

A Cut From Above: The Impact of Loyalty Program Status on Member's Behavior

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This study identified the differences on the behavior between elite and non-elite members of a loyalty program. Behaviors measured were personal referrals, personal information sharing, openness to store promotions, increasing purchases, and marketing research support. Results showed the significant differences on behavior such as personal referrals and increasing purchases. The store benefits personal referrals from the non-elite members while increasing purchases from elite members.

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In today's competitive business environment, is it more important to get new customers or to maintain good relations with the customers you already have? While getting customers is fundamental to business success, keeping customers is more important. Successful stores work to build long-term relationships with their customers through loyalty program membership. However, are customers who are loyalty-program members willing to serve as advocates of the store? Furthermore, many loyalty programs endow customers with status, which they earn through purchase or other actions.

This study looks at how stratifying customers and endowing some with status make them feel different and, thus behave differently. Thus, this study focuses on the effect of membership status on member's behavior resulting in store advocacy.

LITERATURE REVIEW

In response to the current era of intense competition and demanding customers, a new generation of customer relationship management (CRM) tactics has been developed, which is the loyalty program (Bhattacharya, 1998). Several scholars (Kivetz & Simonson, 2003; Mauri, 2003) asserted that loyalty programs have become an important strategy and mechanism for retailers to increase revenue growth rate and have become a key component of CRM, serving a critical role in developing relationships, stimulating product and service usage, and retaining customers.

Loyalty Program Membership. Lieberman (1999) observed that loyalty card programs are proven to be an effective tool within the relationship marketing framework. Loyalty

program is defined as the business process of identifying, maintaining, and increasing the yield from best customers through interactive, value-added relationships (Capizzi & Ferguson, 2005). Loyalty programs are structured marketing efforts that reward and encourage loyal behavior of their members (Sharp & Sharp, 1997).

According to Allaway, Berkowitz, and D-Souza (2003), retail scene loyalty programs involve a concentrated effort to build store traffic, increase basket size, and increase frequency, which create all of deeper relationship ties with its customer base. Today, the use of loyalty programs as a technique for firms to enhance customer loyalty is extremely popular as it is believed that both consumer and store can reap benefits from it (Luxton, 1998).

Store Advocacy. Loyalty program works to build and preserve stronger customer relationships with the sponsoring store that would result without these programs (Lacey, 2009). In the context of this study, store advocacy reflects an enduring attitude toward or desire for a particular store or brand. Store advocates are motivated to maintain their relationship because of attachment feelings and sincerity in their personal attitudes. Advocacy arises only after the relationship has been firmly established, and thus serves as a necessary condition for consistent member's behavior.

Advocates are those customers who recommend their retailers to others, buy more from that retailer when they have choices, and stay with that retailer when new competition becomes available.

Personal Referrals. According to Day (2002) and Katz and Lazarsfeld (1955), the ultimate test of a customer's relationship with a brand or firm is his willingness to recommend it to others. Furthermore, Gronroos (2004) stated that committed customers promote the stores through personal referrals.

Research generally supports the claim that personal referrals are more influential than other marketer-controlled sources. Sheth

(1971) concluded that personal referral is more important than advertising in raising awareness of an innovation and in securing the decision to try the product. Day (2002) inferred that this is due to source reliability and the flexibility of interpersonal communication. He computed that personal referrals are nine times as effective as advertising at converting unfavorable or neutral predispositions into positive attitudes. Mangold's (1987) review of the impact of personal referrals in the professional services context concludes that personal referrals have more emphatic influence on the purchasing decision than other sources of influence. This is perhaps because personal sources are viewed as more trustworthy (Murray, 1991).

Personal Information Sharing. Delivering quality customer service has emerged as a strategic imperative for retaining profitable corporate customers. Sharing valuable information is one service that could be effective to enabling seller-buyer relationship formation, maintenance and long-term continuation.

Ho and Tai's (2010) study suggested that although information-sharing services is an important means for enhancing customer loyalty, not all types of customers should be treated in the same way. The customer group characterized by low trading frequency and low trading value may not perceive value from the information service provided by the seller. The seller may not need to invest information technology resources for providing information-sharing services to such customer group.

Openness to Store Promotions. Based on the notion of reciprocity, perceived relationship investment implies that when organizations invest certain resources in their customers, the customers tend to feel the need to contribute equitably in return in some form (Smith & Barclay, 1997). Morais, Dorsch, and Backman (2004) found that customer's perceptions of investments made by the provider result in equitable investment made by the customer, and that those customer

investments in the provider lead to increased loyalty (Lacey, 2009).

Customers can avoid a store's marketing message when they exercise greater control over the flow of marketing messages in their lives (Urban, 2005).

Marketing Research Support. According to Lacey (2009), marketing research support is a collective term to describe customer's willingness to provide input for improving marketing performance, such as participating in new product development testing, reacting to proposed advertising campaigns, giving opinions on service quality, and sharing insight about unfulfilled customer needs. As relationship commitment builds, customers become more willing to participate in store-sponsored marketing research activities (Bendapudi & Berry, 1997; Bettencourt, 1997).

Increasing Purchases. According to Lacey (2009), committed customers are not just expected to maintain current purchasing activities, but to increase both the level and proportion of their purchasing activities over time. Customers who remain with the firm are more likely to increase business volume in the future (Mattila, 2001). Compared to other promotional tactics, loyalty programs are distinguished by their emphasis on lifting average purchase frequency by offering incrementally higher incentives to customers on the basis of frequency and dollar value purchases over a specified time period (Dowling & Uncles, 1997). Loyalty programs have been shown to have positive impact not only on retaining current customers, but also on encouraging customers to make a higher share of their product category purchases from the sponsoring firm (Lewis, 2004).

OBJECTIVES OF THE STUDY

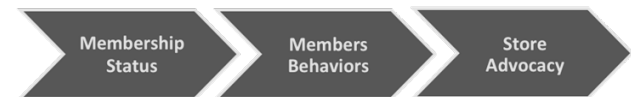
The main objective of the study is to determine the effect of loyalty program membership status on member's behavior resulting in store advocacy.

Specifically, this study aims to determine the positive influence of loyalty program membership status to personal referral, personal information sharing, marketing research support, openness to store promotion, and increase in purchase resulting in store advocacy.

SCOPE AND LIMITATION OF THE STUDY

This study will focus on the effect of loyalty program membership status on member's behaviors, resulting in store advocacy. The study is limited to SM Advantage and SM Prestige cardholders of Countryside Village, Sun Valley, Paranaque. The respondents should have been members for more than two years and should have availed themselves of rewards at least once.

CONCEPTUAL FRAMEWORK



Membership Status is classified into elite (SM Prestige cardholder) and non-elite (SM Advantage cardholder). Membership in the SM Advantage Program is "self-determined", which means that members enroll themselves in the program. With the initiative, it is assumed that customers are more likely to continue doing business with the store and eventually exhibit store advocacy.

Members' Behaviors. Loyalty program members are vital source of future revenue streams and marketing intelligence. Loyal members willingly share insight about their needs and provide the opportunity for the store to tailor its products, pricing, distribution channels, and marketing communications. In this study, members' behavior reflects the combination of marketing resources that contribute to a more efficient and effective marketing enterprise, including: personal referrals, sharing personal information, engaging in store-sponsored

marketing research activities; and being more open to store promotions.

Store advocacy arises only after a relationship has been firmly established, and thus serves as a necessary condition for consistent loyalty program member's behavior. As such in this study, a loyalty program member must be an active member (i.e. continuous engagement with the store) for more than two years, and must have already experienced availing rewards to be a respondent.

Hypotheses

This study aims to prove the following research hypotheses:

RH1. Elite members of a loyalty program are more likely to promote the store through personal referrals than non-elite members.

RH2. Elite members of a loyalty program are more likely to share personal information than non-elite members.

RH3. Elite members of a loyalty program are more likely to provide marketing research support than non-elite members.

RH4. Elite members of loyalty program are more likely to be open to the store's promotional messages than non-elite members.

RH5. Elite members of a loyalty program are more likely to increase their purchases than non-elite members.

Research Instrument

The instrument to be utilized will be a survey. It included two major parts, consisting of first, a set of questions about personal information and loyalty program membership status, and second, a set of questions pertaining to member's store advocacy behavior.

For the first set of questions, the profile of respondents will be asked. It will include gender, civil status, lifestyle, frequency of shopping, educational attainment, year of membership, and loyalty program membership status. The second part of the questionnaire will measure member's store advocacy behavior. This part will provide five items, which will be measured using 5-point Likert scales anchored in strongly disagree – strongly agree namely personal referrals (Gremler & Gwinner, 2000), personal information sharing, marketing research support, openness to store promotions, and increasing purchases (Lacey, 2009). All item scales were edited to suit the need of the study.

Scale Items

The following are the items that will be used in the study.

Personal Referrals (PR)

1. I am willing to encourage friends and relatives to shop at SM.
2. I recommend SM as the best place to shop whenever anyone seeks my advice.
3. I go out of my way to recommend SM when the topic of store comes up in conversation.

Personal Information Sharing (PIS)

4. I provide personal information needed so that I can be notified about SM updates.
5. I answer questions about my preferences so that my future interaction with SM can be more personalized.
6. I fill out a form about my preferences so that SM can better serve its customers.

Marketing Research Support (MRS)

7. I share with SM my feelings about unfulfilled service and product needs.
8. I provide feedback on how SM can improve its products and service offerings and its quality of service.
9. I answer surveys given by SM to evaluate its product and service offerings.

Openness to Store's Promotions (OSP)

10. I read promotional materials mailed to me by SM.
11. I got to SM to check out promotions.
12. I buy products and avail myself of services offered during the promotions by SM.

Increasing Purchases (IP)

13. I purchase an item if it is available at SM rather than from a competing store.
14. I spend more at SM than I do at other stores.
15. I purchase from SM to increase my points.

RESULTS AND DISCUSSION**Table 1***Membership profile*

	Membership Status	
	Elite (n=55)	Non-elite (n=95)
Year Membership Started		
2002 – 2004	2%	20%
2005 – 2007	54%	39%
2008 – 2009	44%	41%

More than half of the non-elite and elite members have been members of the loyalty program for more than three years.

Table 2*Frequency of Shopping*

	Membership Status	
	Elite (n=55)	Non-elite (n=95)
Frequency of Shopping		
Everyday	0%	0%
5 to 6 times a week	0%	0%
2 to 4 times a week	18%	56%
Once a week	0%	0%
Twice a month	33%	22%
Once a month	28%	20%
Less frequently	21%	2%

More than half of elite members shop 2-4 times a week while most of non-elite members shop twice a month to less frequently.

Table 3*Average Spending per Visit*

	Membership Status	
	Elite (n=55)	Non-elite (n=95)
Average Spending per Visit		
Less than php1000	0%	7%
Php1000 – 2000	9%	34%
>Php2000 – 3000	14%	29%
>Php3000 – 4000	18%	12%
>Php4000 – 5000	24%	12%
>Php5000	35%	6%

Majority of elite members spend an average of Php4000 – more than 5000 per shopping visit while only Php1000 – 3000 on average per visit for non-elite members.

Table 4
Mode of Payment

	Membership Status	
	Elite (n=55)	Non-elite (n=95)
Mode of Payment		
In cash	36%	51%
Using debit cash	4%	9%
Using credit cash	60%	40%

A big majority of elite members use credit card in paying purchases while more than half of non-elite members pay in cash for their purchases.

As shown in Table 5, non-elite cardholders enroll in a loyalty program mainly because of quality merchandise offered by the store

at reasonable prices. On the other hand, elite member's main reason is that the store offers various rewards for point accumulation.

Personal Referral. Table 6 shows that there is a statistically significant difference between the mean personal referral score for non-elite members and elite members of SM loyalty program ($Z=-2.75$, $p=.007$). Non-elite members ($M=3.29$, $SD=.610$) are more willing to encourage friends and relatives to shop at SM, recommend SM as the best place to shop when advice is sought, and go out of their way to recommend SM when the topic of store comes out in conversation compare to elite members ($M=2.99$, $SD=.683$).

The research hypothesis that the elite members are more likely to promote the store through personal referral than non-elite members is rejected.

Table 5
Reasons for Loyalty Program Membership

Reasons	Membership Status			
	Non-elite (n=95)		Elite (n=55)	
	Mean	Rank	Mean	Rank
The store offers quality merchandise at reasonable prices.	2.69	1	3.31	2
The quality of merchandise at the store consistently meets my expectations.	3.11	2	4.15	4
The store offers various rewards for point accumulation.	4.59	3	2.69	1
The store offers special treatment to loyalty program members.	5.53	4	3.35	3
The store is truthful in its advertising.	6.19	5	6.93	7
Store salespeople are consistently courteous and friendly.	6.20	6	7.33	9
Store salespeople have the skills necessary to help me.	6.27	7	6.55	6
Store salespeople serve me promptly.	6.43	8	6.44	5
Store salespeople give caring and individual attention.	6.80	9	7.42	10
Store salespeople go out of their way to help me.	7.21	10	6.98	8

Table 6*Loyalty Program Member's Store Advocacy Behavior*

Scale Items	Membership Status					
	Elite		Non-elite		Z-value	p-value
	Mean	SD	Mean	SD		
Personal Referral	2.990	0.683	3.290	0.610	-2.750	0.007
Personal Information Sharing	3.090	0.720	3.220	0.730	-1.055	0.293
Marketing Research Support	3.330	0.770	3.220	0.780	0.828	0.409
Openness to Store Promotions	3.440	0.700	3.320	0.700	1.042	0.299
Increasing Purchases	3.870	0.780	3.350	0.760	4.029	0.000

Personal Information Sharing. The above results indicate that there is statistically no significant difference between the mean of personal information sharing scores for elite and non-elite members ($Z=-1.055$, $p\text{-value}=.293$). The two groups neither agree nor disagree to share personal information. Members are a little bit apprehensive on giving out personal information. The mean scores of non-elite ($M=3.22$, $SD=.730$) members, in terms of willingness to share personal information does not significantly differ from elite members ($M=3.09$, $SD=.720$).

The research hypothesis that elite members are more likely to share personal information than non-elite members is rejected.

Marketing Research Support. The above results indicate that there is statistically no significant difference between the mean of marketing research support scores for elite and non-elite program members ($Z=0.828$, $p\text{-value}=.409$). Both members are willing to share feelings about unfulfilled services and product needs, as well as provide feedback on and evaluating product and service offerings and its quality of service. In other words, the mean scores of non-elite ($M=3.22$, $SD=0.780$) members in terms of willingness to provide marketing research support does not significantly differ from elite members ($M=3.33$, $SD=.770$). The research hypothesis that elite members are more likely to

provide marketing research support than non-elite members is rejected.

Openness to Firm Promotions. The results indicate that there is statistically no significant difference between the mean of openness to store promotions scores for elite and non-elite loyalty program members ($Z=1.042$, $p\text{-value}=.299$). The elite and non-elite members agree to buy products and avail of services offered during promotions, and neutral on reading mail promotional materials and going to SM to check out promotions. In other words, the mean scores of elite members ($M=3.44$, $SD=.700$) in terms of openness to store promotions does not significantly differ from non-elite members ($M=3.32$, $SD=0.700$). The research hypothesis that elite members are more likely open to store promotional messages than non-elite members is rejected.

Increasing Purchases. Table 6 shows that there is a statistically significant difference between the mean increasing purchases score for non-elite and elite members of SM loyalty program ($Z=4.029$, $p\text{-value}=.000$). The elite members agree on purchasing from SM to increase points, purchase item and spend more at SM rather than competing store, while non-elite members are neutral on these behaviors. In other words, elite members ($M=3.87$, $SD=.780$) have a significant higher mean score on increasing

purchases than non-elite members ($M=3.35$, $SD=.760$). Therefore, the research hypothesis that elite members are more likely to increase purchases than non-elite members is not rejected. The loyalty program membership status does influence increase in purchase.

CONCLUSIONS AND RECOMMENDATIONS

The findings of the study display the limited effect of loyalty program membership status on the following tested store advocacy behaviors:

Personal Referrals: Members, regardless of membership status, are open to extending themselves and advocating program enrollment by word of mouth marketing for the company. To enhance this behavior, a reward must be given to successful referrals.

Personal Information Sharing: Members are hesitant in sharing personal information; this infers that they hold their privacy at a premium as well their personal safety. Therefore, the company should strive to win members' trust—by way of fulfilling their commitments as well as showing guardianship for the information secured.

Marketing Research Support: Members showed appreciation for the Company's efforts to improve its product offerings and services. This can be further enhanced with a partnership program where the Company rewards members whose insights and contributions lead to added value for the Company.

Openness to Store Promotions: Members are open to in-store promotions but not on the overload of communication materials. Members do not want to experience receiving excessive communications and a barrage of promotional materials. Thus, this must be limited to the product and services important and relevant to the member.

Increasing Purchases: Increasing purchases influence more the elite members, than the non-elite. To keep this behavior for the elite and encourage the non-elite, new uses of the loyalty card and more usage of the points accumulated must be implemented.

The results lend credence to many researchers who argue that loyalty program membership drives loyalty behavior. However, gradation of the program utilizing status as a differentiator has a restrained impact on store advocacy and has potential shortcomings on loyalty programs. It is enough that the member is recognized as a partner for the Company.

With or without the endowment of status in relation to their membership in loyalty programs, the Company must continue to offer unique products and services that the customer values and will pay a premium for.

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