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Loyalty Program Attributes And Their Influence On Retail Customer Satisfaction

Kerrie Bridson, Deakin University
Melissa Hickman, Monash University
Jody Evans, Melbourne Business School

Abstract

This paper empirically examines the extent to which loyalty program attributes explain variations in satisfaction with the retail offer. Two dimensions of loyalty program attributes are introduced including hard attributes and soft attributes. Store satisfaction is examined in terms of the elements of the retail offer. The results suggest that emphasis on hard and soft attributes enhance customer satisfaction with a retailers' merchandise, trading format, customer service and customer communication. Additionally, hard attributes have a more significant influence than soft attributes on satisfaction with all elements of the retail offer excluding merchandise.

Background

In an increasingly competitive environment retailers are continually striving to find ways in which to attract and retain customers. As such, loyalty programs have proliferated in the retail market. These programs typically operate on the premise that rewarding customers will result in repeat purchase (O'Malley, 1998). However, although numerous retailers have implemented these programs, little is known about what constitutes an appropriate reward nor has their effect on consumers been thoroughly explored. Whilst the link between loyalty programs and loyalty has logically been pursued, little is known about the impact of loyalty programs on other consumer responses such as satisfaction. Thus, the purpose of this paper is to examine the role of loyalty program attributes in relation to consumer store satisfaction. Additionally the present study proposes to develop a multi-item measure of store satisfaction based on elements of the retailer's offering.

Loyalty Program Attributes

The trade literature distinguishes between two types of loyalty program reward; hard and soft attributes (Barlow, 1996). Such things as gift vouchers and free items constitute hard attributes as they are the more tangible elements of the loyalty program. By contrast, soft attributes are perceived to give consumers a sense of recognition and include such things as personalised communications (e.g. letters) and preferential treatment. An additional distinction between the two types of reward is that hard attributes tend to carry economic value whereas soft attributes do not.

Whilst rewards are a common feature of most loyalty programs the role of specific types of rewards on consumers remains largely unexplored. Although not explicitly researching loyalty programs, Kendrick (1998) found that consumers who received a gift or a discount (hard attributes) were more behaviourally loyal than those who only received a 'Thank you' note (soft attribute). This finding points to the differential

impact of various types of reward. Similarly, in their investigation of what they deemed relationship efforts, de Wulf and Oderkerken-Schroder (2003) found that the effect of direct mail, preferential treatment and tangible rewards differed in their effect on consumer trust in the retailer. Hence, it is the purpose of the present paper to investigate the potentially differing effects of loyalty program attributes in terms of the hard and soft conceptualisation put forth in the trade literature.

Store Satisfaction

Once the primary objective of many retailers, achieving satisfaction has been relegated to a secondary goal as organisations strive for the elusive target of customer loyalty advocated by the relationship marketing paradigm (O'Malley and Tynan, 2000). However, as suggested by Jones and Sasser (1995, p.89), "except in a few rare instances, complete customer satisfaction is the key to securing customer loyalty and generating superior long term financial performance".

Previous studies examining store satisfaction have measured the construct using single items which require respondents to make a global assessment of their satisfaction with the store (e.g. To what extent are you satisfied with this store?) on a rating scale. "Although single-item scales are simple, they do have at least two faults. First, the single-item scale cannot provide information on components and cannot assess various dimensions separately, therefore it may not capture the complexity of customer satisfaction entirely. Second, it is very difficult to assess reliability with a single-item measure." (Danaher and Haddrell, 1996, p.5). In multi-item measures "survey respondents are not just asked to give an overall evaluation of their satisfaction with the service but are also asked to rate the key components of the service process" (Danaher and Haddrell, 1996, p.6).

In accordance with Rust and Zahorik (1993) and Danaher and Haddrell (1996) the present study purports single item measures to be a limited conceptualisation of store satisfaction. Therefore, for the purpose of this research store satisfaction is operationalised in terms of consumer satisfaction ratings with the individual elements of the retail offer. The retail offer is comprised of four dimensions; the store's merchandise, trading format, customer service and customer communication (Walters and Knee, 1989; McGoldrick and Ho, 1992).

Loyalty Program Attributes and Store Satisfaction

Satisfaction is a commonly cited antecedent to loyalty (Homburg and Giering, 2001). However, it is purported that the relationship between the two variables is asymmetric in nature whereby satisfaction can exist in the absence of loyalty (Oliver, 1999). In a study of the telecommunications industry, Khatibi, Ismail and Thygarajan (2002) found that high levels of satisfaction did not always translate into customer loyalty. Thus, whilst the worth of loyalty programs remains questionable in terms of loyalty generation, the benefit of these programs perhaps lies in their impact on customer satisfaction.

As previously noted, a number of studies (e.g. Kendrick, 1998) have found differences in the extent of the impact of various types of loyalty program attributes on loyalty and its antecedents (e.g. trust). Therefore, the purpose of the present

research is to determine whether the different types of loyalty program attribute effect consumer store satisfaction when it is considered in terms of the retail offer.

Thus, it is hypothesised that:

H1: The following will have a significant, positive relationship with satisfaction with the retail offer;

1a: hard attributes

1b: soft attributes

Methodology

Researcher administered surveys were used to collect data from respondents through a formal structured questionnaire. The sample frame for the study consisted of all members of a health and beauty retailer's loyalty program who visited the store during a two week period. Data collection occurred across two stores within the chain (one week per store) within store operating hours. Participants were screened via the question "Are you a member of the <retailer's name> loyalty program?", with the questionnaire administered to those consumers responding in the affirmative. In accordance with the caution of Glassman and Glassman (1998), the screening question was not indicative of who the target sample was, thereby preventing potential respondents from answering the screening question in a way which deliberately eliminated them as participants.

There were no existing measures for the importance of loyalty program attributes. Thus, based on a review of the literature, new measures were developed for both hard and soft attributes. Respondents were asked to indicate how important they considered various loyalty program attributes to be on a scale ranging from 'not at all' (1) to 'to a great extent' (7). In total, 5 items were used to measure the importance of hard attributes and 8 comprised the soft attributes sub-scale. In terms of the store satisfaction scale, 5 items related to merchandise satisfaction, 4 items to the trading format, 4 items to customer service and 4 items to customer communication. Items were of the form "I am satisfied with...." to which participants indicated the extent to which they agreed with the statement on the same scale employed to measure loyalty program attributes.

The reliability of the measurement scales, across the total sample of 200 responses, was found to satisfactorily meet Nunally's (1978) recommendation, as the Cronbach α 's for loyalty program attributes all exceeded 0.7 (hard attributes = .834 and soft attributes = .906). The Cronbach α values obtained for the retail offer dimensions were; merchandise = .842, trading format = .848, customer service = .9138 and customer communication = .800 and for retail offer overall 0.838.

Results and Discussion

Multiple regression analyses were used to determine the predictive ability of each of the individual elements of loyalty program attributes on satisfaction with the retail offer dimensions, the results of which are presented in Table 1.

Table 1: Loyalty Program Attributes and Satisfaction with the Retail Offer

	Merchandise	Trading Format	Customer Service	Customer Communication
Hard Attributes	.196** (2.625)	.305*** (4.166)	.250** (3.347)	.351*** (5.030)
Soft Attributes	.235** (3.147)	.176* (2.406)	.188* (2.525)	.227** (3.254)
R²	.137	.174	.141	.248
Adjusted R²	.128	.165	.133	.241
F-Ratio	15.601***	20.692***	16.211***	32.571***

* $p < .05$, ** $p < .01$, *** $p < .001$ (The figures in the tables are standardised regression weights, the figures in brackets are t values)

The F -ratios suggest that the two variables explain a significant proportion of satisfaction with the retail offer. The R^2 values indicate that loyalty program attributes explain 14% of the variance of merchandise satisfaction, 17% of satisfaction with the trading format, 14% of customer service satisfaction and 25% of the variance of customer communication satisfaction.

In terms of the individual loyalty program attributes, hard attributes was found to be a significant predictor of satisfaction with the merchandise ($\beta = .196$), trading format ($\beta = .305$), service ($\beta = .250$) and communication ($\beta = .351$). Similarly, soft attributes was found to significantly predict satisfaction with the merchandise ($\beta = .235$), trading format ($\beta = .176$), customer service ($\beta = .188$) and communication ($\beta = .227$). Beta values indicate that hard attributes were a better predictor of trading format, customer service and customer communication satisfaction whilst soft attributes has greater predictive ability in relation to satisfaction with merchandise.

In accordance with the hypotheses, the present study found that both hard and soft attributes were significant predictors of satisfaction with the merchandise, trading format, customer service and customer communication of the store. Findings also suggest that there is a differential impact between the two types of attribute as satisfaction with the trading format, customer service and customer communication are better predicted by hard attributes whereas merchandise satisfaction is better predicted by soft attributes.

The fact that both types of loyalty program attribute are significant predictors of satisfaction with the retail offer suggests that it is worthwhile incorporating two types of reward into loyalty programs. Furthermore, since specific types of reward are better predictors of satisfaction with certain elements of the retail offer, marketers and managers may be able to tailor the mix of rewards for consumers.

Whilst this paper fulfilled its aim of investigating the effect of loyalty program attributes on retail offer satisfaction, using a cross-sectional design, a longitudinal approach would be advised for future studies as both loyalty and satisfaction do not develop instantaneously. Furthermore, tracking changes over time, both before and after the inception of a loyalty program, would provide more substantial support as

the loyalty and satisfaction fostering abilities of loyalty programs. Additionally, the loyalty and satisfaction of non-loyalty program members should also be gauged to help assure that changes are in fact attributed to loyalty programs. Furthermore, the study undertook a case approach, drawing its sample exclusively from participants of a health and beauty retailer's loyalty program. To improve generalisability it is recommended that future studies samples are drawn from broader contexts to determine if the present study's findings hold in other contexts. The word-of-mouth dimensions which was found to be a separate dimension of loyalty which future studies should attempt to confirm as this additional dimension may help to enhance understanding and measurement of the loyalty construct.

Conclusion

The present study lends support for the inclusion of both hard and soft attributes in loyalty programs as they differ in their association with store satisfaction. Additionally, the varying impact of these attributes on the individual elements of the retail offer validates the conceptualisation of store satisfaction as a multi-dimensional construct. In terms of loyalty program design, it is clearly worthwhile for retailers to take into consideration the mix of loyalty program attributes used and their potential for manipulating elements of consumer store satisfaction.

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