Examining the Moderating Effects of Programme Membership Duration in the Retail Loyalty Programme: A Multi Groups Causal Analysis Approach

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Abstract: Investigations to ascertain the contingent effects of membership duration in a loyalty programme are critical for advancing marketing knowledge and management practice. In line with this thinking, a baseline model was developed to assess the role of loyalty programme’s benefits offered by one of the leading superstore in Malaysia on its members’ satisfaction and ultimately loyalty towards the store. What is more, the key constructs of relationship quality such as satisfaction, trust and commitment are integrated in the model. Subsequently, a multi group’s causal analysis was executed in order to detect any significant difference (beta coefficients) among the paths postulated in the models. The research framework was empirically tested on 167 loyalty cardholders. The results delineate two key findings; Firstly, Programme Benefit holds a pre-eminent role in the formation of Programme Satisfaction and ultimately Store Loyalty; thus, Programme Benefit–Programme Satisfaction–Store Loyalty chain is confirmed. Secondly, Programme benefit has a significant impact on Store Loyalty via Programme Loyalty; hence, Programme Benefit–Programme Loyalty–Store Loyalty chain is established. In essence, the relationship between programme loyalty and store loyalty is contingent on the moderating effect of membership duration. The findings reveal important implications for marketing theory, management practice and fertile future research direction is suggested.

Key words: Loyalty programme membership duration • Satisfaction • Trust • Commitment and loyalty

INTRODUCTION

Given the current managerial and academic interest in maintaining and enhancing firm-customer relationship, not surprising customer loyalty as a research focus has been extensively and intensively investigated [1-3]. The rationale behind this emergent stream of research is based on the presumption that companies which achieved higher level of customer loyalty will be more successful in the marketplace [4]. In response to current era of intense competition and demanding customers, a new customer relationship management (CRM) instrument has been developed, which is the loyalty programme [5]. Some scholars [6, 7] assert that loyalty programme has become an important strategy and mechanism for retailers to increase revenue growth and has become a key component of CRM. It plays a vital role in developing relationships, stimulating product and service usage and retaining customers. Indeed, Liebermann [8] observes that loyalty card programmes are proven to be an effective tool within the relationship marketing framework. Loyalty programme is defined as the business process of identifying, maintaining and increasing the yield from best customers through interactive, value-added relationships [9]. Fundamentally, the loyalty programmes are structured marketing efforts, which reward and encourage loyal behaviour of their members [10]. The use of the loyalty programme grew exponentially in the United States of America, United Kingdom and all around the world [11]. Recently, it was reported that the loyalty card programme business in Malaysia is currently worth RM 2.4 billion and is projected to grow to MYR3.5 billion by 2010 [12].

In the retail scene, loyalty programmes involved a concentrated effort by retailer to build store traffic, increase basket size and increase frequency, which creating deeper relationship ties with its customer base
Today the use of loyalty programmes as a technique for firms to enhance customer loyalty is extremely popular as it is believed that both consumers and firms can reap benefits from it [14]. However, it was acknowledged that for the loyalty programmes to work, customers must find them valuable, which mean that the rewards justify their investment. In fact, it was unveiled that customers are often sensitive to the quality of the programme’s strategies [15, 16] and previous research has suggested that the magnitude of monetary compensation and price discounts offered to members could have a significant impact on future satisfaction and loyalty [8, 15]. It is important to note that according to Mittal and Katrichis [17], firms that attract customers by offering economic rewards, but fail to retain them because the key drivers of their satisfaction might not be the economic rewards. Moreover, previous study has also studied the design, service quality and implication of loyalty programmes [18-20]. Omar and Musa [19] comment that the service experience of loyalty programme’s cardholders from the first encounter onward is important to relationship building, which needs further theoretical development. Hence, it would be a mistake to keep emphasising on the same rewards such as monetary perspective as customers’ assessment and appreciation of benefits of the loyalty programme evolve over time.

Despite the proliferation of advanced research on loyalty programme, to our best knowledge very little attention is paid to the duration of customer’s relationship with the firm. It appears that the length of relationship does not have significant impacts on client’s assessment of programme’s benefits, satisfaction and in turn loyalty. Although, Lacey’s study contributes to the understanding of the influence of loyalty programme’s membership on relational outcomes, the study has not encapsulated to other potential outcomes such as loyalty to the programme and loyalty to the store (2009). Therefore, in this study, we attempt to examine the effects of membership duration on the linkages postulated in the proposed model, specifically tested with data obtained from the retail loyalty programme. Furthermore, most of the past studies on loyalty programme were conducted within the US and UK market. As such, the authors argue that the stability and applicability of past findings across different national/cultural settings remain largely untested. Indeed, Noordhoff, Pauwels and Odekerken-Schroder [21] suggest that it is fruitful to embark on a study in Asian market because one of the advantages of this market is that customers may not experience loyalty card fatigue.

In response to the aforementioned rationalisation, the aims of this study are to:

- Offer an advanced insight of how the programme benefit could finally influence store loyalty via various mediating constructs such as programme satisfaction, programme trust, programme commitment.
- Validate the conceptual model and the hypothesised paths empirically in the context of a superstore loyalty card programme in Malaysian market. Hence, result of this study will permit us to confirm the stability of well-established relationships among the key constructs of relationship quality.
- Shed light on the effects of membership duration between the linkages in the hypothesised model. A moderating effect of the focal variable may have important implications for loyalty programme segmentation and resource's allocation decision. In sum, we attempt to examine whether membership duration could significantly strengthen or weaken the relationship quality.

**Conceptual Framework:** The conceptual framework depicts the hypothesised relationships among constructs in a path diagram format (Figure 1). The framework comprises of programme’s benefits, satisfaction, trust,
commitment and two abstraction levels of loyalty, which are loyalty to the programme and store loyalty. In most loyalty programmes, benefits serve as the most compelling reason for customers to participate in a programme [22]. Loyalty programmes give rewards to members, varying from saving for items and targeted offers to special shopping nights and preferred service treatment [23]. Wright and Sparks [24] observe that the biggest attraction for consumers to join loyalty card programme was the free rewards and benefits, such as money off coupons and accumulation of points. In a similar voice, Dick and Basu [25] posit that economic rewards such as saving programmes and discounts may have lead to specific behavioural incentives and could entice calculative consumers to become loyal.

McIlroy and Barnett [26] suggest that it is important to incorporate customer satisfaction when developing a customer loyalty programme. Hence, we include programme satisfaction in the proposed model and we also incorporate two important constructs such as trust and commitment as a consequence of satisfaction. In fact, it was established that satisfaction, trust and commitment play a pivotal role in enhancing loyalty [27]. With regard to the outcome, extant literature reveals that store that offered loyalty card programme to their customers enjoys benefits of store loyalty [8, 28]. As such, store loyalty has been integrated as a outcome in our loyalty programme model. In essence, based on previous literature of relationship marketing research stream, we hypothesised that programme benefit will have positive effect on programme satisfaction, which in turn will influence programme trust, commitment, loyalty and finally store loyalty.

Customer duration is a behavioural variable that is strategically important because it has a significant impact on customer satisfaction and loyalty [17]. Indeed, in their work, Mittal and Katrichis [17] illustrate that customer who recently becomes a client may differ distinctively compared to he/she who has long been a client of a company in a number of aspects, such as evaluation of the importance of product’s attributes and forming satisfaction judgements. New customers may strongly be motivated by the new information, while old clients may rely upon their judgements based on past experience [29]. Thus, it can be argued that the new client’s satisfaction assessment may be inclined to transaction, whereas the established one influenced by relational [30]. Bolton [29] reveals that satisfaction–retention link has been found to be stronger for long term customer compared to the newly joined. Hence, it is logically to postulate that the relationship between satisfaction and loyalty should be different for both groups. In addition, loyalty is the outcome of customer satisfaction in the long term rather than short term [31]. Similarly, Bolton [29] posits that satisfaction is a better predictor of retention for long term than short term clients. By separating new and old members, a retail firm can assess their distinctive differences in terms of need, motivation and satisfaction, thus could customise the loyalty programme strategy accordingly.

In response to the aforementioned justifications, we developed a conceptual model which incorporates six pertinent constructs and subsequently, nine hypotheses have been postulated (Figure 1).

**Literature Review**

**Programme Benefit:** Fundamentally, most loyalty programmes will grant benefits to customers depending upon the volume of sales that they generate and these benefits may consist of monetary or non-momentary incentives like rebates, bonuses or special services. It has been suggested that a combination approach of hard (rewards) and soft (recognition) benefits is the optimal way to improve retail card revenue and to reduce customer attrition [15, 32]. Similarly, O’Brien and Jones [16] advocate that rewarding strategies can lead to sustainable competitive advantage if such strategies are not short-term promotional give-away, but planned and implemented parts of larger loyalty management strategy. Enactment of fairness and value toward loyalty programme may elicit behavioural response on the part of cardholders [33]. Thus, we view programme benefits as a combination of hard (discount and rewards) and soft benefits (insurance and exclusive sale invitations) given to programme members. Program benefits refer to the perceived value customers attach to their experience with the program [34, 35] - that is, what the program can provide or do for members. Based on Mimouni-Chaabane and Volle’s [35] study, program benefits consist of utilitarian benefits, hedonic benefits and symbolic benefits.

**Programme Satisfaction:** Satisfaction is a measure of how a customer’s expectations are met and often been perceived as the final result of all activities carried out during the process of purchase and consumption [36]. Past research has indicated that satisfaction is a reliable predictor of repurchase intention and loyalty [59, 60]. In fact, few researchers [37] suggest that customer satisfaction is an overall evaluation based on the total experience with a good or service over time. Therefore, in the current study, we specifically established that...
the consumer experience with the retail loyalty card programme must occur at least within twelve months prior to data collection. Accordingly, we define programme satisfaction as programme member’s affective state as result of cumulative evaluation of experience with the loyalty card programme.

**Programme Trust:** Trust generally is viewed as an essential ingredient for building and maintaining successful relationships [38, 39]. Wilson [40] further asserts that trust is a fundamental relationship model building block and is included in most relationship models. In line with Moorman, Desphande and Zeltman [41], this study defined trust as the level of confidence that the programme members have towards the loyalty programme that their expected behaviour will lead to valued outcomes.

**Programme Commitment:** Commitment has been viewed as an implicit or explicit pledge of continuity between relational partners [30]. Morgan and Hunt [39] defined commitment as the enduring desire of parties to continue a relationship whereby the customer willingly makes an effort at maintaining it. Thus, this study conceptualized programme commitment as a cardholder’s drive to continue and maintain membership with a retail loyalty programme and accompanied by the cardholder’s willingness to make short-term sacrifices to maintain membership, such as willingness to pay a small amount of the membership fee.

**Programme Loyalty:** A recent empirical evidence shows that not all subscribes to a loyalty programme are, in fact, card-loyal [21]. Sharp and Sharp [10] postulate that some of the loyalty card members use more than one loyalty programme; other do not use the card; and most customers seem not to know the mechanics of the reward schemes of loyalty programmes. The loyalty towards the programme were operationalised as high positive attitude towards the loyalty card programme which were reflected in the members’ intention to use the same loyalty card programme overtime and recommend to others [42, 43].

**Store Loyalty:** Buttle [44] noted that, the most important aspect of relationship marketing is the new central role given to the concept of customer loyalty as a marketing goal of a firm. Loyalty refers to the positive attitude towards supplier combined with a willingness to further perform transactions [45]. In fact, Gomez et al. [46] noted that loyalty programmes were a marketing strategy based on offering an incentive with the aim of seeking customer loyalty to a retailer. We conceptualised store loyalty as a high commitment to recommend others, repurchase or repatronise a particular retail store consistently in the future, there by causing repetitive purchasing in the same retail store, despite situational influences and marketing efforts by competitors in persuading switching behaviour.

**Membership Duration:** The duration of being a member to the loyalty programme could reflect member’s relationship experience with the retailer who is the loyalty programme provider. The duration of a customer’s relationship is viewed as an indicator of customer loyalty [29, 47]. As noted, by prior scholars [48, 49] that the perceptions of value sometime change over time largely because of greater experience with the category or brand. In this study, the respondents have been classified into two groups; new members are those who have joined the loyalty programme less than a year, whereas old members are those who are members of the loyalty programme for more than a year.

Table 1 reveals the sources from where the items were generated for each construct. In order to achieve content validity the items adopted from previous literature have been refined and customised to suit the loyalty programme context.

<table>
<thead>
<tr>
<th>Construct</th>
<th>No. of items</th>
<th>Sources of items of the Constructs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme Benefit</td>
<td>14 •</td>
<td>Jang and Mattila [50]; Mimouni-Chaabane and Volle [35].</td>
</tr>
<tr>
<td>Programme Satisfaction</td>
<td>5</td>
<td>Crosby and Stephens [51], Omar, Abd Aziz and Nazri [52]</td>
</tr>
<tr>
<td>Programme Trust</td>
<td>4</td>
<td>Morgan and Hunt [39]; Moorman et al. [41]</td>
</tr>
<tr>
<td>Programme Commitment</td>
<td>2</td>
<td>Morgan and Hunt [39]; Macintosh and Lockshin [27]</td>
</tr>
<tr>
<td>Programme Loyalty</td>
<td>2</td>
<td>Yi and Jeon, [42]; Omar, Abd Aziz and Nazri [52]</td>
</tr>
<tr>
<td>Store Loyalty</td>
<td>4</td>
<td>Omar, Shah Alam, Abd Aziz and Nazri [33]; Zeithamal et al [43]</td>
</tr>
</tbody>
</table>
**Research Methodology:** The data were collected via store intercept at one of the leading superstores in Malaysia. The specific retail store was chosen based on its high-traffic flow and diverse shopper demographics. The data collection adopted a combined approach whereby the survey was personally administered but self-completed. For instance, the researcher approached respondents to elicit interest in participation and explains the research objective (person-administered). Those willing to participate were then seated at a table at which stage the survey was self-completed. The researcher remained in the vicinity of the table until respondents had completed the survey and spoke to them only at time of any, minor clarification was needed. Adopting this combined survey helped to improved response rate and reduced missing data. We analysed data from 167 loyalty programme cardholders. Among them, 96 members had joined the programme for less than a year (classified as new) and 71 had become the member for more than a year (classified as old). A five-point Likert scale (1 = strongly disagree, 5 = strong agree) has been employed for all the constructs in the study. A baseline model (Figure 1) was developed to test and confirm relationships among the constructs and subsequently multi-group causal analysis approach was conducted to test the moderating effects of membership duration. In order to compare contingent effects of membership duration on the linkages among constructs, two models (new member model, Figure 3) and (old member model, Figure 4) were presented.

**RESULTS**

The measures utilised in this study initially were purified via item-to-total correlation and exploratory factor analyses with varimax rotation. Item which loads 0.50 or greater on one factor and did not have cross-loadings greater than 0.30 on other factors were accepted for further analysis [53]. The pool of items was further refined using confirmatory factor analysis (via AMOS). Table 2 presents the correlation matrix, descriptive statistics, Cronbach’s alpha reliability coefficients and square multiple correlations ($R^2$) for the measures. The Cronbach’s alpha reliability coefficients for all construct were above 0.7, which concur with Nunnally’s [54] minimum acceptable level of 0.7. In addition, the correlation index among constructs are low and moderate; this implies that discriminant validity is attained [55]. It is reasonable to claim that the measures possess adequate psychometric properties.

Although the final structural model has a significant $\chi^2$ value ($\chi^2 = 74.46, df = 25, p< 0.001$), the model fit indices were indicative of a good fit of the model to the data. The estimation of the model yielded respectable GFI (0.91), CFI (0.95) and IFI (0.97) values. The (RMR) value of 0.023 confirmed a good fit, which exceeded the posited cut-off value (<0.05). Overall, the results of the fit indices indicate that the base model adequately fits the data. It is important to note that paths that were insignificant were deleted for further analysis in order to obtained best-fit model (Figure 2). The summarised results of the hypothesised paths are visually displayed in Figure 2.

Figure 3 illustrates that for new members Programme Benefit–Programme Satisfaction–Store Loyalty chain is significant, which is the shortest path to attain store loyalty (indicated by bolded arrows). In contrast, the link between Programme Benefit–Programme Loyalty is not supported. Unexpectedly, Programme Commitment–Programme Loyalty path is also not supported.

Figure 4 indicates that for old members, Programme benefit has significant positive influence on their loyalty towards the programme and in turn loyalty to the store, which is the shortest path to reach store loyalty (indicated by bolded arrows). Hence, the Programme Benefit–Programme Loyalty–Store Loyalty chain is supported. Contravene to past literature, Programme Satisfaction–Store Loyalty link is not significant. Interestingly, the longest chain; Programme benefit–Programme Trust–Programme Commitment–Programme Loyalty–Store Loyalty is supported. The summarised results of the hypothesised structural paths for the multi group analysis are reported in Table 3.

<table>
<thead>
<tr>
<th>Construct</th>
<th>Mean</th>
<th>S. D</th>
<th>$\alpha$</th>
<th>$R^2$</th>
<th>X1</th>
<th>X2</th>
<th>X3</th>
<th>X4</th>
<th>X5</th>
<th>X6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme Benefit (X1)</td>
<td>3.70</td>
<td>0.55</td>
<td>0.80</td>
<td>-</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme Satisfaction (X2)</td>
<td>3.72</td>
<td>0.59</td>
<td>0.86</td>
<td>0.93</td>
<td>0.68*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme Trust (X3)</td>
<td>3.78</td>
<td>0.65</td>
<td>0.91</td>
<td>0.95</td>
<td>0.73*</td>
<td>0.65*</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme Commitment (X4)</td>
<td>3.83</td>
<td>0.77</td>
<td>0.85</td>
<td>0.78</td>
<td>0.71*</td>
<td>0.64*</td>
<td>0.68*</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Programme Loyalty (X5)</td>
<td>3.81</td>
<td>0.85</td>
<td>0.91</td>
<td>0.67</td>
<td>0.68*</td>
<td>0.57*</td>
<td>0.53*</td>
<td>0.69*</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Store Loyalty (X6)</td>
<td>3.65</td>
<td>0.73</td>
<td>0.86</td>
<td>0.90</td>
<td>0.76*</td>
<td>0.59*</td>
<td>0.63*</td>
<td>0.71*</td>
<td>0.75*</td>
<td>1</td>
</tr>
</tbody>
</table>

*Note: * Correlation is significant at the 0.01 level (2-tailed)
Table 3: Results of Multi-Group Analysis

<table>
<thead>
<tr>
<th>Hypothesised Paths</th>
<th>Model 1: Base Model</th>
<th>Model 2: New Member</th>
<th>Model 2: Old Member</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Standardised Coefficient (t values)</td>
<td>Standardised Coefficient (t values)</td>
<td>Standardised Coefficient (t values)</td>
</tr>
<tr>
<td>H1: Programme Benefit – Programme Satisfaction</td>
<td>0.96 (10.37)</td>
<td>0.98 (8.19)</td>
<td>0.93 (5.69)</td>
</tr>
<tr>
<td>H2: Programme Benefit–Programme Loyalty</td>
<td>0.38 (2.42)</td>
<td>ns</td>
<td>0.29 (1.96)</td>
</tr>
<tr>
<td>H3: Programme Satisfaction–Store Loyalty</td>
<td>0.45 (4.44)</td>
<td>0.55 (4.05)</td>
<td>ns</td>
</tr>
<tr>
<td>H4: Programme Satisfaction–Programme Trust</td>
<td>0.98 (13.54)</td>
<td>0.98 (11.11)</td>
<td>0.98 (7.63)</td>
</tr>
<tr>
<td>H5: Programme Trust–Programme Commitment</td>
<td>0.89 (13.08)</td>
<td>0.93 (10.92)</td>
<td>0.81 (6.65)</td>
</tr>
<tr>
<td>H6: Programme Commitment–Programme Loyalty</td>
<td>0.48 (3.08)</td>
<td>ns</td>
<td>0.68 (4.47)</td>
</tr>
<tr>
<td>H7: Programme Loyalty–Store Loyalty</td>
<td>0.56 (5.54)</td>
<td>0.40 (2.94)</td>
<td>0.84 (4.95)</td>
</tr>
</tbody>
</table>

Fig. 2: Base Model of Retail Loyalty Card Programme

Fig. 3: Membership Duration Less Than a Year Model

Fig. 4: Membership Duration More Than a Year Model
DISCUSSION AND CONCLUSION

In the baseline model, the results elucidate that Programme Benefit is the driver of Programme Satisfaction judgments and in turn Store Loyalty. It provides empirical evidence that programme benefit holds a pre-eminent role in the formation of Programme Satisfaction and ultimately Store Loyalty. Surprisingly, satisfaction with the programme itself could influence loyalty card members to be loyal to the store, surpassing Programme Loyalty. It is important to illuminate that Programme Benefit has a significant impact on Store Loyalty via Programme Loyalty. Therefore, the mediating role of Programme Trust and Programme Commitment could be eliminated. In essence, the findings of this study strongly imply that retailers stand to gain from placing extra emphasis on offering attractive and high-value programme’s benefits, which act as a ‘barrier to entry’ mechanism, provides powerful competitive advantage and eventually gaining customer loyalty.

The results of our study clearly reveal that to retain new members, loyalty programme should offer high-value benefits in order to make them satisfied and consequently, enhance store loyalty. Whilst for old members, if the Programme Benefits are of high value, they can directly influence the propensity to be loyal to the programme, in turn loyal to the store. Hence, it is reasonable to suspect that Programme Satisfaction is irrelevant in this situation. It is important to accentuate that membership duration significantly strengthened the statistical relationship between Programme Loyalty and Store Loyalty (Table 3). In essence, the findings clearly demonstrate that behaviour of newly acquired and old customers may vary drastically.

The key findings on the moderating effects on membership duration imply that the loyalty programme could be segmented more effectively in order to improve members’ retention and in turn profitability. By identifying the customers’ characteristics, that is membership duration, the retail store managers could effectively devise appropriate strategies. Loyalty programme which has been viewed as a relationship-building instrument should be implemented very carefully because retaining customer can be very costly because not all customers generate the same value for the firm [56]. Evidence shows that perception of value obtained from a loyalty programme differs distinctively by customer characteristics [57]. Making separate strategies should enable firms to optimise resource allocation between two classifications of loyalty programme members. Clearly, time is the vital factor affecting members’ satisfaction and loyalty. In addition, the findings illustrate that marketing research when properly analysed can serve as a useful input to strategic initiatives such as managing customer acquisition, retention and relationship management. Without advanced statistical techniques, it is very difficult to detect the impact of membership duration on several linkages simultaneously.

Some limitations of our research should be noted as they are the starting point for future research. This research was conducted as a case study on one specific superstore, which clearly limits the external validity of the results. Since the generalisability of the model is inherently limited to the superstore category, the model should therefore be extended beyond the present retail format, for instance, department store, specialty store, supermarket and hypermarket. The research model could be extended to incorporate behavioural loyalty constructs because prior research has noted that attitudinal loyalty does not have linear relationship with behavioural loyalty [2, 58]. Our work collects cross-sectional data but in order to study behavioural loyalty; it will be more meaningful to adopt longitudinal research approach because the dynamics of customer relationships could be ascertained over time. It will also be fruitful to embark on advanced research to replicate and validate the present model in order to determine the robustness of the current findings. In addition, comparative cross-national studies are essential in the endeavor to examine and validate the generalisability of the model globally. This research direction appears to be potentially fertile because quite a number of top superstore retailers, such as Tesco, Giants and Jusco (Aeon) operate their business worldwide.

Endnotes:
1A huge combination of supermarket and general merchandise store

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