

## **EFFECTIVENESS OF LOYALTY CARDS TO BUILD THE STORE LOYALTY**

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### **ABSTRACT**

The main objective of this research was to identify the behavioral and attitudinal store loyalty that can be built through loyalty cards. For that purpose a survey was conducted, selecting a sample from Colombo district, including 185 loyalty card holders and 185 non loyalty card holders. A structured questionnaire was used as the main data capture instrument. Data was analyzed using both quantitative and qualitative methods; accordingly, the quantitative analysis used Cronbach's Alpha and Independent Sample T-Test. Qualitative analysis was done using content analysis. The findings according to these analysis revealed that loyalty cards are effective to influence attitudinal store loyalty whereas it is less effective to build behavioral store loyalty.

Key words: Loyalty cards, attitudinal loyalty, behavioural loyalty, Effectiveness

### **1. BACKGROUND**

Firms spend a large portion of their marketing budget on customer retention strategies rather than on customer acquisition strategies (Duffy 1998, Miranda & Konya 2008, and Bellizzi & Bristol 2004). Relationship marketing instruments such as loyalty programs or frequent reward programs are identified as effective in retaining customers and to maintain strong relationships with their best customers (Mayer & Waarden 2008, Noordhoff et al 2004). This customer centric orientation of firms has become the foundation for formal loyalty programs (Gable 2008), which helps to create a new path

to differentiate from competitors and to gain a better competitive position in the mind of customer and to improve store loyalty (Mitchell & Kiral 1998).

### **2. RESEARCH PROBLEM**

Loyalty cards are considered as an effective tool to retain customers in organizations. But, effectiveness of it to motivate purchase behavior of customers and its ability to gain favorable attitude regarding the store is a prominent question yet unanswered in Sri Lanka.

### 3. RESEARCH QUESTION

- Do loyalty cards actually create genuine loyalty?
- What differences prevail between loyalty cards holders and non card holders' attitude & behavior towards the store?

### 4. RESEARCH OBJECTIVES

- Determine whether behavioral store loyalty can be built through loyalty cards.
- Determine whether attitudinal store loyalty can be built through loyalty cards.
- Determine whether participants have changed or modified their purchasing behaviors and attitudes after enrolling themselves in the loyalty card scheme.

### 5. SCOPE OF THE STUDY

Different loyalty card programs (Stamp, Discount, Point and Coalition) operate in Sri Lanka were considered in the survey. This research was conducted in Colombo district and targeted shoppers of Keells, Cargills and Arpico, Juiceez and Nolimit-Glitz were selected to represent the above mentioned loyalty card types.

### 6. DATA COLLECTION METHOD

A structured questionnaire was used as the main data capture instrument, which consisted of six sections. Section one attempted to distinguish Card Holders and Non-Card Holders from their response, their awareness of loyalty card of

particular firm and understanding of the concept of loyalty cards. Section two contained 13 questions relating primarily to behavioral loyalty covering the areas; frequency of shopping, purchase volume, average time spending, tolerance of price increase and response toward the competitor offering and programs. Section three focuses on the attitudinal store loyalty by covering five attitudinal store loyalty indicators such as, attitude, trust, confidence, commitment and satisfaction. Section four only opened to Loyalty Card Holders including eight questions and these questions cover both attitudinal and behavioral store loyalty indicators. This section aims to determine whether loyalty card holders' purchasing behavior and attitudes can be changed by loyalty cards after enrolling themselves in card programs. Last section attempted to capture demographic data.

The sample composition is highlighted in the table below.

Organization	Way of Data Collection	Number of Sample	
		Loyalty Card Holders	Loyalty Card Non-Holders
Keells	Data collected at Nugegoda, Kohuwala, Union Place and Narahenpita.	40	40
Nolimit	Data collected at Glitz Nugegoda, 7MP, Mount Lavonia and Hide Park Corner.	50	50

Juiceez	Data collected at Rajagiriya, Jawatta and HCC	30	30
Arpico	Data collected at out of the outlet using convenient sample.	40	40
Cargills	Data collected from Card Holders using database and via convenient sample from Non-Card Holders.	25	25

## 7. ANALYSIS OF DATA

A Validity test was conducted with the objective to determine whether the data are uni dimension or multi dimension. For that Chornbach Alpha was computed. Next to that we used Independent Sample T-test to identify significant difference between Loyalty Card Holders' and Non Loyalty cardholders' behavioral and attitudinal store loyalty.

## 8. LITERATURE REVIEW

Duffy (1998) highlights that loyalty marketing can be defined as relationship marketing, frequency marketing, one-to-one marketing, and as customer centric marketing. A study done by Bellizzi and Bristol (2004) identified effectiveness of supermarket loyalty cards to enhance store loyalty. However interestingly they stated that number of other factors would be more likely to increase customer loyalty other

than loyalty cards. Therefore it is important to note that loyalty cards alone is not sufficient to retain customer, because frequent users of loyalty card also are more likely to shop at different stores and use loyalty card from different organization of same industry.

When observing different types of loyalty cards, Pub discount card is very popular among the people of UK. Hobbs and Rowley (2008) seek to make contribution to understand the use of the instant type of loyalty card, in the context of the hospitality sector. The results of their study revealed that pub discount card does not generate either behavioral or attitudinal loyalty directly.

Noordhoff et al. (2004) have explored whether and how retailer' card programs affect store loyalty and eventually customer retention. Furthers they have empirically assessed the antecedents of store loyalty and specially the effect of loyalty-card program in a cross national setting, Accordingly, they investigate and compare the efficacy of retailers' loyalty card programs in different market based on different cultural backgrounds.

Gomez at el (2006) proved in his research that loyalty card programs have not been able to modify the behaviors of consumers towards the retailers running such schemes. The study conducted by Meyer-Waarden (2008) and explained the impact of retailing loyalty card programs on customer purchasing behavior. Ultimately, he found all behavioral indicators show that cardholders and non-card holders of loyalty programs demonstrate significantly different purchase behaviors, irrespective of

other factors. The research conducted by Gable et al. (2008) in this they defined that the customer loyalty is one of critical key to business success and retaining an existing customer cost far less than acquiring new ones. Accordingly, they suggested that loyalty programs are one way to create effective rewards to best customers of organizations.

A research conducted by Byrom (2001) outlined the current and potential role of loyalty card data in local market initiatives. In his study he found that when customer engage with such loyalty schemes, organizations develop database to capture and retain their personal information, later they use these data for different kind of marketing purpose such as direct marketing programs, promotion and so on. Therefore, he had suggested that, the loyalty card data could used to capitalize on such potential opportunity.

Miranda and Konya, (2008) examined whether supermarkets may be losing the opportunity to increase customer purchase outlay by means of loyalty points, convertible to acquire specialty good and services provide by “bonus partners”. Ultimately they found, shoppers, who are aware consider specialty merchandise in exchange for loyalty point to be a significant reason for joining a loyalty programs. However, when they actively seek to pay with specific credit card because of loyalty point do not rank the conversion into specialty merchandise as a significant reason for membership.

In the Sri Lankan context only a handful of retail organizations operate loyalty card programs and the concept of loyalty card

programs are not yet familiar among the Sri Lankan shoppers. However, implementation of loyalty cards from organizations showing rapid growth. Accordingly, data gathered revealed that there are around 350000 loyalty cardholders in Sri Lanka. It will be 1.75% on total population of Sri Lanka.

## 9. CONCEPTUAL MODEL

The conceptual model of the study is focused mainly on following attributers.

- Loyalty Cards (Independent variable)

Loyalty card is a marketing strategy based on offering an incentive with the aim of securing customer loyalty to a particular store or firm. Loyalty card holder is a customer who have got enrolled in a loyalty program and hold a card issued by the company and non loyalty card holder is a customer who are not members of such a program.

- Store Loyalty (Dependent variables)

- Behavioral Store Loyalty

The actual revisiting of the store and the total budget ratio spend at a single store

- Attitudinal Store Loyalty

The consumer’s predisposition towards a store as a function of psychological process, which includes attitudinal preference and commitment toward the store

## 10. HYPOTHESES

$H_1$  Loyalty card holders make a higher behavioral loyalty to the specific store than non-loyalty card holders

$H_2$  Loyalty card holders make a higher attitudinal loyalty to the specific store than non-loyalty card holders

$H_3$  Loyalty card holders change or modify their purchasing behavior regarding to the store due to their loyalty card

$H_4$  Loyalty card holders change or modify their attitude regarding to the store after obtaining their loyalty card

### 11. ANALYSIS OF DATA

Loyalty Card Holders' and Non Loyalty cardholders' behavioral and attitudinal store loyalty was identified through an independent sample T-test. Thereafter mean values were computed to analyse data.

**Table 1: Reliability Statistic of Behavioral Loyalty**

	Cronbach's Alpha	Number of Items
Loyalty Card Holders	0.648	11
Non-Card Holders	0.714	11

**Table 2: Reliability Statistic of Attitudinal Loyalty**

	Cronbach's Alpha	Number of Items
Loyalty Card Holders	0.839	17

Non-Card Holders	0.917	17
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### 12. HYPOTHESIS TEST

The next step of the data analysis was to test the hypothesis based on the collected reliable data. As a result, four type of hypothesis were carried out to test the objectives of the research.

**$H_1$  Owners of the loyalty cards make a higher behavioral loyalty to the specific store than non-loyalty card holders**

In order to the test 1<sup>st</sup> hypothesis the mean values related to behavior loyalty of both loyalty card holders and non-card holders were collected. The mean values of loyalty card holders and non-card holders were 3.1853 and 2.8570 respectively. The standard deviation of card holders and non-card holders were 0.56635 and 0.62717 respectively.

**Table 3: Behavioral Store Loyalty Statistics**

	N	Mean	Std. Deviation
Behavior Store Loyalty of Card Holders	185	3.1853	0.56635
Behavior Store Loyalty of Non-Card Holders	185	2.8570	0.62717

Based on the above result, the mean difference of two categories of respondents was 0.32826. Further an Independent Sample T-Test was conducted to verify whether these values are independent or dependent. The result revealed

that there is equal variances according to the Levene's Test, and P value was 0.00 (P=0.00). Based on these test it was evidenced that the store behavior loyalty of loyalty card holders is much higher than non-card holders (P<0.05). As a result, the owners of loyalty cards have a higher behavior loyalty to the specific store than the non-card holders.

**Table 4: Independent Sample Test for Behavioral Store loyalty**

Levene's Test for Equality of Variances		T-Test for Equality of Means				
F	Sig.	Df	t	Sig (2-tailed)	Mean Difference	Std. Error Difference
0.526	0.469	368	5.283	0.00	0.32826	0.06213
		364.237	5.283	0.00	0.32826	0.06213

**H<sub>2</sub> Owners of the loyalty cards make a higher attitudinal I loyalty to the specific store than non-loyalty card holders**

The second hypothesis was to test whether owner of loyalty card have higher attitudinal loyalty to store. It was found that attitudinal loyalty of loyalty card holders and non-card holders were 4.0693 and 3.8086. Thus, the standard deviation of the respective two categories was 0.60075 and 0.58085.

**Table 5: Attitudinal Loyalty Statistics**

	N	Mean	Std. Deviation
Attitudinal Store Loyalty of Card Holders	185	4.0693	0.60075
Attitudinal Store Loyalty of Non-Card Holders	185	3.8086	0.58085

Based on the above result the mean different of two-customer type of the attitudinal loyalty was 0.26073 accordingly to the Independent Sample T-test. The value of mean difference was further evaluated Levene's Test to evaluate the significance of the value. As a result it is evidenced that there is equal variance since the significance level was 0.00 (P=0.00). Hence, it can be stated that there is a clear difference of attitudinal loyalty of the store among loyalty card holders and non-card holders (P<0.05). Based on the results, it is clear that loyalty card holders have a higher attitudinal loyalty to the firm than non-loyalty card holders do.

**Table 6: Independent Sample Test for Attitudinal Store loyalty**

Levene's Test for Equality of Variances		T-Test for Equality of Means				
F	Sig.	df	t	Sig (2-tailed)	Mean Difference	Std. Error Difference
0.090	0.765	368	4.244	0.00	0.26073	0.6144
		367.583	4.244	0.00	0.26073	0.6144

**H<sub>3</sub> Owner of the loyalty card holders change or modify their purchasing behavior regarding to the store due to their loyalty card**

**H<sub>4</sub> Owner of the loyalty card holders change or modify their attitude regarding to the store due to their loyalty card**

In third and fourth hypotheses are considered whether loyalty card holders change their purchasing behavior and attitudes respectively regarding the stores because of loyalty cards. Five questions were included in this test to check whether there is a change or improvement of purchasing behavior towards stores loyalty and three question were included to test whether there is a change or improvement in attitudes towards the stores. The five-point likert scale is

used to record the answers for above questions. A computed mean value (*M*) to analyze the collected data, which considered value 3 as test

Another one-sample test was carried out by combining the questions included in the questionnaire to identify whether store behavior or attitudes were changed or modified. As a result, it is found out that customers positively change and modify the attitudes of the store after gaining the loyalty card (*M*=3.88468). Nevertheless, they had not positively changed or modify their purchasing behavior regarding to store after gaining loyalty card (*M*=2.58162).

**Table 8: Total Statistics of One-Sample Test**

Indicator	N	Test Value	Mean	Mean Difference
Purchasing Behavior of Respondents After Acquiring Loyalty Card	185	3	2.5816	-.41838
Attitude of Respondents After Acquiring Loyalty Card	185	3	3.88468	0.88468

### 13. CONCLUSION

Loyalty cards are considered as an effective tool to reward loyal customers and to retain them for a life time. The effectiveness of loyalty cards can be measured attitudinally and behaviorally. Studies conducted so far have not discussed the effectiveness of loyalty cards in Sri Lanka on the above mentioned dimensions.

The results revealed that attitudinal loyalty among the loyalty cardholders and the organization are much higher than the relationship between the non-card holders. Therefore, the customers who have a loyalty cards has a positive attitude towards the organizations. Similarly the behavioral loyalties among the loyalty cardholders also remain high than the non-card holders yet not significant. Therefore, it can be expected a positive a behaviors among the loyalty card holders than the non-loyalty cardholders. Finally it can be concluded that Loyalty card are an effective tool to gain attitudinal and behavioral store loyalty. However the heights influence of loyalty cards are on the attitude of the customer than the purchase behavior.

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