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**“A Study of the Impact of Loyalty Program Membership on the Value  
Perception and Purchase Intention of Members”**

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**Abstract**

Loyalty programs had captured the Indian market more than a decade back. Though many stores now boast of a huge member base, the effectiveness of these programs has not been ascertained convincingly. Frequency of visit, word-of-mouth referrals, satisfaction levels, share-of-wallet, repurchase intention and value perception are a few determinants of loyalty. The success of such programs can be judged by ascertaining the effect of loyalty program membership on all or a few of these variables. In this paper, the authors study the effect of membership on two of the above mentioned variables namely- value perception and purchase intention. The results do not provide conclusive evidence in favour of these programs though in the end the relationship between the store and the customer proves to be a mutually beneficial one.

**Keywords:** Loyalty Programs, Value Perception, Repurchase Intention

**Introduction**

Loyalty Programs captured the Indian market more than a decade ago and have been growing ever since. A number of grocery stores, departmental stores and stand-alone brands have loyalty programs that boast of a huge customer base. Most of such stores have a card-program. Members are given membership cards which they are required to present at the time of the payment. Their purchase amount is converted into points every time they shop and these points can be redeemed during later purchases. The more the members buy the more points are accumulated and greater is the discount they get. It is a win-win situation for both the store and the members.

Loyalty Programs are believed to have a positive impact on a customer's level of satisfaction, frequency of visits to the store, WOM (word-of-mouth) behaviour, purchase behaviour and intention, as well as their value perception. Previous works that studied the effect of loyalty program membership on these variables have presented mixed findings depending on the type of market/product being studied and the variables being evaluated. Most of the studies have been carried out outside India. Since the nature of the market, competition, type of product/service and the profile of the customer, besides other factors, have a direct bearing on the working of any such program, a fresh evaluation of the effects of such programs on the Indian buyer becomes imperative.

Therefore, in this paper we study the effect of loyalty program membership on two such variables- value perception and repurchase intention. If the program has had the desired effect on members, then members should show higher value perception as well as greater repurchase intention as compared to non-members. Four department stores namely Shopper's Stop, Pantaloons, Lifestyle and Westside were chosen for the study. All four have their own loyalty programs which were started

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around the same time. The programs are highly comparable in terms of structure, rewards and benefits.

### Literature Review

An assessment of the research work on loyalty and loyalty programs have suggested that loyalty has two main components- attitudinal loyalty and behavioural loyalty where, attitudinal loyalty is a measure of customers' attitude, belief and values in the context of the product or service they use. Behavioural loyalty is a measure of the actual buying behaviour of these customers. Researchers are of the opinion that both the components of loyalty need to be measured in order to find out the actual degree of loyalty to the brand or store (Day 1969, Jacoby and Kyner 1973, Baldinger and Rubinson 1996, Rundle-Thiele, Dawes and Sharp 1998). Dick and Basu (1994) have classified loyalty into 4 categories on the basis of these two parameters- True loyalty (characterised by high attitudinal and behavioural loyalty), Spurious Loyalty (low attitudinal and high behavioural loyalty), Latent Loyalty (high attitudinal and low behavioural loyalty) and No Loyalty. While the ideal way to assess loyalty would be to measure both the aspects of loyalty, practical issues related to obtaining data of actual buying behaviour of customers makes it impossible to do so. In this paper, we therefore, rely on the customer information regarding their purchase behaviour.

Quite a few determinants of loyalty have been named by researchers- service quality, perceived value and satisfaction would be to name a few (ref. Worcester, 1997, Yavas and Shemwell, 1996, Bloemer et al., 1998). Rehman and Farooqi (2012) empirically measured the effect of loyalty on frequency of visits, propensity to recommend and satisfaction. Hennig-Thurau et al. (2002) propose service quality to be the key driver of loyalty. Service quality in turn is believed to affect customer retention (Payne and Rickard, 1993). Satisfaction and service quality affect both customers' purchase intentions and word of mouth advertising which are also measures of loyalty (Dabholkar, 1995). Rust and Oliver (1994) posit that perceptions of excellence are determined by expectations of service quality. Cadotte et al.'s (1987) empirical findings suggest that satisfaction is a result of customer expectations. If expectations are met, customer would return to the store satisfied.

Customer's value perception is also a strong determinant of his satisfaction levels towards the store. According to Reichheld (1993), market share and returns go up, and customer acquisition-retention costs go down when a company provides greater value to its customers. Hallowell (1996) suggests that customer satisfaction is determined by perception of value which in turn is affected by perception of quality in relation to price. Fornell et. al (1996) posit that overall customer satisfaction has two determinants namely, perceived quality and perceived value.

Bolton, Bramlett and Kannan (2000) carry out a study of a finance company offering a loyalty program. They study the relationship between the loyalty program, customer evaluations and their repeat purchase intentions. They find that perceptions of good value are associated with program membership. Members tend to believe they are getting better value in terms of quality and price. A study by O'Brien and Jones (1995) suggests that customers should find the loyalty program 'valuable' in order to develop loyalty towards the brand/store. According to the researchers, a customer's value perception of the brand/store can be ascertained by evaluating the following 5 elements- Cash Value (how much the reward is worth in proportion to the amount spend), Redemption Choice (what are the range of options available as reward), Aspirational Value (how much the customer values/wants the reward), Relevance (are the rewards achievable) and Convenience (how easy it is to participate in the scheme).

A customer's *purchase intention* is another important variable which points to the attitude of the customers. Answers to questions like- Is the customer willing to buy from the store again? Or is the customer willing to buy that particular brand again, can help a researcher evaluate whether the customer liked the brand enough to consider re-purchasing. Customers with high attitudinal loyalties

(high purchase intentions) may have latent loyalties or may be truly loyal depending on their behavioural loyalty measure.

This study, thus, aims to assess the affect of loyalty program membership on value perception and purchase intention in order to evaluate whether 1) members perceive greater value in the store’s product as compared to non-members, as well as if 2) members have greater repurchase intentions than non-members.

**Research Design and Analysis**

Loyalty as defined by Bennett and Bove (2002) is ‘the relationship between an individual’s attitudinal pre-disposition towards an object and the repeat patronage of that object.’

Thus, a customer with high value perception (favorable attitude towards the product or service) who repeatedly buys that product over a relatively long period of time would be termed as a loyal customer.

Based on the above literature, we present the hypotheses as follows.

**H1<sub>0</sub>: There is no relationship between perception of value and membership to store.**

**H1<sub>1</sub>: There is a significant relationship between perception of value and membership to store.**

**H2<sub>0</sub>: There is no relationship between purchase intentions and membership to store.**

**H2<sub>1</sub>: There is a significant relationship between purchase intentions and membership to the store.**

A study of four popular department stores in the NCR- Pantaloons, Shoppers’ Stop, Westside and Lifestyle was carried out for this research. The respondents were randomly selected as they came out of the stores. A total of 502 customers were interviewed at different malls in Delhi, NOIDA and Gurgaon. Statistical package SPSS version 21 was used to perform the statistical analysis.

As data were non-parametric (a combination of nominal and ordinal), the Mann-Whitney U test was used to arrive at the results. Both tests were carried out for 5% level of significance to minimize the probability of both Type I and Type II errors.

The test of significance on membership to store and value perception yielded the following results.

**Descriptive Statistics**

	N	Mean	Std. Deviation	Minimum	Maximum	Percentiles	
						25th	50th (Median)
ValPerception	502	3.05	.693	1	4	3.00	3.00
Membership	502	.60	.490	0	1	.00	1.00

Table 1.1

**Descriptive Statistics**

	Percentiles
	75th
ValPerception	3.00
Membership	1.00

Table 1.2

**Mann-Whitney Test**

**Ranks**

	Membership	N	Mean Rank	Sum of Ranks
	0	201	235.30	47295.50
ValPerception	1	301	262.32	78957.50
	Total	502		

Table 1.3

**Test Statistics<sup>a</sup>**

	ValPerception
Mann-Whitney U	26994.500
Wilcoxon W	47295.500
Z	-2.419
Asymp. Sig. (2-tailed)	.016

a. Grouping Variable: Membership

Table 1.4

For  $\alpha = 5\%$ ,  $U=26994.50$ ,  $p=.016$  and since value of  $p < .05$ ,  $H_{11}$  was accepted. Thus, the relationship between the variables membership-to-store and value perception was found to be statistically significant.

The next variables to be analyzed were membership to store and purchase intention. The result obtained is presented below:

**Descriptive Statistics**

	N	Mean	Std. Deviation	Minimum	Maximum	Percentiles
						25th
PurchaseIntention	502	3.63	.642	2	5	3.00
Membership	502	.60	.490	0	1	.00

Table 2.1

**Descriptive Statistics**

	Percentiles	
	50th (Median)	75th
PurchaseIntention	4.00	4.00
Membership	1.00	1.00

Table 2.2

**Mann-Whitney Test**

**Ranks**

	Membership	N	Mean Rank	Sum of Ranks
PurchaseIntention	0	201	249.14	50076.50
	1	301	253.08	76176.50
	Total	502		

Table 2.2

**Test Statistics<sup>a</sup>**

	PurchaseIntention
Mann-Whitney U	29775.500
Wilcoxon W	50076.500
Z	-.345
Asymp. Sig. (2-tailed)	.730

a. Grouping Variable: Membership

Table 2.3

For  $\alpha = 5\%$ ,  $U=29775.500$ ,  $p=.730$  and since value of  $p > .05$ ,  $H_{21}$  was rejected. Therefore, the relationship between the variables membership-to-store and purchase intention was NOT found to be statistically significant.

### Conclusion

The result shows that members have greater value perception as compared to non-members. However members did not significantly display higher repurchase intention as compared to non-members. Non-members thus are just as inclined to buy from the stores as members. The results raise serious doubts about the effectiveness of these programs. Do these programs actually affect the behaviour and attitudes of customers? Or is just that the favourably inclined customers have joined the store to benefit from the program rewards? If loyalty programs were truly positively affecting member behaviour, re-purchase intentions of members would have definitely been remarkably higher than that of non-members. High value perception ratings of members would have appeared like a good sign for loyalty programs had the second finding not contradicted this one. For a more decisive outcome it would be required to obtain and use data about member's purchase behaviour before joining the program. Then the actual difference in purchase behaviour of members before and after the program could be calculated and the effectiveness of loyalty program could then be established with more confidence.

### Limitations

Practical difficulty relating to collection of data before and after commencement of the program limits the scope of this research. We do conclude a significant relationship between membership to the store and value perception but causality could not be established. A complete assessment of all variable associated with the loyalty construct may yield more conclusive results.

However, it does not imply that loyalty programs have failed or are ineffective. These programs are an amazing tool for collecting buyer purchase behaviour data which can be eventually used to devise better business strategies and more customised products. In return for this information the customers get rewarded in the form of discounts on later purchases. Thus, it is a win-win situation for both.

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