The Impact of Customer Loyalty Programs on Customer Retention

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Abstract

The goal of this study is to obtain a deep understanding of the impact of customer loyalty programs on customer retention. This study was applied to Jordanian customers. The study investigates the impact of independent variable; loyalty programs: point system, tier system reward, charges an upfront fee for VIP benefits and non-monetary programs, on the dependent variable: customer retention. To achieve the objective of the study, a survey was conducted to collect data from the sample. In total (350) questionnaires were distributed randomly to Jordanian customers who could be reached by the researchers, and were contacted through friends, relatives, students and local malls. The participants had different social, educational, and occupational backgrounds. Response rate was (81.14%) Percent. The findings clearly show: there is significant evidence of the effect of all loyalty programs on building and maintaining customer retention. The major effect was for Tier system reward followed by charge Up-front fee for VIP benefits, and then point system, the weakest effect was for Non-monetary programs.

Keywords: Loyalty programs: point system, tier system reward, charges an upfront fee for VIP benefits, non-monetary programs, customer retention

1. Introduction

The use of loyalty programs as a powerful tool of relationship marketing is becoming popular to encourage customer loyalty. (Roking 2005). The use of loyalty programs can introduce benefits to both customers and companies. Customer loyalty is an important issue for the success of any retail organization, because it is known that drawing new customers is more expensive than keeping existing ones. (Singh & Imran 2012) Singh & Imran (2012) estimate that on average online retailers lose 25% of their customers every year, and a small increase in customer retention can increase profits by more than 25%. Relationship marketing aims to create life time customers because when customers have a relationship with a company, they are ready to forget any other competitors offer. Customers are motivated to do that because it gives them a greater efficiency in decision making, reduces the information processing, achieves a greater cognitive consistency in decisions, and reduces the perceived risks associated with future decisions. (Singh & Imran 2012) To build loyal customers companies use several types of loyalty programs. 57% of airlines and 41% of hotel chains reward consumers for a range of engagement behaviors. A typical approach uses Platinum, Gold and Silver tiers, typically based on purchase volumes. (Shaw Ray, 2015) In spite of the fact that the average US household has over 21 loyalty program memberships, fewer than half of these are active. Key reasons for that are loyalty programs include lack of reward relevance, rigid reward structures, and poor quality customer service. More than half of consumers admitted that they had abandoned at least one loyalty program according to a survey and social media scanning by Consulting Date. However, Loyalty programs need to be designed with more targeted rewards, differ according to different groups of members based on their value, and they need to provide greater value at higher customer value tiers, by rewarding best customers to encourage higher spending levels. In order to do that the organization needs to understand their customer's needs and behaviors, by creating customer profiles with relevant data on customer interactions to have a complete picture of a customer's preferences. (Ray Shaw, 2015)

2. Theoretical Frame Work

2.1 Customer Retention

According to kotler "The key to customer retention is customer satisfaction". Customer retention means the company keeps its customers by providing a great customer experience. Customer retention is the key to healthy business growth. Loyalty can help the business to retain most valuable customers.

http://www.loyaltygator.com/loyalty-benefits)

Loyalty reflects relationship development and retention reflects relationship continuity. Customer retention is a crucial component of customer relationship. The main aspect of customer retention is the emotions evoked by the customer experience combined with the organization's strong reputation. Without the emotional bond which is essential to retain customers, customer loyalty will be impossible. Customer retention is important to most companies because the cost of acquiring a new customer is greater than the cost of maintaining a relationship with a current customer". (Singh & Imran 2012) Retention programs aim to turn the occasional customer into a frequent customer; they would be more likely to recommend the business to their friends and relatives. They also raise the probability of changing customers from being a one or two item purchaser to purchasing several products. (Rocking, 2005) Because the high cost of losing customers is rising every day, companies seek new techniques to acquire, and retain their loyal customers. Service has long been an important factor in customer retention, and new research suggests its role is more critical than ever and will continue to grow in the future. (Potter -Brotman Jennifer, 1994). Customer retention earns the business a good reputation and goodwill in a competitive market. (Singh, & Khan, 2012).Customer retention is all about the customers and their experience. Customer relationship management is the practice of analyzing and using marketing and leveraging communication technologies to determine corporate practices and methods that maximize the life time value of each customer to the firm (Reinartz, 2004). The fact that customer retention is widely accepted as it is central objectives in relationship marketing. Because customer retention focuses on repeated patronage of a marketer or supplier, it is closely related to repeat purchasing. (Hennig & klee, 1997)

2.2Customer Loyalty

Customer loyalty is the customer attitude and behavior to prefer one brand over all competitor ones, whether? due to satisfaction with the product or services. It encourages consumers to shop more consistently. (Peiguss, 2012) Customer loyalty is defined as the willingness of any given customer to purchase the company's goods or services over competitive ones available in the marketplace. (Singh, Khan, 2012). Due to the fact that loyalty is the result of developing past positive experiences with the customers and having them return to the company various times due to these experiences, customers will return again and again to do business with the company; regardless of whether it may not have the best product, price or service delivery (Ghavami & Olyaei, 2006)

Zikmund, (2002) demonstrate that loyalty is more than a repetition of behavior. Customers can demonstrate loyalty to price, brand, company, and other customers. However, Customer satisfactions important to any company and it affect clients repeatedly coming back to the company due to its service. This expects that the crucial factors affected customer loyalty are customer satisfaction, emotional bonding, trust, choice reduction/ habit, and company history.(Ghavami & Olyaei, 2006).Therefore, customer satisfaction with a company's products or services could be considered the key to a company's success and long-term competitiveness. Customer satisfaction is viewed as a central determinant of customer retention.(Peiguss, 2012) Singh, & Khan, 2012) pointed out that satisfaction is not enough because less than half of the company satisfied customers will come back. The company needs to transfer satisfied customer to loyal customer. It's so important because it costs so much to influence customers to buy and so little to induce a repurchase. Customer loyalty is a result of a positive emotional experience, physical attribute-based satisfaction and perceived value of an experience, which includes the product or services**.**(http://beyondphilosophy.com/customer-experience/customer-loyalty)

2.3 Loyalty Programs

Loyalty programs: are structured marketing efforts that reward, and therefore encourage, loyal buying behavior, which is potentially beneficial to the firm (Sharp, B. and Sharp A., 1997). The rewards programs are offered by a company to customers who frequently make purchases. A loyalty program may give a customer advanced access to new products, special sales coupons or free merchandise. Customers typically register their personal information with the company.

(Peiguss, 2012) Loyalty programs work as an incentive by providing benefits based on cumulative purchasing over time. Loyalty programs encourage consumers to shift from myopic or single-period decision making to dynamic or multiple-period decision making. These programs encourage repeat buying and improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes. (lewis, 2004) The first usage of loyalty programs in business was many years ago originally in Germany, where price completion was disallowed by government. In 1981 was the first   launched of loyalty programs by American Airlines and quickly used by other airlines and hotels, car rental companies, credit card organizations and retailers. As reported in the New York Times, Forrester Research found that across 12 industries, retailers are the most loyalty while others, like TV service providers and internet service providers proved more unsteady. Retail loyalty programs are offering points, rebates, discounts or combinations of them. Loyalty programs are considered part of a comprehensive customer relationship strategy. Even though, there is a fundamental mistake of many marketers who confuse "loyalty" with "rewards". Loyalty offers support and commitment not points.

Organizations used rewards programs to retain their best customers. Frequent customers are awarded redeemable points that can be converted into free services, upgrades in class, and exchange of other products and services. Loyalty programs not only a tool to increase the organization's loyal customers, but they are an opportunity to gather information about customer shopping habits and preferences. This information helps in customizing the organization's services. Retailers recognized that without "customer database," they were unable to identify the best customers and reward them for their preferable behavior. (The Loyalty Marketer's Association) Due to the fact, that not all customers are potentially loyal customers, the ideal loyalty program would benefit only loyal and potential loyal customers. This means that the customers have first sorted into groups, and then to be approached in different ways. Customer loyalty programs should increase customer happiness and retention. A successful loyalty program has to be designed in the consideration of the following rules: (Clark Peter, 2010)?

1. Acquire customers that are likely to repurchase.
2. Recognize which customers are unlikely to repurchase and limit the marketing spend for this segment accordingly.
3. Focus the marketing budget on those who exhibit the same profile as existing repurchases but have yet to buy a second time.

2.3.1 Types of Loyalty Programs

Organizations have rewarded the loyalty of preferred customers by enhanced services or price discounts. Recently, loyalty rewards programs have become applicable in several sectors businesses. Loyalty programs or memberships are structured marketing efforts that reward, and encourage loyal buying behavior which is potentially beneficial to the company. Specifically in retailing marketing it includes: loyalty card, rewards card, point's card, advantage card, or club card which identifies the card holder as a member in a loyalty program.(Singh& Khan, 2012)

1-**Points system:** This is the most common loyalty program. Frequent customers earn points, which translate into some type of reward: discount, gifts, or special customer treatment, customer purchases toward a certain amount of points to redeem their reward. Reward programs based on service usage levels (frequent buyer programs) have become common in the transportation and hospitality industries. This type of loyalty program is most appropriate for businesses that encourage frequent, short-term purchases. (Peiguss, 2012)

2-**Tier system**: Offer small rewards as a base offering for being a part of the program, and encourage repeat customers by increasing the value of the rewards as the customer moves up the loyalty ladder.
The difference between points and tiered systems is that customers extract short-term versus long-term value from the loyalty program. Tiered programs may work better for high commitment, higher price-point businesses like airlines, hospitality businesses, or insurance companies. (Peiguss, 2012)

3- Charge an Upfront Fee for VIP Benefits: Charge one-time (or annual) customers to start collecting points by their purchases. Clearly this system is most applicable to businesses that thrive on frequent, repeat purchases. For an upfront fee, the customers are relieved of inconveniences that could impede future purchases. (Peiguss, 2012)

4- Non-Monetary Programs around Your Customer's Values: Providing value to customers in other ways than discount and dollars rewards. Depending on the customer's values, and on the industry, customers may find more value in non-monetary or discounted rewards. (Peiguss, 2012)

5- Partner with another Company to Provide All-Inclusive Offers: Understanding customers' lifestyle and their purchase process will help determine which company is a good fit as a partner to reward the loyal customers. Providing customers with valued services beyond what the company can offer will grow the companies' network to reach their partners' and customers.

6- Loyalty card program is an incentive plan that allows a retail business to gather information about its customers. Customers are offered product discounts, coupons, points toward merchandise or some other reward in exchange for their voluntary participation in the program. Another goal of a loyalty card program is to build repeat business by offering participating customers something that is not available to non-participating customers**. (**http://searchcrm.techtarget.com/definition/loyalty-card-program**)**

7. Frequent Buyer Program: retailers offer the low free service to the customers if the number of purchases or the total purchase amount reaches a specific limit. This creates the tendency in the customers to make those counts of purchases or the total purchase value in order to get the offer. It increases the sale of product leading to customer loyalty over a period of time.

8. **Gift Card or Certificates**: Retailers have introduced gift vouchers with specific amount and validity of their company. With this gift card it fastens unclear the buyer to go to the retailer who has issued the gift card and spend the amount. With the available amount of the gift card customer will buy the goods more than the cost and increase in selling of goods. If one likes the store and the availability of goods, then customers become regular one. Unclear

9. **Return Policy for Loyal Customer**: The retailer offers the extended return policy to the Loyal Customers.

This provides confidence to the customers as return is always a major concern of many.

10. Payback money to loyal customers.

11. **Discount over time or volume of goods.**

12. **Bundle goods:** The seller sells various goods or services with the main item at no extra cost. (Singh &Khan, 2012,)

2.3.2 Types of Loyalty Programs Users

There are four types of customers regarding their attitudes to use loyalty programs.
(http://searchcrm.techtarget.com/definition/loyalty-card-program)

1- Never? Consumers are those who are not affected by loyalty programs and their reward incentives in any way.
2- Light consumers are having reward program memberships and being influenced by their incentives, but only moderately.
3- Heavy consumers are highly influenced members of reward programs.
4- Extreme consumers who are addicted to or obsessed with loyalty programs.

2.3.3 Benefits of Loyalty Programs

According to the Center for Retail Management at Northwestern University Only 12% - 15% of customers are loyal to a single retailer. This small number of loyal customers generate between 55% - 70% of company sales. Some food retailers find that 65%-95% of their sales go to members of loyalty programs. 53% of food retailers offer loyalty programs, 75% of the loyalty programs members using their loyalty cards at least weekly and 885 at least used them once a month. Dates needed It is estimated by Colloquy (2015) that there are over three billion loyalty program memberships in the US with 26% increase in comparison with 2013. By Average US households participate in 29 programs. The average household active participation is about 12 programs. (The Loyalty Marketer's Association) The retail marketing literature demonstrates several benefits for loyalty programs for both businesses and consumers.

For business loyalty programs are profitable because:

• The costs of serving loyal customers are less.
• Loyal customers are low price sensitive.

- Loyal customers spend more with the company.
- Loyal customers pass on positive recommendations about their favorite brands to their friends and relatives. (Dowling and Uncles, 1997)
- Loyalty programs provide the company with a wealth of consumer information. While companies can evaluate different purchases, the use of a loyalty program gives additional information about the type of products that may be purchased together, and whether certain coupons are more effective than others. (http://blog.hubspot.com/blog/tabid/6307/bid/31990/7-Customer-Loyalty-Programs-That-Actually-Add-Value.aspx)
- Retaining customers is less expensive than acquiring new ones, and customer experience management is the most cost-effective way to drive customer satisfaction, customer retention and customer loyalty.
- Loyal customers are more likely to purchase more, with a high-margin of supplemental products and services.
- Loyal customers reduce costs associated with consumer education and marketing,

Regarding the previous mentioned benefits of loyalty programs which affect customer loyalty through customer experience management could be considered as a sustainable competitive advantage. (http://beyondphilosophy.com/customer-experience/customer-loyalty).

Reinatz Wener (2004) summarizes the objectives for using customer loyalty programs as the following:

1- Building true attitudinal and behavioral loyalty.
2- Efficiency profits.
3- Effectiveness profits.

Peter Clark (2010), addresses fifteen business benefits of a loyalty initiative**:** Retain existing customers **,** acquire new customers**,** move customers up-segment **,** win-back defected & churned customers, increase Customer Lifetime Value ,build relationships ,create brand advocates , adjust pricing levels **,** responding to competitive challenges **,** select stock lines effectively , plan merchandising more intelligently **,** reduce promotional and advertising costs and selecting new trading sites. (Lowenstein, 2002)

2.3.4 Examples of Loyalty Programs

- General Motors have launched a cobranded credit card that allocates 5 percent of spending toward the purchase or lease of a new car.
- American Express has offered two airline tickets for heavy card use during a 6-month period.
- MCI's "Friends and Family" program has offered incentives to enroll friends and relatives with the company.

Generally, the goal of these programs is to establish a higher level of customer retention in profitable segments by providing increased satisfaction and value to certain customers. For example, many supermarket preferred-shopper programs are targeted toward heavy users. (Kannan & Bramlett, 2000)

3. Literature Review

***Singh & Khan (2012)** highlighted how short term actions with few modifications with the profit will turn into long term customer loyalty and hence long term benefit. The authors were focusing on understanding the customer retention and customer loyalty and their importance to the business. The authors also understand the approach of how to increase customer retention and customer loyalty towards the business. With the understanding of the behavior of the customers and satisfying them provides the benefit to the business in the long term. Establishing good relationship with the customers by providing better services will create customer loyalty and more visits over time. This will bring more profit to the business in long-term and will reduce the competition. The study also identified the strategies which attract the customers to the retailer and also understood the considerations to be done while implementing them. With this, it will help the business to gain customer retention and loyalty towards their business if they implement them diligently. (Singh & Khan 2012)

***Agchi & Xingbo (2011)** identified a moderator, step-size ambiguity, and address that when ambiguity is high, only reward distance affects loyalty programs. When ambiguity is lower, consumers integrate step size with reward distance. The physical and psychological distance estimation contexts (e.g., weight loss, savings) where distances and step sizes can vary (e.g., as a function of units: kilograms vs. pounds), but especially in loyalty rewards contexts. (Bagchi & Xingbo 2013)

***Omar et al. (2009),** pointed out that the introduction of customer relationship marketing instruments by retailers has been strongly increased in recent years both in theory and practice. Loyalty programs have become a popular choice of marketing strategy by retailers who believe that loyalty programs are an important strategy and mechanism for retailers to build store traffic, increase basket size and increase frequency by creating deeper relationship with their customer. However, some members in the marketing industry have begun to question the effectiveness of loyalty programs in obtaining customers' support and loyalty. The authors reported on the results of a preliminary study of the literature which has been conducted in an attempt to understand the issue and role of service quality in retail loyalty programs as well as factors that are important in loyalty program service quality.

***East et al. (2005**), defined Consumer loyalty as a singular concept, usually as an attitude toward the loyalty object or as repeat patronage behavior. The definition may combine attitude and behavior in either an additive or an interactive expression. The authors argue that definitions of loyalty are useful if they predict phenomena such as recommendation, search and retention (loyalty outcomes). The findings of the study addressed that in three consumer fields, the combination measures of customer loyalty often perform poorly as predictors of loyalty outcomes compared with singular measures since recommendation is predicted by attitude but not by repeat patronage. Retention and search behavior are predicted better by repeat patronage than by attitude. The prediction of loyalty outcomes is not improved by the inclusion of an interaction term in the model. The combination concepts of loyalty are of limited value. And there is no form of loyalty that consistently predicts all the different loyalty outcomes and, so they abandon the idea of a general concept of loyalty.

***Lewis (2004)** developed a model for customers' response to a loyalty program under the assumption that purchases represent the choices of customers who are solving a dynamic optimization problem. This theoretical model is using a discrete-choice dynamic programming formulation. The author relies on specific loyalty program with data from an online merchant that specializes in grocery and drugstore items. The results suggest that the loyalty program under study is successful in increasing annual purchasing for a substantial proportion of customers. Loyalty programs have an important effect on customer relationship management for firms in travel-related industries such as airlines, hotels, and rental cars. (Lewis, 2004)

***Kopalle and Neslin (2003)** have proposed analytical models to study the impact of loyalty programs in categories with different structures.

***Deighton (2000)** addressed that information technology enables firms to practice individual-level marketing which help the wide spread of loyalty programs into several industries such as: gaming, financial services, and retailing.

*In order to investigate the conditions under which a loyalty rewards program will have a positive effect on customer evaluations, behavior, and repeat purchase intentions, Kannan & Bramlett (2000) used cross-sectional, time-series data from a worldwide financial services company that offers a loyalty rewards program. The results show that members in the loyalty rewards program discount negative evaluations of the company in comparison with the competitors. One possible reason could be that members of the loyalty rewards program admit that they are getting better quality and service for their price or, in other words, "good value."

*The authors also estimated a model of the influence of a loyalty rewards program on customers' decisions to repurchase a service and their decisions about how much to use the service. The model focused on the multiple direct and indirect effects of loyalty programs on these two dependent variables. Using the model will help in estimating the effectiveness of a loyalty program in customer retention. (Kannan & Bramlett, 2000)

***Henning & Klee, (1997),** focused at the customer satisfaction with a company's product or services as it is the key to company's success and long-term competitiveness. The author considered customer satisfaction a central determinant of customer retention. The overall purpose of this study is to develop a conceptual foundation for investigating the customer retention process, with the use of the concepts of customer satisfaction and relationship quality. The study has a critical examination of the satisfaction-retention relationship, and the development of a comprehensive view of the customer's quality perception.

***Dowling and Uncles (1997),** explained that there are three primary lessons from the research they did. First, a major reason for launching of many customer loyalty programs is competition. Second, if a loyalty program does not support the product or service value proposition, it might be justified in attracting more distributors to deal with the product. Third, brand loyalty is more likely to come from the market.

*O'Brien and Jones (1995) suggest that the major factors that customers consider when assessing programs are the relative value of awards and the probability of achieving a reward. The probability of achieving a reward is a function of cumulative buying thresholds and time constraints.

*Loyalty programs have a long-run positive effect on customer evaluations and behavior. If loyalty rewards programs increase relationship durations and usage levels, then customers will be increasingly exposed to the complete spectrum of service experiences. (Keaveney 1995)

*Increased customer satisfaction and loyalty have a positive influence on long-term financial performance. The positive financial outcomes of the rewards program exceed the investments made in the program. (Anderson, et al. 1994)

4. Methodology

4.1 Research Objectives

The main objective of the study is to discover the effect of loyalty programs on customer retention. In order to reach this objective, the research will address the following sub-objectives:

1. Clarify the impact of customer loyalty programs on customer retention.
2. Identifying the effect of point system on customer retention.
3. Identifying the effect of tier system reward on customer retention.
4. Identifying the impact of charging an upfront fee for VIP benefits on customer retention.
5. Identifying the effect of non monetary on customer retention.
6 . Presenting recommendations for organizations which can be used as a guideline to obtain customer loyalty and achieve customer retention.

4.2 Importance of the study

The importance of the study through:

1. Clarifying the role of loyalty programs and their impact on customer retention.
2- Stand at the most important impact of a customer loyalty programs that affect the customer retention and make recommendations about the most influential.
3. This type of research helps us find the proper recommendations for the organizations.
4. Represents a specialized scientific addition in the field of studying customer loyalty programs.

The purpose of this study is to obtain a deep understanding of the impact of customer loyalty programs on customer retention. The data collection is based on the questionnaire instrument. The participants were selected randomly and were contacted through friends, relatives, students and doctors. The participants have different social, educational, and occupational backgrounds. Their ages range from early 20s to in their 60s. They engaged in one or more loyalty programs.

4.3 Problem Discussion

Due to the rapid increase in competition in the retail market, retailers offer several types of loyalty programs and frequent buyers programs to increase sales of products through customer repurchase over a period of time.
Despite the wide spread of loyalty programs in retailing sector, there is little empirical research that focuses on the measurement of influence of these programs on customer retention. The key to measuring the influence of loyalty programs is that they work as dynamic incentive tool relying on providing benefits based on cumulative purchasing over time. Loyalty programs encourage consumers to shift from single-period purchasing decision to multiple-period purchasing decision. This study is an attempt to investigate the impact of customer loyalty programs on customer retention. For the purpose of this study, consumer retention as a dependent variable will be measured by: the probability of recommending the company to others, the probability of repurchase, and probability of switching. Independent variables are the loyalty programs (point system, tier system, charge an upfront fee for VIP benefits and non-monetary programs).

The study addressed the following questions:

1. Is there an impact of customer loyalty programs on customer retention?
2. Is there an impact of point system on customer retention?
3. Is there an impact of tier system reward on customer retention?
4. Is there an impact of charge an upfront fee for VIP benefits on customer retention?

5. Is there an impact of non-monetary programs on customer retention?

4.4 Proposed Research Model

The goal of this study is to obtain a deep understanding of the impact of customer loyalty programs on customer retention. The following figure illustrates the suggested research model.

Figure (1): Conceptual Model
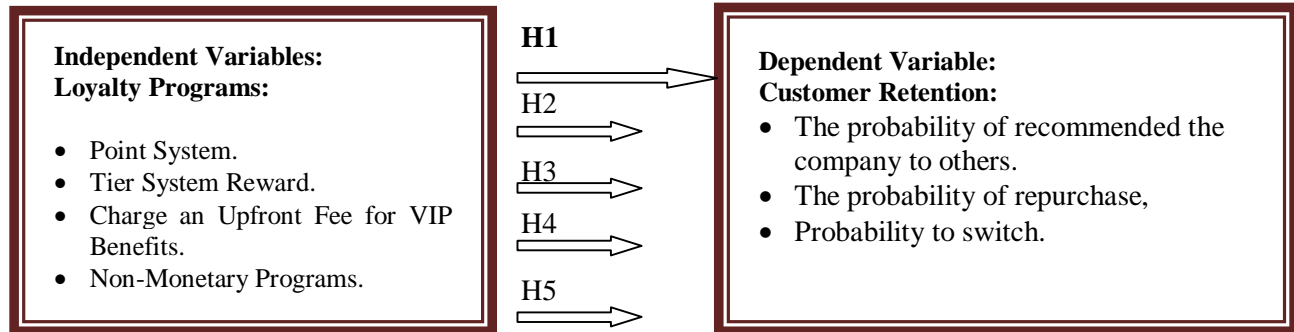
4.5 Instruments

To achieve the goal of this study, the focus will be made on finding primary data by building a questionnaire (Instrument) in two languages (English and Arabic) to collect data from the targeted sample. The questionnaire consists of three parts; the first part is about demographical factors. The second part is about the type of loyalty card that the customer has. The third part is about the attitude of the participant about each statement regarding different types of loyalty programs .The instrument relies on a five –points Likert Scale, representing a range from 1- strongly disagree to 5- strongly agree, in order to measure the impact of loyalty programs on customer retention.

4.5.1 Variables Measurements

Dependant Variable: Customer Retention

Customer retention means the company keeps its customers by providing a great customer experience. Too general Retention programs aim to turn occasional customers into frequent customers; they would be more likely to recommend the business to their friends and relatives. They also raise the probability of changing customers from being a one or two item purchaser to purchasing several products. Customer retention focuses on repeated patronage of a marketer; it is closely related to the repeat purchasing. (Hennig &, klee 1997) Customer retention will be measured in this study by thirteen statements, starting from question twenty nine till question forty one in part three of the questionnaire.

Independent Variables

*Loyalty Programs

Loyalty programs: are structured marketing efforts that reward, and therefore encourage, loyal buying behavior, which is potentially beneficial to the firm (Sharp, B. & Sharp A. (1997).

*Point System

This is the most common loyalty program. Frequent customers earn points, which translate into some type of reward: discount, gifts or special customer treatment, customer purchases toward a certain amount of points to redeem their reward. It is a card issued by a supermarket or chain store to a customer, used to record credit points awarded for money spent in the store. The Point system will be measured in this study by nine statements, starting from question 1 till question nine in part three of the questionnaire.

*Tier System Reward

This system offers small rewards as a base offering for being a part of the program, and encourages repeat customers by increasing the value of the rewards as the customer moves up the loyalty ladder. Tier system reward will be measured in this study by seven statements, starting from question ten till question nine in part three of the questionnaire.

*Charge an Upfront Fee for VIP Benefits

A one-time or annual fee that allows customers to start collecting points on their purchases. Charging an upfront fee for VIP benefits will be measured in this study by five statements, starting from question seventeen till question twenty one in part three of the questionnaire.

*Non-Monetary Programs

Providing value to customers in other ways than discount and dollars rewards. Depending on the customer's values, and on the industry, customers may find more value in non-monetary or discounted rewards. Non-monetary programs will be measured in this study by seven statements, starting from question twenty two till question twenty eight in part three of the questionnaire.

4.6 Hypotheses

According to the research model and questions, the following hypotheses will be tested:

H1: There is a significant impact of customer loyalty programs on customer retention.
H2: There is a significant impact of point system on customer retention
H3: There is a significant impact of tier system reward on customer retention.
H4: There is a significant impact of charge an upfront fee for VIP benefitson customer retention.
H5: There is a significant impact of non-monetary programs on customer retention

Research approach

This study is quantitative because it depends on data collected from the surveys, statistics will be established and generalizations will be made according to the results found. A survey was established in order to study the impact of customer loyalty programs on customer retention.

4.7 Population and Sampling

Bailey, (1987), suggests the correct sample size is dependent upon the nature of the population and the purpose of the study. There are several methods to determine the sample size, for instance: rules of thumb, average size samples from previous similar investigations, statistical method, or even the method where authors try to find all they can afford (Bryman and Bell, 2011). Therefore, the last method was selected for this study. Convenience sampling method has been used to select the samples. To collect data to test hypotheses, a survey was conducted to collect data from sample. In total (350) Questionnaires were distributed randomly to customers who could be reached by the researcher. and the remaining ones to identify 284 questionnaires only, Response rate was (81.14%) percent.

Description of the study sample

The results of table (1) showed that most respondents to the study were females with 52.1%, age category from 18-24 years old with 42.3%, most of them were students 45.1%, the majority of them were within the group of bachelor degree 69.4%, from the income group less than 500 J.D monthly with estimated percentage of 43.7%, singles 59.7%, living in west Amman 58.8%, families who have 4-6 persons 53.5%.

Table (1): Distribution of the Study Sample by Demographic Variables

		Frequency	Percent
Sex	**1**	136	47.9
	2	148	52.1
	Total	**284**	**100.0**
Age	**1**	120	42.3
	2	75	26.4
	3	44	15.5
	4	29	10.2
	5	16	5.6
	Total	**284**	**100.0**
Occupation	**1**	128	45.1
	2	19	6.7
	3	88	31.0
	4	49	17.3
	Total	**284**	**100.0**
Education	**1**	23	8.1
	2	28	9.9
	3	197	69.4
	4	36	12.7
	Total	**284**	**100.0**
Income	**1**	124	43.7
	2	76	26.8
	3	51	18.0
	4	33	11.6
	Total	**284**	**100.0**
Marital Status	**1**	103	36.3
	2	169	59.5
	3	4	1.4
	4	8	2.8
	Total	**284**	**100.0**
Address	**1**	167	58.8
	2	67	23.6
	3	50	17.6
	Total	**284**	**100.0**
Number of Family Members	**1**	70	24.6
	2	152	53.5
	3	62	21.8
	Total	**284**	**100.0**

The results of table (2) showed that the point system card was the most kind of loyalty programs used by the respondents of the study with 71.8%. Followed by Tier system reward 23.6%, then charge an Up-front fee for VIP benefits 19.7%, and the less usage was for Non-monetary programs 15.5%.

Table (2): Distribution of the Study Sample by the Usage Level of Loyalty Programs

		Frequency	Percent
Point System	0	80	28.2
	1	204	71.8
	Total	**284**	**100.0**
Tier System Program	0	217	76.4
	1	67	23.6
	Total	**284**	**100.0**
Charge an Up-front Fee for VIP Benefits	0	228	80.3
	1	56	19.7
	Total	**284**	**100.0**
Non-monetary Programs	0	240	84.5
	1	44	15.5
	Total	**284**	**100.0**

5. Statistical Analysis

5.1: Pre – test Analysis

To be sure of the quality of data and its suitability to use multiple regression analysis and other statistical analysis required to test hypotheses, some pre-test analysis had been undertaken:

- The independency of the independent variables test: As the results of Peron Correlation table (3) show that there is a positive significant correlation at (α= 0.01) between the study's variables, but there is no perfect correlation between them, while the strongest value of person correlation was (.675[**]) which is between the non-monetary programs and the point system.

Table (3): Person Correlation Matrix between the Independent Variables (Point system, Tier System Reward, Charge an Upfront Fee for VIP Benefits, Non- monetary programs,)

		Point system	Tier System Reward	Charge an Upfront Fee for VIP Benefits
Tier System Reward	**Pearson Correlation**	**.675**[**]		
	Sig. (2-tailed)	.000		
	N	284		
Charge an Upfront Fee for VIP Benefits	**Pearson Correlation**	.510[**]	.554[**]	
	Sig. (2-tailed)	.000	.000	
	N	284	284	
Non- monetary programs	**Pearson Correlation**	.590[**]	.549[**]	.582[**]
	Sig. (2-tailed)	.000	.000	.000
	N	284	284	284

**. Correlation is significant at the 0.01 level (2-tailed).

- Test the Variance Inflation Factor (VIF), test of allowed variation tolerance. This test had been used to be sure there is no high correlation (Multicollinearity) between the independent variables. The results shown in table (4) represent that the (VIF) value for each variable was less than (10), and the tolerance value for each variable was more than (0.05) which means there is no correlation problem between the independent variables.

Table (4): Variance Inflation Factor (VIF) and Test of allowed variation tolerance between the independent variables (Point system, Tier System Reward, Charge an Upfront Fee for VIP Benefits, Non- monetary programs)

	Collinearity Statistics	
	Tolerance	VIF
Point system	.476	2.102
Tier System Reward	.577	1.732
Charge an Upfront Fee for VIP Benefits	.471	2.121
Non- monetary programs	.534	1.872

- Linear relationship test between the Independent variables (point system, Tier system reward, charge an up-front fee for VIP benefits, non-monetary programs) and the dependent variable (customer retention). Through **Scatter Plot** which indicates the verification of the first pre-test to use simple linear regression analysis. It showed the use of graphic representation of regression standardized residual distribution of the relationship between the independent variables and the dependent variable. As the value of average means almost (0.000) with standard deviation of (0.993).
- ANOVA Analysis to assess the significance of the multiple regression models. Table which one? Shows the significant (F = 0.000) which is less than (α= 0.05) and this means it is significant to use the multi regression model for hypotheses testing.

Table 5: ANOVA Test to Assess the Significant of Using Multi Regression Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.757	1	53.757	175.969	.000[b]
	Residual	86.149	282	.305		
	Total	139.907	283			
2	Regression	68.712	2	34.356	135.599	.000[c]
	Residual	71.195	281	.253		
	Total	139.907	283			
3	Regression	73.406	3	24.469	103.025	.000[d]
	Residual	66.501	280	.238		
	Total	139.907	283			
4	Regression	74.319	4	18.580	79.036	.000[e]
	Residual	65.587	279	.235		
	Total	139.907	283			

a. Dependent Variable: Customer retention

b. Predictors: (Constant), Point system, Tier System Reward, Charge an Upfront Fee for VIP Benefits, Non-monetary programs,

5.2: Reliability and Validity Assessment

Table (6) shows Cronbach coefficient alpha values which measures the internal consistency for the whole model was estimated at 0.93, for the point system 0.73, Tier system reward 0.86, charge an up-front fee for VIP benefits 0.77, non-monetary programs 0.89, and 0.88 for customer retention. All of them are acceptable.

Table (6): Cronbach's Coefficient Alpha Values

	Cronbach's Alpha
Point system	.73
Tier System Reward	.86
Charge an Upfront Fee for VIP Benefits	.77
Non- monetary programs	.89
customer loyalty programs	.93
Customer retention	.88

5.3: Descriptive Statistics Analysis

Table (7) shows that most of the means of the questionnaire statements were in the high zone of approval, few of them were in medium zone of approval. All the study variables means were high. The point system have the highest mean scores M= 3.89 with S.D=0.71, followed by tier system reward M= 3.79 with S.D=0.68, then non-monetary programs M=3.53 with S.D=0.91. Finally charge an up-front fee for VIP benefits M=3.50 with S.D=0.83 and finally non-monetary programs.

Table (7): Mean and Standard Deviation for Questionnaire Statement and Study Variables

Component	Mean	Std. Deviation	Level
a1	4.07	0.92	High
a2	4.18	0.88	High
a3	4.05	0.93	High
a4	3.59	1.16	High
a5	3.50	1.19	High
a6	4.10	0.86	High
a7	3.67	1.21	High
a8	3.76	1.08	High
a9	4.12	0.95	High
Point system	3.89	0.71	High
a10	4.20	0.88	High
a11	4.14	0.91	High
a12	4.17	0.95	High
a13	4.08	0.98	High
a14	3.66	1.12	High
a15	3.72	1.03	High
a16	2.60	1.34	High
Tier System Reward	3.79	0.68	High
a17	3.14	1.34	Medium
a18	3.48	1.28	High
a19	3.24	1.06	Medium
a20	3.67	1.11	High
a21	3.98	1.17	High
Charge an Upfront Fee for VIP Benefits	3.50	0.83	High
a22	3.57	1.18	High
a23	3.46	1.13	High
a24	3.40	1.21	High
a25	3.25	1.23	Medium
a26	3.58	1.18	High
a27	3.74	1.09	High
a28	3.70	1.16	High
Non- monetary programs	3.53	0.91	High
customer Point system programs	3.71	0.64	High
a29	4.05	0.97	High
a30	4.02	0.96	High
a31	4.09	0.94	High
a32	3.93	1.01	High
a33	3.89	1.03	High
a34	3.96	0.99	High
a35	3.90	0.98	High
a36	3.55	1.25	High
a37	3.89	1.15	High
a38	3.14	1.20	Medium
a39	3.32	1.22	High
a40	3.73	1.03	High
a41	3.46	1.33	High
customer retention	3.77	0.70	High
Point system	3.89	0.71	High
Tier System Reward	3.79	0.68	High
Charge an Upfront Fee for VIP Benefits	3.50	0.83	High
Non- monetary programs	3.53	0.91	High
customer Point system programs	3.71	0.64	High
customer retention	3.77	0.70	High

5.4: Correlation Analysis- Relationship between Variables

Table (8) Person Correlation

Independent Variables		customer retention
Point system	Pearson Correlation	.604**
	Sig. (2-tailed)	.000
	N	284
Tier System Reward	Pearson Correlation	.620**
	Sig. (2-tailed)	.000
	N	284
Charge an Upfront Fee for VIP Benefits	Pearson Correlation	.616**
	Sig. (2-tailed)	.000
	N	284
Non- monetary programs	Pearson Correlation	.551**
	Sig. (2-tailed)	.000
	N	284

**. Correlation is significant at the 0.01 level (2-tailed).

Table (8) shows there is a significant positive relationship between point system (r= 0.604**), Tier System Reward (r= 0.620**), Charge an Upfront Fee for VIP Benefits (r= 0.616**). Non-monetary programs (r= 0.551**), and the customer retention.

5.5: Multiple Regression Analysis – Hypotheses Testing

Multiple regression analysis was used to examine the effect of loyalty programs on customer retention. The correlation coefficient between all kinds of loyalty programs (independent variables) and customer retention (dependent variable) was estimated at (r = 0.729), and the coefficient of determination was (R^2 = 0.522) representing that 52.2 percent of customer retention was explained by the four kinds of loyalty programs and the rest of the effect percentage will refer to other factors out of the interest of the current study. The results showed that the study model is significant at the F statistics (F= 29.711) and (Sig = 0.000) at level of (α= 0.05). This indicates that the overall model is significant which means there is an effect for all the loyalty programs under study on customer retention. Table (9) represents also the effect of each kind of loyalty program (independent variables) on customer retention (dependent variable): Point system (t= 3.674, Sig= 0.000), Tier system reward (t= 4.073, Sig=0.000), charge an Up-front fee for VIP benefits (t=5.657, Sig=0.000), Non-monetary programs (t= 1.971, Sig=0.049). These results show that all the loyalty programs were affected customer retention due to the fact of the rejection of all the null hypotheses and the acceptation of all the alternative hypotheses. Regarding stepwise analysis table (10), the major effect was for Tier system reward with estimated (R^2 = 38.4%), followed by charge Up-front fee for VIP benefits with (R^2 = 10.7%), then point system with (R^2 = 3.4%), the weakest effect was for Non-monetary programs with ((R^2 = 0.07%) which could excluded from the model.

Table (9): Multiple Regression Coefficients (Model Summary)

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.761	.179		4.259	.000
Tier System Reward	.252	.062	.242	4.073	.000
Charge an Upfront Fee for VIP Benefits	.258	.046	.305	5.657	.000
Point system	.217	.059	.219	3.674	.000
Non- monetary programs	.086	.043	.111	1.971	.049

Table (10): Stepwise analysis

Model	R	R Square	Adjusted R Square	R Square Change
1	.620[a]	.384	.382	.384
2	.701[b]	.491	.488	.107
3	.724[c]	.525	.520	.034
4	.729[d]	.531	.522	.007

Predictors: (Constant), Tier System Reward

b. Predictors: (Constant), Tier System Reward, Charge an Upfront Fee for VIP Benefits

c. Predictors: (Constant), Tier System Reward, Charge an Upfront Fee for VIP Benefits, Point system

d. Predictors: (Constant), Tier System Reward, Charge an Upfront Fee for VIP Benefits, Point system, Non-monetary programs

6. Conclusion

According to the findings of the current study all the loyalty programs are useful and important for building and maintaining customer retention. That means customer retention is benefited form the basis of all loyalty program initiatives. The major effect was for Tier system reward followed by charge Up-front fee for VIP benefits, and then point system, the weakest effect was for Non-monetary programs.

7. Recommendations

Marketers need to know how to innovate loyalty programs that reflect the customer's shopping attitudes and lifestyle, in order to keep them loyal to the business and create a life time customer.

To reach this goal the authors recommend the following:

1. Marketers must keep using all kinds of customer loyalty programs due to their clear impact on customer retention. Especially the Tier system reward.
2. **Marketers** must keep looking for new and initiative tools to differentiate their loyalty programs, to attract new customers and to increase the purchasing amount of the existing ones.
3. Marketers must be focused on the balance between costs and revenues of each distinctive loyalty program, because it is important for any business to think in an economical way.
4. Due to the fact that customers differ in their characteristics and preferences -even it is not the interest of this study-, the distinctive loyalty programs should be segmented according the characteristics and preferences of the target customers.
5. The loyalty programs must be easy to redeem the points and the benefits. Which means the marketers must develop a loyalty program which helps the loyalty program members to be able to convert their points into merchandise, discounts and other services.
6. Focused on the retaining customers due to their role in recommending the company to their friends and relatives through the positive word of mouth. And retaining customers is less expensive than acquiring new ones.
7. The importance of diversifying the loyalty programs to attract more customers from different demographic characteristics and maintain them as long as possible.
8. Develop a loyalty programs which fit the youth needs and shopping requirements.
9. Keep customers informed about all available loyalty programs and how to deal with.
10. Develop a transparence feedback system and listening to customer views and suggestions regarding the available loyalty programs.

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