	6TEN and 6TEN Kirana Stores
Future Groups-Formats	Big Bazaar, Food Bazaar, Pantaloons, Central, Brand Factory, Depot, aLL, E-Zone etc.
Fabindia	Textiles, Home furnishings, Handloom, Apparel, Jewellery stores
RP-SanjivGoenka Group Retail-Formats	Spencer's Hyper, Spencer's Daily, Music World, Au Bon Pain (International Bakery Cafeteria), Beverly Hills Polo Club
The Tata Group-Formats	Westside, Star India Bazaar, Steeljunction, Landmark, Titan Industries with World of Titans showrooms, Tanishq Outlets, Croma
Reliance Retail-Formats	Reliance MART, Reliance SUPER, Reliance FRESH, Reliance Footprint, Reliance Living, Reliance Digital, Reliance Jewellery, Reliance Trends, Reliance Autozone, istore
K Raheja Corp Group-Formats	Shoppers Stop, Crossword, Hyper City, Inorbit Mall
Lifestyle	International -Lifestyle, Home Centre, Max, Fun city and International Franchise brand stores.
Aditya Birla Group	"More" Outlets
Gitanjali	Nakshatra, Gili, Asmi, D'damas, Gitanjali Jewels, Giantti, Gitanjali Gifts, etc.

Source: Report by Corporate Catalyst India (August 2013).

To develop a list of benefits that are commonly provided by the various outlets, websites of the selected outlets were first reviewed. A list of twenty three benefits was identified through websites and has been used for developing the questionnaire. These benefits were further classified into five categories:(a) economic benefits, (b) convenience benefits, (c) informational benefits, (d) hedonic benefits, and (e) recognition and social benefits. Meyer-Waarden et al. (2013) also classified the benefits in these categories. Their framework was adopted for the present study as the work of Meyer-Waarden et al. (2013) is the most recent and comprehensive in this area. To uncover the relative importance of these 23 benefits as perceived by customers, a five-point scale anchored from "extremely

important” to “extremely unimportant” was included in the questionnaire. In order to measure shopping involvement, the questionnaire consisted of a six- item bipolar scale (range 1-7) from which respondents were asked to select their level of involvement with regards to shopping. The scale is preceded by “In general, going shopping is.....” Originally developed by Zaichkowsky (1985), the six items included in the questionnaire were used by Wakefield and Baker (1998) to measure the value and interest aspects of shopping. Loyalty card adoption of the respondents has been measured by asking an opening question as how often they use their card: “on every visit”, “most of the visits”, “sometimes” or “never”. Data have been analyzed through MANOVA using SPSS 18.0.

RESULTS AND DISCUSSION

Multivariate analysis of Variance (MANOVA) has been used to investigate differences in customers' perceived importance of loyalty program benefits by their shopping involvement and level of loyalty card adoption. Shopping involvement and level of loyalty card adoption of customers are taken as independent variables (categorical) and perceived loyalty program benefits—economic, convenience, informational, hedonic, and recognition & social are taken as dependent variables (continuous) for conducting MANOVA. Overall score for all the five loyalty program benefits has been calculated by adding the scores for each included item and divided this by the number of items in that particular benefit. The Box's M arrives at 87.080 with F 1.910 ($p = .000$), significant at one percent level of significance. Thus, the assumption of homogeneity of variance across loyalty program benefits is not met. According to Hair et al. (2010), in such a situation, divide largest cell size by smallest cell size and if it is less than 1.5, then MANOVA can be conducted. In the present study, the ratio of low involvement group ($n = 367$) and high involvement ($n = 374$) is 1.01 and the ratio of low card adoption group ($n=311$) and high card adoption group ($n=430$) is 1.38. Since both are less than 1.5, further analysis has been done. Further, the Bartlett's Test of Sphericity (Approx Chi Square = 281.339, $df = 10$, $sig. = .000$) also justified the use of MANOVA.

The following Table 2 reports the descriptive statistics for relative importance of perceived loyalty program benefits by shopping involvement and level of loyalty card adoption of customers. Mean values and standard deviations for all the five categories of benefits across the shopping involvement and level of loyalty card adoption are given in Table 2. It is clear from Table 2 that there are mean score differences by shopping involvement and level of loyalty card adoption of customers. However, the following mean score differences are observed in the perceived importance of loyalty program

benefits across the two groups of shopping involvement (low shopping involvement and high shopping involvement) for both high adoption group and low adoption group:

- Customers, whose loyalty card adoption is high perceived more importance for all the loyalty program benefits than their counterparts whose adoption is low.
- It has been seen that customers with high loyalty program adoption perceived more importance for perceived hedonic benefits (total mean value 4.07) while their counterparts in low adoption group perceived economic benefits more importantly (total mean value 3.70) as reported in Table 2.
- Overall loyalty cardholders with high shopping involvement report higher mean values than their counterparts having low shopping involvement, across all the loyalty program benefits in high adoption group. The following mean score differences between high shopping involvement group and low shopping involvement group have been reported in Table 2: perceived economic benefits (4.21 > 3.82); perceived convenience benefits (4.07 > 3.68); perceived informational benefits (4.08 > 3.51); perceived hedonic benefits (4.24 > 3.85); perceived recognition and social benefits (4.10 > 3.74). Wulf et al. (2001) also found that relationship marketing efforts are more effective for consumers who show high levels of involvement in product category.
- It has also been observed that customers who were low on loyalty program adoption and having low shopping involvement perceived more importance for hedonic and economic benefits (total mean value 3.70 and 3.65 respectively) than recognition and social benefits (total mean value 3.49). These findings are corroborated with the findings of Meyer-Waarden (2006). He stated that in case of low involvement, consumers prefer to get direct, immediate and tangible rewards. On the other hand, customers with high shopping involvement, recognition and social benefits are important.

Table 2 Means and Standard Deviations for Loyalty Program Benefits by respondents' shopping involvement and loyalty program adoption

Perceived Benefits	Low adoption (N= 311)					
	High involvement (n =183)		Low involvement (n =128)		Total (N =311)	
	Mean	S.D	Mean	S.D	Mean values	S.D
Economic Benefits	4.02	.633	3.48	.855	3.70	.816
Convenience Benefits	3.81	.636	3.34	.791	3.53	.765
Informational Benefits	3.85	.753	3.29	.833	3.52	.847
Hedonic Benefits	3.92	.869	3.46	1.01	3.65	.985
Recognition and social Benefits	3.83	.717	3.25	.868	3.49	.857

High adoption (N = 430)						
Perceived Benefits	High involvement (n = 184)		Low involvement (n = 246)		Total (N = 430)	
	Mean	S.D	Mean	S.D	Mean values	S.D
Economic Benefits	4.21	.605	3.82	.677	4.05	.665
Convenience Benefits	4.07	.628	3.68	.686	3.90	.680
Informational Benefits	4.08	.716	3.71	.785	3.92	.768
Hedonic Benefits	4.24	.741	3.85	.847	4.07	.811
Recognition and social Benefits	4.10	.661	3.74	.720	3.95	.708

The results of MANOVA that has been performed on dependent measures are summarized in Table 3. The interaction effect is not significant; however the multivariate F tests for shopping involvement ($p < .01$) and adoption ($p < .01$) are significant. Multivariate results indicated a significant main effect of both shopping involvement (Wilks' $\lambda = .889$, $F(5, 733) = 18.220$, $p < .000$, partial eta squared = .111, observed power = 1.000) and adoption (Wilks' $\lambda = .937$, $F(5, 733) = 9.932$, $p < .000$, partial eta squared = .063, observed power = 1.000). Thus, it indicates that perceived importance of loyalty program benefits differ across shopping involvement and card adoption of customers.

Table 3 MANOVA results – significance of multivariate tests

	Wilks' λ	F	df	Error df	p-value	Partial eta squared	Observed power	Result
Involvement	.889	18.220	5	733	.000*	.111	1.000	Supported
Adoption	.937	9.932	5	733	.000*	.063	1.000	Supported
Involvement*Adoption	.991	1.269	5	733	.275	.009	.453	Not supported

Notes: *significant at $p < .01$

Group differences of perceived loyalty program benefits across shopping involvement and level of loyalty card adoption of loyalty cardholders have been examined through F-ratio in Table 4.

Table 4 MANOVA Results – Univariate Tests – Between-Subjects Effects

Hypotheses	Independent variables	Dependent variable	Sum of squares	df	Mean square	F	Sig	Partial Eta squared	Observed power	Result
H1	Involvement	Economic Benefits	38.618	1	38.618	79.470	.000	.097	1.000	Supported
		Convenience Benefits	32.031	1	32.031	67.764	.000	.084	1.000	Supported
		Informational Benefits	38.494	1	38.494	70.073	.000	.087	1.000	Supported
		Hedonic Benefits	31.966	1	31.966	42.697	.000	.055	1.000	Supported
		Recognition and social Benefits	38.539	1	38.539	64.952	.000	.081	1.000	Supported

H2	Adoption	Economic Benefits	12.583	1	12.583	25.894	.000	.034	.999	Supported
		Convenience Benefits	16.242	1	16.242	34.360	.000	.045	1.000	Supported
		Informational Benefits	25.304	1	25.304	46.064	.000	.059	1.000	Supported
		Hedonic Benefits	22.022	1	22.022	29.416	.000	.038	1.000	Supported
		Recognition and social Benefits	18.189	1	18.189	30.655	.000	.040	1.000	Supported
H3	Involvement*adoption	Economic Benefits	1.056	1	1.056	2.173	.141	.003	.313	Not Supported
		Convenience Benefits	.299	1	.299	.632	.427	.001	.125	Not Supported
		Informational Benefits	2.179	1	2.179	3.967	.047	.005	.512	Supported
		Hedonic Benefits	.179	1	.179	.239	.625	.000	.078	Not Supported
		Recognition and social Benefits	1.527	1	1.527	2.573	.109	.003	.360	Not Supported

The results of Univariate F-tests in Table 4 indicate the group differences of perceived loyalty program benefits across shopping involvement and card adoption of customers. It has been stated in *H1* that relative importance of perceived loyalty program benefits will vary significantly according to shopping involvement of customers. The results from our analysis shows that, the entire perceived loyalty program benefits (economic benefits, convenience benefits, informational benefits, hedonic benefits and recognition and social benefits) significantly differ with level of shopping involvement of customers. Mean score differences in Table 2 also highlighted that customers with high shopping involvement accord more importance to loyalty program benefits than those customers whose involvement in shopping is low. Hence all hypotheses: *H1a*, *H1b*, *H1c*, *H1d* and *H1e* are supported. Similar to the results of shopping involvement, all perceived loyalty program benefits significantly vary as per the card adoption by customers ($p < .000$). Hence again all hypotheses: *H2a*, *H2b*, *H2c*, *H2d* and *H2e* are supported. Also, perceived informational benefits ($p < .047$) differ significantly with interaction of shopping involvement and card adoption of customers. Thus only *H3c* is supported and *H3a*, *H3b*, *H3d*, and *H3e* are not supported. Hence, the results suggest that relative importance of perceived loyalty program benefits may be specific to shopping involvement and card adoption of customers.

IMPLICATIONS FOR RETAILERS

The findings of the present study would help retailers in understanding the customers' perception of loyalty programs benefits in India and aid in managerial decision making.

- It is clear from the present study that overall customers who are high on loyalty program adoption perceived relatively more importance for perceived hedonic benefits. Thus, in order to retain these customers, retailers should satisfy them by giving more weightage to games, sweepstakes, contests etc. in the design of loyalty programs.

- Also, it has been found that customers who score low on loyalty program adoption perceived economic benefits more importantly than other benefits. Thus, to secure more participation from these customers and to make them adopt loyalty programs more, attractive discounts, rebates, vouchers, etc. should be provided by the retailers.
- The present study also highlighted those customers who are highly involved in shopping and also high on loyalty program adoption, perceived relational benefits importantly. Thus, to make loyalty programs an important tool for engendering loyalty, retailers should design these programs to provide special treatment and recognition to customers and thereby satisfy their need for self-esteem.

LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

Some limitations to the study should be considered. First of all, the study is confined to explore perceived benefits of loyalty programs within the retail sector only. Other sectors like, airline industry, financial services and health services etc. have not been explored. Investigating loyalty program benefits in these sectors would be fruitful area for future research. Moreover, the present study was designed to uncover customers' perception of loyalty program benefits. Future research can focus on how loyalty program benefits effect customers' decision to adopt the program and how these benefits engender store loyalty in the members through a longitudinal study.

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