

**Customer Loyalty Programs:  
The Role of Different Value Constructs in Building  
Customer Loyalty**

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Degree of Doctor of Philosophy

by

Jing Theng So

B.Bus (Mktg) Hons (First Class)

B.Bus (Marketing and International Business)

Department of Marketing

Faculty of Business and Economics

Monash University

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## Abstract

In times of severe competition, loyalty programs (LPs) are introduced by firms to provide customers with added value to gain higher levels of loyalty and retention. While LPs are claimed to engender customer loyalty, researchers have not reached a decision about whether these programs are worthwhile for businesses in the long-run. Despite being a popular research area in the marketing literature, previous studies have found inconsistent results regarding the effectiveness of these programs in eliciting customer loyalty. A plausible explanation for the contradictory findings is possibly the poor understanding marketers have about the underlying mechanisms that drive the operation of a successful LP. In particular, empirical research examining (1) whether LPs are perceived as valuable to customers, and (2) how LPs contribute in developing customer loyalty, is limited. To address these issues, the present study develops a theoretical framework that investigates the different LP value constructs that customers derive from being a program member, and how different types of value drive customer loyalty.

Building on the theory of reciprocity, this study suggests that the value of a LP, as perceived by customers, would encourage them to have a positive attitude towards the firm or the program. The favourable attitude towards either the program or firm then induces customers to engage in different behavioural outcomes that motivate them to stay in a long-term relationship with the firm. Specifically, this study found that customers derive six value constructs from participating in a LP, namely, *reward attractiveness*, *knowledge benefit*, *required effort*, *experiential benefit*, *group belongingness*, and *disclosure comfort*. These LP value constructs are posited to impact two components of customer loyalty - attitudinal and behavioural loyalty. In accordance with the conceptualization proposed by past scholars, this study denotes customer attitudinal loyalty as program loyalty and brand loyalty, whereas behavioural loyalty is measured through customers' *Share-of-Wallet (SOW)*, *Share-of-*

*Purchase (SOP)*, *Word-of-Mouth (WOM)*, and *Willingness-to-Pay (WTP)* more for a firm's offering. In addition, the proposed framework incorporates two moderating variables (i.e., member duration in LP and customization) to provide an in-depth view on how customer loyalty can be more effectively achieved using a LP.

For the purpose of this dissertation, the proposed research framework was tested in the Australian retail setting using two different research methods. An exploratory study was initially carried out to identify the number of constructs that constitute LP value from a customer's perspective and to provide preliminary support for the proposed framework. Following which, a cross-sectional survey was carried out to validate the developed hypotheses. A web-based survey system was used to collect data from LP members residing in Australia. Structural Equation Modelling (SEM) was utilized in this study to examine the influence of LP value on customer loyalty. The findings of this large-scale empirical study offer a number of theoretical and managerial contributions. First, this study represents one of the first empirical studies in the LP literature to develop and investigate a comprehensive list of value constructs that influence customer loyalty. Second, the study extends existing LP literature by clarifying the relationship between LP value, customers' attitudinal loyalty, and behavioural loyalty. Third, the findings of this research can assist managers in their allocation of resources to better design and implement their LPs so that customer loyalty can be built in the most cost-efficient manner. Collectively, the present study provides an improved understanding of the underlying process of developing customer loyalty using a LP, both for academics and businesses.

## **DECLARATION**

This thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other institution. It is affirmed that, to the best of the candidate's knowledge, this thesis contains no material previously published or written by another person, except where due reference is made in the text of the thesis.

Jing Theng So

2013

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*“Success is not final, failure is not fatal: it is the courage to continue that counts.”*

*Winston Churchill*

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# **Chapter One**

## **Introduction**

### **1.1 Chapter Summary**

The first chapter begins by outlining the research focus of this dissertation. It establishes the current state of play in the area of loyalty marketing and provides an assessment of loyalty programs from the academic and business literatures. Second, it offers a discussion on the significance of the research. Third, it highlights the critical gaps in the loyalty program literature, addressing which are deemed important for both marketing scholars and practitioners. Finally, it proposes three underlying research themes that guide a conceptual framework addressing this inquiry. Each research theme is presented with its associated objectives that are pursued at the end of the chapter.

### **1.2 Research Background**

As service and retail environments mature, markets have become increasingly complex and competitive. Against this background, marketers realize that transactional marketing is no longer a viable strategy to provide companies with sustainable revenue (Shoemaker & Lewis, 1999). As such, marketing had experienced a shift from transactional marketing to relationship marketing (RM) where the focus for companies was on customer retention, rather than customer acquisition (Gronroos, 1997). Since its introduction, RM has had a large impact on business practices and academic literature (Berry, 1995; Godson, 2009; Morgan & Hunt, 1994). Following Morgan and Hunt's definition (1994), RM refers to all marketing activities that are directed towards establishing, developing, and maintaining successful relationships with customers. The central premise underlying the RM notion is that retaining customers is less costly than prospecting for new customers (Colgate &

Danaher, 2000; Reinartz & Kumar, 2002). Indeed, research has claimed that: loyal customers are more profitable because the costs of servicing them are reduced; loyal customers are less price sensitive; they contribute higher revenue to the company through cross-buying activities and increasing product usage (Dowling & Uncles, 1997; Fullerton, 2003; Godson, 2009). For these reasons, firms began developing and implementing various RM strategies to cultivate strong relationships with their customers in order to retain and harvest long-tenure customers (De Wulf, Odekerken-Schroder, & Iacobucci, 2001). As a result, firms made large investments into RM activities such as improved customer service, service/product customization and loyalty programs as a means of achieving competitive advantage (Kim, Lee, Bu, & Lee, 2009; Schiffman & Kanuk, 2003). Of these activities, loyalty programs (or reward programs) are perhaps the most popular tool used by marketers in building strong relationships with their customers (Henderson, Beck, & Palmatier, 2011; Kumar & Shah, 2004).

Ever since the introduction of the world's first contemporary loyalty program (herein termed LP), AAdvantage by American Airlines in 1981, LPs have spread to almost every industry including credit cards, retail, hotel, telecommunication, and gaming (Liu & Yang, 2009; Uncles, Dowling, & Hammond, 2003). In the United States, total LP enrolment increased 35.5% within 6 years from 2000 to 2006 to reach 1.5 billion members (Liu & Yang, 2009), and it is estimated that 90% of American consumers are enrolled in at least one LP (McKee, 2007). The ubiquity of LPs in the marketplace has made them a "must-have" strategy for most firms to compete in today's dynamic markets (McCall & Voorhees, 2010). In brief, LPs are successful primarily because they offer customers incentives for repeat purchases (Daryanto, de Ruyter, Wetzels, & Patterson, 2010; Smith & Sparks, 2009b). The reward given varies from program to program but generally involves collecting points for each dollar spent with the firm. For example, FlyBuys which has 10 million cardholders offers 1 point for every AUD\$1 spent in-store, and CVS in the US, which has a staggering 50 million members, has the "CVS ExtraCare" program that pays back 2% on purchase in

coupon form and offers US\$1 to spend in-store for each two prescriptions purchased (Euromonitor International, 2009).

The benefits of introducing a LP are multi-faceted. They include: (1) customer retention, especially in profitable segments (Dowling & Uncles, 1997; Kim et al., 2009); (2) the building of customer loyalty (Uncles et al., 2003); (3) increased customer share, i.e., Share-of-Wallet, Share-of-Visit (Leenheer, Van Heerde, Bijmolt, & Smidts, 2007; Verhoef, 2003); and (4) the opportunity for firms to collect information on a customer's shopping behaviour for personalized communication (Shugan, 2005) over time. Tesco, with a total of 13.5 million members in 2007 has, arguably, the world's most developed and successful individual grocery retail LP; \$US200 million extra sales were generated for the company in 2007 (Euromonitor International, 2009). Given these benefits, it is not surprising that many companies invest heavily in these programs. For example, the airline industry estimates that up to twice the amount of resources are allocated to frequent flyer programs than to other marketing expenditure such as advertising (Shoemaker & Lewis, 1999). Also, Priceline, a pharmaceutical retailer in Australia, dedicated 20% (approximately AUD\$19 million) of its marketing budget in 2010 alone to its LP-Sister Club (Lee, 2010). In the hotel industry, Hilton recently revealed a US\$25 million rebranding campaign for its Hilton HHonors program (Grant, 2011).

Despite the widespread use of LPs in the marketplace, not every program has achieved success. For instance, Safeway had to withdraw its ABC loyalty card in 2000 to save the organization US\$75 million dollars per annum (Meyer-Waarden, 2007). In 2001, The Mileage Company announced that its Airmiles frequent flyer program would be relaunched as Avios with a new point scheme aimed at increasing the company's profit. However, this change angered and disappointed many customers as the value of Airmiles was significantly reduced (Collinson, 2011). In another similar case, Coles Myer terminated its discount card in 2001 to save the company up to AUD\$200 million a year. However, this

decision infuriated many existing customers (Wade, 2002). Shaw's, a U.S. supermarket, recently replaced its LP with a "card-free saving" scheme in which all customers get low prices from the firm (Tuttle, 2013). These examples illustrate unsuccessful LP implementation and practitioners have had to re-evaluate the novelty of reward schemes and question the value of these programs (Wade, 2002).

From the examples provided above, it can be argued that while some programs succeeded in attracting customer loyalty, the financial impact of others is lagging behind company expectations (Leenheer et al., 2007; Sharp & Sharp, 1997). Prior studies in this area have found mixed results regarding the effectiveness of LPs in eliciting customer loyalty (McCall & Voorhees, 2010). LP advocates generally view such programs as a tool to retain existing customers (Uncles et al., 2003), increase customer switching costs (Tanford, Raab, & Kim, 2010; Wirtz, Mattila, & Lwin, 2007), increase Share-of-Wallet (Meyer-Waarden, 2007), increase customer advocacy (McCall & Voorhees, 2010), and increase customer value in profitable market segments (Bolton, Kannan, & Bramlett, 2000). In contrast, opponents of these programs claim that they are a sham (Shugan, 2005), a cheap promotional mechanism (O'Brien & Jones, 1995), and a costly marketing gimmick (Euromonitor International, 2009). Still, others have commented that LPs are profit-eroding in that they are not easily reversed (Gilbert, 1996). Indeed, once a LP has been implemented, firms find it hard to abandon the program even if it becomes increasingly expensive to sustain (Gilbert, 1996; Shugan, 2005). Meanwhile, with such mixed results regarding the performance of LPs, the question of whether a LP truly drives customer loyalty remains largely unknown, and scholars have yet to reach a conclusion on whether LPs are worthy for businesses to implement and maintain them (McCall & Voorhees, 2010). Given that firms are required to set aside budgets for LPs, it is essential for firms to ascertain whether investments in such programs are more worthwhile than other marketing strategies such as service guarantees (Bolton et al., 2000), brand and product extension, increase advertising,

improvements in distribution coverage (Uncles et al., 2003) and everyday low pricing (Euromonitor International, 2009).

### **1.3 Positioning of the Thesis**

The question of whether LPs actually increase customer loyalty has always been the central premise underlying LP studies. Findings from prior LP research regarding the impact of such programs have always been inconsistent (Liu, 2007; Mauri, 2003). An extensive review of the current LP literature reveals that a number of critical gaps remain before one can fully understand the underlying mechanisms that drive the operation of a successful LP. The following paragraphs outline four such areas that are important for scholarly investigation.

First, the existing literature on customer perceived value of LPs has been described as ambiguous and requiring further research (Henderson et al., 2011; Xie & Chen, 2013). To begin with, prior studies on LPs have tended to investigate relationship building with customers from the perspective of the marketer/service provider (Mimouni-Chaabane & Volle, 2010). For instance, research on LPs has examined the performance of LPs in terms of program design (Kim, Shi, & Srinivasan, 2001; Roehm, Pullins, & Roehm, 2002), reward structure (Van Osselaer, Alba, & Manchanda, 2004), and program management (Bagchi & Li, 2010; Liu & Yang, 2009; Palmer, McMahon-Beattie, & Beggs, 2000). However, fewer studies have scrutinized the effect of LPs from the customers' perspective (Lacey & Sneath, 2006; Noble & Phillips, 2004). Understanding the customer's perception of the value offered by a LP is imperative to the success of the program because for a long-term relationship to be sustained, both parties (i.e., seller and buyer) must benefit from the exchanges (Berry, 1995). However, limited empirical research has focused on investigating whether LPs are actually perceived as valuable to customers (Liu, 2007; Yi & Jeon, 2003). Further, past studies have often adopted a one-dimensional theoretical lens in examining the impact of

LPs on customer loyalty (Henderson et al., 2011). While a one-dimensional mechanism allows for a more parsimonious research design, this approach risks not capturing the “full impact” of LPs which often engage customers on multiple economic and psychological factors throughout their membership experiences. These problems have led to suggestions for future research to investigate the constructs that constitute program value from the customer viewpoint (Henderson et al., 2011).

Second, while numerous studies have illustrated the positive impact of LPs on customer behavioural loyalty including Share-of-Wallet (SOW) (Wirtz et al., 2007), purchase frequency (Bolton et al., 2000), and cross-buying quantity (Hughes, 2003), little empirical evidence links LPs to customer attitudinal loyalty (Gomez, Arranz, & Cillan, 2006; Kim et al., 2009). Although behavioural loyalty would derive higher managerial relevance, judging customers’ loyalty strictly on their purchase behaviour might be misleading with regard to the success of a LP (McKee, 2007). Scholars have criticized prior work in that behavioural loyalty does not provide an accurate measure of true customer loyalty, as behavioural loyalty might be driven by short-term incentives (Dick & Basu, 1994). For example, a study conducted in a grocery store revealed that many of the regular customers were dissatisfied with the store but shopped there because of convenience (Bloomberg BusinessWeek, 2006). McKee (2007) claims that if firms were to focus their effort only on frequent buyers, they might risk neglecting truly loyal customers. Thus, this study argues that it is equally important in any study of LP membership to examine customers’ attitudinal loyalty. Indeed, it may be that customers who are repeat purchasers with a strong internal disposition or positive attitude towards the firm are less vulnerable to defection (Uncles et al., 2003). Dorotic, Bijmolt, and Verhoef (2012) argue that it is important to substantiate the impact of LPs on both behavioural and attitudinal loyalty. Without incorporating both loyalty dimensions into a LP study, one can argue that our understanding of how LPs influence customer loyalty is still limited. Yet, studies on LPs tend to include either one or the other of these two loyalty dimensions. This has prompted calls from several marketing

scholars for additional research into LPs and to incorporate *both* attitudinal and behavioural aspects in gauging customer loyalty (Liu, 2007; McCall & Voorhees, 2010).

Third, while prior literature recognizes that customer's attitudinal loyalty cultivated via a LP can be directed towards the program or brand, the manner in which different forms of attitudinal loyalty are built and the effect of attitudinal loyalty on customer behaviour, remain largely unknown (Dorotic et al., 2012; Evanschitzky, Ramaseshan, Woisetschläger, Richelsen, Blut, & Backhaus, 2012). Past examination of the nature of customer attitudinal loyalty has identified that attitudinal loyalty is a complex multi-dimensional construct which can take different forms and be directed towards various entities (Meyer, Becker, & Vandenberghe, 2004; Palmatier, Scheer, & Steenkamp, 2007). Within a LP context, Uncles et al. (2003) propose that the value proposition offered by a LP may be driving customer loyalty towards the program instead of the brand. Indeed, Yi and Jeon (2003) conceptualize customer loyalty cultivated via a LP into program loyalty and (company) brand loyalty. Brand loyalty is defined as the psychological commitment the customer has toward the brand (Yi & Jeon, 2003). In contrast, program loyalty is conceptualized as the customer's favourable attitude towards the LP which is driven primarily by program incentives (Evanschitzky et al., 2012; Yi & Jeon, 2003). While both brand loyalty and program loyalty represent customers' psychological disposition, study has shown that strong brand loyalty seems to be more effective in reducing customer defection compared to customers who are merely program loyal (Tanford et al., 2010). In a recent study by Evanschitzky et al. (2012), brand loyalty was found to be a stronger predictor of price premium, Share-of-Wallet, and Share-of-Visit than program loyalty. As a result, current research in the area of LPs has begun to emphasize the distinction between program loyalty and brand loyalty with respect to the effectiveness of LPs (e.g., Evanschitzky et al., 2012; Tanford et al., 2010; Yi & Jeon, 2003). However, to date, the factors that drive these different forms of attitudinal loyalty as well as their effect on different customer behaviours are not well-understood (Evanschitzky et al., 2012).

Fourth, although LP researchers have begun examining the contingency factors that impact on the effectiveness of LPs (Liu, 2007) much is still unknown about which factors moderate the loyalty development process (Leenheer et al., 2007; Mauri, 2003). Moreover, it is likely that many factors could potentially moderate these relationships and studies should certainly consider the dual impact of customer and program characteristics as moderators of LP effectiveness. Against this background and based on a review of the literature (Kivetz & Simonson, 2003; Meyer-Waarden & Benavent, 2009), key factors that are likely to alter the way customer loyalty develops are incorporated into this study. This is critical because loyalty development between customers and firms is a complex process and, assuming that customer and program characteristics do not alter this process, represents an oversimplification of how loyalty is formed (Dorotic et al., 2012). In particular, it is argued that failing to consider these effects may lead to the implementation of less than effective strategies to manage customer relationships and create lifetime value. Thus, research examining moderating effects is vital to fully understand how customer loyalty develops (Cooil, Keiningham, Aksoy, & Hsu, 2007). Indeed, the role of moderating factors in influencing loyalty development is often overlooked in the literature and in empirical studies (Uncles et al., 2003).

Given these four unresolved gaps in the literature, the present study advances the literature aiming to develop a comprehensive theoretical framework to understand the loyalty development process as derived via LPs. Building on previous literature, this research puts forward a conceptual model that begins to address how LPs can effectively instil customer loyalty towards the firm. Consistent with this objective, the proposed framework for this study has four distinct characteristics that extend prior LP studies.

First, the proposed model adopts a multi-construct approach to conceptualize program value, as perceived by the customer. Program value is viewed as consisting of several inter-related attributes (e.g., economic, emotional, social value) that form a holistic



representation of the customer's utility assessment of a product/service (in this case the LP) (Wang, Lo, Chi, & Yang, 2004). Today, LPs are often poorly designed and misapplied in practice whereby too many companies treat LPs as financial incentives to increase the customer's short-term purchases (O'Brien & Jones, 1995; Uncles et al., 2003). However, LPs with a design that emphasizes economic or utilitarian benefits are unlikely to entice customers to become loyal to the brand (McIlroy & Barnett, 2000; Uncles et al., 2003). To extend the economic notion of LPs, Dowling and Uncles (1997) introduce the psychological dimensions of belonging to a LP and anticipation of future rewards to explain how these dimensions help LPs achieve customer loyalty to the firm. Similarly, Gwinner, Gremler, and Bitner (1998) introduce three relational benefits, namely, confidence, social, and special treatment benefit, to illustrate customers' enduring loyalty to the brand even when they perceive the core offering to be less superior to competitors. Indeed, the role of psychological drivers in creating loyalty has been well-documented within the marketing literature (Chitturi, Raghunathan, & Mahajan, 2008; McAlexander, Schouten, & Koenig, 2002). Nevertheless, the different roles played by the economic and psychological value of LPs in cultivating brand evangelists has yet to be examined and empirically substantiated. Instead, the existing LP literature has approached program value in a uni-dimensional manner dominated primarily by the economic benefits of such programs. Some examples include Jenkins (2010) and Yi and Jeon (2003) who find that a customer's general value perception of a LP has a significant impact on their loyalty. Although a uni-dimensional view of value offers simplicity, such a basic conceptualization is likely to mask substantive insights (Sanchez-Fernandez & Iniesta-Bonillo, 2007).

Second, the proposed model extends previous research by incorporating *both* attitudinal and behavioural dimensions of loyalty into the study of LPs. This makes up for the shortcomings of past studies that tend to incorporate *either* behavioural or attitudinal loyalty but not both (Mauri, 2003). Prior research analysing the success of a LP has mainly focused on the behavioural dimension of the loyalty concept (Liu, 2007). Although this

definition of loyalty is grounded in the literature, proponents of the “attitude drives behaviour” approach question the merit of using past behaviour as the dominant measure of loyalty (Dick & Basu, 1994; Kumar & Shah, 2004; McKee, 2007). According to advocates of attitudinal loyalty, truly loyal customers will exhibit repeat purchase behaviour supported by a strong internal disposition towards the brand (Reichheld, 2003). From their perspective, sustainable customer loyalty must consist of both behavioural and attitudinal components. Customers who make repeat purchases without an emotional bond are susceptible to defection (Dick & Basu, 1994). Therefore, incorporating the attitudinal aspect into the measurement of loyalty is a prerequisite for the understanding of customer’s persistent behaviour in re-patronizing a preferred product/service. By investigating both the attitudinal and behavioural aspects of customer loyalty, the proposed framework provides new insights into the relational development between customers and firms through a LP.

Third, the framework builds on recent research (Roehm et al., 2002; Tanford et al., 2010; Yi & Jeon, 2003) by hypothesizing the effect of program value perceptions on two different categories of attitudinal loyalty—program loyalty and brand loyalty. As acknowledged by various scholars such as Dowling and Uncles (1997), Roehm, et al. (2002), Yi and Jeon (2003) and Tanford et al. (2010), value perceptions created by incentive programs can induce customer loyalty to either the program, brand or both. While past research has attributed these findings to the customer’s level of product involvement (Yi & Jeon, 2003) and reward structure (Roehm et al., 2002), this research forwards a different explanation for the extent to which LP value leads to these different types of attitudinal loyalty. Drawing on different learning theories, scholars have suggested that the different value constructs customers derived from being a LP member might help firms to achieve customer loyalty to the brand or loyalty to the program (Chisnall, 1995; Roehm et al., 2002; Taylor & Neslin, 2005). From a behavioural learning perspective, customers are expected to be program loyal because financial returns from reward programs should strengthen the customer’s positive affiliation with the LP (Roehm et al., 2002). In contrast, cognitive-

learning theory proposes that the psychological benefits offered by a LP should reinforce the customer's emotional attachment to the brand and, hence, would be more effective in enhancing their loyalty to the brand (Taylor & Neslin, 2005). While past literature (e.g., Dowling & Uncles, 1997; O'Brien & Jones, 1995) has proposed differing views on using LP value propositions in developing the two types of attitudinal loyalty, the existing literature has not sufficiently and empirically investigated these propositions. Due to the different nature of the two attitudinal loyalties, the proposed framework views customers' attitudinal loyalty into *program loyalty* and *brand loyalty* to facilitate a more detailed understanding of the dynamic interaction of different value elements in shaping loyalty.

Finally, the proposed conceptual framework incorporates variables that moderate the effectiveness of LPs in fostering customer loyalty. Customer idiosyncratic and program characteristics are put forward as playing a significant role in explaining the success of a LP (McCall & Voorhees, 2010). Some existing moderators that have been examined by scholars within the LP literature include the customer's initial product usage level (Liu, 2007) and the customer's relationship proneness (De Wulf et al., 2001). As an extension to this work, the current study introduces two moderators that have not been previously examined in the literature. These include program customization which represents the characteristic of the LP, and duration of program participation which is an inherent characteristic of the customer themselves. With regard to member duration in a LP, scholars have suggested that the process of loyalty development via a LP could potentially evolve over time as customers develop greater knowledge and learning regarding the program (Frisou & Yildiz, 2011). Prior research has also suggested that the degree of program customization could potentially elevate customers' loyalty from the program level to firm level (Shugan, 2005). Supporting the recommendation of Taylor & Neslin (2005) and Mägi (2003), there is still much more to learn about contingency factors that impact on the operation of LPs.

## **1.4 Research Objective**

Drawing from the above discussions, the overall purpose of this study is to examine the mechanisms that underlie LP membership. Specifically, three research themes underpin this inquiry.

### **Research Theme One: Loyalty Program Value Constructs**

- Determine the different value constructs that customers derive from being a member of a LP.

### **Research Theme Two: Program Value and Customer Loyalty**

- Determine the effect of the different LP value constructs on attitudinal loyalty including program loyalty and brand loyalty.
- Determine the effect of attitudinal loyalty including program loyalty and brand loyalty on behavioural loyalty including Share-of-Wallet (SOW), Share-of-Purchase (SOP), Word-of-Mouth (WOM) and Willingness-to-Pay (WTP) more for a firm's product/services.

### **Research Theme Three: Customer and Program Characteristics**

- Determine the moderating effect of program customization on the relationship between program loyalty and brand loyalty.
- Determine the moderating effect of program member duration on the relationship between program loyalty and brand loyalty.

## **1.5 Conclusion**

This first chapter introduces the reader to the concept of LPs and highlights the need for additional research to be conducted in this area. Despite being widely researched in the literature, the effectiveness of LPs in building customer loyalty remains debatable. To advance current understanding about the loyalty development process that underlies LP membership, this research addresses four critical research gaps. The chapter concludes by outlining the underlying research themes that guide the framework of the present study. In the following chapter, scholarly work in the area of loyalty marketing that forms the theoretical basis of this study is reviewed.

# Chapter Two

## Literature Review

### 2.1 Chapter Summary

Chapter Two describes and reviews scholarly work in the relationship marketing literature, particularly the role of loyalty programs (LPs) in fostering customer loyalty. This chapter consists of five substantive sections that build the theoretical and conceptual foundations for this study. The first section provides a background discussion on LPs including their application in the realm of relationship marketing, review of definitions, and their use in the global and Australian markets. The second section offers an extensive literature review on LPs to draw on prior findings that lead to the development of the current study. In the third section, the overarching framework that guides this dissertation—the theory of reciprocity—is discussed. The fourth section reviews the relevant concepts of this study including perceived value, attitudinal loyalty, and behavioural loyalty. Finally, potential moderators that can influence the customer loyalty development process are highlighted.

### 2.2 Relationship Marketing

In past decades, relationship marketing has become a topic of great interest to both marketing academics and practitioners (e.g., Berry & Parasuraman, 1991; Morgan & Hunt, 1994; Palmatier, Dant, Grewal & Evans, 2006). Relationship marketing (RM) refers to “all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges” (Morgan & Hunt, 1994, p. 22). Customer relationship marketing builds on the premise that exchanges between customers and firms are not discrete but rather an ongoing process where a buyer-seller relationship is developed over time (Dwyer, Schurr,

& Oh, 1987). The primary objective of RM is to achieve customer loyalty (Sheth & Parvatiyar, 1995). The RM literature advocates marketers to be more customer-oriented in their business practice in order to achieve customer retention (Berry, 1995). Due to the benefits of RM, firms are beginning to incorporate relationship building strategies into their business practices. This is mainly because developing and maintaining relationships with customers can enhance firms' performance in terms of customer retention (O'Malley & Prothero, 2004; Verhoef, 2003), positive Word-of-Mouth (WOM) (Baloglu, 2002; Kim, Han, & Lee, 2001), and customers' Willingness-to-Pay (WTP) a price premium (Ganesh, Arnold, & Reynolds, 2000; Tanford et al., 2010). In view of these advantages, many firms have invested heavily in various RM strategies in the hope that these efforts will generate higher profit margins and market share in the long term (Johnson & Fred, 2004). Some RM instruments employed by firms include LPs (Bolton, Lemon, & Verhoef, 2004), direct mail (De Wulf et al., 2001), and service recovery (Bolton et al., 2000). Among these RM instruments, customer LP marketing has drawn significant research attention (e.g., Dorotic et al., 2012; Kumar & Shah, 2004; McCall & Voorhees, 2010).

### **2.2.1 Loyalty Program as Relationship Marketing Manifestations**

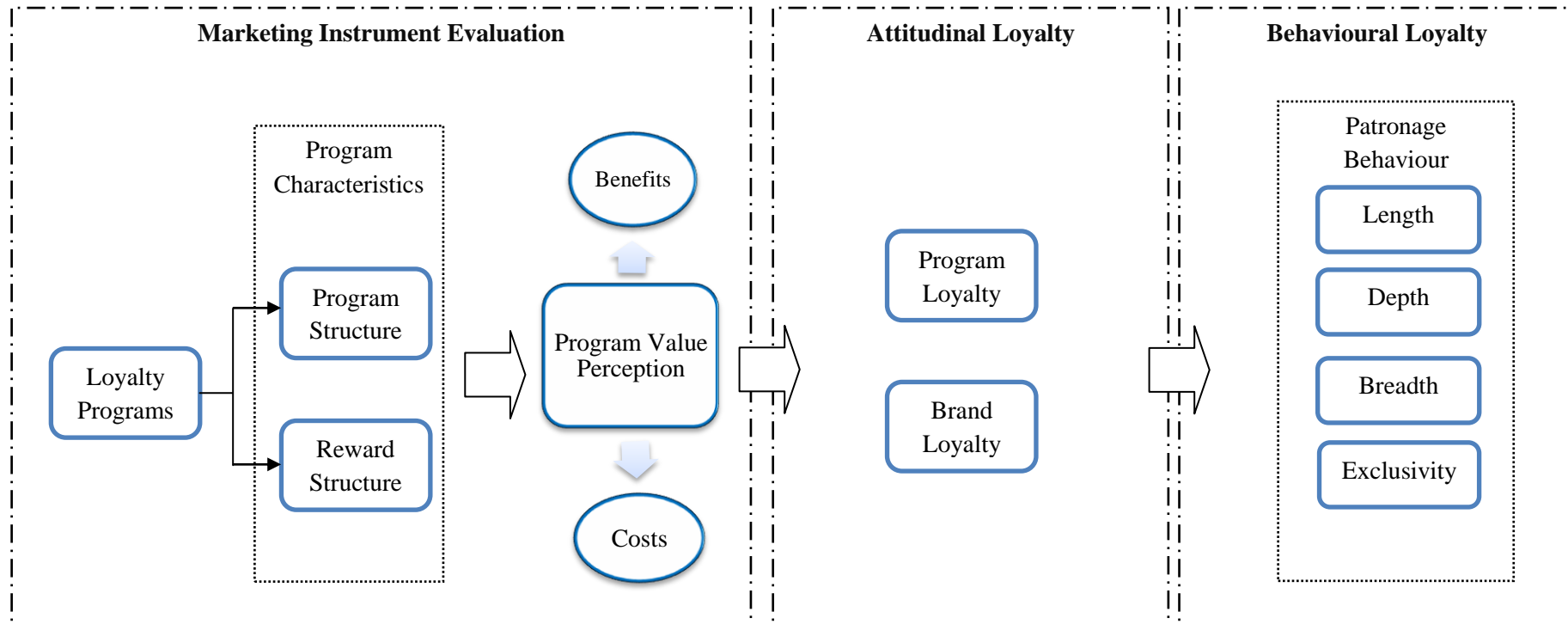
LPs have been recognized as an important tool to drive customer loyalty in various industries (Uncles et al., 2003). In an era in which many firms suffer from increasingly undifferentiated offerings and low switching costs, companies have invested heavily in LPs in the hope that these programs can enhance their relationship with customers by offering added value to profitable market segments (Smith & Sparks, 2009b; Wirtz et al., 2007). Financial incentives, program rewards, and access to exclusive services all translate into attractive value propositions for the firm (Liu, 2007). Value plays a crucial role in creating customer loyalty (Grewal, Levy, & Lehmann, 2004). As customers view LPs as providing them with additional value during transactions, customers develop a bond with the firm which enhances their favourable attitude towards the firm (Kumar & Shah, 2004).

Consequently, providing outstanding value to customers is a reliable way to attain sustainable customer loyalty (Grewal et al., 2004). The way in which LPs act as a relationship marketing tool is shown in Figure 2.1.

The figure depicts that LPs deliver value to customers through their reward and program structures. The perceived value of a LP represents the customer's evaluation of the benefits and costs associated with their program participation. For example, in terms of reward structure, LPs can provide hard benefits to customers through immediate incentives (e.g., direct mail coupons) or delayed rewards usually based on accrued points (e.g., free flight upgrades) (Keh & Lee, 2006). As for program structure, LPs can deliver soft value such as status, recognition, and belongingness by giving preferential treatment to program members (Dreze & Nunes, 2009). When effectively implemented, these mechanisms of LPs translate into attractive value propositions for firms (McCall & Voorhees, 2010). However, scholars such as Noble and Phillips (2004) and O'Malley and Prothero (2004) have also highlighted the costs involved in LP participation (e.g., privacy intrusion) as the negative component of the value equation. Based on the value customers believe a LP holds, they develop feelings of loyalty. Customer loyalty can be measured based on attitude (attitudinal loyalty) or purchase behaviours (behavioural loyalty) (Kumar & Shah, 2004). Earlier studies on customer loyalty (e.g., Day, 1969; Dick & Basu, 1994) have emphasized the importance of considering both attitudinal loyalty and behavioural loyalty as measurements of "true" customer loyalty. In addition, past literature demonstrates that a customer's positive attitudinal loyalty cultivated through a LP can be directed towards the brand or LP (Kumar & Shah, 2004; Yi & Jeon, 2003). These attitudinal loyalties, associated either with the brand or LP, determine their patronage behaviour which can take the form of increased relationship length, depth (i.e., increased usage), breadth (i.e., cross-buying), or exclusivity (Aurier & N'Goala, 2010).



**Figure 2.1 Loyalty Programs as a Tool of Relationship Marketing**



Adapted from:

Gwinner, K. P., Gremler, D. D., & Bitner, M. J. (1998). Relational benefits in services industries: The customer's perspective, *Journal of the Academy of Marketing Science*. 26(2), 101-114;

Dowling, G. R., & Uncles, M. (1997). Do customer loyalty programs really work?, *Sloan Management Review*. 38( 4), 71-82;

Aurier, P., & N'Goala, G. (2010). The differing and mediating roles of trust and relationship commitment in service relationship maintenance and development, *Journal of the Academy of Marketing Science*. 38(3), 303-325;

McCall, M., & Voorhees, C. (2010). The drivers of loyalty program success, *Cornell Hospitality Quarterly*. 51(1), 35-52.

### **2.3 Loyalty Program Definition**

LPs reflect a RM instrument that is designed to reward customers' purchase behaviour in an effort to build customer loyalty. A review of the LP literature suggests that two types of LPs exist in the marketplace (Liu, 2007). The first type of LP represents a form of short-term promotion on merchandise such as instant scratch cards or discount coupons that benefit customers even in a one-off transaction (Lewis, 2004; Noble, Esmark, & Noble, 2013). These short-term promotions are designed to encourage customer product trials in the hope that customers will re-purchase the product again at the full price. Another type of LP is based on the customers' accumulated purchases which translate into some form of program currency (or points) that can be redeemed later for a reward (Liu, 2007). These program points are normally accrued in direct proportion to the amount the customer spent in-store or they correspond to distance travelled. A department store LP illustrates an example of point-accumulation-based LP whereby program points are accrued in relation to dollars spent, whereas, an airline's frequent flyer program is a classic example of a distance-based point system (Liu & Yang, 2009). In this study, LPs are seen as long-term investments by companies that aim to transform a customer's purchase into multi-period purchases and foster loyalty over time (Leenheer et al., 2007; Liu, 2007). This definition of LPs is adopted as it fits the purpose of the current study, that is, to examine whether LPs stimulate enduring customer loyalty. Short-term LPs which are, essentially, incentives to purchase and are likely to result in a sudden spike in sales without developing sustainable loyalty, are not examined in this dissertation. Leenheer et al. (2007) confirmed that treating LPs as a long-term investment could significantly impact customer loyalty in a positive manner, whereas short-term promotional programs do not.

### **2.3.1 The Global Loyalty Program Market**

Ever since the contemporary LP was first introduced into the market by American Airlines in 1981, LPs have expanded into almost every consumer market including retail, travel, casino, finance, car rental, and telecommunications (Liu, 2007). In the United States, the Food Retailing Technology Benchmarks reported that 48.8% of US retailers launched a LP in 2008, while 9.8% planned to offer one over the next few years. In the United Kingdom, GI Insights, a marketing support services organization, showed that LP adoption rates by companies had grown on average 2.5 times between 1998 and 2008, yielding a 41% participation rate among top companies (Euromonitor International, 2009). At this speed of growth, it is estimated that the majority of the large companies in the UK will operate at least one LP by 2013 (Euromonitor International, 2009).

Likewise, customer participation rates in LPs vary from country to country. In general, customer LP enrolment rates are highest in developed nations like Germany, Australia, UK, Canada, and New Zealand. In Canada, the customer participation rate is estimated to be as high as 86% (Euromonitor International, 2009). Also, it is approximated that 80% of UK consumers and more than half of US adults (about 57%) are involved in at least one LP (Euromonitor International, 2009; Kivetz & Simonson, 2003).

In terms of sales revenue, businesses have reported that LPs drive a large proportion of their firm revenue. For example, in the hotel industry, InterContinental Hotels Group with 56 million members reported US\$6.6 billion revenue gained from its Priority Club Reward members, while Marriott Rewards indicated that 50% of all hotel room nights are booked by its LP members (Grant, 2011). Similarly, Hilton Worldwide predicted about 40% of Hilton's revenue is generated by its 27 million HHonors program members (Barnett, 2011). In the airline industry, Delta Airlines estimated that its frequent flyer program, SkyMiles, consisting of approximately 83 million members, contributed US\$1.6 billion in revenue to

the company in the year 2010. As for the retail market, Tesco Clubcard scheme, with 13.7 million members was estimated to have contributed £200 million revenue for Tesco during the first half of the 2007 fiscal year. Furthermore, Carrefour, a French grocery retailer, reported that 70% of company sales were made by customers with a loyalty card (Euromonitor International, 2009).

### **2.3.2 The Australian Loyalty Program Market**

For the purpose of this research, the Australian loyalty program market has been selected as the research context. Since the present study was carried out in Australia, choosing the Australian loyalty program market is more economically viable and time-efficient. The LP market in Australia has become increasingly saturated. The top five LPs operating in Australia are FlyBuys which consists of more than 8 million members, Qantas Frequent Flyer which has 7.2 million members, Everyday Rewards which has 5 million members, MyerOne which has 3.7 million members, and Priceline Sister Club which currently has 3.3 million members (Australian Pharmaceutical Industries, 2010; Browne, 2009; Chappell, 2010; Lee, 2010; Maiden, 2010). In 2002, a survey commissioned by De Weaver (2002) found that 54% of Australian consumers have at least one loyalty card and 69% of Australians try to use their card as often as possible. Although LP participation rates are relatively high among Australians, a study done by Fujitsu found that only 23% of customers (less than one in four) find LPs attractive (Fujitsu, 2007). The overriding message from the Fujitsu research is that LPs are not perceived as valuable by the majority of Australian consumers. The report shows that 54% of respondents felt that they had to purchase an unreasonable amount before they were entitled to a reward. In addition, 35% of participants perceived that the benefits offered by existing LPs were unappealing. To improve their LPs, companies need to work harder in determining what customers value from their LPs, the effort required for reward redemption, and to give higher recognition to LP program members (Fujitsu, 2007).

## **2.4 Existing Empirical Research on Loyalty Program Performance**

Previous LP research can be categorized into four different groups. Each group compares the effectiveness of LPs to customer loyalty, based on: (1) competitor, (2) customer, (3) program, or (4) time-based factors.

### **2.4.1 Comparison across Competitors**

The first and most common group of studies judges the effectiveness of LPs across multiple firms. Here, the targeted outcomes that researchers examined were mostly behavioural. Using consumer panel data on grocery purchases, Meyer-Waarden (2007) and Mägi (2003) find positive support for the impact of LPs on customer's Share-of-Wallet (SOW). Additionally, Mägi (2003) shows that LPs have a relatively modest impact on customer's Share-of-Visit. Nevertheless, both studies demonstrate that customer's Share-of-Visit is reduced for those who are in possession of more than one loyalty card. This group of customers exhibit "cherry picking" behaviour, meaning they shop among several retailers to get the best deals out of their LPs at no additional cost (Mägi, 2003; Meyer-Waarden, 2007). The idea of LPs exhibiting diminishing effect is also supported by Noordhoff, Pauwels, and Odekerken-Schroder (2004), who show that with an increased number of LP card possessions by a customer, the efficacy of a LP in cultivating loyalty is reduced. In fact, Bell and Lal (2003) find that after accounting for "cherry picking" behaviour, LPs may become unprofitable for retailers.

The limited effect of LPs on customer behavioural loyalty is also demonstrated in Benavent, Dominique and Meyer-Waarden's (2000) study, which discovers that there is a positive yet small effect of LPs on customers' repurchase behaviour. Similarly, Leenheer et al. (2007) and Sharp and Sharp (1997) both find that retail LPs result in limited improvement in a customer's share of purchase. Indeed, it was found that the initial signs of

excessive purchasing behaviour shown by customers of a LP diminished after accounting for the endogeneity of program membership (Leenheer et al., 2007).

In terms of market penetration, researchers have concluded that LPs would only have a minor impact on a firm's market share (Sharp & Sharp, 1997). In fact, analyses conducted on existing LPs in the market conclude that customers do not demonstrate excess buying behaviour towards firms with respect to the firms' level of market penetration (Sharp & Sharp, 1997). These findings suggest that the effect of LPs might be more aligned with retaining customers rather than stimulating them to make more purchases (Gomez et al., 2006). In line with this argument, Verhoef (2003) and Meyer-Waarden (2007) both find that a firm's investment in a LP has a direct impact on greater customer retention.

#### **2.4.2 Comparison across Customers**

The second category of LP research compares the effect of LPs across different customer groups. In these studies, researchers often examine differences between sub-segments within a program or between members and non-members of a LP. To investigate the differential effects of LPs among participants, researchers have studied the impact of various moderator variables that are mostly consumer-related. For example, Liu (2007) finds that the impact of a LP is moderated by the buyer's initial product usage levels. Heavy users were found to spend more than light users and, hence, were more likely to redeem program rewards. However, heavy users' spending levels and exclusivity to the store were found to remain stagnant over time. On the other hand, LPs were found to significantly increase purchase frequencies, transaction sizes, and the exclusivity of moderate to light users (Liu, 2007). The positive effect of LPs among infrequent users has also been validated by Bell and Lal (2003) who find that LPs implemented by a supermarket chain affected the spending behaviour of lower spending customers more than heavy users.

In examining the moderating effect of personal characteristics, Mägi (2003) concludes that customers are less inclined to change their behaviour in terms of Share-of-Visit (SOV) and Share-of-Purchase (SOP), despite being a LP member, when they are price-oriented, that is, they compare prices across various stores before making their purchase decisions. Also, Kopalle et al. (2007) identify that “service-oriented” customers value program tier benefits such as preferential treatment and better customer services, but find reward redemption not worth their effort. Similarly, Daryanto et al. (2010) confirm that customers’ regulatory orientation affects the influence of reward types on LP value and engagement behaviour. When a customer is prevention-focused, using a prevention reward as opposed to a promotion reward, results in a stronger impact on perceived value and exercise behaviour. In a more recent study, Meyer-Waarden (2013) finds that the effect of LP rewards on perceived value and loyalty is moderated by the customers’ purchase orientation. For example, customers with a budget-optimizing orientation are more likely to derive higher perceived value and become loyal to the firm when they are offered economic and informational rewards as compared to relational, hedonist or functional rewards (Meyer-Waarden, 2013). Customer-related factors aside, a customer’s LP tier level was found to moderate the effectiveness of the LP, such that higher-tier reward members exhibit higher affective commitment than lower-tier or non-members (Tanford et al., 2010). In comparison, lower-tier members are more price sensitive compared to higher-tier members (Tanford et al., 2010).

An alternative way in which researchers have approached gauging the effectiveness of a LP is to make comparisons between members and non-members. For example, Leenheer et al. (2007) find that the impact of a LP on customer’s SOW is higher among LP members than non-members. Focusing on the financial industry, both Bolton et al. (2000) and Verhoef (2003) discover that customer loyalty among program participants was higher compared to non-participants. In Verhoef’s (2003) case, it was found that members of a LP are more likely to stay with the firm and expand their business with the firm in terms of

services purchased when compared to non-members. Likewise, Bolton et al.'s (2000) study concludes that LP members tend to be more forgiving when they experience unsatisfactory service from a firm. LP members are generally less sensitive to negative encounters and to competitor's pricing. Given that long-term customers are likely to experience different levels of service quality due to the variability of service delivery, the fact that LP membership may mean these customers overlook any negative experiences is an important benefit of a LP (Bolton et al., 2000). Further, Garcia Gomez et al. (2006) find that LP participants exhibit more positive attitude and purchasing behaviour towards a retailer in comparison to non-members (Gomez et al., 2006). In the tourism literature, Tanford et al. (2010) conclude that program members have higher levels of commitment to the LP and are less likely to switch providers than non-members.

### **2.4.3 Comparison across Programs**

The third group of LP studies compares the effectiveness of programs across program-related factors such as reward structure, program design, and program management (Keh & Lee, 2006; Kumar & Shah, 2004; Tanford et al., 2010). With regard to reward structure, reward type and timing have been the two popular focal areas of research (e.g., Keh & Lee, 2006; Yi & Jeon, 2003). Research findings show that the immediate rewards of a LP are effective in attracting new customers, whereas, delayed incentives are mainly used to retain existing customers (Zhang, Krishna, & Dhar, 2000). Also, Keh and Lee (2006) illustrate that the effect of reward timing is dependent on the customer's satisfaction level. When the customer's service experience is satisfactory, delayed incentives will be more effective in building customer loyalty than immediate rewards, and vice versa. In a similar way, Yi and Jeon (2003) demonstrate that when customers are highly involved in a product category, product-related rewards are preferred to non-product-related indirect rewards. In contrast, when product involvement is low, immediate rewards are more effective in building program value than delayed rewards (Yi & Jeon, 2003).



In relation to reward schemes, Kivetz (2005) finds that customers are more responsive (in terms of joining the LP) towards rewards that fit the purchase context. That is, firms need to make sure that the reward type and main service/product in question are congruent (Keh & Lee, 2006). For example, customers who make the effort to redeem rewards from a grocery store LP are more likely to prefer receiving free groceries than free movie tickets. In addition, Melancon, Noble and Noble (2011) indicate that the nature of the reward offered induces different types of customer commitment towards a firm. Results show that social rewards cultivate a customer's affective commitment, whereas economic rewards build continuance commitment towards the firm (Melancon et al., 2011). Building on past research on customers' attitudes toward uncertainty, Yi, Jeon and Choi (2013) show that LPs with a predictable reward schedule encourage the customers to display ambiguity aversion behaviour which leads them to choose aggregated rewards (i.e., a larger gain over a longer period of time). In contrast, LPs that have a higher level of uncertainty in their reward schedule will induce customers to choose segregated rewards (i.e., smaller gains over a shorter period of time) because customers are more exposed to ambiguity.

However, Melancon et al. (2011) conclude that regardless of the reward scheme, a restrictive redemption policy will have a negative impact on a customer's commitment. In Noble et al.'s (2013) study, a similar conclusion was drawn where they find that a controlling redemption policy reduces a customer's commitment to the firm. Nevertheless, this effect was evident only for accumulation programs (i.e., customers are required to accumulate points for reward redemption through repeat purchases), but not for instant programs (i.e., customers receive immediate benefits for their purchase behaviour). To mitigate the negative impact of a highly-controlled redemption policy, Noble et al. (2013) suggest that firms should promote the social rewards of their LP, such as special lounges or preferential seating in restaurants, to members when they enforce a restrictive reward redemption policy.

In terms of program design, different genres of program benefits have been said to serve different roles in building customer loyalty (Johnson, 1999). For instance, Tanford et al. (2010) find that the loyalty-related attributes of a program, such as prestige and reputation, play a more pivotal role in driving the purchase decisions of members who are loyal to the firm compared to members who are not loyal. In contrast, the utilitarian-based attributes of a LP, like price and convenience, are more likely to drive the purchase decisions of program-loyal members. Therefore, the non-economic benefits of a LP (e.g., joy and connectedness with the firm) can be more important than economic features (such as monetary savings) in driving customer loyalty (Leenheer et al., 2007). With a focus on regulatory fit, Daryanto et al. (2010) note that customers' perceived value of a LP and engagement behaviour can be affected jointly by the reward types and how messages are communicated to the customers. When the type of reward (promotion vs prevention reward) is congruent with the communication style (gain-framed message vs loss-framed message), LP members place higher value on the LP and are more engaged with their membership.

As for program management, Zeithaml, Rust and Lemon (2001) emphasize the importance of identifying and segmenting customers into different tiers, because customers in different tiers have different needs and wants from their purchase experiences. Indeed, Tanford et al. (2010) find that the purchase decisions of LP members from the higher tiers are driven by hedonic attributes, whereas utilitarian attributes play a greater role in the purchase decisions of lower tier members.

The scholars Kumar and Shah (2004) propose a two-tiered reward strategy as a means of sustaining true loyalty without trading-off the firm's profitability. The first tier in this structure rewards customers based on their total expenditure with the firm. Here, the requirement for reward point accumulation and redemption would be equal for all customers. Kumar and Shah (2004) argue that this first tier reward strategy can be easily replicated by competitors. Yet, the majority of the LPs currently in the market are adopting this one-tier

reward strategy. On the contrary, second-tier rewards are proposed to be offered only to a selected number of customers based on their estimated lifetime value to the firm. Unlike tier-one rewards, tier-two incentives are aimed at positively influencing customer behaviour or attitude in the future (Kumar & Shah, 2004).

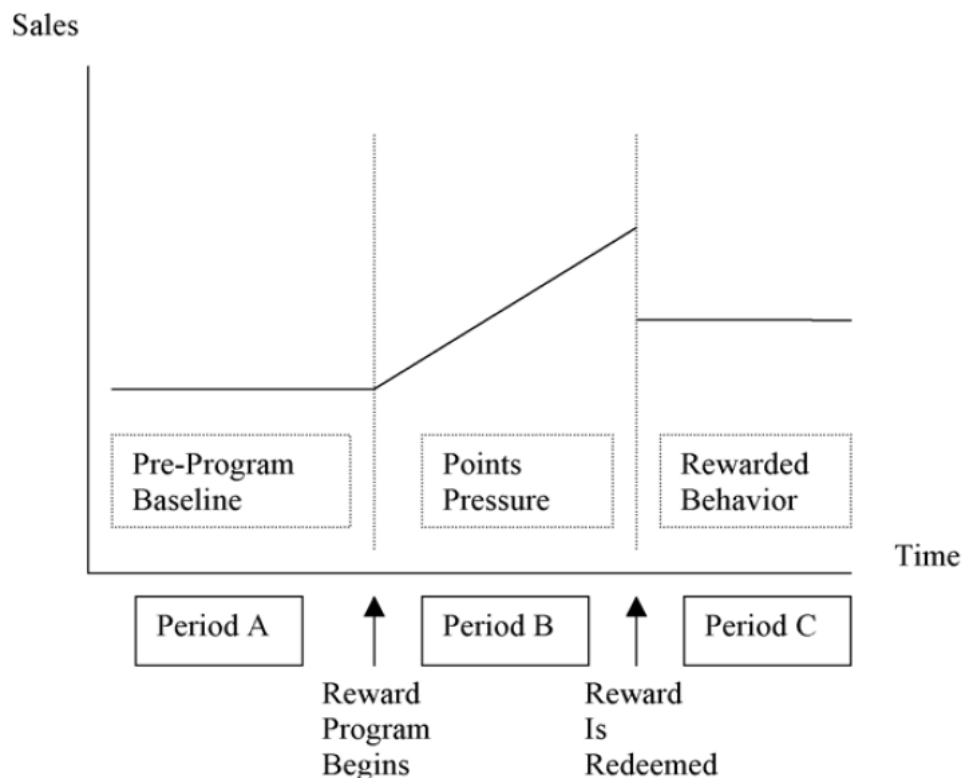
Advancing the two-tier reward framework (Kumar & Shah, 2004), Dreze and Nunes (2009) advise LP managers that a three-tier LP program is more advantageous to a firm than a two-tier program. Research shows that, comparing between a two-tier and a three-tier program (e.g., gold, silver, no status), adding an additional tier to a two-tier program will not lower the perception of having an elite status among those in the upper tier (e.g., the gold tier) (Dreze & Nunes, 2009). Therefore, as the customer base of a firm grows, a three-tier LP allows firms to accommodate more customers into their LP and progress through different tiers of the membership, without top-tier members perceiving the firms as lowering their program standards. However, Arbore and Estes (2013) state that the effects of program structure on perceived elite status were only apparent among customers who have a positive attitude towards their LP. For customers who have a neutral or negative attitude towards their LPs, their perception of elite status was not affected by the LP structure. Moreover, the effect of LP structure on customers' perceived status was found to be more effective in an industry which has higher perceived exclusivity (e.g., airlines) in comparison to an industry with lower perceived exclusivity (i.e., retailing) (Arbore & Estes, 2013).

#### **2.4.4 Comparison across Time**

The fourth category of LP studies examines the impact of LPs by comparing changes in customer behaviour across time (e.g., Lewis, 2004; Liu, 2007). Compared to longitudinal studies that examine behaviour change after joining a LP, cross-sectional studies that compare customer behaviour at a certain time appear to be a more popular methodological design within the LP literature (Liu, 2007). When examining the effect of

LPs on customers over time, researchers have generally found a short-term point pressure effect and a long-term rewarded behaviour effect (Taylor & Neslin, 2005). Figure 2.2 depicts both short and long-term effects. As can be seen, period A, B, C represents customers' purchase quantity prior to, during, and after joining the LP. After enrolling in a LP, anticipation of future rewards increases the customer's purchasing quantity in period B so that they can meet the threshold of reward redemption. Once reward points have been redeemed, the customer's motivation for program usage decreases, hence, purchase quantity falls sharply in period C. Nevertheless, the program can stimulate a permanent change in customer behaviour due to attitudinal change towards the program or firm. This sustained purchase behaviour is depicted as customer purchase quantity in period C, which is above the baseline purchase rate in period A.

**Figure 2.2 Point Pressure and Rewarded Behaviour Effect of Loyalty Programs**



Source: Taylor, G. A., & Neslin, S. A. (2005). The current and future sales impact of a retail frequency reward program, *Journal of Retailing*, 81(4), 293-305.

As shown in Figure 2.2, the point pressure effect reflects a false spike in customers' spending stimulated by the LP. This temporary phenomenon can be the result of a combination of switching costs associated with changing firms and an orientation towards future gains (Kopalle & Neslin, 2003). As customers join and start accumulating points using a particular program offered by a retailer, patronizing another retailer will mean foregoing the opportunity to build up points towards reward redemption. However, customers must be future-oriented before the scenario of higher switching-costs can be applied (Lewis, 2004). When customers are concerned about increasing future purchase utility through rewards, they will attempt to build up reward points by remaining with one particular retailer.

Using dynamic decision modelling, Kopalle and Neslin (2003) and Lewis (2004), find evidence to support the point-pressure effect in LPs. Likewise, it was found that a firm experiences a significant increase in sales during the period of LP implementation (Bell & Lal, 2003). In a more in-depth analysis, Kivetz, Urminsky and Zheng (2006) identify that the effect of point pressure on customers accelerates as they get closer to earning their rewards. Indeed, a similar effect was demonstrated in Lewis's (2004) study, which finds that the effect of point pressure increases as customers' anticipation of a reward grows closer. Nevertheless, the effect of point pressure usually dissolves after reward redemption (Taylor & Neslin, 2005).

Moving beyond point pressure effects, researchers have also demonstrated the long-term effect of LPs on customer purchase behaviour (e.g., Roehm et al., 2002; Taylor & Neslin, 2005). The focus here is on a more sustained form of customer loyalty in terms of attitudinal and behavioural change. Referring to Figure 2.2, a change in customer behaviour denotes a purchase amount which is higher than the baseline quantity prior to the introduction of the LP. This effect can be a result of stronger loyalty to the firm (Taylor & Neslin, 2005). Again, Taylor and Neslin (2005) find that positive post-reward behaviour

from LP members can be sustained in the long-term. Besides sustained post-reward behaviour, another study has also discovered that customers can have a more positive attitude towards the firm after participating in a LP (Roehm et al., 2002).

#### **2.4.5 Advancing the Loyalty Program Literature**

In summary, there is still much controversy as to whether firms should implement a LP given the mixed support provided by past empirical research. A summary of past literature is provided in Table 2.1. From the literature reviewed, four fundamental issues can be identified as needing further investigation. First, a comprehensive examination of the components that constitute LP value remains to be carried out and, thus, needs immediate attention. Although past research has noted that program members value the points and benefits of a LP, there exists no clear understanding about the exact nature of the value proposition a LP offers to customers (Tanford et al., 2010). Indeed, the literature tends to focus on the economic benefits of LPs and on studying the efficiency of LPs from the firm's perspective (Mimouni-Chaabane & Volle, 2010). Few studies have examined exactly what benefit or value customers perceive they derive from their LP membership.

As argued by various scholars, economic benefits aside, other psychological drivers such as a sense of belongingness (Dowling & Uncles, 1997; Rosenbaum, Ostrom, & Kuntze, 2005), perceived effort advantage (Kivetz & Simonson, 2003), personal recognition (Shugan, 2005), and having a comfortable experience (Noble & Phillips, 2004) may also contribute to the customers' perception of the LP's value. Ultimately, the customers' perception of the value they obtain as a LP member drives their loyalty toward the firm (Leenheer et al., 2007). In fact, it may be that these 'softer' measures of value have an even greater impact on loyalty development than economic drivers (Capizzi & Ferguson, 2005). Indeed, Johnson (1999) proposes that the harder economic and softer psychological values of a LP serve different roles in driving customer retention. Hence, marketing scholars have urged future research to

**Table 2.1 Comparative Investigation of Loyalty Program Studies**

<b>Authors</b>	<b>Context</b>	<b>Dependent Variables</b>	<b>Research Design, Sample, Method</b>	<b>Results</b>
<b>Positive Impact of LP</b>				
Bolton et al. (2000)	Credit cards, Europe	Purchase Frequency, Relationship Length	Actual credit card usage & self-reported data (N=405), logistic and Tobit regression	LP increased firm's revenue through fewer cancellations and higher usage levels.
Yi and Jeon (2003)	Perfumery & Restaurants, USA	Loyalty to Program & Brand (Attitudinal aspect)	Experimental Design (N=262), SEM	Impact of program perceived value on brand or program loyalty depends on customer's involvement.
Taylor and Neslin (2005)	Grocery Retailing, U.S.	Average Weekly Sales (\$)	Behavioural & self-reported data (N=776), Multiple regression & Probit Model	Reward program can generate point-pressure and rewarded-behaviour impact. These programs are segmentation strategies whereby customers can vary in their responses.
Keh and Lee (2006)	Bank & Restaurant	Customer Loyalty (repeat-purchase intention, self-stated retention, price insensitivity, commitment, likelihood of spreading WOM)	Experimental Design (N=205), ANOVA	Delayed rewards are more effective than immediate rewards when service experience is satisfactory.
Wirtz et al. (2007)	Credit Cards, Singapore	Share-of-Wallet (SOW)	Self-reported data (N=283), three-way ANOVA	Relative attractiveness of loyalty program has positive impact on SOW regardless of level of attitudinal loyalty. Perceived switching cost has an impact on SOW only when attitudinal loyalty is low and LP is attractive.

Authors	Context	Dependent Variables	Research Design, Sample, Method	Results
<b>Small or Insignificant Impact of LP</b>				
Sharp and Sharp (1997)	Grocery Retailing, Australia	Market share, Exclusive Buying, Repeat Purchase & Frequency	Self-reported panel survey (N=745), Dirichlet model	LP has little to no impact on excess repeat-purchase loyalty
Mägi (2003)	Grocery Retailing, Sweden	Share-of-Purchase (SOP) and Share-of-Visit (SOV)	Self-reported data and questionnaire (N=681), Regression Model	LP has limited effect on customer's SOP and SOV. Having more loyalty cards significantly decreases customer's SOP on one retail chain. Effect of LP on customer behaviour is moderated by shopper's characteristics.
Leenheer et al. (2007)	Grocery Retailing, The Netherlands	Share-of-Wallet (SOW)	Panel Data (N=1909 households), 2 years, Multi Nominal Logit Model	Small but significant positive effect of LP on SOW. Effectiveness of LP increases with value provided but decreases with higher price discounts.
Meyer-Waarden (2007)	Grocery Retailing, France	Share-of-Wallet (SOW), Customer Lifetime Duration	Actual grocery purchase, GLM (N=2476), 156 weeks	LP has a positive effect on customer lifetime duration & SOW. However, this effect diminishes with increased LP card possession
Lacey (2009)	Department Store	Personal Referrals, Information Sharing, Marketing Research Support, Complaint Feedback, Openness to Firm Promotions, Increasing purchases	Main survey (N=1982), Structural model multi-group analysis	LP has limited impact on the tested relational outcomes. LP membership was found to have a favourable impact in only two (out of six) relational outcomes, e.g., complaint feedback and increasing purchases.
Benavent et al. (2000)	Grocery Retailing, France	Turnover, Margin, Store Visits, Purchase Volume and Value, Inter-purchase time	Panel data (N= 150,000 purchasing acts),	LP has limited effect on customer loyalty, and functions, like promotional device and massive card distribution, negatively affect margins.



examine the role of non-utilitarian benefits in developing customer loyalty (Lal & Bell, 2003). Against this background, it is imperative that research empirically examines the different components of LP value that customers derive from their program membership. Doing this allows for a better understanding of the mechanisms that drive customer loyalty (Dowling & Uncles, 1997; Yi & Jeon, 2003).

Second, prior research has found support for the effectiveness of a LP in retaining current customers. However, research has also shown that LPs are not particularly effective in stimulating behavioural changes among customers such as increasing purchase levels. For instance, Lal and Bell (2003) and Mägi (2003) find that LPs have only a limited effect in increasing a customer's SOW. Also, Verhoef (2003) shows that LPs serve to lengthen a customer's relationship with the firm. As a result, it is important that researchers move beyond examining basic customer spending levels and purchase timing, as outcomes of LP membership, to include attitudinal loyalty generated by a LP (Leenheer et al., 2007). Indeed, attitudinal loyalty is a vital prerequisite for sustained behavioural loyalty (Dick & Basu, 1994; Reichheld, 2003). While preliminary research into the effect of LP membership on attitudinal loyalty has been undertaken, much more research in this area is needed. Initial results from these studies show that customers who possess a LP card have high attitudinal store loyalty (Noordhoff et al., 2004). Similarly, Garcia Gomez et al. (2006) find that LP members have higher levels of satisfaction, trust, and commitment towards firms than non-members. LPs have also been shown to be an effective agent in enhancing customers' affective commitment towards a firm (Tanford et al., 2010). Expanding on these studies, this research incorporates *both* behavioural and attitudinal components of customer loyalty into a single model in examining the effect of LP value on customer loyalty.

Third, customer attitudinal loyalty derived from a LP has at least two essential and distinct components—program loyalty and brand loyalty. However, efforts to empirically differentiate the two concepts in the LP literature have only been made quite recently

(Evanschitzky et al., 2012; Tanford et al., 2010). Conceptually, Dowling and Uncles (1997) propose that depending on a customer's level of involvement, a LP might induce customer loyalty to the program or brand. Similar assertions were made by Yi and Jeon (2003) whereby they conclude that the underlying effect of LPs on customer loyalty is contingent on the customer's involvement. In a more recent study, Tanford et al. (2010) find evidence for the impact of both program loyalty and brand loyalty on customers' switching costs and price sensitivity. Similarly, a study by Evanschitzky et al. (2012) shows that program loyalty and company loyalty have a different impact on customer behavioural outcomes. While program loyalty was found to be more effective in driving future sales, company loyalty is a stronger driver of SOW, SOV, and customers' Willingness-to-Pay (WTP) a price premium (Evanschitzky et al., 2012). The literature review shows that the relative impact of different LP value constructs on these two attitudinal loyalty dimensions has received only limited attention. Understanding the extent to which each value component drives loyalty to the firm and the program is important, as it will help clarify the inconsistencies that currently exist in the literature and provide guidance for firms in effectively allocating resources to their LP.

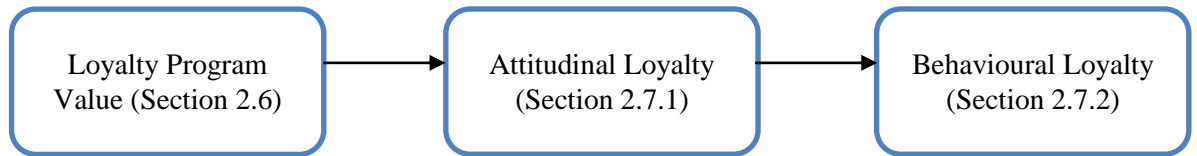
Lastly, the studies reviewed illustrate that not all customers respond to LPs in the same way. Depending on customer or program characteristics, the effect of a LP on customer loyalty might differ (Liu, 2007). While recent research on LPs has seen a greater emphasis being placed on examining the moderating variables that impact loyalty, few studies have empirically examined how customer and program characteristics combine to alter loyalty development. Based on the literature reviewed, this thesis focuses on addressing three research themes. First, this study examines the different value constructs that drive customer loyalty to a LP and a firm. Second, the study examines the relationship between the different LP value constructs, customer's attitudinal and behavioural loyalty. Lastly, this research takes into account contingency factors such as customer and program characteristics that may impact on the relationship between the value constructs and

customer loyalty. Using the principle of reciprocity as the overarching theory guiding this research, relevant literature pertaining to this study is reviewed in the next section.

## **2.5 Theory of Reciprocity**

The overarching empirical structure of this research is guided by the principle of reciprocity. The theory of reciprocity has a strong foundation in guiding researchers in investigating exchange relationships (De Wulf et al., 2001). According to the norm of reciprocity, people feel obliged to return the favour to those who treat them well (Gouldner, 1960). Hence, reciprocity has been identified as a primary feature in explaining the duration and stability of an exchange relationship. As indicated by Bagozzi (1995), the phenomenon of reciprocity can be applied to customer-firm exchanges. In line with this theory, the present study views LPs as investments made by firms into the exchange relationship with their customers. As customers perceive the firm to be providing them with something of value by investing certain resources, they feel the need to contribute equitably to the relationship in the form of devotion towards either the firm or program, which then leads to repeat purchases (Morais, Dorsch, & Backman, 2004). In summary, the proposed impact of LPs on customer loyalty, following the core premise of the theory of reciprocity, is depicted in Figure 2.3. The value propositions offered by a LP, as perceived by customers to be a firm's investment in irrecoverable resources in a relationship, will create psychological ties in the form of attitudinal loyalty. The cultivated attitudinal loyalty motivates customers to maintain a relationship with firms which, subsequently, results in behavioural loyalty. Customer behavioural loyalty can be driven by attitudinal loyalty to a program, firm or both (Tanford et al., 2010; Yi & Jeon, 2003). Attitudinal loyalty is introduced as a mediator between the value-behavioural loyalty relationship because customer purchase behaviour that is not driven by attitudinal loyalty cannot be sustained in the long-term (Dick & Basu, 1994).

**Figure 2.3 Impact of LPs on Customers**



Next, constructs of interest in the framework guiding this research, that is, perceived value (Section 2.6), attitudinal loyalty (Section 2.7.1), and behavioural loyalty (Section 2.7.2), are discussed and reviewed in the following sections of the chapter.

## **2.6 Perceived Value**

Delivering superior value to customers during relational exchanges has been recognized as a pivotal determinant of a customer's consumption choice (Grewal et al., 2004; Wang et al., 2004). Very often, value is the connecting piece that links a firm's marketing effort to customer loyalty and organizational profits (Gallarza & Gil Saura, 2006). As such, developing customer value has become a fundamental strategy for firms in creating a sustainable competitive advantage (Sanchez-Fernandez & Iniesta-Bonillo, 2007; Woodruff, 1997). Two major developments have been made in relation to the conceptualization of customer perceived value. These advancements refer to the adoption of a multi-dimensional value construct and the inclusion of perceived sacrifice into its definition.

### **2.6.1 Multi-dimensional Conceptualization**

In spite of its widely-acknowledged significance within the literature, studies about customer value have remained fairly fragmented with no consensus on its definition (Sanchez-Fernandez & Iniesta-Bonillo, 2007). Early studies have defined customer value as the overall assessment of the utility of a product based on perceived trade-off between what is received and what is given by a customer in an exchange (Day, 1990; Zeithaml, 1988). In

accordance with this view, customer value is posited as a uni-dimensional construct assessed by the relative benefits or quality received, as compared to the price paid by customers. This definition adopts neo-classical economic theory which postulates that people are rational in their decision-making, and that this single overall concept can be evaluated through a set of self-reported items mainly driven by utilitarian measures. In general, the literature tends to adopt this utilitarianism approach (e.g., Murphy, Pritchard & Smith, 2000; Oh, 2003; Sirdeshmukh, Singh & Sabol, 2002; Teas & Agarwal, 2000).

Although the rationalist perspective has dominated customer value studies, this method of conceptualization has been criticized for being overly simplistic and failing to reflect the richness of the concept (Sanchez-Fernandez & Iniesta-Bonillo, 2007). In particular, this one-dimensional concept takes a rather narrow perspective in defining value as an attribute-based construct which does not incorporate the intrinsic and emotional factors that drive a customer's decision-making (Woodruff, 1997). This major limitation calls for a conceptual definition of value that is broader and more comprehensive (Parasuraman, 1997). Indeed, as pointed out by Sweeney and Soutar (2001), "a more sophisticated measure is needed to understand how consumers value products and services" (p. 204). Therefore, scholars exploring the customer value concept after the early 1980s, conceptualized value as a multi-dimensional construct whereby a customer's purchasing behaviour is determined by both rational and emotional components (Sánchez, Callarisa, Rodríguez, & Moliner, 2006). Many authors have adopted this multi-dimensional approach believing that it provides researchers and firms with a more detailed understanding of how customers derive value and, therefore, how firms can better create value for their customers (e.g., Long & Schiffman, 2000; Petrick, 2002; Pihlström & Brush, 2008; Sánchez et al., 2006; Sweeney & Soutar, 2001).

### **2.6.2 Incorporation of Perceived Sacrifice**

As a consequence of the multi-dimensional view of perceived value, researchers have posited value as comprising two components (Zeithaml, 1988). The first involves the benefits customers receive and the second reflects the sacrifices incurred by customers in choosing a particular product or service (Murphy et al., 2000; Oh, 2003; Sánchez et al., 2006). Consistent with past research on customer value, this study conceptualizes perceived sacrifice beyond simply its monetary form (Wang et al., 2004; Zeithaml, 1988). The term “sacrifice” pertains to what is given up by customers in order to acquire a product. As noted by Zeithaml (1988), this “give” component of customer value may sometimes play an equal or even more important role in customers’ consumption decisions than value created via economic benefits.

### **2.6.3 Loyalty Program and Value Enhancement**

LPs represent a firm’s RM investment which aims to improve and develop long-term relationships with customers (De Wulf et al., 2001). As a RM tactic, LPs are often considered an effective tool for firms in retaining customers as they can improve customers’ perceptions of what a firm has to offer (Bolton et al., 2000; Liu, 2007). Therefore, LPs are said to be a value-enhancement instrument for most firms (Liu, 2007). In addition to the firm’s core product, LPs can enhance a customer’s purchase utility through various value-added elements, such as a sense of belonging (Rosenbaum et al., 2005) and anticipation of future rewards (Dowling & Uncles, 1997). This value enhancement function of LPs is important because providing superior value is instrumental to initiating and maintaining a customer relationship (Gronroos, 1997). That is, a customer’s value perception is a prerequisite condition before customers can develop loyalty through a LP (O’Brien & Jones, 1995). Indeed, for a LP to be successful, it needs to be perceived as valuable by customers (Yi & Jeon, 2003).

The existing literature on LP value is both diverse and dispersed (Yi & Jeon, 2003). Scholars have expressed very different views about how customers view LPs and the different types of value they derive from such programs. While many researchers have discussed conceptually the perceived value proposition customers derive from their program membership, limited work has been dedicated to systematically and empirically investigating the value constructs customers receive from joining a LP (Meyer-Waarden, 2013; Mimouni-Chaabane & Volle, 2010). Generally, researchers argue that customers derive various economic and psychological benefits from a LP. O'Brien and Jones (1995), for example, propose five LP value factors: (1) cash value, (2) redemption choice, (3) aspirational value, (4) relevance, and (5) convenience. Dowling and Uncles (1997) claim that the psychological benefits of belonging to the program and points accumulation are value constructs that customers derived by participating in the LP membership. Although accumulating points has no 'real' value until they are redeemed for rewards, they embody psychological meaning to customers (Hsee, Yu, Zhang, & Zhang, 2003; Van Osselaer et al., 2004). In addition, Kivetz and Simonson (2002a) suggest that the opportunity for customers to indulge in luxuries is another psychological benefit delivered by a LP.

While it has been theorized that perceptions of LP value are likely to drive customer loyalty (Leenheer et al., 2007), limited empirical research has substantiated this claim. More specifically, no prior studies exist that completely examine which LP value constructs drive customer loyalty to the program and firm. Moreover, while a few studies have examined LP value, they are generally limited in scope. For instance, Mimouni-Chaabane and Volle (2010) documented the benefits customers perceived they received from their LP, but did not consider the perceived cost incurred with program membership. Similarly, Meyer-Waarden (2013) identified five value dimensions (i.e., economy, hedonism, functional, information, and relation) that reflected the "get" component of customer value as the reward value customers derive from a frequent-flyer program. Indeed, studies have called for more research to be done on understanding customer perceived costs associated with LP

participation (Dorotic et al., 2012; Noble et al., 2013). Thus, the full range of LP value constructs that could impact on a customer's loyalty to the program or firm has yet to be investigated. To address this issue, this study examines the different value that customers derive from LP participation, and how different value constructs drive loyalty to the firm and program as well as their effect on behaviour. In particular, this study distinguishes between the two primary components of value creation (i.e., benefit and costs) in uncovering the different value constructs customers obtain from being a LP member.

#### **2.6.4 Conceptualizing Perceived Value of Loyalty Programs**

Given that there is currently no consensus about what constitutes LP value in the literature, as a starting point, the overall perceived value customers derive from a product, service or purchase experience is reviewed. In general, customer perceived value can be classified into functional and affective dimensions (Sánchez et al., 2006). For instance, Chandon, Wansink and Laurent (2000) illustrate that perceived value attached to sales promotion is comprised of a utilitarian (extrinsic) and a hedonistic (intrinsic) component. Utilitarian value is primarily cognitive, functional, and instrumental, whereas hedonistic value is experiential and affective in its orientation (Chandon et al., 2000; Holbrook, 1999). Likewise, Chitturi, Raghunathan and Mahajan (2008) identify that products can deliver both utilitarian and hedonistic value to customers.

Expanding on the value concept, scholars have proposed more detailed conceptualizations of customer value in the *general* value literature (that is, not in conjunction with LP value). In Sweeney and Soutar's (2001) study, customers are said to derive four different types of value from product purchases. These include the elements of price (functional), performance/quality (functional), emotional, and social value. Sánchez et al. (2006) provide support for this conceptualization of value with functional values (installation, professionalism, quality, price), emotional value, and social value being



important drivers of customer decisions in the tourism service context. An even more detailed and broader view of value is captured in Sheth, Newman and Gross's (1991) Theory of Consumption Values. According to this theory, customers derive five different types of value, namely, functional value, social value, emotional value, epistemic value, and conditional value from their consumption choices. This set of value dimensions has been widely adopted by many scholars in their research on customer perceived value. For example, Williams and Soutar (2000) find that customers derive four of the five value components proposed by Sheth et al. (1991) – functional, emotional, epistemic, and social value. These five general value dimensions form the foundation for the present study in the context of LPs. These five types of value are classified to represent the “get” component of the value proposition in this study. Upholding the current concept of perceived value in the literature as comprising both a “get” and a “give” component, the present research also incorporates perceived cost as an important component of LP value. Perceived cost is included to represent the “give” component of value creation. These value components are discussed in detail in the next section.

### **2.6.5 Theory of Consumption Value**

The Theory of Consumption Value was developed by Sheth et al. (1991) to explain the consumption choices made by customers. The theory identifies five types of value affecting customer decision-making. These consumption values include functional value, social value, emotional value, epistemic value, and conditional value. Each of these value components is defined and elaborated with regard to LPs in the following section.

### 2.6.5.1 Functional Value

According to Sheth et al. (1991), functional value can be defined as:

*“The perceived utility acquired from an alternative’s capacity for functional, utilitarian or physical performance. An alternative acquires functional value through the possession of salient functional, utilitarian or physical attributes. Functional value is measured on a profile of choice attributes.”* (Sheth et al., 1991, p. 160).

Similarly, Rintamaki, Kanto, Kuusela, and Spence (2006) define functional value as a customer’s consumption motive in relation to product attributes and utilitarian aspects of the object. Using a different term – economic benefits – Gwinner, Gremler, and Bitner (1998) refer to functional value as the financial and time-saving benefits customers obtain from their consumption choices. In Sánchez et al.’s (2006) definition, functional value is the rational and economic valuation customers place on their purchases.

Referring to these definitions, functional value pertains to the intrinsic value of a product or service relating to the tangible and practical needs that could be fulfilled by the product/service. In the context of LPs, for example, economic benefits, tangible rewards, additional services, and time savings are all recognized as aspects of the functional value a LP provides to a customer. From an economic viewpoint, LPs provide members value in the form of program rewards, price discounts, and good value for money or lower prices compared to other alternatives (Leenheer et al., 2007; Mimouni-Chaabane & Volle, 2010). A classic example would be for customers to accumulate points and obtain an N-percentage cash voucher for the total amount of their purchases. In Peterson’s (1995) study, he proposes that financial savings are the primary driver for customers to enrol in frequent flyer and book club programs. Financial savings aside, LPs can also provide non-monetary functional value

through value-added services such as easy-payment, quicker services, and so forth (Gwinner et al., 1998). These benefits pertain to the time saving aspects of LP values. Apart from faster payment and services, LPs may assist customers in simplifying their decision-making (Sheth & Parvatiyar, 1995). For example, being a member of a LP can minimize the task of information processing when choosing among alternatives, as customers are already familiar with the firm through past experiences. As such, customers are likely to value their LPs because they allow customers to automate their decision-making process and avoid complex evaluation of alternatives (Gwinner et al., 1998).

#### **2.6.5.2 Social Value**

Customers derive social value when they can express or enhance their personal values through consumption experiences (Rintamaki et al., 2006). Consistent with Rintamaki et al.'s (2006) definition, Sweeney and Soutar (2001) define social value as “the utility customers derived from a product’s ability to enhance their social self-concept” (p. 211). Sheth et al. (1991) put forward a similar but more detailed view, defining social value as:

*“The perceived utility acquired from an alternative association with one or more specific social groups. An alternative acquires ‘social value’ through association with positively or negatively stereotyped demographic, socioeconomic, and cultural-ethnic groups.”* (Sheth et al., 1991, p. 161)

Indeed, in addition to their functional value, products and services are also known to possess symbolic and communal value (Rosenbaum et al., 2005). The need to belong to a group is a basic human motivation (Bagozzi & Dholakia, 2006). Hence, studies have found that it is possible for LP members to obtain a sense of community from their program membership (Dowling & Uncles, 1997). LPs that create a sense of ownership or a unique consumption experience for their members are able to differentiate themselves from other

LPs through social value (McAlexander et al., 2002). In particular, social value can be attained through privileged treatments and increased interaction with other program members (McAlexander et al., 2002; Rosenbaum et al., 2005). According to Rosenbaum et al. (2005), LP members can potentially obtain four social benefits from joining a LP. These benefits include feeling a sense of belongingness to a group, feeling a sense of empowerment, an extension of self-identity, and feeling rewarded for group participation (Dowling & Uncles, 1997; Rosenbaum et al., 2005).

### **2.6.5.3 Emotional Value**

Zeithaml (1988) regards emotional value as how a product or service makes one feel. Likewise, Holbrook (1999) states that emotional value is derived through a customer experiencing fun or enjoyable consumption experiences. Adopting a more comprehensive definition, Sheth et al. (1991) define emotional value as:

*“The perceived utility acquired from an alternative’s capacity to arouse feelings or affective states.”* (Sheth et al., 1991, p. 161)

Emotional value, therefore, refers to customers’ internal emotions or feelings aroused by the products or their associations (Long & Schiffman, 2000). These emotions involve feelings of enjoyment, fun, special, rewarded, and happy during consumption. In relation to LPs, emotional value can be delivered through service or reward appreciation. Being a LP member often results in the customer receiving better service from the firm or receiving value-added benefits such as priority check-ins, exclusive reservations, and personalized communications (Johnson, 1999). In comparison to non-members, LP members feel that they are being treated better which creates a sense of being a preferred or special customer (Daryanto et al., 2010). Besides the sentiment of belonging to a privileged group, LPs may also deliver emotional value through the entertainment aspect of being a LP

member (such as the fun of collecting points). Indeed, Mimouni-Chaabane and Volle (2010) found that LP members are actually attracted to a LP partially for the pleasure associated with point collection and redemption.

#### **2.6.5.4 Epistemic Value**

Epistemic value relates to the novelty or surprise aspect of a product/service (Sweeney & Soutar, 2001). This value component may be particularly important for customers who are looking for new experiences (Sweeney & Soutar, 2001). According to Sheth et al. (1991), epistemic value is:

*“The perceived utility acquired from an alternative’s capacity to arouse curiosity, provide novelty, and/or satisfy a desire for knowledge.”* (Sheth et al., 1991, p. 162)

Adopting this definition, epistemic value refers to a new experience, a change of pace, curiosity satisfaction, and fulfilment of the customers’ desire to learn (Sheth et al., 1991). Epistemic value is sometimes known as the exploration benefit provided to customers during a consumption experience (Chandon et al., 2000). Exploration has been defined as a product’s ability to help fulfil the customer’s need for information and variety (Chandon et al., 2000). In the consumer market, this type of value is evidenced through customer behaviour, such as leafing through catalogues, talking about other purchases, variety-seeking in purchase decisions, recreational shopping, and browsing products through shop windows. These behaviours all demonstrate a customer’s curiosity-motivated information acquisition. They elicit the customers’ curiosity and desire for knowledge (Baumgartner & Steenkamp, 1996). From the program member’s perspective, LPs can deliver epistemic (or exploration) value through providing magazines, emails or newsletters (Mimouni-Chaabane & Volle, 2010). Generally, these materials help LP members satisfy their curiosity about new products, inform them of the latest trends, gain knowledge about the products and services

available, and enable customers to get information concerning the firm's events, functions, and promotional offers (Baumgartner & Steenkamp, 1996). Through marketing communication tools, program members are able to enjoy unique experiences or benefits that they would not have otherwise been able to undertake.

#### **2.6.5.5 Conditional Value**

Based on Sheth et al.'s (1991) definition, conditional value is defined as:

*“The perceived utility acquired by an alternative as the result of the specific situation or set of circumstances facing the choice maker.”* (Sheth et al., 1991, p. 162)

According to Sweeney and Soutar (2001), conditional value is the conditional effect of a specific situation on value perceptions. This component reflects any contingencies that can hinder or enhance other values derived from a firm's offerings (Long & Schiffman, 2000). Based on these definitions, conditional value pertains to any inhibiting constructs that impede a buyer's preference towards the product (Sheth et al., 1991). As an example, a conditional value in mobile ticketing is the component of real-time. A study found that real-time value (anytime and anywhere accessibility) is crucial before consumers would consider adopting mobile ticketing (Mallat, Rossi, Tuunainen, & Öörni, 2006).

Conditional value is dependent on the research context as different contexts will manifest different forms of conditional value (Holbrook, 1999; Pihlström & Brush, 2008; Sheth et al., 1991). For this study, disclosure comfort is introduced as the conditional value in the LP context. Disclosure comfort pertains to the degree to which the customer is comfortable with providing the firm with their personal information. Indeed, it has been shown that a customer's discomfort in giving out personal information, such as their email

address and phone number, has been an obstacle for firms in establishing a relationship with their customers (Noble & Phillips, 2004; Spake, Beatty, Brockman, & Crutchfield, 2003).

Like most relationship building tactics, LP members are required to disclose their personal details, such as an email address or phone number, to firms so that personalized communication, customization, and value provision can take place (Noble & Phillips, 2004). In general, customers have a strong preference for tailored communication that is relevant to them (Capizzi & Ferguson, 2005). Relevant and personalized communication delivered at the right frequency can enhance the strength of the relationship a firm has with its customers (Bondar, Lacki, & Wittkopf, 2008). However, companies may abuse the information they hold about their customers by barraging customers with irrelevant information and publications not of interest to them (Noble & Phillips, 2004). This can take the form of promotional mailing, phone calls, and newsletters (Fernandes & Proenca, 2008). Often customers find these marketing tactics pushy, impersonal, and intrusive to the point where they are 'uncomfortable' being in a relationship with the firm (Lacey & Sneath, 2006; Noble & Phillips, 2004).

Situations where information is mishandled have resulted in customers being increasingly concerned for their privacy when they disclose personal information to a firm (Langenderfer & Cook, 2004; O'Malley, Patterson, & Evans, 1997). Noble and Phillips (2004), for example, found that customers were concerned about whether a firm intended to sell or make available their personal information to other organizations with mailing lists (Noble & Phillips, 2004). In their effort to get closer to their customers, firms need to ensure they have an ideal amount of communication with customers so that customers feel comfortable being a member of the LP (Fernandes & Proenca, 2008). Therefore, before customers can develop and maintain a long-term relationship with a firm, they first need to feel at ease or comfortable with the firm's handling of personal information and their use of that information in their relationship marketing tactics (Spake et al., 2003).

Thus far, the five types of value proposed by Sheth et al. (1991) to explain customers' purchase decisions have been explained. In accordance with past studies (e.g., Sánchez et al., 2006; Zeithaml, 1988), the current research views perceived value as comprising a "get" and a "give" component. The following section discusses the "give" aspect of perceived value in relation to a LP. In particular, the customers' perceived cost associated with LP participation is elaborated in detail in the next section.

### **2.6.6 Perceived Cost**

A customer's perception of value normally involves a trade-off between the benefits and sacrifices made in any purchase situation (Sánchez et al., 2006). In general, empirical investigations of the "give" component of perceived value have been limited to monetary costs (Wang et al., 2004). Nevertheless, scholars agree that customers also evaluate non-monetary costs in determining their consumption choices (Petrick, 2002; Zeithaml, 1988). These non-monetary costs include inconvenience, search cost, travel cost, and time spent acquiring the service or product (Petrick, 2002). Wang et al. (2004) argue that the combination of these monetary and non-monetary costs creates a customer's perceived sacrifice in a relational exchange. Therefore, for this study, both the monetary and non-monetary sacrifices made by customers are considered as critical components of LP value. Although most LPs do not charge customers a joining fee, many LP members experience non-monetary costs when using their LPs (Shugan, 2005). These non-monetary sacrifices relate to reward redemption and hassles with program usage, such as updating information (Noble & Phillips, 2004), time spent in selecting a reward and travelling to the store to redeem the reward, and the physical and mental effort the customer has invested during program participation, such as the need to constantly carry a card with them (Noble & Phillips, 2004; Shugan, 2005; Smith & Sparks, 2009b).



In summary, a synthesis of the literature suggests that customer perceived value consists of a combination of constructs. For the purpose of this dissertation, Sheth et al.'s (1991) framework is used to conceptualize value of a LP. For the “get” component, this study argues that customers derive: (1) functional, (2) social, (3) emotional, (4) epistemic, and (5) disclosure comfort benefits, whereas (6) perceived cost, represents the “give” component of value. These value constructs are likely to be crucial in driving customer loyalty to the program, firm, or both. The different types of customer loyalty and how they relate to the current study are discussed in detail next.

## **2.7 Customer Loyalty**

Customer loyalty has often been linked to firm profitability. Hence, keeping customers loyal has always been a top priority for firms (Gwinner et al., 1998). At present, there exist two schools of thought in defining and operationalizing customer loyalty. The first characterizes customer loyalty in terms of behavioural measures, such as actual behaviour like purchase and constancy of preference over a certain length of time, or intention of purchase like WOM and probability of repurchasing from the same vendor (Bandyopadhyay & Martell, 2007; Johnson, Herrmann, & Huber, 2006). As well as the importance of measuring behaviour when defining loyalty, many scholars also note the importance of including an attitudinal component in measuring customer loyalty (Dick & Basu, 1994). Thus, the second operationalization of customer loyalty is attitudinally based.

Behavioural loyalty has been disputed as lacking a conceptual basis and only capturing the static outcome of a dynamic process (Blackwell, Szeinbach, Barnes, Garner, & Bush, 1999). In particular, a purely behavioural operationalization of loyalty risks the factor(s) underlying a customer's repeat purchase behaviour not being fully understood. That is, gauging behavioural purchase alone cannot fully encapsulate the notion of customer loyalty (Bridson, Evans, & Hickman, 2008). For instance, low repeat purchase might be

caused by individual factors like high variety seeking or differential usage rates, while high repeat purchase may be due to situational constraints or habitual purchases (Baloglu, 2002). Therefore, using only behavioural measures of loyalty do not offer a complete picture of what loyalty really means (Dick & Basu, 1994). According to Day (1969), loyalty should be viewed in totality as repeated purchases driven by a strong internal disposition towards the firm. Thus, both a favourable attitude and behaviour are required for a representation of true customer loyalty. Measuring customer loyalty without taking into consideration the attitudinal component of loyalty might risk confusing spurious loyalty with true loyalty (Day, 1969). As such, this study incorporates both attitudinal and behavioural loyalty induced by a LP in examining a LP's effectiveness. The concept of attitudinal and behavioural loyalty are now defined and discussed.

### **2.7.1 Attitudinal Loyalty**

Attitudinal loyalty refers to the customer's psychological disposition towards a brand or brand set (Reinartz & Kumar, 2006). It represents a higher-order mental construct that takes into consideration the affective components of relationship loyalty, such as brand preference, which cannot be deduced by mere observation of the customer's purchase behaviour (Bandyopadhyay & Martell, 2007). A customer's attitudinal loyalty induced by a LP can be explained by two theories depending on the level of engagement a customer has with the firm. Based on either behaviourist or cognitivist processes, customers can be attitudinally loyal to the program or to the firm (Taylor & Neslin, 2005).

#### **2.7.1.1 Behavioural Learning Theory**

The theory of behavioural learning states that repeat purchase behaviour occurs due to the positive reinforcement of desired behaviours (Rothschild & Gaidis, 1981). That is, a rewarded behaviour is more likely to persist than an unrewarded behaviour (Taylor & Neslin,

2005). In the case of a LP, behavioural learning theory applies in the sense that when customers use their LP, they get rewarded in the form of extra services or products, hence the act of using the LP is likely to continue. The rewards function as a positive reinforcement of the customers' purchase behaviour which conditions them to continue doing business with the firm (Sheth & Parvatiyar, 1995). Under this conditioned situation, customers undergo little or no mental processing when performing the repetitive act of using their LP (Chisnall, 1995). Therefore, when the reward factor is removed, the positive effects of the LP will likely diminish (Roehm et al., 2002).

This is particularly relevant to LPs that heavily emphasize tangible and financial returns to customers. Using economic or financial incentives to stimulate LP usage does not always increase a customer's association with the firm (Graham, 1994; Roehm et al., 2002). When program participation fails to enhance the customers' favourable association with the firm, customers are likely to infer that their purchases were stimulated by their program participation rather than attributing purchases to a positive attitude towards the firm (Graham, 1994). Hence, program incentives that do not reinforce the customer's association with the firm will only promote loyalty to the program rather than the firm (Dowling & Uncles, 1997; Roehm et al., 2002). The customer's attitude-based loyalty towards the LP is termed *program loyalty* in this study and this concept is defined as below.

**Program loyalty** Program loyalty is operationalized as a customer's relatively favourable attitude towards a LP. This notion reflects a form of cognitive loyalty based on the customer's evaluation of the benefits and costs of an offering. The benefits are often derived from the utilitarian aspects of a LP (Evanschitzky et al., 2012). Hence, program loyalty can be viewed as a form of customer loyalty towards program incentives (Yi & Jeon, 2003). Once customers perceive alternative offerings (i.e., competing LPs) as being more superior to the current product with regard to perceived benefits obtained versus costs incurred, customers are likely to switch to the competitor's offerings. As such, program

loyalty is arguably the weakest form of customer loyalty that can be cultivated by firms through LPs.

### 2.7.1.2 Cognitive Learning Theory

Cognitive learning theory states that a change in customer behaviour results from a change in the customer's cognition and attitude held towards a seller (Chisnall, 1995).

Taking a cognitivist's viewpoint on learning theory, LPs can alter behaviour by helping the customer develop a positive feeling towards the firm (Chisnall, 1995; Taylor & Neslin, 2005). This perspective concerns the psychological impact of LPs on customers.

Psychologically, LPs can arouse feelings of affection and emotion by providing additional services and rewards. In particular, the role of rewards in developing affect has been well-recognized within the social psychology literatures (Ashby, Isen, & Turken, 1999). For example, giving premium rewards to customers can result in a sense of privilege and recognition (Liu & Yang, 2009). Personalized communication can promote feelings of gratification towards the firm (Palmatier, Jarvis, Bechkoff, & Kardes, 2009). These value enhancement components reflect the firm's investment in maintaining a relationship with their customers (De Wulf et al., 2001).

When customers perceive that firms are putting extra effort into benefiting them, they are likely to reciprocate as they feel indebted and grateful to the firm for the special treatment they have received (Dahl, Honea, & Manchanda, 2005; Morales, 2005). As customers attribute these extra efforts to the firm instead of the program, they increase their attachment and deepen their relationship with the firm which subsequently drives loyalty towards the firm rather than the program (Gwinner et al., 1998). This study gauges the success of a LP in fostering customer loyalty towards the firm in terms of the affective commitment they have developed with the firm. The attitude-based loyalty customers have toward the firm is termed *brand loyalty*. In particular, this study adopts Yi and Jeon's (2003)

definition of brand loyalty as a customer having a relatively positive attitude towards the firm. This conceptualization of brand loyalty reflects a customer's affective commitment or emotional attachment to the company (Fullerton, 2003). A more detailed definition of brand loyalty is provided next.

**Brand loyalty** Brand loyalty reflects a customer's affective commitment towards a firm. Affective commitment refers to the customer's enduring desire to maintain a valued relationship with a seller (Aurier & N'Goala, 2010; Gustafsson, Johnson, & Roos, 2005). This notion represents the highest level of relational bonding customers can have with their providers which encompasses the customer's psychological attachment towards the firm (Dwyer et al., 1987). It is through this feeling of attachment that customers build intense identification and affiliation with firms to the extent that they are concerned with the future welfare of the organization (Aurier & N'Goala, 2010). Such involvement often results in a customer's enduring desire to maintain a long-term relationship with their exchange partners even if they are required to make additional short-term sacrifices to sustain the relationship (De Wulf et al., 2001). Due to its impact upon behaviour, brand loyalty has been recognised as a more superior type of loyalty as compared to program loyalty (Tanford et al., 2010).

### **2.7.2 Behavioural Loyalty**

Behavioural loyalty is generally seen as taking two forms – actual purchase behaviour and intention-based behaviour. Intention-based behaviour can be defined as non-purchasing behaviours illustrated by customers that signify their intention to purchase from the same firm again in the future (Baloglu, 2002). Some of these intention-based behaviours include spreading positive WOM, customer cooperation, and willingness to accept a higher price for the firm's offerings (McKee, 2007; Morgan & Hunt, 1994). These behavioural

loyalty elements are often a representation of higher level customer cooperation with the firm (Palmatier et al., 2006). For instance, Palmatier et al. (2006) found that positive WOM indicates a customer's intense loyalty because only customers who have a strong bond with a firm are willing to risk jeopardizing their own reputation by giving a referral. Furthermore, Fullerton (2003) found customers who are high in affective commitment are less likely to switch, more likely to be advocates, and more willing to pay for the firm's offerings.

While intention-based behaviour is important, it is the actual purchase behaviour of customers that drives a firm's profitability. Hence, it is vital for this study to also incorporate actual purchase behaviour into the conceptualization of customer behavioural loyalty. Purchase behaviour loyalty can be defined as a customer's ongoing propensity to purchase from a particular firm (Uncles et al., 2003). Repeat purchase, purchase frequency, cross-purchase, purchase sequence, and proportion of purchase reflect this definition of behavioural loyalty (Dick & Basu, 1994; Grewal et al., 2004). These measures provide the firm with a snapshot of the customer's purchase pattern towards a particular product. Examples include SOW and SOP. The most commonly applied metrics to measure behavioural loyalty in the LP context in terms of intention and actual purchase behaviour are shown in Table 2.2. As can be seen, SOW and purchase frequency are the two most frequently adopted measures in the LP studies, while customer transaction size and forgiveness are not as common.

In this study, both intention-based behaviour and actual behaviour are captured to gauge a customer's behavioural loyalty. Intention based behaviours are reflected by customers' Word-of-Mouth (WOM) and Willingness-to-Pay (WTP) a higher price for a firm's offerings, while actual behaviours are measured through examining Share-of-Wallet (SOW) and Share-of-Purchase (SOP). WOM refers to a customer's likelihood of referring a firm positively to another potential customer (Verhoef, 2003), whereas, WTP (sometimes known as *price insensitivity*) is defined as the customer's willingness to accept a higher

**Table 2.2 Commonly Applied Behavioural Loyalty Metrics in the LP Context**

Author	Behavioural Loyalty Variables											
	Actual Purchase Behaviour						Intention-based behaviour					
	Share-of-Wallet (SOW)	Transaction Size	Share-of-Purchase (SOP)	Purchase Frequency	Inter-purchase time	Exclusivity	Customer Lifetime Duration/ Customer Retention	Patronage Intention	Forgiveness	Willingness-to-Pay (WTP)	Word-of-Mouth (WOM)	Share-of-Visit (SOV)
Sharp and Sharp (1997)				x		x						
Benavent et al. (2000)				x	x							
Bolton et al. (2000)								x	x	x		
De Wulf et al. (2001)	x		x									
Mägi (2003)	x											x
Verhoef (2003)	x						x					
Noordhoff et al. (2004)	x		x									
Taylor & Neslin (2005)				x								
Garcia Gomez et al. (2006)				x		x						x
Keh & Lee (2006)								x		x	x	
Kivetz et al.(2006)					x							
Leenheer et al. (2007)	x											
Liu (2007)		x		x	x	x						
Meyer-Waarden (2007)	x						x					
Meyer-Waarden & Benavent (2009)	x			x								
Current Study	x		x							x	x	

offering price and continue to patronise certain firms even if they increase their prices (Tanford et al., 2010). In contrast, SOW denotes the ratio of a customer's expenditure on a particular retailer to their total product category expenditure (Verhoef, 2003). This concept integrates the customer's choice behaviour and transaction size with the firm during one time period into one measurement (Leenheer et al., 2007). SOP refers to the proportion of purchasing frequency a customer has committed to a particular retailer (De Wulf et al., 2001).

## **2.8 Moderators**

Any study of LP behaviour needs to include contingency factors that moderate the impact of a LP on customer loyalty. This is necessary to more accurately predict the outcomes of LP membership (Uncles et al., 2003). Despite this, few studies have fully examined the factors that moderate these relationships, particularly in the context of LP value. Of the moderators that have been examined, customer characteristics are the most common. For example, Liu (2007) finds that the impact of a LP on increasing customer expenditures differs depending on the customer's initial product usage level. The result shows that moderate and light users increase their purchase frequency and transaction size more than heavy users (Liu, 2007). Examining another type of customer characteristic, Yi and Jeon (2003) demonstrate that LPs are more effective in driving customer loyalty under high customer product involvement in comparison to low involvement circumstances. A similar conclusion is drawn by De Wulf et al. (2001). De Wulf and colleagues (2001) find that the effectiveness of a LP on customer behavioural loyalty is lower under low product involvement situations. Additionally, it was also discovered that customers who are more relationship prone will be more responsive (in terms of SOP and SOW) to a firm's relationship investment efforts (e.g., their LP) (De Wulf et al., 2001).



In another study, Wirtz et al. (2007) illustrate that the positive effect of perceived switching costs of LPs on customers' SOW is significant only when customer's attitudinal loyalty is low. When attitudinal loyalty towards a firm is high, the customers' emotional connection with the firm will be a more prominent factor in explaining their SOW than perceived switching costs (Wirtz et al., 2007). Also, a study conducted by Tanford and colleagues (2010) found that customers' emotional involvement with the firm varies depending on their program-tier. Higher-tier members develop higher levels of affective commitment to the firm than lower-tier and non-program members. Thus, higher-tier members are less likely to switch to competitors and more willing to pay a higher price for the firm's products/services (Tanford et al., 2010).

Apart from customer characteristics, this study extends prior research to examine both customer and program characteristics as possible moderators of the value-loyalty relationship. The customer characteristic examined in the present study is LP member's duration of program participation whereas LP customization denotes the program-based moderator of this study. While it is likely that a customer's LP membership duration will significantly impact on the effectiveness of a LP in building customer loyalty, this variable has not been previously examined. Given that relationships are developed through repeated interactions between exchange partners, LP members constantly update their program and firm knowledge over the duration of their program participation (Cooil et al., 2007). As members become more experienced and familiar with a LP, they are likely to rely on attributes other than the LP to evaluate their relationship with the firm (Evanschitzky & Wunderlich, 2006). On the other hand, inexperienced program members are likely to base their liking of the retailer on the relative attractiveness of a LP (Evanschitzky & Wunderlich, 2006).

Customer idiosyncratic characteristics aside, program customization is also introduced into the present study as a program-based variable that may moderate a LP's

effectiveness. Using information technology to tailor LPs to the preferences of individual customers as a means of achieving customer loyalty has been suggested by numerous scholars (Morais et al., 2004; Shugan, 2005). Firms that customize a LP for their customers are more likely to enhance the appeal of their LP to program members. As such, a higher level of program customization is expected to drive stronger customer program loyalty which then leads to higher levels of customer brand loyalty.

A summary of the moderating variables examined by scholars in previous LP research is shown in Table 2.3. As can be seen, customer characteristics such as product involvement and shopping orientation are the most commonly used moderating variable in the LP literature.

**Table 2.3 Loyalty Program Literature and the Examined Moderators**

<b>Authors</b>	<b>Moderators Examined</b>
De Wulf et al. (2001)	Product category involvement; Consumer relationship proneness
Yi & Jeon (2003)	Consumer level of product involvement
Mägi (2003)	Consumer's shopping orientation – economic, apathetic, and personalizing shopping orientations; Age; Gender
Taylor & Neslin (2005)	Consumer Characteristics (Price consciousness; Information-seeking behaviour; Importance of card saving/reward programs; Planning orientation; Store loyalty; Shopping Enjoyment, Income)
Keh & Lee (2006)	Consumer satisfaction
Liu (2007)	Consumer initial usage level
Wirtz et al. (2007)	Attitudinal loyalty
Tanford et al. (2010)	Reward membership, program-tier level, commitment type

## **2.9 Conclusion**

This chapter reviews literature pertaining to the focal concepts of interest to this study as a prelude to developing an integrated conceptual model of customer loyalty using LPs. First and foremost, the chapter provides some background details on LPs in the paradigm of relationship marketing. Then, the theory of reciprocity which underpins the overarching framework of this dissertation is introduced to the reader before reviewing past research on customer perceived value and customer loyalty. Following which, the chapter proceeds to discussing the concepts that form the theoretical foundation for this study. These include customer perceived value, customer attitudinal loyalty, customer behavioural loyalty, and moderators. In the next chapter (Chapter Three), the proposed conceptual framework developed for this study is presented and explained.

## **Chapter Three**

### **Conceptual Model**

#### **3.1 Chapter Summary**

Based on the literature review and qualitative research, Chapter Three presents the proposed conceptual framework to investigate the research themes. The chapter proposes the conceptualization for each research construct, i.e., perceived LP value, attitudinal loyalty, and behavioural loyalty, which is derived jointly from past research and the findings from exploratory research. Next, a logical and in-depth discussion on the posited hypotheses is presented. Together, these research hypotheses form an integrated model that captures the process in which LP build customer loyalty. Readers should note that while the results of the qualitative study are discussed and integrated with the literature in this chapter, the methodology for the qualitative inquiry is outlined in the next chapter (Chapter Four).

#### **3.2 Overview of the Conceptual Framework**

The current study aims to address three research themes: (1) what values do customers derive from being a member of a LP, (2) (a) How do these value constructs drive the attitudinal loyalty of customers (including program loyalty and brand loyalty), (b) how does attitudinal loyalty drive behavioural loyalty (including SOW, SOP, WOM, and WTP), and (3) how do customer and program characteristics (i.e., member duration in LP and customization) influence the relationship building process as derived from a LP.

### **3.3 Conceptualizing Program Value Perception**

Current understanding about the dimensionality of customer value is ambiguous and unfocused (Huber, Herrmann, & Morgan, 2001). The literature review conducted in Chapter Two identified a broad theoretical framework of customer perceived value as comprised of three overarching domains, including utilitarian value (Rintamaki et al., 2006; Sanchez-Fernandez & Iniesta-Bonillo, 2007), hedonistic value (Sanchez-Fernandez & Iniesta-Bonillo, 2007), and perceived cost (Zeithaml, 1988). The utilitarian and hedonistic values can be classified as “what customers get” while perceived cost depicts “what customers sacrifice” from their product purchases. As research on customer-perceived value evolves, Sweeney and Soutar (2001), Sánchez et al. (2006), and Sheth et al. (1991) propose extending the research surrounding customer value. For a more refined conceptualization of customer perceived value in the LP context, the basis of the value constructs examined in this study is derived from Sheth et al.’s (1991) broader theoretical framework of consumption value. Applying this value framework to the present study suggests that customer-perceived value can comprise several constructs including functional, epistemic, social, emotional, and conditional value. While the “get” component of value utilised in this thesis is primarily derived from Sheth et al.’s (1991) value conceptualization, the “give” component or cost aspect of value is derived from Zeithaml’s (1988) study. These value constructs are used as the underlying framework in the present study of LP. However, to ensure that these constructs could be applied to the LP context and that they fully capture LP value, several focus group interviews were undertaken. The findings of these interviews are discussed in subsequent sections with reference to LP value, while the methodology guiding the focus group sessions is discussed in detail in the next chapter (Chapter Four).

The detailed method used to undertake several focus groups is presented in Chapter Four. The primary purpose of these focus group interviews was to explore customers’ perceptions of value of a LP. Given that the evidence supporting the number of constructs

that constitute LP value is lacking, the focus groups aim to deliver a comprehensive conceptualization of customer-derived value from their program membership. In addition, conducting focus groups during the preliminary phase of the study allowed the researcher to better refine items for inclusion in the questionnaire (Barbour, 2007). The focus groups were conducted in two research contexts – retail and airline, to capture customers’ perceive LP value in different consumer involvement contexts. Based on results of the focus groups, the retail setting was chosen as the research context of this study. The justifications for this decision are provided in section 4.4 in Chapter Four.

The findings of the focus groups supported conceptualizing LP value as comprising six primary constructs, namely, *reward attractiveness*, *knowledge benefit*, *required effort*, *experiential benefit*, *group belongingness*, and *disclosure comfort*. The qualitative comments supporting these six constructs are integrated throughout this chapter with the literature to provide support for each LP value. As such, it is evident that customer-perceived LP value is much more complex than what was originally proposed by scholars such as Sheth et al. (1991), Sánchez et al. (2006), Sweeney and Soutar (2001), Williams and Soutar (2000), and Zeithaml (1988). At a higher-order level these constructs can be grouped according to the “get” components of value which reflect the perceived benefits of being in the LP, and the “give” component of value which represents perceived cost of LP membership. These value constructs are discussed next.

### **3.3.1 Reward Attractiveness**

Reward attractiveness represents the overall utility of program rewards customers perceive to derive from their LP membership. The notion of reward attractiveness encompasses two domains: (1) the economic value of rewards, and (2) the variety and availability of reward options offered to program members. The first domain, economic value, refers to the financial and monetary value of program rewards. The financial

attractiveness of LP rewards is delivered through cash-back offers, special price offers or cash vouchers given to customers for regularly purchasing from the same retailer (Leenheer et al., 2007). Often, it is this domain of reward attractiveness, in monetary form, that acts as the primary motivation for customers to enrol in a LP and engage in relational exchanges with the firm (Peterson, 1995). Findings from the focus group sessions also found evidence to support monetary value attached to a LP as an important element of reward attractiveness. When participants were asked to think about the primary reason they signed up for their LP memberships, the typical comments were:

*“I recently joined the [bookstore] LP because I get a \$10 shopping voucher for joining up.”*

*“I’m in for the rewards... you buy food all the time so I get it for the monetary reward...every now and then I get \$20 for nothing ...”*

Monetary value aside, scholars have also suggested that customers evaluate the reward attractiveness of a LP based on non-economic factors including the variety of redemption choices available (i.e., reward options) to program members. Indeed, reward options offered to customers have been shown to enhance the utilitarian value customers derived from their LP (O'Brien & Jones, 1995). As concluded by Johnson (1999) and Capizzi and Ferguson (2005), LPs with limited reward options risk being irrelevant to customers. When customers perceive redemption choices offered by a LP to be dull and irrelevant, they tend to lose interest in the LP. While it is evident in the LP literature that redemption options made available to LP members are an important driver of customer perceived value, firms have placed more stringent control over their redemption policies (i.e., more restrictions and control over the reward variety offered to LP members) as a means to limit the firm's liability (Noble et al., 2013). This situation has caused growing dissatisfaction among LP members and customers are perceiving program points/currency to be worthless (Euromonitor International, 2009). As a result, the lack of reward redemption

opportunities has significantly weakened the overall value proposition of LPs (Euromonitor International, 2008). The following quotes obtained from the focus group participants illustrate the importance of reward alternatives to customers:

*“You get your gift card...you can buy food or you can buy products...I like the variety...”*

*“...[For Firm B] you can go onto a website and select an item [for redemption] very easily, there are a lot of choices. For [Firm A], you can only redeem another shoe so it’s not as appealing as [Firm B]’s program. You buy lots of clothes but you get a gift card you can redeem for food or books or other products...”*

The list of quotes obtained from respondents during focus group interviews that corresponded with reward attractiveness is presented in Table 3.2. From the above discussions, this study proposes that *reward attractiveness*, which encapsulates the program reward’s economic value, options, and availability, is an important value construct customers derive from their LP membership.

### **3.3.2 Knowledge Benefit**

Knowledge benefit denotes the capacity of a product/service to stimulate a customer’s feelings of novelty during consumption experiences through additional information. In the context of LPs, knowledge benefit specifically pertains to the role of LP membership in enriching the customer’s consumption experience through increased knowledge, which serves to fulfil a customer’s need for information or variety seeking. Prior to joining a LP, most retailers demand some standard details such as name, mailing address, email address, and telephone numbers from their customers (Euromonitor International, 2009). This information allows firms to make frequent communications with their program members through mail, emails or text messages (Mimouni-Chaabane & Volle, 2010).



In general, LP communications can include a combination of corporate image and product/event-oriented messages (Euromonitor International, 2009). Corporate image messages are generally broad and aimed at enhancing a firm's positive image to customers. These messages can reiterate corporate values, assuring product quality or emphasizing customer-oriented services (Euromonitor International, 2009). In contrast, product/event messages are more specific and can take the form of product promotions, special one-day sales events or the introduction of new products to customers (Euromonitor International, 2009; Odell, 2012). The latter messages are mostly intended to stimulate a temporary increase in sales revenue through prompting customers to try products they have not purchased before from the firm (Lewis, 2004). Empirical studies suggest that customers have a desire for novel experiences as they get bored with their current brand offerings (Sheth et al., 1991). Therefore, customers are likely to value these LP communication messages as they often result in the customers having unique experiences that they would not have otherwise had. These experiences may include trying a new product category, learning new methods of purchase, being informed about the latest market trends, and updates on the current activities of the firm (Mimouni-Chaabane & Volle, 2010; Nunes & Dreze, 2006).

Indeed, firms that fail to deliver knowledge benefit risk being alienated by their customers (Sheth & Parvatiyar, 1995). Provided below are a few quotes to illustrate the importance of knowledge benefit in the LP context. The complete list of quotes obtained from participants during focus group interviews corresponding to the knowledge benefit construct is provided in Table 3.2.

*"...emails that came in were more about you can go online and you can pre-purchase before it hits the stores... I've never had that done before and I thought 'oh that's interesting'..."*

*"...I like to receive [email] just to see what is on offer..."*

*“...it is convenient to get a monthly update to check on the monthly offers... It’s nice to see what you can do with the points”*

Given the importance of *knowledge benefit* in sustaining relational exchanges between customers and firms, it is included in this study as a crucial construct of the program value customers derive from their LP.

### **3.3.3 Required Effort**

Required effort reflects the perceived cost incurred by customers as a member of a LP. These perceived costs can be monetary or non-monetary in nature. Monetary costs may include upfront membership fees or annual membership renewal fees, while non-monetary costs can consist of learning effort, physical effort or time cost (Huber et al., 2001; O'Malley & Prothero, 2004). In the retail industry, many LPs are provided to customers at no cost, hence, customers are mostly experiencing non-monetary costs as a LP member (Shugan, 2005). While the cost component has been stressed as a major relationship hindrance to a firm’s relationship building effort with their customers, the required effort for customers in being a LP member has not received much research attention (Liu, 2007; Mimouni-Chaabane & Volle, 2010). This is surprising given that the required effort for members to engage with their LP membership may play an equal or sometimes even more crucial role in a customer’s decision-making process (Zeithaml, 1988).

During the focus group interviews, respondents indicated strong support for the conceptualization of required effort as a component of LP value. The quotes obtained from respondents in the focus groups that reflected required effort are presented in Table 3.2. As examples, respondents stated that:

*“...sometimes you get dissatisfied because... you’ve forgotten your card and they are not going to give you the benefits...”*

*“...carrying the physical card is very inconvenient”*

In addition, participants noted that certain conditions tied to reward redemptions such as expiry dates, threshold points for reward redemptions, and minimum purchases required are factors that discounted the value offered by their LPs. The following quotes illustrate customers' dissatisfaction with these conditions:

*“...[LP points] would expire at the end of the year...I never bought enough within a year to get anything out of it”*

*“...we don't buy five pairs of shoes a year which is what the requirement is...it's too hard to get the rewards...”*

*“...(the required points for reward redemption) It is absolutely unattainable...”*

In this study, required effort reflects all the efforts needed for customers to stay and engage with their LP membership. These efforts include the minimum purchase that is required before customers are entitled to rewards, the process of reward selection, travelling to the store to claim rewards, and any inconvenience for a customer to physically carry the LP card (Noble & Phillips, 2004). Based on the literature reviewed and findings from the focus groups, it is posited that *required effort* is a crucial construct of a customer's perceived value offered by a LP.

### **3.3.4 Experiential Benefit**

Experiential benefit reflects the overall positive experiences customers encounter from directly engaging with their program membership. This notion is intangible and pertains to the emotional senses that are evoked when customers actively interact with their LPs. These emotions may include feelings of excitement, entertainment, enjoyment, and gratification. Importantly, they reflect the customer's internal inclination to appreciate being a member of the LP (Long & Schiffman, 2000). During the point accumulation phase of LP

membership, customers can derive experiential benefit through elements of excitement, entertainment, and enjoyment. These responses represent an emotional state that consists of high levels of pleasure and arousal (Wakefield & Baker, 1998). Since participating in the LP can later entitle customers to program rewards, customers are usually excited about program usage and point collection (Mimouni-Chaabane & Volle, 2010). For example, respondents in the focus group interviews mentioned that:

*“Every time I flash my card I think, ‘Oh, I’ve accumulated more points now. I wonder if I have enough points to get anything’ and the thought really excites me”*

*“There is a point statement...then I’m like ‘OK I’m achieving it!’ ...it’s exhilarating”*

*“The first time when you use your card is very important...there is excitement. You signed up and actually you’re using straight away and you are getting the benefits immediately”*

The excitement customers experience keeps them enthusiastic about their program usage in the long-term (Allaway, Gooner, Berkowitz, & Davis, 2006). Moreover, Johnson (1999) contends that LP members experience a feeling of entertainment because they enjoy the process of point collection and redemption. For example, Tesco (a UK grocery retailer) offers customers a “key” for every purchase over \$38. Fifty keys make a customer a “key holder” and 100 keys make a customer a “premium key holder” (Cigliano, Georgiadis, Pleasance, & Whalley, 2000). Also, there are reward programs which allow customers to participate in contests to win prizes. These aspects of a LP keep the process of point collection and reward redemption enjoyable for members (Chandon et al., 2000). In the redemption stage, LPs could also enhance the experiential benefit by elevating the enjoyment and gratification elements through offering customers once-in-a-lifetime experiences or premium merchandises as rewards. For instance, Air France offers its Flying Blue program members a chance to drive a Porsche 911 on a Paris race course, and Hilton’s VocationVacations allows members to redeem points for a professional wine-making experience (Euromonitor International, 2009). These reward options are said to possess a

“wow” factor that enriches members’ overall experience with their program membership (Capizzi & Ferguson, 2005). When firms seem to be putting extra effort into pleasing their customers, such as providing extraordinary gifts and rewards choices, customers feel an emotional appreciation towards the firm which motivates them to engage in higher re-purchasing behaviours (Palmatier et al., 2009). During the focus group sessions, participants provided quotes that highlighted experiential benefit as a LP value. These quotes are shown in Table 3.2. The following quotes illustrate the overall positive feeling customers experience while being a member of a LP:

*“I always feel happy... because I bought what I wanted and it really is, like, you know... someone says ‘here is your \$20’”*

*“When I receive the reward I was like... ‘oh!’ I feel happy, I feel rewarded”*

*“Being able to get additional benefits makes you feel like this is a really good program to be involved in...you get these other things...it is fantastic!”*

The above examples demonstrate multiple touch-points (e.g., point accumulation, rewards redemption, checking point updates) in a LP that allows members to derive rich experiential benefit from their program membership. The excitement that a LP offers, the enjoyment and entertainment it creates, and the gratification that it evokes all contribute towards an overall positive experience which enhances the value proposition of a LP. As such, *experiential benefit* is proposed in this study as an important construct of LP value.

### **3.3.5 Group Belongingness**

Group belongingness refers to the symbolic consumption experience members derive from their LP membership. Often, enrolling in a LP signals customers as belonging to a particular privileged group (or brand community). Being a member of a LP is akin to being part of an exclusive community, as customers receive personal attention from frontline employees, access to exclusive benefits, and information that is shared only among LP

members by the firm (Mimouni-Chaabane & Volle, 2010). These advantages generate a feeling of membership among customers who, in turn, perceive their club membership as valuable because only an elite group of individuals are offered these privileged benefits (Rosenbaum et al., 2005). Apart from these benefits, a LP member's sense of belonging also stems from interactions with other program members. Indeed, McAlexander and colleagues (2002) suggest that brand community is customer-centric and that the meaningfulness of a brand community relies on the experience customers have within the community. These brand-related activities can occur face-to-face or be mediated by virtual media such as chat-rooms and brand forums (Bhattacharya & Sen, 2003). Once enrolled into a LP, a member will come into contact with other program members and the increased interactions among LP members enhance a customer's perception of social belongingness, such that customers consider themselves as part of a community who share the same values (Fournier & Lee, 2009; McAlexander et al., 2002). In other words, frequent interactions with the firm or with other customers enhance a LP member's sense of "embeddedness" within a brand community which strengthens the customer's affiliation with the firm (Bhattacharya & Sen, 2003).

In other instances, LP members may begin to feel a sense of belonging to the brand community as communications between program members allow them to interact with their program membership in a way that provides greater benefit to the customers (McAlexander et al., 2002). From the focus group interviews, participants provided the following examples where the benefit of group belongingness adds to the value proposition of a LP. Quotes obtained from the focus groups that suggest group belongingness are presented in Table 3.2.

*"...I have no idea who else is part of the program but that doesn't matter, it feels good to know you are part of a group...like a larger family or a community"*

*"There are these members' only offers and in a way I think being offered things as such is good because it makes me feel like I'm part of a group of people"*

Given that this feeling of group participation and membership can be a crucial non-financial incentive of a LP that fosters customer loyalty towards the firm (Rosenbaum et al., 2005), it is posited that *group belongingness* is an important construct of customer LP value.

### **3.3.6 Disclosure Comfort**

Disclosure comfort represents the feeling of being at ease or free of mental discomfort when disclosing personal information to the firm as a member of a LP. In the retail industry where pressure selling is a common marketing tactic, customers may avoid or feel uncomfortable disclosing personal information to aid a firm's relationship building efforts. This is because customers are often concerned that the firm will constantly bombard them with unsolicited communications such as junk mail and spam emails (Noble & Phillips, 2004). Indeed, this annoyance caused by unwanted communications was noted by participants in the focus groups, as illustrated below. The list of quotes obtained that represented disclosure comfort is given in Table 3.2.

*"...They are emailing me too often! I'm just not interested...I don't want to read it, I don't want to download it...I have plenty of other things to do..."*

*"It's annoying because I get a lot of newsletters and emails [from the firm] ...sometimes it goes directly to spam..."*

*"...they got to get your email address so now they regularly send me what their specials are which is really irritating..."*

*"I filled in a form where they asked for my personal details...now they send me daily emails and I just delete them...I don't even know what they are but they go straight to trash..."*

When customers are not comfortable disclosing personal information that helps the firm in understanding each customer's individual needs, the firm is at risk of not satisfying their customers and, therefore, failing to retain customers in the long run (Noble & Phillips, 2004). As such, disclosure comfort which reflects a customer's comfort in information

disclosure as a LP member is crucial for the development of close relationships between the customer and firm (Noble & Phillips, 2004). It is suggested, therefore, that *disclosure comfort* forms a crucial value construct customers derive from their LP.

Based on the above discussions, this study puts forward a conceptualization of LP value perceived by customers as consisting of six primary constructs. These constructs include *reward attractiveness*, *knowledge benefit*, *required effort*, *experiential benefit*, *group belongingness*, and *disclosure comfort*. All the aforementioned program value constructs were derived from the literature reviewed in Chapter Two and from the exploratory inquiry undertaken for this study (details in Chapter Four). Table 3.1 provides a summary for the value constructs of LPs and the definitions of each construct. Quotes obtained from respondents during focus group interviews corresponding to each LP value are presented in Table 3.2.

**Table 3.1 LP Value Constructs and Their Definitions**

<b>Program Value Construct</b>	<b>Definition</b>
Reward Attractiveness	This construct represents the monetary value of rewards and redemption choices available to customers.
Knowledge Benefit	This construct represents the novel experiences delivered to customers through additional knowledge customers receive as a program member regarding firm, products/services, and latest trends.
Required Effort	This construct represents the costs associated with the use of a LP including point collection, reward redemption, and customer effort in engaging with their program membership.
Experiential Benefit	This construct represents the customers' overall positive experience from interacting with their LP.
Group Belongingness	This construct represents customers' feelings of belonging to a group or community as a program member.
Disclosure Comfort	This construct represents customers' feelings of being at ease providing personal information to the firm.



**Table 3.2 Customers' Perception of Value of LPs**

LP Value Constructs	Illustrative Customer Comments
Reward Attractiveness	<p><i>"I'm in for the rewards...like [Firm A] and [Firm B] if you spend so much money you get a gift card and particularly at [Firm A], you buy food all the time so I get it for the monetary reward...every now and then I get \$20 for nothing with [Firm B]"</i></p> <p><i>"I recently joined the [bookstore] LP because I get a \$10 shopping voucher for joining up... so it seems worthwhile"</i></p> <p><i>"I look for economic benefits"</i></p> <p><i>"...[with the LP] I get 5% off what I bought"</i></p> <p><i>"[the LPs] they are pretty good value"</i></p> <p><i>"You get your gift card...you can buy food or you can buy products...I like the variety"</i></p> <p><i>"You see your points; you can go onto a website and select an item [for redemption] very easily, there are a lot of choices. For [Firm A], you can only redeem another shoe so it's not as appealing as [Firm B]'s program. You buy lots of clothes but you get a gift card you can redeem food or book or other products"</i></p>
Knowledge Benefit	<p><i>"Because they sent me these specials and I've looked at it and say, "Oh, that would be good for my nephew for Christmas"...and so I went into the store just to buy it, whereas I don't think I would have even looked at it had it just been on the store because I wouldn't be looking at [the section for] young boys because my son is older"</i></p> <p><i>"They inform you about a new line or something like that...new locations, it's a good update"</i></p> <p><i>"It [email from firm] mentions about the range of products and where they are...also the prices. It allows me to do a quick check if the prices are good price"</i></p> <p><i>"I like to receive them [emails] just to see what is on offer"</i></p> <p><i>"The emails that came in were more about you can go online and you can pre-purchase before it hits the stores which was quite an interesting thing for me because I've never had that done before and I thought 'oh that's interesting', that would actually appeal to a large number of people"</i></p> <p><i>"I think it is convenient to get a monthly update to check on the monthly offers like bonus points or whatever it is. It's nice to see what you can do with the points"</i></p> <p><i>"It is important to relate point total to some benefits. With the [Firm A] loyalty program you get the magazine as well and you get to look at what your point total can get you..."</i></p> <p><i>"[Firm A] sends me a statement of points quarterly; I'd like to see what my current balance is..."</i></p>

Required Effort	<p><i>“After filling in the form, we have to actually go to the website and update the details, put in the card numbers and things like that and I find that very troublesome and not worth my time. I just forego the membership because it is not really important to me”</i></p> <p><i>“I don’t even want to sign up for some of them [LPs] because they tell me that ‘you have to do this and this and that’ before you become a member and get the rewards...and I’m like forget it”</i></p> <p><i>“I find carrying the physical card very inconvenient and I always forget to bring the card!”</i></p> <p><i>“Sometimes you get dissatisfied because you’re in the store, you’re making a purchase but you’ve forgotten your card and they are not going to give you the benefits because you forgot to bring your card.”</i></p> <p><i>“All their [retailers’] previous attempts have been wasteful because they would give me a card that I have to get stamped, and then it would expire at the end of the year... *laughs* I never bought enough books within a year to get anything out of it”</i></p> <p><i>“The thing I didn’t like was that it [LP] was geographically tied to places around [Location A] ...I don’t live anywhere near [Location A] ...It’s a long way to drive”</i></p> <p><i>“Sometimes they give you this reward like 30% off but you need to spend \$150 to get the 30% off...that’s annoying”</i></p> <p><i>“Unless you have 5 children, we don’t buy 5 pairs of sporting shoes a year which is what the requirement is...so I looked at the card, use it once or twice and I say ‘what’s the point’...it’s too hard to get the rewards, I can’t be bothered flashing the card”</i></p> <p><i>“Sometimes I am so close to getting a reward but I missed out because of insufficient points”</i></p> <p><i>“It’s absolutely unattainable, you will even get a toaster but could have spent like 50 grand”</i></p> <p><i>“It is actually a hassle to have additional plastic in your wallet”</i></p>
Experiential Benefit	<p><i>“Every time I flash my card I think “Oh I’ve accumulated more points now. I wonder if I have enough points to get anything” and the thought really excites me”</i></p> <p><i>“There is a point statement...then I’m like ‘ok I’m achieving it!’ ...it’s exhilarating”</i></p> <p><i>“You signed up, they swipe it on your first purchase and then you start accumulating points which makes me feel really good”</i></p> <p><i>“The other exciting thing is about getting your rewards. When I get to redeem something, it feels really good”</i></p> <p><i>“I always feel happy *laughs* because really what I bought at [Firm A] I bought because I wanted and it really is like you know...out of the blue...someone says ‘here is your \$20’”</i></p> <p><i>“When I receive the reward I was like... ‘oh!’ I feel happy, I feel rewarded”</i></p> <p><i>“Being able to get additional benefits makes you feel like ‘this is a really good program to be involved in...not only do you get car protection but you also get these other things...it is fantastic!”</i></p> <p><i>“I appreciate the brand a bit more because they are telling me that they appreciate me”</i></p> <p><i>“The first time when you use your card is very important...there is excitement. You signed up and actually you’re using straight away and you are getting the benefits immediately”</i></p>

Group Belongingness	<p><i>“I go to the event and I’m looking at all these people who also signed up and it feels like we are a group who share the same interest”</i></p> <p><i>“It’s nice to have regular communication (from the firm) which makes you feel like you’re part of a selected group”</i></p> <p><i>“I mean, I have no idea who else is part of the program but that doesn’t matter, it feels good to know you are part of a group...like a larger family or a community”</i></p> <p><i>“There are these members’ only offers and in a way I think being offered things as such is good because it makes me feel like I’m part of a group of people”</i></p> <p><i>“It is the priority that you get; it’s the special care [of the program] that attracted me to the program”</i></p> <p><i>“There is something special about being a member of the program. There are special members only rewards”</i></p> <p><i>“Only you and a few certain people know of it, you feel special being part of it [program]. It’s like a privilege kind of feeling”</i></p> <p><i>“In addition to the accumulated points, it makes you feel like you’re part of a selected group”</i></p> <p><i>“What would make a LP stands out is ... probably something that could make me feel special ... probably like a secret sale ... only you know and certain people know ... you feel special”</i></p>
Disclosure Comfort	<p><i>“It’s annoying because I get a lot of newsletters and emails [from the firm]...sometimes it goes directly to spam”</i></p> <p><i>“[Loyalty Program A] which I’ve just joined, you get paid \$20 upfront but they’ve got to get your email address, so now they regularly send me what their specials are which is really irritating!”</i></p> <p><i>“If they are emailing me too often, I’m just not interested ... I don’t want to read it, I don’t want to download it ... I have plenty to do”</i></p> <p><i>“If they constantly come and pester you, you automatically shut down whenever you see their mail”</i></p> <p><i>“I filled in a form where they asked for my personal details...now they send me daily emails and I just delete them...I don’t even know what they are but they go straight to trash...”</i></p>

### **3.4 Conceptualizing Customer Loyalty**

Based on the literature reviewed, customer loyalty can be conceptualized as comprising two primary dimensions– attitudinal loyalty and behavioural loyalty. In Day’s (1969) seminal paper, he expressed customer loyalty as a customer’s strong commitment to a brand and repetition of purchasing behaviour. This definition of customer loyalty, as a customer’s non-random behavioural response backed by a favourable attitude towards brand over time, is widely recognized by many scholars (e.g., Dick & Basu, 1994; Fullerton, 2003; Jacoby & Kyner, 1973). Indeed, measuring customer loyalty through repeat purchase buying behaviour without accounting for attitudinal loyalty could lead to spurious loyalty data (Dick & Basu, 1994). Therefore, the present research adopts the two-dimensional view of loyalty and proposes both attitudinal and behavioural loyalty as a measure of true customer loyalty.

#### **3.4.1 Attitudinal Loyalty**

Attitudinal loyalty refers to the attitude a customer has towards an entity (Dick & Basu, 1994). According to different learning theories, customers’ attitudinal loyalty induced by a LP can be directed towards the program or firm (Dowling & Uncles, 1997). Behavioural learning theory posits that a LP’s positive reinforcements in terms of rewards will enhance the customer’s positive association with the program rather than the firm (Roehm et al., 2002). Hence, customers are likely to be program loyal rather than firm loyal (Yi & Jeon, 2003). Customers’ loyalty towards the program (i.e., *program loyalty*) represents the customer’s devotion to the program based on the relative attractiveness of the LP (Yi & Jeon, 2003). As such, customer program loyalty is more economics-driven (Evanschitzky et al., 2012). Program loyal customers might not necessarily develop a positive attitude towards the firm but they continue to purchase from the firm after

evaluating the economic value of rewards and the costs incurred in program participation (Evanschitzky et al., 2012).

In contrast, cognitive learning theory states that a LP can potentially result in a change to the customer's cognition and attitude towards the provider, thus influencing loyalty to the firm rather than to the program (Taylor & Neslin, 2005). Loyalty towards the firm, also known as *brand loyalty*, refers to the affective commitment customers have towards the firm (Yi & Jeon, 2003). Firm loyalty is often measured as the customer's intensity of identification or affiliation with the firm (Fullerton, 2003). Unlike program loyalty that is not comprised of an emotional element, customer's affective loyalty towards the firm is not easily dislodged once strong emotional attachment towards the firm is achieved (Oliver, 1999).

In short, these two types of attitudinal loyalty (program versus brand) represent different levels of customer devotion. Customers who are brand loyal are said to have a higher emotional bond with the firm and are more likely to stay with the provider, even when competitors have better offerings (Mattila, 2006; Tanford et al., 2010). On the contrary, customers who have program loyalty due to a LP's relative attractiveness are more likely to defect when competitors offer an alternative program that is perceived to be more advantageous (Mattila, 2006). In addition, the exploratory study conducted in this research also supports the literature by providing evidence of the importance of distinguishing between these two types of attitudinal loyalty. For instance, one respondent commented, "*I would say I'm loyal to the program, not so much to [firm]*". Also, another participant stated that "*... if they remove the LP, most probably I will switch [to another firm]*". These quotes support the findings from the literature and suggest that customers' attitudinal loyalty cultivated through a LP can be directed to the firm or the program itself. Since both types of attitudinal loyalty might induce different consequences to the firm, it is important to distinguish between these two for studies in the LP context.

### 3.4.2 Behavioural Loyalty

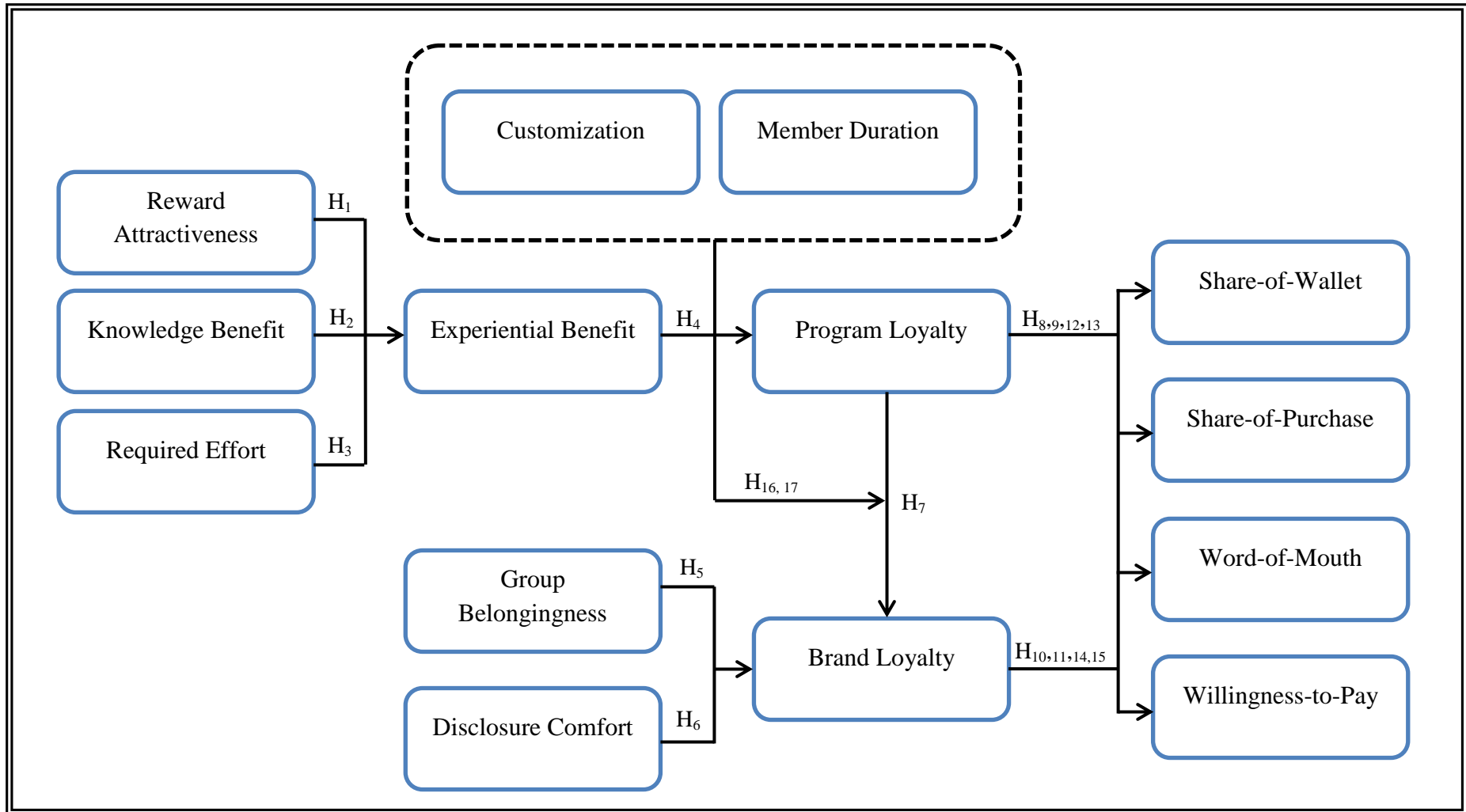
Behavioural loyalty can be represented directly through customer's buying behaviours or indirectly through intention-based behaviours. Direct manifestations of customer loyalty in terms of buying behaviours can be measured using various indicators such as actual purchase amount, purchase frequency, purchase volume, and customer's Share-of-Wallet (Dick & Basu, 1994; Gomez et al., 2006). These buying behaviours represent a customer's consistent dedication to purchasing from a firm. During the focus group studies, respondents provided support for behavioural loyalty in the form of actual buying behaviour. For example, one participant commented, "*... I always buy everything from [retailer A] ... like shoes, clothes ... so every time when I'm thinking of buying apparel I will go to [retailer A]*". Other quotes that capture the role of purchasing behaviours as customers' behavioural loyalty are as follows: "*...I'd be going more to [retailer] (to do my purchases)*" and "*...I find myself shop more in that shop...*".

On the other hand, intention-based customer behavioural loyalty is less quantifiable as it consists of non-purchasing behaviours. These non-purchasing behaviours signify customers' intention to repurchase from the same firm in the future (Baloglu, 2002). Some examples of intention-based behaviour loyalty include customer advocacy intention, switching intention, willingness to pay more for firm's product/services, and customers' cooperation (Fullerton, 2003; Morgan & Hunt, 1994). Again, the exploratory inquiries conducted for this thesis provided evidence for these non-purchase related behaviours. Specifically, one participant stated, "*[when friends ask for a recommendation] I would tell them it's [the brand] a very comfortable shoe ... I'm happy to recommend it to others*". Also, another respondent from the focus group study mentioned that "*... (I am) prepared to say to other people that I've had good experience with that (firm)*".

The findings from the literature review and focus group interviews suggest that customer's behavioural loyalty can take two forms. The first type of behavioural loyalty involves actual purchase behaviour while the second type of behavioural loyalty reflects an intention-based behaviour. In line with these findings, the behavioural loyalty of customers captured in this study is represented through both types of measurements. Purchase behaviour loyalty is measured using customer's Share-of-Wallet (SOW) and Share-of-Purchase (SOP), while intention-based behaviour loyalty is measured through customer Word-of-Mouth (WOM) and Willingness-to-Pay (WTP) more for the firm's product/services.

In the next section, the reader will be presented with the hypotheses developed for the proposed conceptual framework. These hypotheses are developed based on the concepts illustrated in the previous sections along with justifications for each hypothesis. The proposed conceptual framework to examine the mechanisms that underlie LP membership is shown in Figure 3.1. As depicted in Figure 3.1, the developed research model is comprised of seventeen hypotheses. The model shows that customer perceived LP value is conceptualized as consisting of six constructs, namely, reward attractiveness, knowledge benefit, required effort, experiential benefit, group belongingness, and disclosure comfort. These LP values are hypothesized to have an impact on customer's attitudinal loyalty. In particular, reward attractiveness (+), knowledge benefit (+), and required effort (-) are posited to have either a positive or negative impact on the customers' experiential benefit which, in turn, influences their program loyalty positively. Group belongingness and disclosure comfort are hypothesized to have a positive impact on the customer's brand loyalty. Both program loyalty and brand loyalty are also posited to have a positive influence on a customer's behavioural loyalty which includes SOW, SOP, WOM, and WTP. A detailed discussion on the hypotheses developed for this study with theoretical support is presented next.

**Figure 3.1 Research Model: The Mechanism Underlying LP Membership**





## **3.5 Research Hypotheses**

### **3.5.1 Reward Attractiveness and Experiential Benefit**

Reward attractiveness denotes a LP member's perception of the rewards' economic value, variety, and availability, whereas experiential benefit reflects customers' positive experience from interacting with their program membership. Program rewards are said to be the central mechanism that drives customer's participation in a LP (Rowley, 2007). These LP rewards can be purely economic such as taking the form of a price break in terms of cash vouchers, or more aspirational, like access to lounge areas or preferred seating in a restaurant (Jang & Mattila, 2005; Leenheer et al., 2007). While the economic value of program rewards plays an important role in incentivising the customer's involvement in a LP, rewards that are not favoured or available to customers during the time of redemption can significantly reduce the program's value proposition (O'Brien & Jones, 1995).

This study postulates that when members perceive program rewards offered by the firm to be valuable, relevant, and worthwhile (i.e., highly reward attractiveness), they are more likely to derive an overall positive experiential benefit from the program, the rationale being that customers generally express heightened interest in their LP as they perceive program rewards to be valuable and relevant to them (i.e., high reward attractiveness). As members' interest in a program membership is sustained, they take an active role in engaging with their LP (Euromonitor International, 2009). The expected psychological consequences evoked by increased customer involvement in the program are higher motivation, heightened arousal, and an increase in cognitive evaluation of the product (Mano & Oliver, 1993). These emotional responses contribute to an overall positive experience. Thus, a LP that engenders greater reward attractiveness is likely to enjoy more program interactions from their customers which ultimately leads to better customer consumption

experiences (Ashley, Noble, Donthu, & Lemon, 2011; Brakus, Schmitt, & Zarantonello, 2009). As an example, Hilton Worldwide has improved the reward variety and options offered by its HHonors program in an attempt to enhance the customers' overall experience with their LP (Barnett, 2011). Given the preceding discussion, it is herein hypothesized that:

H<sub>1</sub>: Reward attractiveness has a significant and positive impact on the experiential benefit customers derive from LP membership.

### **3.5.2 Knowledge Benefit and Experiential Benefit**

Knowledge benefit reflects the ability of the firm to enhance customers' consumption experience through the additional knowledge customers receive as LP members. This increase in knowledge serves to fulfil the customers' need for information and variety. Based on the literature reviewed, it is expected that LP membership can deliver knowledge benefit to members through monthly newsletters or weekly mails/emails. Through various communication channels, firms may update LP members regarding special promotions, changes to the company structure, improved services, newly launched products or current trends (Mimouni-Chaabane & Volle, 2010; Odell, 2012). These materials provide customers with new information that may result in them making a purchase they might otherwise not have made or subject members to new experiences they might like to have (Mimouni-Chaabane & Volle, 2010; Uncles et al., 2003). When customers' desire for new information and experiences is fulfilled, they are more likely to enjoy using their LP (Sheth & Parvatiyar, 1995). Thus, it is argued that an increase in customers' knowledge benefit may lead to perceived overall positive experiences for customers from interacting with their LP.

In other instances, firms collect data on their LP members' spending behaviour and activity to better understand consumption patterns. Based on the insights gained, firms can provide customers with additional knowledge by offering reminders, suggestions, updates,

and ways to enhance customers' efficiency in the shopping process (Henderson et al., 2011). In addition, firms can educate their customers by providing extra information about the LP membership through various communication channels (Euromonitor International, 2009). Customers who are more knowledgeable about their LP (i.e., understand the benefits and requirements of LP participation) are more likely to engage with their program membership and derive a better overall positive experience from their LP (Odell, 2012). When customers are more informed about their LP membership, they are likely to understand and use the program more effectively which contributes to a positive program experience (Berezan, Raab, Tanford, & Kim, 2013). This study posits, therefore, that a higher level of knowledge benefit allows customers to derive a better experience from directly participating in their LP. It is therefore hypothesized that:

H<sub>2</sub>: Knowledge benefit has a significant and positive impact on the experiential benefit customers derive from LP membership.

### **3.5.3 Required Effort and Experiential Benefit**

Required effort denotes the costs incurred by customers to actively participate in their LP membership. The academic literature (e.g., Day, 1990; Zeithaml, 1988) suggests that value consists of both "get" and "give" components. The "give" components reflect the perceived costs customers incur as a member of a LP. Since most LPs are free, the perceived costs associated with a LP will most likely take a non-monetary form (Shugan, 2005). More often than not, the "give" components of value subdue the "get" components and hinder the potential of the LP in developing customer loyalty (Noble & Phillips, 2004). For this study, it is postulated that lowering the required effort for customers to interact with their LP is important to increase members' overall positive experience with their LP membership.

In the retail market, customers generally have to carry a loyalty card with them at all times and remember to present the card to employees when they are doing their shopping to accumulate points (Noble & Phillips, 2004). Then there are cases whereby even when customers do devote effort to collecting points at every purchase, the requirements to redeem rewards are sometimes unattainable (Smith & Sparks, 2009b). The location of a retail store also contributes to the level of travelling effort required for customers to utilize their LP (Noble & Phillips, 2004; Paul, Hennig-Thurau, Gremler, Gwinner, & Wiertz, 2009). Presenting cards, redeeming rewards, and store locations demand an effort on the customers' part and may leave them frustrated with their LP if the effort is considered too arduous. Indeed, the perceived effort involved for members to maintain their LP membership is seen as annoying and may eventually result in customers' disenchantment with the program (Noble & Phillips, 2004). Hence, it is of no surprise that card usage and reward redemption rates among retail customers is relatively low (Smith & Sparks, 2009b). For instance, a study conducted in an Italian supermarket found that 24.6% of customers never activated their loyalty cards (Mauri, 2003). Also, in the UK, a study conducted by Wright and Sparks (1999) found that 13% of the retail loyalty cards had had zero transactions in the previous three months.

In order to improve the perceived experiential benefit offered by a LP, firms need to focus on lowering the perceived costs associated with the program to enhance its attractiveness to customers (Nunes & Dreze, 2006). Indeed, LaSalvia, a senior director of marketing at Rymax Marketing Services, mentioned that one of the many challenges faced by existing LPs is to encourage program participation among customers through lowering customer effort (e.g., making rewards more attainable) (Odell, 2012). For example, Hilton Hotel, Marriott International and Starwood Hotel & Resorts have now abolished blackout dates for room bookings redeemed through their LPs and are collaborating with more partners to allow easier point accumulation through multiple providers (Euromonitor International, 2009). Indeed, previous studies have demonstrated that customers find LPs to

be more attractive when they perceive the effort required to participate in the program as lower (Shugan, 2005). When customers view a particular LP to be more attractive than competing programs after a cost-benefit analysis, they are more likely to become engaged in that program which increases their likelihood of fun and playful experiences in a LP (Mano & Oliver, 1993; Wirtz et al., 2007). From the above discussion, it is argued a higher level of effort associated with program participation hinders customers from fully enjoying the overall experiences of their program membership. As such, it is hypothesised that:

H<sub>3</sub>: Required effort has a significant and negative impact on the experiential benefit customers derive from LP membership.

#### **3.5.4 Experiential Benefit and Program Loyalty**

Experiential benefit reflects the overall positive LP experiences customers have from program participation, whereas program loyalty represents customers' favourable attitude towards a LP. This study suggests that positive experiences with a LP will result in customers' favourable evaluations and attitudes towards the LP. The notion of experiential benefit captures the emotional responses aroused when the LP consumption process has been favourable for customers. These emotional aspects of consumption include feelings of enjoyment, entertainment, excitement, fun, playfulness, and gratitude (Chandon et al., 2000; Holbrook & Hirschman, 1982; Mathwick, Malhotra, & Rigdon, 2001). For example, when customers are accumulating reward points in their LP, the anticipation of future rewards promotes customers' eagerness to collect points which makes the process of point collection enjoyable and entertaining (Bagchi & Li, 2010; Mimouni-Chaabane & Volle, 2010). Indeed, the consumption process of a LP, such as points collection and reward redemption, are said to be the most memorable aspects of a customer's LP membership (Smith & Sparks, 2009a).

When a customer's experience with their LP results in a positive outcome, they are likely to want to repeat such an experience (Brakus et al., 2009). The encouragement from a positive consumption experience prompts customers to be more involved in their LP membership. As the degree of involvement increases, the likelihood of program members reaping the rewards offered through redemption behaviour is heightened (Smith & Sparks, 2009a). In turn, these positive reinforcements in the form of rewards work to strengthen the customer's positive attitude towards the LP. Given that an overall favourable experience with a LP results in positive evaluations (Bolton et al., 2000; Yi & Jeon, 2003), it is likely that a greater level of experiential benefit will drive favourable attitudes towards the program membership. As such, it is hypothesized that:

H<sub>4</sub>: Experiential benefit has a significant and positive impact on the customer's program loyalty.

### **3.5.5 Group Belongingness and Brand Loyalty**

Group belongingness refers to the customers' feelings of belonging to a community, whereas brand loyalty reflects a customer's affective commitment towards a firm. This study hypothesizes that LPs that can effectively foster the feeling of group belongingness among customers are likely to build strong brand loyalty. Being a LP member usually entitles customers to some privileged services and additional attention from the firm and frontline employees which can facilitate the feeling of group belongingness among LP members (Liu, 2007). The feeling of being important to the company enhances the customer's connection to the firm (Muniz & O'Guinn, 2001). This sense of being valued heightens the customer's overall sense of well-being and strengthens their relationship with the company (Gwinner et al., 1998). As a result, firms that are able to cultivate the feeling of being important among their LP members are likely to deepen the customer's commitment towards the firm.

In addition to personal recognition, constant interactions with other LP members can also give rise to the customer's feeling of group belongingness. Customers may experience multiple encounters with other members of the program through firm functions, events, VIP promotion days, and virtual online communities (McAlexander et al., 2002). These interactions often result in members fostering a strong bond between each other. In this way, members of the LP become assimilated into a brand community (Rosenbaum et al., 2005). That is, LP members are able to relate to other customers who share the same values (Mimouni-Chaabane & Volle, 2010), and the rapport enables customers to identify more strongly with the firm (Bhattacharya & Sen, 2003).

Another manner in which the sense of group belongingness could be cultivated is through shared goals or values. More often than not, a firm can have a meaningful dialogue with its LP members through various communication channels including emails and newsletters (Smith, Sparks, Hart, & Tzokas, 2003). These communication platforms allow the firm to consistently convey a clear set of corporate values that connect customers to the brand at the emotional level (Fournier & Lee, 2009). LP members can thus be united by the common interest they have in the brand and develop a sense of belonging and brand ownership (Muniz & O'Guinn, 2001; Smith et al., 2003). While members might have only a loose association with one another, their liking for the brand brings them together to form a brand community (Fournier & Lee, 2009). Due to this sense of belongingness, members of a brand community feel that they have the moral obligation to remain loyal to the collective and to the brand (Muniz & O'Guinn, 2001). Given the preceding discussions, it is postulated that LPs that offer members a strong sense of group belongingness are able to deepen their members' devotion to the firm. Hence, it is postulated that:

H<sub>5</sub>: Group belongingness has a significant and positive impact on customer's brand loyalty.

### **3.5.6 Disclosure Comfort and Brand Loyalty**

The aforementioned value constructs aside, another crucial value of a LP that permits the continuance and development of a relationship between the customer and firm is the customer's comfort (i.e., feeling at ease) when providing personal information to the firm (Dabholkar, Shepherd, & Thorpe, 2000). This notion is termed disclosure comfort. Participating in a LP often involves customers providing personal information to firms implementing the LP (Noble & Phillips, 2004). Given that firms may misuse the information they have about their customers by harassing them with promotional items and communication (Ashley et al., 2011), customers' comfort with the firms handling and use of their personal information may impact on the customers' relationship with the firm (Dabholkar et al., 2000; Noble & Phillips, 2004; Spake et al., 2003). Providing customers with a secure and worry-free interaction during the entire consumption process brings the firm closer to their customers. Indeed, numerous studies have substantiated the role of disclosure comfort as a driver of superior customer loyalty (Spake et al., 2003). In addition, increased comfort during information disclosure reduces the customer's anxiety in building a relationship with the retailer as they know only relevant information will be communicated to them. With enhanced confidence in the retailer, program members are likely to be more willing to reveal information about themselves in return for customized offerings from the firm (Spake et al., 2003). As a result, disclosure comfort leads to a constructive and ongoing dialogue between the firm and its customers, which is likely to have a positive impact on relationship development (Spake et al., 2003). Thus, it is hypothesized that:

H<sub>6</sub>: Disclosure comfort has a significant and positive impact on a customer's brand loyalty.



### **3.5.7 Program Loyalty and Brand Loyalty**

Customer's program loyalty denotes a form of cognitive loyalty whereas brand loyalty represents a form of affective loyalty (Evanschitzky et al., 2012; Oliver, 1999). Customer loyalty towards a LP is arguably the weakest type of loyalty (Yi & Jeon, 2003). Program loyalty is largely driven by the customer's evaluation of the LP's utilitarian performance such as the economic benefits and its functional value (Evanschitzky et al., 2012). Due to the nature of LPs, customers who are only program loyal are likely to switch to other competing firms once they find an alternative LP with superior value (Oliver, 1999). Nevertheless, customer program loyalty has the potential to grow into something stronger once customers experience successive positive interactions with a LP (Bitner, 1990). Indeed, the scenario of program loyalty creating a strong relationship between the firm and customer is illustrated in Yi and Jeon's (2003) study, where, in a low involvement context (like retailing), it was revealed that the effect of a LP on a customer's loyalty towards the firm was indirect through program loyalty. When customers are cumulatively satisfied and pleased with the performance of a LP, cognitively-held loyalty (program loyalty) can develop into a more enduring attitude-based loyalty towards the firm (brand loyalty). Thus, it is hypothesised that:

H<sub>7</sub>: Program loyalty has a significant and positive impact on brand loyalty.

### **3.5.8 Attitudinal Loyalty and Behavioural Loyalty**

Customers' attitudinal loyalty refers to their program loyalty and brand loyalty. These two types of attitudinal loyalty represent different levels of devotion a customer can display towards a firm. According to past literature (e.g., Evanschitzky et al., 2012; Yi and Jeon, 2003), program loyalty is more economics-driven, whereas brand loyalty is affect based. In this study, it is hypothesized that both types of attitudinal loyalty will have an impact on customers' behavioural loyalty including SOW, SOP, WOM, and WTP.

### 3.5.8.1 Program Loyalty, SOP, and SOW

Share-of-Wallet (SOW) and Share-of-Purchase (SOP) are two actual purchase behaviours of particular interest to the retailing industry (Mägi, 2003). SOW refers to the ratio of customers' category purchases at a certain firm to their total category expenditure (Meyer-Waarden & Benavent, 2009). SOP denotes the proportion of purchasing frequency customers commit to a particular firm (De Wulf et al., 2001). For this study, it is hypothesized that attitudinal loyalty is positively associated with both SOP and SOW. Customers are loyal to a LP mainly because of the benefits the program provides and the assumption that the benefits outweigh the costs involved in being a member (Evanschitzky et al., 2012). When customers find a LP relatively more worthwhile than alternative programs, they are more likely to participate and remain loyal to that program (Wirtz et al., 2007). Increased participation in the program will heighten a customer's switching costs in terms of foregoing accumulated points, past efforts, and time invested in familiarizing themselves with the LP and firm (Nunes & Dreze, 2006). These switching costs motivate customers to stay with a particular firm (Kopalle & Neslin, 2003). As the duration of program enrolment increases, customers are expected to have accumulated more program points which brings them closer to earning their rewards. With the anticipation of free rewards (Lemon, Tiffany, & Winer, 2002), it is intuitive that LP members will dedicate a higher number of transactions to one particular focal store to accelerate point accumulation (Mägi, 2003; Verhoef, 2003). In other words, as customers' loyalty to a LP gets stronger, they devote a higher SOP to a retailer.

The above argument can be extrapolated to SOW in that the anticipation of rewards would urge customers to concentrate the volume of their category purchases with a focal firm. As program incentives are rewarded after a certain threshold of points have been reached, customers are motivated to consolidate purchase amounts to one particular seller (Nunes & Dreze, 2006; Uncles et al., 2003). Thus, in order to facilitate the speed of reward

redemption, customers are expected to devote higher SOW to a certain firm. In fact, studies have found that the higher the attractiveness of a LP, the more effective it is in driving customer SOW (Wirtz et al., 2007). In turn, there should be a positive association between program loyalty, SOW, and SOP. From the preceding discussion, it is hypothesized that:

H<sub>8</sub>: Program loyalty has a positive and significant impact on a customer's SOW.

H<sub>9</sub>: Program loyalty has a positive and significant impact on a customer's SOP.

### **3.5.8.2 Brand Loyalty, SOP, and SOW**

Fostering strong loyalty towards a firm through a LP also increases a customer's switching costs in terms of psychological investments. As a customer's commitment and emotional attachment towards the firm increase, changing providers would mean foregoing the familiarity and intimacy customers have developed with the firm (Bendapudi & Berry, 1997). Hence, strong brand loyalty encourages customers to stay in an enduring relationship with the firm. This means loyal customers are likely to devote their purchases to a single provider, hence increasing customer's SOW and SOP to the firm (Nunes & Dreze, 2006). Besides, a long-term exchange relationship involving multiple-transactions exposes customers to a range of opportunities to further engage with the firm in terms of SOW and SOP (Aurier & N'Goala, 2010). In addition, an increase in SOW and SOP implies greater dependence on the service provider. Since customers who are brand loyal trust their providers to not engage in opportunistic behaviours (Morgan & Hunt, 1994), they are more willing to make monetary investments into the exchange relationship with the firm in terms of SOP and SOW. Therefore, it is hypothesized that:

H<sub>10</sub>: Brand loyalty has a positive and significant impact on a customer's SOW.

H<sub>11</sub>: Brand loyalty has a positive and significant impact on a customer's SOP.

### 3.5.8.3 Program Loyalty, WOM, and WTP

Purchase-related behaviour aside, customers also engage in non-purchase-related behaviour in favour of particular firms when they are loyal (Baloglu, 2002). These loyalty-intention behaviours are sometimes a more powerful indicator of higher levels of customer loyalty than purchase behaviour itself (Reichheld, 2003). As already noted, customers are likely to remain loyal to a particular LP due to its relative attractiveness in comparison to other LPs. According to Wirtz and Chew (2002), this form of customer loyalty is likely to motivate customers to engage in positive WOM behaviour. Often, customers are loyal to a program because they are financially rewarded for their purchase behaviours and obtain additional benefits in terms of time saving and so on. These incentives encourage customers to share their positive experiences with others, to share the benefits they enjoyed, and to gain support from others who have the same opinion (Wirtz & Chew, 2002). In addition to customer advocacy, studies have also reported a reduction in customers' price sensitivity after joining a LP (Bolton et al., 2000). This is primarily because customers believe they are getting "good value" from their LP (Bolton et al., 2000). One can argue that LP members are willing to pay a premium price for the extra value they are receiving. Furthermore, program loyal members perceive the benefits they received from the LP outweigh the costs associated with their membership (Evanschitzky et al., 2012). The relative attractiveness of LPs acts as a switching barrier as customers perceive a higher purchasing cost when they buy from other retailers of whose LP they are not a member. These purchasing costs can be in the form of cash discounts or points entitlement through the use of the LP (Liu, 2007). With these switching costs, customers are likely to continue purchasing from the same retailer even if other firms are offering similar offerings at a lower price. It is thus hypothesized that:

H<sub>12</sub>: Program loyalty has a positive and significant impact on customer's WOM behaviour.

H<sub>13</sub>: Program loyalty has a positive and significant impact on customer's WTP behaviour.

#### **3.5.8.4 Brand Loyalty, WOM, and WTP**

Customers who are brand loyal have a higher level of confidence in their provider and are more emotionally attached to the firm (Aurier & N'Goala, 2010). Due to the strong identification and affiliation developed with the firm, loyal customers are willing to make additional investments or personal sacrifices in order to stay with the current provider (Reichheld, 2003). Furthermore, loyal customers are likely to support only one provider, hence they are often less knowledgeable (and less certain) about competitors' offerings (Baloglu, 2002; Bolton et al., 2000). Therefore, customers who foster a strong loyalty towards their provider would be less sensitive to a price increase than other customers. Moreover, truly loyal customers are also more prone to spreading positive WOM about the company (Baloglu, 2002). Their faith and strong connection with their providers, often prompts loyal customers to make enthusiastic referrals (Reichheld, 2003). On this basis, it is hypothesized that:

H<sub>14</sub>: Brand loyalty has a positive and significant impact on customer's WOM behaviour.

H<sub>15</sub>: Brand loyalty has a positive and significant impact on customer's WTP behaviour.

#### **3.5.9 Moderation Effects**

The process of building customer loyalty is often complex in nature (Dick & Basu, 1994). Past studies have found that the loyalty development process derived from a LP can be moderated by various customer characteristics such as product involvement (Yi & Jeon, 2003), shopping orientation (Mägi, 2003), and usage levels (Liu, 2007). The current study is particularly interested in examining the contingency factors that moderate the impact of program loyalty on brand loyalty. As mentioned earlier, these two forms of customer attitudinal loyalty differ in terms of the intensity of devotion customers have towards the firm. Customers who are only program loyal are likely to switch once they perceive

alternative LPs as more superior (Evanschitzky & Wunderlich, 2006). However, brand loyalty which is based on a customer's genuine liking of the brand is not as easily displaced as program loyalty. Many of the existing program designs in the market are said to be problematic primarily because they induce customer's loyalty towards the LP rather than the brand (Kumar & Shah, 2004). Therefore, understanding the contingency factors that can potentially impact on the relationship between program loyalty and brand loyalty is imperative to managers for a more effective LP implementation. Given this reasoning, this study investigates the potential impact of two moderators on the relationship between program loyalty and brand loyalty. These moderators are: (1) program customization, and (2) duration of program participation.

### **3.5.9.1 Program Customization**

The potential moderating effect of program customization in translating customer program loyalty into brand loyalty has been repeatedly discussed by scholars such as Henderson et al. (2011), Shugan (2005), and Kumar and Shah (2004). Indeed, the act of customizing an offering to meet the customer's needs represents an effective route to achieving brand loyalty (Morais et al., 2004; Shugan, 2005). LPs by their definition allow retailers to collect detailed information about their customers (Euromonitor International, 2009; Leenheer et al., 2007). Hence, customer history such as items purchased, location of visit, categories of purchase, frequency of purchase are all accessible to retailers (Reinartz & Kumar, 2002). The information gathered by firms allows them to customize their LP to better meet the needs of their customers which, in turn, improves the overall attractiveness of the program to customers (Shugan, 2005; Uncles et al., 2003). Customization could also assist customers in more efficient decision-making through providing relevant offer reminders, suggestions, and recommendations (Henderson et al., 2011). When customization leads to a more positive customer evaluation of program membership, a LP member is more likely to derive stronger loyalty towards the program. As a result, this study hypothesizes

that when the level of program customization increases, program members become more attentive to their membership, thus increasing the effect of program loyalty on brand loyalty. With the support from the literature reviewed, it is therefore hypothesized that:

H<sub>16</sub>: As the level of program customization increases, the influence of program loyalty on brand loyalty becomes stronger.

### **3.5.9.2 Member Duration**

As loyalty development is a dynamic process, the effect of relationship duration on a LP's effectiveness needs consideration (e.g., Frisou & Yildiz, 2011; Liu, 2007; Verhoef, 2003). Over time, customers' involvement in a LP allows them to learn more about their membership with regard to the process of point accumulation, reward redemptions, and account management. This is also known as the adaptation stage whereby customers are familiarizing themselves with the LP (Frisou & Yildiz, 2011). As duration increases, customers are likely to have a more comprehensive knowledge of their program membership and the alternative choices available in the market. As a result, experienced members may become more critical of the LP as they use a wider range of attributes to differentiate between offerings (Evanschitzky & Wunderlich, 2006). Customers who are more experienced with their LP are said to be more susceptible to competitive offerings than less experienced members who have less information to make comparisons between alternative programs. Further, experienced LP members are likely to have a higher level of interaction with the company and, as a result, may be loyal to the brand as a consequence of store-related factors such as customer service and retail environment as well as LP membership. This may decrease their responsiveness to program loyalty itself as other factors may be equally salient or even more important in determining loyalty (Evanschitzky & Wunderlich, 2006). In contrast, newer LP members are more likely to rely on their liking of the LP in evaluating their brand loyalty. As a result, it is anticipated that the effect of program loyalty

on brand loyalty decreases as the duration of program participation increases. Thus, it is hypothesized that:

H<sub>17</sub>: As the level of program participation duration increases, the influence of program loyalty on brand loyalty becomes weaker.

### **3.6 Conclusion**

This chapter consists of two primary sections that build the theoretical and conceptual foundations for the research framework proposed for this dissertation. The first section conceptualizes the focal research construct of this study, including customer perceived LP value, attitudinal loyalty, and behavioural loyalty. These concepts are conceptualized based on previous findings in the literature and results obtained from the focus group interviews. In the second section, the chapter develops the research hypotheses which, together, form a customer LP framework that fosters a successful relationship between the customers and the firm through program membership. In the following chapter, the research methods adopted to undertake this study are discussed.



## **Chapter Four**

### **Research Method**

#### **4.1 Chapter Summary**

This chapter outlines the methods used to test the conceptual model specified in Chapter Three. In particular, a mixed method that consists of both qualitative and quantitative components was employed. The first section overviews the exploratory research method. This involves justifying the qualitative inquiry and reporting on its findings. The second section presents the quantitative research design adopted to validate the hypotheses formulated in Chapter Three. This includes a detailed description of the respondent selection process, criteria to qualify for participation, measures adopted, and data analysis strategy.

#### **4.2 Overview of the Research Design**

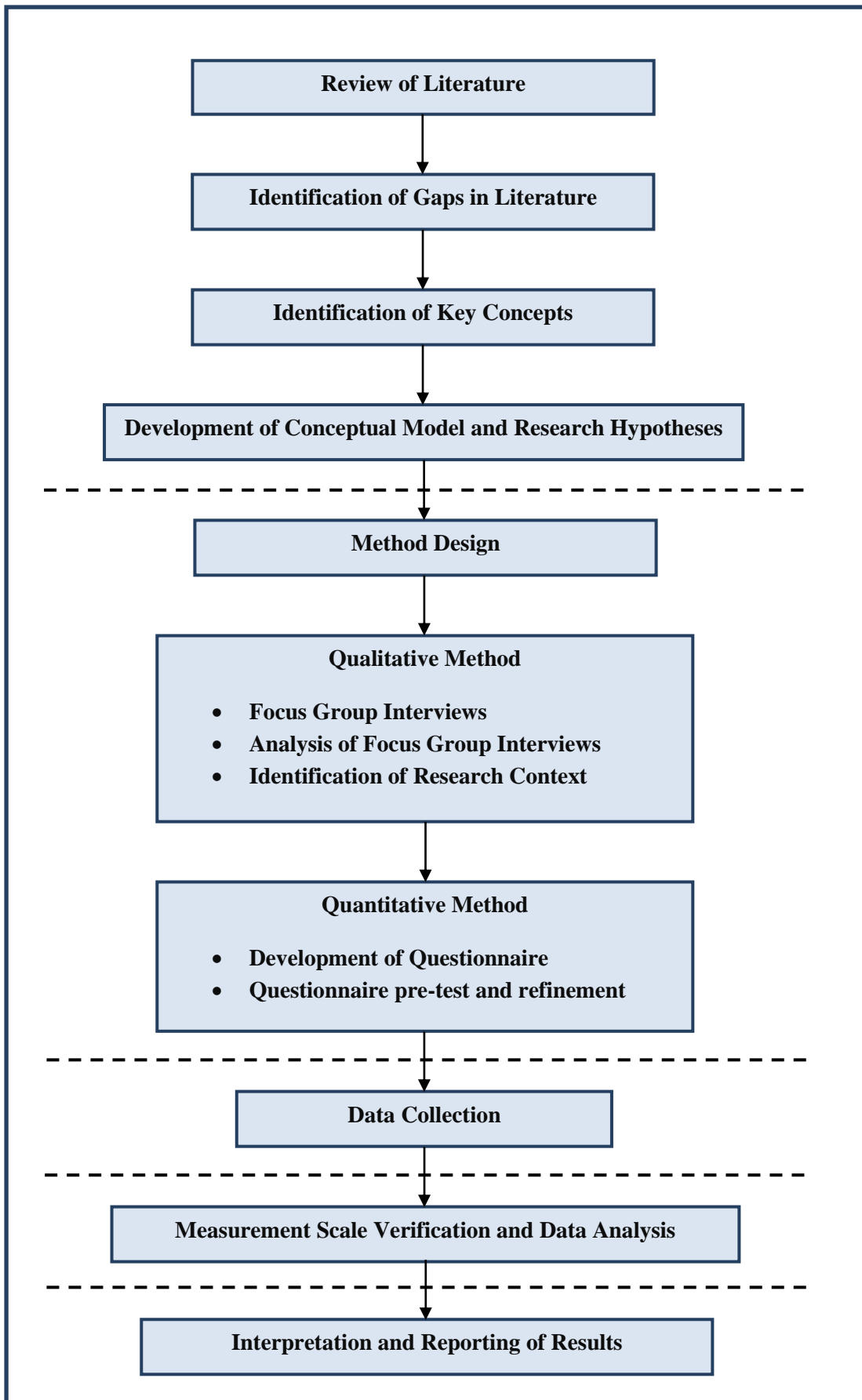
This section offers an overview of the research methods employed in this study, which involves a mixed methods approach. The research method includes collecting and analysing both qualitative and quantitative data. A mixed methods design was deemed appropriate after evaluating the actions necessary for the most suitable data to be collected to address the research questions raised in the current study (Creswell, 2003). In particular, the two phases of inquiry (i.e., qualitative and quantitative) were conducted sequentially to answer the three research themes formulated.

The first research theme of this study investigates the different value constructs that customers derive from a LP. Existing literature on LP value has been described as unfocused and needing further research (Henderson et al., 2011). Prior studies have proposed various components as crucial value constructs offered by a LP which can be seen in Section 2.6.3.

As such, a qualitative method is useful because it allows the researcher to gain insights on the topic of interest (i.e., perceived LP value) and identify important variables to be examined in this study (Creswell, 2003). Consequently, exploratory research was undertaken to better understand customers' views about the perceived value they obtain from their LP membership. Upon uncovering the important value constructs that constitute perceived program value from a customer's perspective, the research focus shifted toward addressing the second and third research theme. The second research theme examines the relationship between LP value and customer loyalty, while the third research theme investigates the effect of two moderating variables on the program loyalty-brand loyalty relationship. Addressing these research themes has led to the development of an integrative framework to understand the loyalty development process pertaining to a LP. A quantitative approach was used to test the proposed research model. This involved the researcher specifying posited relationships between the constructs and collecting data to test these hypotheses (Creswell, 2003).

For the abovementioned reasons, a mixed methods design proves advantageous to best address the research themes developed for this study (Creswell, 2003). A qualitative method was carried out in the initial phase of the study to provide more insights into customers' perceived LP value. The findings obtained from the qualitative data were then integrated into the quantitative method to extend the understanding about the underlying mechanisms that drive customer loyalty as derived via a LP. An outline of the adopted research design is presented in Figure 4.1. As shown in Figure 4.1, the study begins with an extensive review of the literature on relationship marketing, loyalty program marketing, consumer behaviour, and customer relationship management. The objective of conducting the literature review was to identify gaps in the existing studies, formulate research questions, and identify an overarching framework that guides the direction of the research. In this process, key concepts in past LP studies, such as perceived value, attitudinal loyalty, and behavioural loyalty, were noted as being important constructs to advance current

**Figure 4.1 Research Design**



understanding about this topic. The literature review also led to the formulation of research hypotheses and development of a conceptual framework to be tested. However, evidence supporting the conceptualization of customer perceived program value in the LP context was lacking. Therefore, an exploratory inquiry in the form of focus group interviews was carried out to provide a holistic understanding about the different constructs that constitute LP value. Based on the findings from the focus group discussions, the number of constructs that customers derive from their LP membership was determined.

Following the exploratory inquiry, constructs were operationalized and measurement scales for each research construct were developed from existing scales. A questionnaire was designed and pre-tested among a representative sample of the research population. From the feedback obtained, modifications and refinements were made to the questionnaire when necessary. A sampling plan was specified to identify the appropriate research population for the study. The quantitative method was executed through a large scale online survey that was conducted across Australia. When possible, a representative sample was obtained. Data collected from the online questionnaire was analysed and used to examine relationships between constructs. Finally, results of the analyses were interpreted and conclusive findings were drawn for this study.

### **4.3 Exploratory Research Method**

The objectives of conducting exploratory research are: (1) to gather insights into a topic, (2) increase familiarity with a research problem, (3) clarify concepts, and (4) formulate the research problem more precisely (Churchill & Iacobucci, 2005). In this study, exploratory research was conducted in the initial stage for three main reasons. First, the exploratory study helps address the first research theme, that is, to determine the number of constructs that constitute LP value from a customer's perspective in the chosen context. A review of prior literature suggests that scholars have identified many different types of value

pertaining to customer consumption choices in general. Sheth et al. (1991), for example, have identified five value components that they claim influence customer choice, namely, functional value, emotional value, social value, epistemic value, and conditional value. In contrast, Sánchez et al. (2006) found three value dimensions including functional (installation, professionalism, quality and price), social, and emotional as important for customers assessing tourism products. In addition, Sweeney and Soutar (2001) posited four distinct value dimensions of functional (quality/performance), functional (price), emotional, and social value in explaining a customer's choice in the durable product market. However, few studies have looked at a customer's perceived value in terms of a LP. As such, the exploratory research undertaken provided valuable insights into the value constructs customers perceive they get from their LP membership.

Second, information from the exploratory study was used to assist in creating items to measure the constructs used in this study (Proctor, 1997). Although a majority of the questionnaire items used in this study were adopted from existing literature, the exploratory findings assisted in refining the items so that the questions used better suited the context of this research. Third, in conjunction with the literature reviewed, findings obtained from the exploratory study were used to provide a preliminary understanding of the relationship between key constructs (e.g., value perceptions, attitudinal loyalty, and behavioural loyalty) included in the proposed framework of this study (Carson, Gilmore, Perry, & Gronhaug, 2001). That is, the exploratory findings function as preliminary support and validation for the proposed conceptual framework developed for this study.

The exploratory research method adopted in this study is focus groups. Focus groups are a popular qualitative technique used to explore people's opinions, experiences, and concerns that relate to the research topic – LPs (Barbour & Kitzinger, 1999; Churchill & Iacobucci, 2005). A focus group involves bringing a small number of individuals who are experienced with some topic of interest to sit and talk about the topic. The focus group

interviews are guided by a moderator (Churchill & Iacobucci, 2005). The rationales for choosing focus groups as the appropriate qualitative methodology for this study are provided in the following section.

#### **4.3.1 Method Justification**

Focus group research (cf., Imms & Ereaut, 2002) was the method selected for the following four reasons. First, the aim of a focus group concurs with the objectives of this study which is to learn and understand people's points of view about a topic (in this case LP) and to discover the amount of involvement, both physically and emotionally, people have with the topic under discussion (Proctor, 1997). The group interaction among focus group respondents allows the researcher to gain insights into meaningful phenomena which emerge out of exchanging opinions and sharing experiences (Carson et al., 2001). Hence, focus groups serve the purpose of providing a detailed understanding of the key issues pertaining to the research topic.

Second, focus groups are relevant as they provide the researcher with a pool of respondents who are knowledgeable about and very involved with the topic of interest (Carson et al., 2001). Accordingly, their perceptions, attitudes, and beliefs are expected to yield relevant inputs for the study. Third, focus groups are able to generate inputs through the mechanism of group dynamics (Carson et al., 2001). The interactive group setting of a focus group whereby participants are permitted free discussion about the topic of interest often produces synergized suggestions and ideas that would otherwise be less accessible if each participant was interviewed separately (Carson et al., 2001; Imms & Ereaut, 2002; Proctor, 1997). Finally, the use of focus groups can be justified in terms of money and time saving (Carson et al., 2001; Imms & Ereaut, 2002). Compared to conducting individual interviews with each respondent, focus groups involve less time (due to the group setting), fewer audiotapes, and less expense associated with transcription and analysis.

### 4.3.2 Focus Group Procedures

The procedures undertaken to organize the focus group sessions for this research are discussed in the following section. In addition, a copy of the moderator's question guide used for the focus groups can be found in Appendix I.

**Problem Statement.** The primary purpose of conducting focus group discussions for this research was to answer the question, "What types of value do customers derive from a LP?" and "How do these value constructs affect attitudinal loyalty and, subsequently, a customer's behavioural loyalty"?

**Sampling Design.** The sampling population for the focus groups included customers who are enrolled in at least one LP in either the airline or retailing context. The sampling framework includes the researcher's own colleagues and professional networks. Respondents had to be over eighteen years of age. Due to time and resource constraints, respondents for the focus group studies were recruited through a stratified purposeful sampling method. Given that the reason for the focus groups was to obtain an understanding of the topic of interest rather than to achieve generalizability, a purposive sampling method was considered appropriate for recruiting relevant individuals who could contribute productively to the focus group (Imms & Ereaut, 2002).

**Focus Group Context.** Focus group interviews were conducted in two research contexts, each representing different levels of consumer involvement in consumption choices— retail and airline. The retail sector represents a low consumer involvement context whereas the airline sector represents a high consumer involvement context. Consumers' product category involvement is defined as consumers' perception of the product category's importance based on their innate

needs, personal relevance, values, and interest (Liang & Wang, 2008). In general, the price of airline services is much higher than the price of many retail products. Moreover, the purchase of airline services is characterized as relatively less tangible, more perishable, and entails higher levels of uncertainty compared to the purchase of retail product categories (Christy, Oliver, & Penn, 1996). Hence, consumers would place greater importance and put more thought into the procurement of an airline offering in comparison to most retail products (Traylor, 1981). Consequently, consumers are likely to have more product involvement with the airline offerings than with retail offerings. The focus groups were conducted in two contexts to examine whether consumers' product involvement would result in different types of LP value constructs being derived. Based on the findings from the focus group discussions, the retail industry was chosen as the research context for this study. A detailed justification for this decision is provided in Section 4.3.

**Number of Groups and Size.** Four focus groups were arranged for the purpose of this study (two groups for each context). Two focus groups were allocated for each research context to allow for cross-checking of the results obtained (Imms & Ereaut, 2002). Each focus group comprised 4 to 6 people of mixed gender and age to allow for greater interaction among respondents. The demographic profile for focus group participants is shown in Table 4.1.

**Table 4.1 Participant Demographic Profile**

Characteristics	Retail Setting (n=11)		Airline Setting (n=9)	
	Frequency (n)	Percentage (%)	Frequency (n)	Percentage (%)
<b>Gender</b>				
Male	4	36	5	55
Female	7	64	4	45



**Session Length.** The duration of each focus group discussion was approximately 90 minutes. The amount of time allocated for each focus group session provided the researcher with sufficient time to establish rapport with respondents and fully discuss the topic of interest yet not result in restlessness and fatigue among respondents.

**Session Venue.** All focus groups were held in one of the laboratories of Monash University at the University's Caulfield Campus. The lab is equipped with an audio recording device that is not obviously visible to respondents in an effort to minimize the level of discomfort and distraction caused to participants (Chrzanowska, 2002). The lab is the size of a small classroom with tables arranged in a circular shape (so that everyone in the room is able to see each other).

**Timing of Sessions.** The focus group interviews were conducted on four different dates – 6<sup>th</sup> of December 2010; 8<sup>th</sup> of December 2010; 13<sup>th</sup> of December and 15<sup>th</sup> of December 2010. The time and date of the focus groups was decided based on respondents' feedback during initial contact to ensure the sessions were scheduled as conveniently for the respondents as possible. Also, the timing of the sessions was scheduled a few days apart to allow the researcher ample time to prepare for the next focus group session.

**Participant Recruitment.** Potential respondents were first contacted through an invitation email to participate in the focus group. The invitation email explained the purpose of the study; specified the criteria for eligibility to participate in the focus group; indicated the estimated time required to participate in the study; and included a statement of confidentiality assurance. The potential participants who showed interest in participating were followed-up by the researcher through a second official email invitation with full details of the focus group (including date, time, and venue).

From the pool of participants, respondents were then randomly placed into focus group sessions corresponding to their respective context (i.e., retail or airline LP). One day before the focus group session, the researcher sent each participant a follow-up reminder email. The email invitation for the focus group is included in Appendix II.

**Session Moderation.** All focus group sessions were moderated by the student researcher as she was familiar with the topic of discussion, hence she could be critical and probe issues that needed further clarification from respondents (Carson et al., 2001). Also, the researcher had managed to establish rapport with respondents during the recruitment phase of the study. The familiarity respondents have with the student researcher encourages more participation from the respondents and, hence, increases the quality of the data collected. Moreover, the moderator is independent from the sponsor firms under investigation, therefore, respondents could freely express their opinions on the topic without restriction.

**Conduct of Focus Group.** Prior to the commencement of each focus group session, light refreshments were provided for participants. The researcher then began the session with a friendly welcome and a brief introduction to the topic. To ease respondents into the discussion, participants were encouraged to give some background details on the topic of interest (Chrzanowska, 2002), in this case their LP membership. For example, respondents were asked questions such as which program they joined, how long they had been a member of the program, and which tier of the program (if relevant) they belonged to. The researcher then proceeded with the focus group using a semi-structured questioning approach that funnelled the discussion from broader to more specific topics. The researcher first introduced the topic of interest using a few general questions to stimulate discussion. When necessary, more specific questions were asked. This questioning approach made sure

respondents were not influenced into providing certain views on the topic being discussed.

The researcher was careful not to bias respondents' responses (Carson et al., 2001). Therefore, the researcher's involvement throughout the focus group was minimal. During each session, the researcher had with her a list of questions on the research topic that needed to be discussed. A copy of the moderator's question guide is included in Appendix I. To make sure the interview guide was error-free; the researcher pre-tested the questions with a group of respondents (these respondents did not participate in the actual focus group sessions) who were considered representative of the targeted population. To facilitate discussion among respondents, a name card was made for each person.

Participants were advised to speak one at a time so that others were not interrupted while speaking. If they wished to comment (or contribute further) on a particular issue, they were advised to jot down notes and ideas using a pen and paper provided by the researcher. These materials also allowed respondents to consolidate their ideas before discussing them with others (Chrzanowska, 2002). In concluding the sessions, all participants were debriefed and thanked. Respondents were presented with a thermal mug with a Monash logo on it as a token of appreciation for their participation.

### **4.3.3 Data Analysis**

The raw data from the focus groups went through a process of qualitative data analysis involving seven stages (cf., Kolb, 2008). These steps are outlined below.

#### **4.3.3.1 Organizing Data and Transcription**

First, the raw data collected were: (1) *organized* according to their respective contexts—retail versus airline. Second, raw recordings of the focus groups were (2) *transcribed* from verbal data into written transcripts by the researcher who moderated the focus groups. The researcher listened to the tape recording once before each transcription to familiarize herself with the content of the recording to allow for more accurate transcription. A verbatim transcription (whenever possible) was produced. Any additional notations such as item numbering made by the respondents (participants were asked to prioritize some information from the focus groups) were also included in the master transcripts (Kolb, 2008).

#### **4.3.3.2 Review and Coding**

Once all the data had been transcribed, the researcher began (3) *reviewing* the data for themes and patterns. Recurring ideas, opinions or facts were (4) *coded*. Any key responses mentioned relating to the LP value constructs and the relationship between value perceptions, loyalty (attitudinal and behavioural), and moderators were highlighted. The process of data reviewing and coding was a reciprocal process. The researcher moved back and forth between the two stages until all the concepts that arose had become clear and familiar to the researcher.

#### **4.3.3.3 Categorization**

Next, units of key concepts that had been coded were (5) *categorized* into different groups. Sections of interview material that corresponded to key concepts answering the research questions of this study were first categorized according to the constructs identified in the literature. For example, value perceptions were categorized into functional value, emotional value, epistemic value, social value, conditional value and perceived cost. Then,

sub-groups that surfaced within major categories which were deemed too dissimilar by the researcher were further broken down to form new categories. Subsequently, a content analysis was conducted whereby the frequency of each repeated theme identified within a response category was noted (Fisher, 2004).

#### **4.3.3.4 Relationship Between Concepts**

Once coding and categorization had been completed, the relationships between the identified key concepts that emerged from the data were then (6) *questioned and analysed*. To aid this process, respondents' comments on the relationship between concepts derived from the focus groups were also noted and recorded. These discussions provided preliminary insights into the customer behaviour processes, different consumer markets, and customer idiosyncratic beliefs about LPs. The final step involved (7) *interpreting the findings* from focus group sessions to address the research questions formulated for this study.

Once the entire process had been concluded, the researcher then listened to the recordings again to double-check the interpretations and substantiate the constructs derived from the focus groups.

#### **4.3.4 Qualitative Research Findings**

Findings from the focus groups were used primarily to identify the value constructs pertaining to a LP membership from a customer's perspective. The research findings relating to the focus groups were discussed in more detail in Chapter Three. In the previous chapter (Chapter Three), results from focus groups were used in conjunction with the literature to build the conceptual model guiding this thesis. The list of quotes obtained from participants during the focus groups corresponding to each LP value is presented in Table 3.2. From the focus group discussions, perceived program value was found to consist of six constructs.

These constructs include *reward attractiveness, knowledge benefit, experiential benefit, group belongingness, disclosure comfort, and required effort*. The first five constructs listed reflect the benefits customers derived from their LP membership, and the last construct (i.e., required effort) denotes the cost involved for customers to engage with their LPs. A summary of the findings from the focus group interviews is listed in Table 4.2.

**Table 4.2 Summary of Focus Group Findings**

<b>Perceived Program Value Construct</b>	<b>Descriptive Summary</b>
<p style="text-align: center;"><b>Reward Attractiveness</b></p>	<p>Some participants indicated that they enrol in LPs primarily for the reward incentives they get for joining the membership. The types of reward offered differ from retailer to retailer. Besides monetary rewards, participants also emphasized the availability and alternatives of rewards presented by the firm as an important driver for their program participation. Below are a few quotes obtained during the focus groups that correspond to reward attractiveness:</p> <p><i>“...I joined the LP because I get a \$10 shopping voucher”</i>  <i>“...you can buy food or other products...I like the variety”</i>  <i>“...I get a \$10 shopping voucher...it seems worthwhile...”</i></p> <p>The overall utility of program rewards that entails the economic value, option, and availability of rewards is captured as reward attractiveness.</p>
<p style="text-align: center;"><b>Knowledge Benefit</b></p>	<p>Participants mentioned that they get novel experiences as a LP member through the additional knowledge they receive as a program member. The additional information fulfils customers’ need for information and variety seeking. As a LP member, participants enjoy getting updates regarding a new product, learning a new method of payment, being informed about market trends, and knowing the current activities of the firm. For example, participants mentioned the following during the focus group discussions:</p>

	<p><i>“...they inform you about a new line...new location...it’s a good update...”</i></p> <p><i>“I like to receive them [email] just to see what is on offer”</i></p> <p>Thus, knowledge benefit was operationalized to reflect the ability of a LP to enrich customers’ consumption experience through additional knowledge.</p>
<p><b>Experiential Benefit</b></p>	<p>Participants expressed feelings of joy, excitement, enjoyment, and entertainment during their interactions with LPs. Respondents indicated that they get excited about point collection and reward redemption as a member of a LP. In addition, participants expressed feelings of joy and gratification from receiving rewards from the program. For some customers, interacting with their program membership was an entertaining and fun experience. The following quotes demonstrate customers’ overall positive experience as a LP member.</p> <p><i>“I always feel happy...it’s like you know...out of the blue...someone says “here’s your \$20”...”</i></p> <p><i>“...exciting thing is about getting your rewards...when I get to redeem something...it feels really good”</i></p> <p>The overall affective experience customers have through engaging with their LPs is termed experiential benefit.</p>
<p><b>Group Belongingness</b></p>	<p>Participants of the focus groups also mentioned that enrolling in a LP evokes feelings of belonging to a community. Being a LP member, customers often receive additional benefits and interact with other program members which generates feelings of membership among customers. These values are not necessarily communicated with each other. Rather, it represents participants’ belief of belonging to a group of people. This feeling of group belongingness is more apparent when participants can physically observe being with a group of people who have enrolled in the LP. During the focus group interviews, participants mentioned that:</p> <p><i>“There is something special about being a member of the LP...there are special members only rewards”</i></p>

	<p><i>“I go to the event and I’m looking at all these people who also signed up...it feels like we are a group who share the same interest”</i></p> <p>With that, group belongingness was operationalized to represent customers’ feelings of participation and membership.</p>
<p><b>Disclosure Comfort</b></p>	<p>Participants have voiced their concerns over the way firms have handled the personal information collected through LP memberships. In general, participants reacted negatively to the irrelevant publications and materials sent to them. From the quotes obtained during the focus group interviews, it is apparent that establishing a comfortable communication platform with their customers is important in order for firms’ relationship marketing techniques such as LPs to effectively build customer loyalty. For example, participants stated that:</p> <p><i>“...they’ve got to get your email address...now they regularly send me what their specials are which is really irritating...”</i></p> <p><i>“I just delete [firm’s] email...they go straight to trash...”</i></p> <p>As such, customers’ feelings of being at ease when disclosing personal information as a LP member are captured in the construct termed disclosure comfort.</p>
<p><b>Required Effort</b></p>	<p>Participants mentioned that they are required to make an effort to participate or engage with their LP before they can reap the rewards of their memberships. These efforts reflect the hassle customers go through to sign up for the LP, carrying the physical card and presenting it to an employee during check-out, satisfying the minimum purchase amount for reward redemption, cost of travel, and time sacrificed to interact with their LPs. The following quotes illustrate customers’ perceived costs associated with LP participation:</p> <p><i>“I find carrying the physical card very inconvenient...”</i></p> <p><i>“[the LP reward] is totally unattainable!”</i></p> <p>As a result, required effort is operationalized to capture all efforts required by customers to engage with their LP membership.</p>



#### 4.4 Justification for Research Context

As stated in Section 4.3.2, focus group discussions were carried out in two different contexts (i.e., airline and retail) that represented different levels of consumer involvement during consumption. Focus groups were conducted in two different contexts predominantly to investigate whether consumer product involvement affects the type of LP value customers derive from their program membership. Between the two contexts chosen, the retail industry was selected as the research context for this study for three reasons. First, findings from the qualitative research found that customers of both contexts (retail and airline) regardless of the level of product involvement derive comparable constructs of value from their LPs. Therefore, it is assumed in this study that the research context would not have a major impact on the types of value customers derive from joining a LP. Second, feedback from the focus group discussions indicated that focusing on the retail sector has fewer complications in comparison to the airline context. Customers of airline LPs experience higher restrictions in their program selection and place different emphasis on various value constructs of a LP depending on whether they are flying for business or pleasure, flight availability, travel distance and travel purpose. These factors are illustrated by the following quotes from the focus group members:

*“... benefits of having a loyalty program were part of the negotiation around the organization...”*

*“... depends whether it’s for business or it’s for personal ... and domestic or international ... your thinking is different depending on the purpose of the trip...”*

*“... there are so many different factors that kick in ... so when you are international it’s not just about lounge access ... you want comfort...”*

*“... (in order for me to switch to another program) ... they need to have the same destinations, the same frequency of flights ... that’s the key thing really...”*

*“... it’s an important point whether you’re travelling for work or personal ... if I was paying out of my own pocket, I’ll probably be more price conscious...”*

*“... if I was paying it (price) would be more of a consideration...”*

Given the considerations listed above, the retail sector rather than the airline industry was chosen as the research context primarily because it does not have as many complicated structural aspects as airline LPs. Third, the market size of the retail industry (\$US206 million) is much bigger than the airline industry (\$US20 million) (Euromonitor International, 2010) and the use of a LP has become an increasingly common tool among retailers to differentiate themselves in today's competitive environment (Euromonitor International, 2010). In fact, the retailing industry is one of the markets with the largest number of LPs around the world (Gomez et al., 2006).

#### **4.5 Explanatory Research Method**

This section describes the quantitative method designed to address the issues raised under research theme two and three of this study. A cross-sectional survey research method was adopted whereby information is collected at one point in time (Creswell, 2003). A detailed description on the procedures undertaken to carry out the survey research method is discussed below.

##### **4.5.1 Quantitative Research Design**

A survey method, in particular, an online survey was employed for this study. The survey was cross-sectional rather than longitudinal. For the cross-sectional survey, the researcher first developed a structured closed-ended questionnaire using Qualtrics, a research software where the questionnaire was also hosted. Qualtrics allows the researcher to have complete control over the data collection process including construction, distribution, management, and analysis of the survey. In particular, the researcher ensured that the online questionnaire designed was user-friendly and database efficient.

**User-friendly.** A minimalistic design was used for the graphical user interface of the website to allow for straightforward and easy navigation by the respondents. This is important as a simple web-design is more likely to increase participative interest and reduce operation fatigue. The online survey also had a progress bar to indicate to respondents the percentage of questionnaire completion. Important elements in the questionnaire were highlighted using special features such as bold font and bright colours to enhance the accuracy of survey responses.

**Database Efficient.** The design of the online questionnaire included four main features to minimize and eliminate errors due to poor database management. First, the survey was protected using a browser-based cookie to identify whether someone has taken the survey. This feature prevents the same respondents from attempting to complete and submit the questionnaire multiple times. Second, error control mechanisms were put in place to ensure all questions in the survey were answered before submission. An incomplete question will trigger an error message in the survey that requests respondents to complete the unanswered question. Third, backward navigation was not allowed in the survey to prevent respondents from changing their responses, therefore, the “back” button was removed from the online questionnaire. Fourth, the online questionnaire was locked so that only authorized personnel (i.e., the researcher and web designer) were allowed to make changes to the survey.

After developing the online questionnaire, an assigned market research company was appointed to identify potential respondents for the study through various consumer panels. Screening criteria for respondent inclusion in the study were specified to the research company so that appropriate participants were recruited. The screening criteria imposed for this study and its justifications are discussed in Section 4.5.3 (i.e., Sampling Plan). Once recruited, respondents were provided with a link by the research company through an

invitation email to access the questionnaire online. The online survey consisted of several sections. Once on the survey website, respondents were led to read a statement that explained the purpose of the research, sought respondents' consent to participate in the survey, and directed them to the main questionnaire. A copy of the explanatory statement is provided in Appendix III.

After giving their consent, respondents were asked a few screening questions to ensure they met the requirements to participate in the study. Participants have to: (1) be over 18 years of age, (2) reside in Australia, and (3) be enrolled in either MyerOne or Priceline Sister Club. As mentioned in Chapter Two, the top five LPs in Australia (membership number-wise) are: FlyBuys, Qantas Frequent Flyer, Everyday Rewards, MyerOne, and Priceline Sister Club (Chappell, 2010). Given that this research is focusing only on the retail industry, the Qantas Frequent Flyer program was ruled out from this study. The remaining four LPs can be categorized into two different types of LPs— a stand-alone program (SAP) and a multi-vendor program (MVP). FlyBuys and Everyday Rewards are MVPs whereby a few brands form an alliance so that customers can accumulate points from participating brands across retail categories (Sharp & Sharp, 1997). On the other hand, MyerOne and Priceline Sister Club card are SAPs where the programs are solely managed by the implementing firm.

For the purpose of this study, only SAPs were considered for two reasons. First, previous research has shown that SAPs have more effective retention effect than MVPs because MVPs fail to build switching barriers for the participating firms (Rese, Hundertmark, Schimmelpfennig, & Schons, 2013). As such, customers of a MVP can easily defect to competing firms. Second, a MVP dilutes a customer's associations with any participating brands. Often, MVPs encourage customers' buying behaviour across multiple brands as substantial point accumulation is often required within a specific time before buyers can redeem rewards (Sharp & Sharp, 1997). As a result, members of a MVP might have

difficulty evaluating their brand loyalty towards the participating firms that implemented the program as there is more than one company involved. Given that the aim of the current study is to investigate the effect of different program value constructs on customer loyalty, the impact of multiple firms' participation on a LP's effectiveness was minimized through the exclusion of MVPs. Thus, participants must be either a MyerOne or Priceline Sister Club member to qualify as a respondent for this study.

To minimize respondents' choice bias towards MyerOne and Priceline Sister Club, they were presented with a list of LPs and were asked to select the LPs they are a member of. Since respondents were not aware of the selection criteria specified *a priori*, their choice of LP should not be biased towards MyerOne or Priceline Sister Club. In instances where both MyerOne and Priceline Sister Club were selected, respondents were asked to rank the selected LPs based on their preference. Between the two LPs, the preferred program was used as the reference for the questionnaire. Participants who failed to satisfy the screening criteria were automatically dropped from the survey.

For the main survey, respondents were given instructions/explanations to assist them in answering questions that capture information or respondents' opinions regarding: (1) program value constructs, (2) attitudinal loyalty including program loyalty and brand loyalty, (3) behavioural loyalty including SOP, SOW, WOM, WTP, (4) moderating variables such as member duration and customization, and (5) demographic information about the respondent such as gender, annual income, and perceived distance between focal store and home. A detailed description of the questionnaire is given in Section 4.5.6, and the complete questionnaire is presented in Appendix VII. Upon completion of the survey, respondents were thanked and directed to a new website provided by the research company wherein respondents received points or credits for their participation. These credits can later be used for cash redemption.

### 4.5.2 Methodology Justification

An online survey was deemed most appropriate for this study because it represents an economical and time-efficient approach to collecting a significant amount of data whereby the findings can be generalized to the population. In general, there are four advantages of using a survey approach: (1) standardization, as all respondents are subjected to the same questions, (2) easy administration, (3) standardized analysis approaches, and (4) the capability to reveal sub-group differences (Burns & Bush, 2006). Computer-administered surveys also enhance the speed of data collection, reduce the cost of data collection, allow wide geographical coverage, and permit real-time capture of data. Additionally, an online questionnaire provides respondents with greater flexibility as they can fill in the survey at a time that is most convenient to them (Churchill & Iacobucci, 2005).

### 4.5.3 Sampling Plan

The sampling plan for the explanatory research method of this study is specified as follow:

**Age Criteria.** Respondents must be over 18 years of age. Children or young people under the age of 18 were not included in the study for ethical reasons.

**Loyalty Program Enrolled.** Based on the information gained from the focus group interviews, a review of the practitioner literature, and statistics about LP membership in Australia, it was decided that the MyerOne and Priceline Sister Club would be the focus of this study. The ratio of respondents recruited by the assigned marketing research company from the two LPs was approximately 50:50. According to the latest statistics obtained, MyerOne has 3.7 million members and Priceline Sister Club has 3.3 million members (Chappell, 2010). In an attempt to obtain an accurate data representation of the current market situation, the ratio of respondents

recruited resembled the ratio of existing members each program has, which is approximately a 50-50 split.

**Residency Criteria.** Participants were residents of Australia. Participants were recruited from capital cities in the major states in Australia where the retailer operates. Thus, Perth (WA), Adelaide (SA), Melbourne (VIC), Sydney (NSW), Tasmania (TAS), and Brisbane (QLD) represent the locations from which respondents are drawn for this research. In an effort to obtain a representative sample, the number of respondents recruited from the six different states closely represented the population residing in each of those states of Australia. Data on population size in each state were obtained from the Australian Bureau of Statistics (Australian Bureau of Statistics, 2012). The percentage splits among the six states were approximately 11% for WA, 8% for SA, 26% for VIC, 33% for NSW, 2% for TAS, and 20% for QLD.

#### **4.5.4 Sample Size**

The sample size for this study was guided by the requirements of the analysis technique adopted, namely, Structural Equation Modelling (SEM). The size of the sample plays a crucial role in the estimation and interpretation of results obtained because it provides the foundation for estimation of sampling error (Hair, Black, Babin, & Anderson, 2010). In general, SEM requires a larger sample size in comparison to other multivariate techniques. The generally accepted ratio to minimize deviation from normality is 15 sample units per parameter estimated in the model (Hair et al., 2010). Based on this assertion, the targeted sample size for this study was estimated to be 390 (27 [the number of composite indicators used] x 15 = 405) respondents. However, given the complexity of the developed research framework (a model with more than seven constructs), a more conservative sample size of a minimum of 500, as suggested by Hair et al. (2010), was decided for this study.

This sample size is sufficiently large enough to ensure maximum likelihood estimation (MLE) with sound goodness-of-fit measures and accommodates up to roughly 10% missing (or unusable) data (Hair et al., 2010).

#### **4.5.5 Pre-testing of Questionnaire**

Before the final drafted questionnaire was administered to respondents, it was first pre-tested among thirty respondents recruited through a convenience sample that was deemed similar to those from the target population (i.e., customers who are enrolled in either MyerOne or Priceline Sister Club). Pre-testing is particularly important when measures are adopted from various sources or are to be applied in a specific context (Hair et al., 2010), in this case, LP membership in the retailing context. Feedback obtained from the pre-test, such as any ambiguous questions or instructions or grammatical errors, were corrected and modified before officially administering the questionnaire. The data collected from the pre-test stage was not included in the final data set used for SEM analysis.

#### **4.5.6 Research Instrument**

The primary data collection instrument used in this research study is an online, self-administered, structured questionnaire. The complete questionnaire is presented in Appendix VII. The questionnaire is comprised of five sections. Each section commenced with an instruction or relevant explanation to the respondent. The first four sections contained questions reflecting relevant concepts that are of interest in the theoretical framework. Items pertaining to a participant's demographic and LP membership information which require relatively little cognitive processing are placed in the last section of the questionnaire to minimize the impact of common method variance (CMV) caused by participant's transient mood states such as boredom and fatigue (Lindell & Whitney, 2001; Podsakoff, MacKenzie, Lee, & Podsakoff, 2003). All questions referring to a respondent's background and LP



membership were measured using nominal and ordinal scales whereas items for other sections were measured using a 7-point Likert scale (ranging from 1[strongly disagree] to 7[strongly agree]), except customer's SOW and SOP. In total, seventy-eight items were included in the final questionnaire. Table 4.3 summarizes all variables measured in each section of the questionnaire, their constructs, the number of items, and the literature from which the items were obtained.

The measurement scales for the program value constructs in this study were developed from both the qualitative interviews undertaken and previous conceptual discussions in the literature. Established items from prior literature were used primarily as the source of measurement for the value constructs, while findings obtained from the qualitative enquiry were mainly used to refine and enrich existing scales derived from prior studies. The attitudinal loyalty constructs were measured using eleven items derived from scales from past studies (e.g., Baloglu, 2002; Wirtz et al., 2007; Yi & Jeon, 2003). Word-of-Mouth was measured using five items derived from the scales of Zeithaml, Berry and Parasuraman (1996). Items reflecting Willingness-to-Pay were adopted from Choi, Kim, Kim, and Kim (2006); Fullerton (2003); and Zeithaml et al. (1996). Share-of-Purchase and Share-of-Wallet each comprised one item derived from De Wulf et al. (2001) and Wirtz et al. (2007). The program customization scale consisted of 4 items and was derived from Gwinner et al.'s (1998) special treatment benefit scale. A three-item per factor rule, as guided by the principles of SEM analysis, was adopted for all concepts represented by a latent construct to provide adequate identification for the construct (Hair et al., 2010). All measures adopted for this study are listed in Appendix IV.

**Table 4.3 Research Instrument Adopted**

Variables	Q. Section	Constructs	Number of Items	Sources
Independent Variables (LP Value Constructs)	1	Reward Attractiveness	7	Fullerton (2003) Gwinner et al. (1998)
		Knowledge Benefit	5	Holbrook & Hirschman (1982) Johnson (1999)
		Experiential Benefit	11	Mathwick et al. (2001) Mimouni-Chaabane & Volle (2010)
		Group Belongingness	10	Noble & Phillips (2004) O'Brien & Jones (1995)
		Disclosure Comfort	4	Qualitative Enquiry, i.e., focus group discussions Rosenbaum et al. (2005)
		Required Effort	6	Spake et al. (2003) Dowling & Uncles (1997)
Mediating Variables (Attitudinal Loyalty)	2	Program Loyalty	4	Yi & Jeon (2003) Wirtz et al. (2007)

		Brand Loyalty	7	Morgan & Hunt (1994) Baloglu (2002) De Wulf et al. (2001) Hennig-Thurau et al. (2002)
Dependent Variables (Behavioural Loyalty)	3	Word-of-Mouth (WOM)	5	Zeithaml et al. (1996)
		Willingness-to-Pay (WTP)	4	Choi et al. (2006) Fullerton (2003) Zeithaml et al. (1996)
		Share-of-Purchase (SOP)	1	De Wulf et al. (2001)
		Share-of-Wallet (SOW)	1	Wirtz et al. (2007)
Moderating Variables	4	Program Customization	4	Gwinner et al. (1998)
		Duration of Program Participation	1	-
Demographic Variables	5	Gender, Age, Nationality, Monthly Income, Loyalty Program Enrolled, Tier-level, Years of Participation, Store Distance from Participants' Home	8	

## **4.6 Data Analysis Strategy**

Once the data collection process has been completed, the raw data was subjected to preliminary data screening to detect any incorrect data entries, missing data, and outliers. Following this, descriptive analyses were performed to get information on respondent characteristics. Details such as gender, age, income level, and nationality were tabulated. After generating a demographic profile for respondents, non-demographic items were then subjected to Exploratory Factor Analysis (EFA) to determine the underlying dimensions, and SEM Confirmatory Factor Analysis (CFA) to confirm whether the data fits the specified model structure. Then, the conceptual framework shown in Chapter Three was analysed to validate the hypotheses formulated for this study.

### **4.6.1 Structural Equation Modelling (SEM)**

Structural Equation Modelling (SEM) was the primary analysis technique used for this study. Considering the size and complexity of the framework to be tested, SEM is an appropriate and efficient multivariate analysis technique because it allows estimation of multiple regressions simultaneously (Hair et al., 2010; Schumacker & Lomax, 2004). It is particularly useful in models where one dependent variable becomes an independent variable in subsequent dependence relationships (Hair et al., 2010). A summary of the activities that were carried out under each analysis strategy is summarized in Table 4.4.

**Table 4.4 Analysis Strategy and Activity**

<b>Analysis Strategy</b>	<b>Analysis Activity</b>
Preliminary Analysis	Preliminary examination of data: (1) missing data; (2) outliers; (3) normality; (4) multicollinearity; and (5) respondent profile.
Exploratory Factor Analysis (EFA)	Identification of the underlying dimensions in the data and purification of the research scales using exploratory factor analysis and scale reliability analysis: (1) EFA of the value constructs; (2) EFA of attitudinal and behavioural loyalty dimensions; and (3) EFA of moderators.
Structural Equation Modelling (SEM)	The research model was assessed through structural equation modelling using AMOS 20. As per the advice of Anderson and Gerbing (1988), a two-step approach to SEM was employed.
SEM Measurement Model Analysis	Assessment of the measurement model using confirmatory factor analysis (CFA): (1) CFA of the value constructs; (2) CFA of the attitudinal and behavioural loyalty dimensions; and (3) CFA of the overall model.
SEM Reliability and Validity Measures	Assessment of the reliability and validity of the research measures using SEM: (1) item reliability; (2) scale reliability; (3) convergent validity; (4) discriminant validity; and (5) predictive validity.
SEM Structural Model Analysis	Assessment of the structural model and research hypotheses using SEM: (1) analysis of perceived program value constructs impact on loyalty; (2) analysis of loyalty construct relationships; (3) analysis of the moderator relationships; and (4) analysis of the full research model.
Moderation Testing Analysis	Assessment of moderation effects of: (1) program customization; and (2) duration of program participation using multi-group analysis of invariance, as recommended by Hair et al. (2010), and moderated regression as prescribed by Hayes and Matthes (2009).

#### **4.7 Ethical Consideration**

Following the Monash University research policy, this research has obtained ethical approval, on the 8<sup>th</sup> December 2010, from Monash University Human Resource Ethics Committee (MUHREC) to carry out the research methodologies specified in the above sections. The researcher adhered to the guidelines provided by the ethics committee during the implementation of both exploratory and explanatory research. In essence, three ethical responsibilities have been enforced: (1) Voluntary Participation – respondents were informed that their participation is voluntary and they are under no obligation to consent to participation; (2) Consent was obtained, when necessary, to video-record the interviews; (3) Anonymity and Confidentiality – participants were assured that all provided information was strictly confidential and that they will not be identified in any report. The approval certificate obtained from MUHREC to conduct this study is included in Appendix V.

#### **4.8 Conclusion**

This chapter outlines a detailed method plan adopted to investigate the formulated research themes of this study. The first section reviews the qualitative inquiry and justifies the use of focus groups to address objectives underpinning research theme one. Findings from the focus group discussions assisted the researcher in selecting the most appropriate context for this study – the retail market. Next, the chapter details the process involved in the conduct of the quantitative inquiry. An online questionnaire was identified as being the most appropriate technique for this inquiry. The second section provides an elaborated research design used for the quantitative research method. The developments of the online questionnaire, sampling plan, choice of scales, data collection process, and a brief review of the statistical approaches to data analysis were discussed. The next chapter discusses the steps taken to purify the data collected and the analyses adopted to validate the measures used in this study.

## **Chapter Five**

### **Data Purification, Confirmation and Validation of Measures**

#### **5.1 Chapter Summary**

This chapter, in conjunction with Chapter Six, analyses the data collected and reports the results obtained for this study. The first section in this chapter provides a preliminary analysis of the data which includes the examination of missing data, outliers, normality, multicollinearity, and common method variance bias. Following that, a demographic profile of the respondents was generated and the representativeness of the research sample to the population was tested. The second section in this chapter presents the underlying dimensions in the data identified using exploratory factor analysis and the internal consistency of the items tested using scale reliability analysis. In the last section of this chapter, the first step of the two-step approach to structural equation modelling is undertaken. This step involves validating the measurement model of this study using confirmatory factor analysis. Through this approach, measures used are examined for their goodness-of-fit to the data and research scales are validated for their uni-dimensionality, reliability and validity. Collectively, this chapter serves to validate the measurement model prior to estimating the full structural equation model in Chapter Six.

#### **5.2 Preliminary Analysis**

Preliminary analysis of the data followed six steps: (1) data preparation; (2) analysis and treatment of missing data; (3) detection and examination of outliers; (4) assessment of normality; (5) testing for multicollinearity; and (6) common method variance. After data purification, a respondent profile is provided and the representativeness of the research

sample to the population is compared. A brief discussion of these preliminary analyses and their findings is provided below.

**Data Preparation.** Data preparation involved two steps. First, the progress of each online questionnaire was checked. Incomplete surveys were discarded, and the remaining questionnaires were checked for errors and number coded for future reference. Second, the data from the survey were coded into SPSS, version 20, for electronic storage and statistical analysis. The accuracy of data entry was checked using frequency distributions and descriptive analyses to detect any out-of-range scores. Finally, any errors identified were corrected.

**Missing Data.** Due to the nature of the survey (online questionnaire), there were no missing data in the data set. The researcher activated a programming function “forced response” in the survey software, “Qualtrics”, to prevent respondents from skipping any questions and avoid the submission of incomplete surveys.

**Outliers.** Outliers were identified through univariate and multivariate analyses. Univariate outliers were detected by inspecting the standardized scores of each case for all variables. Given the relatively large sample size ( $n = 628$ ), a few cases with standardized scores exceeding 3.29 are expected (Tabachnick & Fidell, 2007). Multivariate outliers were detected through computing the Mahalanobis  $d^2$  distance for each case (Tabachnick & Fidell, 2007). While a few genuine univariate and multivariate outliers were detected and excluded from the remaining analysis, other outlying observations were believed to be genuine respondents’ opinions which reflected the intended population. As such, these outlying observations were retained in the analysis.



**Normality.** The assumption of univariate normality was assessed using the Kolmogorov-Smirnov and Shapiro-Wilk test of distribution normality (Tabachnick & Fidell, 2007). These tests compare the scores in the data to a normally distributed set of scores with the same mean and standard deviation (Field, 2005). The results of these tests indicated that the distributions deviate somewhat from normality. Subsequent analysis was then undertaken to further assess the skewness and kurtosis of the distribution using a z-test (Tabachnick & Fidell, 2007). A conservative approach was adopted with Z-values that exceeded the critical value of  $\pm 3.29$  ( $p < 0.001$ ) indicating violations of normality (Field, 2005). While values for kurtosis were all below the threshold of  $\pm 3.29$ , analysis of skewness confirmed that the data was somewhat negatively skewed. Besides inference analyses, graphical analysis of normality was also assessed (i.e., the shape of distribution for each variable was examined) to make an informed decision about the extent of non-normality. Graphical analysis further confirmed the data was somewhat negatively skewed. Given the large sample size ( $n = 628$ ), the assumption of normality is likely to be rejected when there are only minor deviations from normality due to the small standard error (Tabachnick & Fidell, 2007). To accommodate a non-normal distribution, data transformation was considered. However, it was decided that such action might negatively influence the interpretation of the variables in the research model, hence data transformation was not performed (Hair et al., 2010). Besides, the departure from normality was not so extreme that the original variables should never be used in subsequent analysis. Furthermore, large sample sizes tend to reduce the negative effects of non-normality (Hair et al., 2010). Also, a statistically significant skew in large samples often does not deviate enough from normality to substantively affect results (Tabachnick & Fidell, 2007). With the above reasoning, the non-normality identified in this data set was not expected to have an adverse impact on the analysis conducted in this study.

**Multicollinearity.** Multicollinearity was assessed using a correlation matrix, tolerance and variable inflation factor (VIF) indicators. The tolerance and VIF indicators were generated using the stepwise procedure of multiple regression analysis. Examination of the correlation matrix of all predictor variables showed no extreme high correlation ( $\geq 0.9$ ). The highest correlation between predictors was found between program loyalty and experiential benefit, at 0.82. Inspection of the tolerance and VIF indicators also supported that multicollinearity is not a problem in this data set. All tolerance values were  $< 0.10$ , and none of the VIF indexes were  $\geq 10$  (Field, 2005).

**Common Method Variance (CMV).** To control for the possible contaminating effect of CMV, various procedural remedies were put in place in the design of the study's data collection. First, the questionnaire was pre-tested before being officially administered to detect any vague concepts, ambiguous terms, complex marketing jargon, and double-barrelled questions. Ambiguous items are the biggest source of CMV as they encourage respondents to answer questions systematically using heuristics or at random (Podsakoff et al., 2003). Second, two marker items were inserted into the questionnaire to help identify respondents who were possibly affected by transient mood states such as boredom or fatigue which can produce artificial covariance in self-reported measures (Podsakoff et al., 2003). Respondents who failed to correctly answer the marker items were automatically dropped out from the sample. Third, respondents were reassured of their anonymity and identity confidentiality at the beginning of the survey. Hence, respondents should not have felt the need to apprehend their evaluations or to edit their answers in a socially desirable manner.

Procedural remedies aside, Harman's single-factor test and Marker-Variable technique were performed to eliminate alternative explanations for the observed

relationships between measures in this study (Podsakoff et al., 2003). Applying *Harman's test*, EFA was performed on all the measures used in the present study. Results from EFA revealed the presence of nine distinct factors with Eigenvalues greater than one. Furthermore, the variance explained by the first factor extracted from EFA was not greater than 50%. In addition, the hypothesized model ( $\chi^2 = 1069.9$ ,  $df = 296$ , CFI = 0.96, TLI = 0.95, RMSEA = 0.06) was found to have a significantly better fit to the data than the one-factor model ( $\chi^2 = 6946.6$ ,  $df = 377$ , CFI = 0.67, TLI = 0.64, RMSEA = 0.18) using the CFA technique.

For greater sensitivity in detecting moderate to minor levels of CMV effects, a marker-variable analysis was performed to control for the possible contaminating effect of CMV (Lindell & Whitney, 2001). For this study, brand parity was inserted into the questionnaire design as the marker-variable. Brand parity reflects the extent to which customers perceive major brand alternatives within a particular product/service category to be similar (Li, 2009). Applying Lindell and Whitney's (2001) framework of *marker-variable analysis*, the average correlation between the marker variable and all other variables,  $r_m$ , was first estimated and found to be 0.06. Based on the estimated  $r_m$ , the CMV-adjusted correlations were calculated. Results from this test showed that all of the CMV-adjusted correlations remain statistically significant, implying that CMV did not seriously distort the results obtained in this study (Lindell & Whitney, 2001). Collectively, it can be concluded that CMV did not appear to be a significant problem in the present study.

**Respondent Profile.** The demographic profile for respondents is shown in Table 5.1. Respondents were profiled according to their LP membership. As can be seen in Table 5.1, the majority of respondents are aged between 25 to 64 years for both programs. More than 65% of the respondents for both programs were females. While the MyerOne sample had a more evenly distributed income, the majority of

respondents from the Priceline Sister Club sample were earning less than \$60,000 per annum. As shown in Table 5.1, more than half of the respondents from both programs reside in either New South Wales or Victoria.

**Assessment of Representativeness.** The demographic profile of respondents was then assessed for representativeness against data that is available about the Australian loyalty card population. As indicated in Table 5.1, more than 65% of both loyalty program respondents were female. This statistic is comparable to the population statistic where it was reported that there are more female card holders than men (Lee, 2010). Furthermore, effort has been made to recruit a sample that represents a comparable ratio to the population residing in each state of Australia.

**Table 5.1 Respondent Demographic Profile**

Characteristics	MyerOne Sample (n=312)		Priceline Sister Club Sample (n=316)	
	Frequency (n)	Percentage (%)	Frequency (n)	Percentage (%)
<b>Age</b>				
18 – 24	18	5.8	14	4.4
25 – 34	78	25.0	46	14.6
35 – 44	50	16.0	65	20.6
45 – 54	66	21.2	88	27.8
55 – 64	68	21.8	75	23.7
65+	32	10.3	28	8.9
<b>Gender</b>				
Male	104	33.3	43	13.6
Female	208	66.7	273	86.4
<b>State</b>				
South Australia	32	10.3	34	10.8
Tasmania	1	0.3	7	2.2
New South Wales	92	29.5	97	30.7
Victoria	99	31.7	107	33.9
Western Australia	39	12.5	18	5.7
Queensland	49	15.7	53	16.8
<b>Income (Annual)</b>				
Less than \$20,000	35	11.2	75	23.7
\$20,000 - \$40,000	45	14.4	88	27.8
\$40,001 - \$60,000	63	20.2	57	18.0
\$60,001 - \$80,000	65	20.8	29	9.2
More than \$80,000	74	23.7	25	7.9
Not Applicable	30	9.6	42	13.3

### **5.3 Exploratory Factor Analysis (EFA)**

Exploratory Factor Analysis was used to achieve a more parsimonious model by reducing the large data set into a smaller set of factors (Tabachnick & Fidell, 2007). This is achieved by explaining the maximum amount of common variance among a group of interrelated variables using the smallest number of factors (also known as exploratory concepts) (Field, 2005). In this section, the scales measuring related variables were subjected to factor analysis together, and the number of factors extracted was compared to the initial conceptualized model structure posited in Chapter Three.

#### **5.3.1 Assessing Suitability for EFA**

Before using factor analysis to uncover the underlying dimensions of the data, four tests were undertaken to assess the suitability for factor analysis to be conducted on the data. First, Bartlett's Test of Sphericity was used to assess the overall significance of the correlation matrix. A significant value ( $p < 0.05$ ) indicates that the correlation matrix is not an identity matrix, hence some relationships between the variables exist. Second, the Kaiser-Meyer-Olkin (KMO) measure of sampling adequacy was consulted to test the suitability of the data for factor analysis. The general rule of thumb for KMO is 0.60. A KMO value that is greater than 0.60 indicates that the degree of inter-correlations among variables is substantial enough for factor analysis to yield distinct and reliable factors (Field, 2005). Third, the correlation matrix was examined to ensure that the pattern of the inter-item correlations were substantial (Hair et al., 2010). Generally, a correlation value of between 0.30 and 0.90 is considered adequate for factor analysis. Fourth, the anti-image correlation matrix was examined. Diagonal elements of the anti-image correlation matrix need to be above the value of 0.50 for factor analysis to be appropriate.

Analyses yielded significant values for Bartlett's Test of Sphericity, KMO values greater than 0.60, and adequate values for both the correlation and anti-image matrices. Collectively, the results of these tests indicated the suitability of the data set to be factor analysed.

### **5.3.2 Factor Extraction Method**

The factor extraction method used was principal components as the objective of factor analysis was to summarize the data into a minimum number of factors (Hair et al., 2010). Applying Kaiser's rule as a starting point, a minimum Eigenvalue of 1 was used as the guideline for factor extraction (Hair et al., 2010). Simultaneously, the Cattell screen plot was used as a diagnostic tool to identify the optimum number of factors to be extracted from the data. Using these two criteria, several factor solutions were examined before the most representative and parsimonious set of factors was found to represent the data. When more than one factor was extracted, factor rotation was performed to increase the interpretability of the initial un-rotated factor solutions. Since these factors were expected to be correlated, oblique rotational procedures were applied using SPSS's Direct Oblimin method.

### **5.3.3 Factor Loadings and Communalities**

The general rule of thumb in factor analysis is that factor loadings  $< 0.30$  are considered to be insignificant. Hence to facilitate the interpretation of the factor pattern, item loadings  $< 0.30$  were not displayed in the EFA tables and loadings were ordered by size. According to Hair et al. (2010), for a sample size  $\geq 300$ , factor loadings  $\geq 0.3$  are considered as having practical significance.

### 5.3.4 Scale Reliability

Cronbach's Alpha and item-to-total correlations were used for the initial scale reliability analyses. As an index of scale reliability, coefficient alpha scores  $\geq 0.70$  were considered indicative of a reliable measurement scale (Garver & Mentzer, 1999). Item-to-total correlations were also used as a guide for an item's reliability. Any item that produced a sharp drop in item-to-total correlations ( $> 0.20$ ) was considered for deletion. The results of EFA for all latent constructs in the research framework are discussed next.

## 5.4 EFA and Reliability Analysis of Program Value Constructs

**Program Value Constructs.** The conceptual model in Chapter Three hypothesized LP value as comprising six primary constructs, namely, *reward attractiveness*, *knowledge benefit*, *experiential benefit*, *group belongingness*, *disclosure comfort*, and *required effort*. The items for these constructs were analysed together using the principal components method of factor extraction. As a result, six factors accounting for 77.54% of the total variance were extracted, hence supporting the initial conceptualization of LP value in Chapter Three. Although the last factor extracted - reward attractiveness has an Eigenvalue  $< 1$ , this factor was retained in the model because of strong theoretical support for its inclusion. Given the sufficiently large sample size, the data set was randomly split into half to examine the stability of the six-factor solution extracted. The rotated solution for both halves of the data set yielded identical results. With the above rationale, a six-factor structure for LP value was adopted (Fabrigar, Wegener, MacCallum, & Strahan, 1999). The results of the factor analysis are shown in Table 5.2.

Reliability analysis using Cronbach's Alpha further supported the internal consistency and reliability of these items (reward attractiveness  $\alpha=0.92$ , knowledge benefit  $\alpha=0.92$ , experiential benefit  $\alpha=0.97$ , group belongingness  $\alpha=0.97$ , disclosure comfort  $\alpha=0.96$ ,

**Table 5.2 EFA of Program Value Constructs**

Scale items Sample n=628	Factor Loading						Scale Statistics		
	F1	F2	F3	F4	F5	F6	Mean	SD	I <sub>TOTAL</sub>
<b>Group Belongingness</b>									
gb6 like part of a family as a member	0.90						3.83	1.41	0.86
gb7 belong to a community of people who share the same values	0.89						3.89	1.41	0.86
gb1 share the same values as the brand	0.88						4.08	1.34	0.85
gb10 more privileged than other customers	0.87						3.79	1.46	0.80
gb5 part of a community who likes the brand	0.85						4.16	1.41	0.86
gb9 feel appreciated as a member	0.82						4.18	1.43	0.87
gb2 feel close to the brand	0.81						4.08	1.35	0.87
gb8 feel like an important customer to the brand	0.81						4.07	1.42	0.86
gb3 strong sense of identification with the brand	0.77						4.10	1.45	0.85
gb4 like a regular customer of the brand	0.46						4.48	1.44	0.70
<b>Required Effort</b>									
re5 go out of my way to use the program		0.79					3.36	1.55	0.61
re4 need to make additional purchases to redeem rewards		0.75					3.90	1.60	0.68
re1 process of redeeming rewards is troublesome		0.72					3.00	1.37	0.69
re6 too troublesome to use the program		0.70					2.81	1.33	0.68
re3 required points are too difficult to achieve		0.70					3.99	1.57	0.67
<b>Disclosure Comfort</b>									
dc4 secure disclosing information			0.96				4.69	1.16	0.90
dc1 comfortable disclosing information			0.95				4.68	1.20	0.91
dc3 worry-free when disclosing information			0.94				4.54	1.25	0.85
dc2 very much at ease			0.92				4.55	1.23	0.90



<b>Experiential Benefit</b>									
eb7 feel good when I redeem points for rewards				0.90			5.02	1.30	0.87
eb6 redeeming points is enjoyable				0.90			4.92	1.32	0.86
eb11 happy receiving rewards for my purchases				0.85			5.18	1.21	0.83
eb8 enjoy using the program				0.82			4.89	1.27	0.88
eb1 excited about the rewards				0.81			4.53	1.40	0.89
eb3 enthusiastic about collecting points				0.78			4.55	1.43	0.88
eb4 the program is appealing to me				0.78			4.85	1.32	0.88
eb2 excited to use the program				0.75			4.34	1.41	0.87
eb9 feel rewarded by the program				0.73			4.70	1.41	0.89
eb10 delighted by the rewards				0.67			4.54	1.32	0.87
eb5 collecting points from program is entertaining				0.66			4.23	1.40	0.79
<b>Knowledge Benefit</b>									
kb1 discovered new products					0.97		4.08	1.52	0.85
kb2 discovered products wouldn't have found					0.89		3.83	1.54	0.83
kb3 tried new products					0.83		4.13	1.59	0.73
kb4 learnt more about the products					0.79		4.14	1.50	0.80
kb5 get to know more about the company					0.68		4.01	1.43	0.75
<b>Reward Attractiveness</b>									
ra7 program provides good variety of redemption options						0.58	4.32	1.41	0.73
ra6 variety of rewards offered by program is excellent						0.49	4.42	1.39	0.81
ra4 program offers attractive financial benefits						0.42	4.40	1.42	0.80
ra3 program provides good value for money						0.40	4.60	1.37	0.82
ra2 program is very economical						0.40	4.44	1.43	0.77
<b>Eigenvalue</b>	21.65	2.79	2.61	1.64	1.39	0.93			
<b>% of Variance Explained</b>	54.12	6.97	6.53	4.11	3.48	2.33			
<b>Alpha</b>	0.97	0.85	0.96	0.97	0.92	0.92			

Note:  $I_{TOTAL}$  refers to item-to-total correlations

required effort  $\alpha=0.85$ ). In total, three items (*ra1: get monetary reward for purchases; ra5: offers rewards that I want; re2: minimum purchase required for reward redemption is unreasonable*) were removed from the original scale due to either an insignificant factor loading or high cross-loadings. The final results showed forty items which factored into the six constructs named: reward attractiveness, knowledge benefit, experiential benefit, group belongingness, disclosure comfort, and required effort.

### 5.5 EFA and Reliability Analysis of Attitudinal Loyalty

**Brand Loyalty.** Seven items reflecting the construct brand loyalty were subjected to factor analysis using the principal components method of factor extraction. Factor analysis of these items resulted in the extraction of one factor that accounted for 71.22% of the variance. The results are presented in Table 5.3. As expected, the factor pattern emerging from this analysis supports the initial conceptualized one-factor structure of brand loyalty in Chapter Three. Subsequent analysis of the coefficient alpha values for these items supported their internal consistency and reliability (brand loyalty  $\alpha=0.94$ ).

**Table 5.3 EFA of Brand Loyalty**

Scale items Sample n=628	Factor Loading	Scale Statistics		
	F1	Mean	SD	I <sub>TOTAL</sub>
<b>Brand Loyalty</b>				
bl2 very committed to brand	0.90	3.83	1.51	0.89
bl1 loyal towards brand	0.89	4.18	1.50	0.86
bl4 brand is very important to me	0.87	3.97	1.43	0.85
bl5 brand is something I really care about	0.87	3.91	1.42	0.85
bl3 deserves my maximum effort to maintain business with	0.82	3.83	1.43	0.78
bl7 I would still buy from the brand even if another store has sales	0.78	3.35	1.59	0.76
bl6 I consider this brand my first choice when shopping	0.77	4.26	1.65	0.70
<b>Eigenvalue</b>	4.99			
<b>% of Variance Explained</b>	71.22			
<b>Alpha</b>	0.94			

Note: I<sub>TOTAL</sub> refers to item-to-total correlations

**Program Loyalty.** Factor analysis of the four items reflecting the construct program loyalty indicated no change to the initial conceptualized structure. The analysis resulted in the extraction of one factor accounting for 72.69% of total variance. The results of this analysis are presented in Table 5.4. Analysis of coefficient alpha further established the reliability of this measure (program loyalty  $\alpha=0.87$ ).

**Table 5.4 EFA of Program Loyalty**

Scale items Sample n=628	Factor Loading	Scale Statistics		
	F1	Mean	SD	I <sub>TOTAL</sub>
<b>Program Loyalty</b>				
pl2 strong preference for this program	0.90	4.25	1.43	0.80
pl1 recommend program to others	0.89	4.91	1.32	0.79
pl3 like program more than others programs	0.85	3.99	1.45	0.73
pl4 likely to use program in the next 12 months	0.77	5.57	1.22	0.61
<b>Eigenvalue</b>	2.91			
<b>% of Variance Extracted</b>	72.69			
<b>Alpha</b>	0.87			

Note: I<sub>TOTAL</sub> refers to item-to-total correlations

To provide further validation of the uni-dimensionality of the attitudinal loyalty constructs (brand loyalty and program loyalty), all items retained from the preceding analysis were subjected to factor analysis simultaneously. In total, eleven items were factor analysed using the principal components method and obliquely rotated using the direct Oblim procedure. The factor extraction was restricted to two factors. The final results of this factor analysis are presented in Table 5.5. As can be seen, two distinct factors were extracted accounting for 73.47% of the total variance. From this factor analysis, ten items reflecting the two dimensions of customers' attitudinal loyalty were retained. One item (*bl6: I consider this brand my first choice when shopping*) was removed from the original pool of scales due to cross-loading.

**Table 5.5 EFA of Attitudinal Loyalty**

Scale items Sample n=628	Factor Loading	
	F1	F2
<b>Brand Loyalty</b>		
bl3 deserves my maximum effort to maintain business with	0.94	
bl5 brand is something I really care about	0.90	
bl7 I would still buy from the brand even if another store has sales	0.82	
bl4 brand is very important to me	0.79	
bl2 very committed to brand	0.79	
bl1 loyal towards brand	0.67	
<b>Program Loyalty</b>		
p14 likely to use program in the next 12 months		0.98
p11 recommend program to others		0.68
p13 like program more than others programs		0.55
p12 strong preference for this program		0.54
<b>% of Variance Explained</b>	73.47%	

## 5.6 EFA and Reliability Analysis of Behavioural Loyalty

**Word-of-Mouth.** The five items reflecting the Word-of-Mouth construct were factor analysed using the principal components method. As expected, the analysis resulted in the extraction of only one factor ( $Eigen \geq 1$ ) accounting for 77.77% of the total variance. Analysis of coefficient alpha also provided support for the reliability of these scales (Word-of-Mouth  $\alpha=0.93$ ). The results of this factor analysis are shown in Table 5.6.

**Willingness-to-Pay.** Chapter Three operationalized Willingness-to-Pay (WTP) as comprising four items. Factor analysis of these items resulted in the extraction of one factor, which accounted for 84.67% of the total variance. The reliability of the scale is further supported with the analysis of coefficient alpha (willingness to pay  $\alpha=0.94$ ). The results of this factor analysis are shown in Table 5.7.

**Table 5.6 EFA of Word-of-Mouth**

Scale items Sample n=628	Factor Loading	Scale Statistics		
	F1	Mean	SD	I <sub>TOTAL</sub>
<b>Word-of-Mouth</b>				
wom4 often recommend company to others	0.91	4.25	1.40	0.85
wom3 encourage friends and relatives to do business with company	0.89	4.18	1.30	0.83
wom1 say positive things about the company	0.88	4.71	1.17	0.81
wom2 recommend to someone who seeks my advice	0.87	4.71	1.21	0.79
wom5 try to convince friends, family or co-workers to switch to this retailer	0.86	4.00	1.34	0.78
<b>Eigenvalue</b>	3.89			
<b>% of Variance Extracted</b>	77.77			
<b>Alpha</b>	0.93			

Note: I<sub>TOTAL</sub> refers to item-to-total correlations

**Table 5.7 EFA of Willingness-to-Pay**

Scale items Sample n=628	Factor Loading	Scale Statistics		
	F1	Mean	SD	I <sub>TOTAL</sub>
<b>Willingness-to-Pay</b>				
wtp3 willing to pay more to shop	0.93	2.98	1.47	0.87
wtp4 if prices rise, I would accept the higher prices	0.93	2.95	1.42	0.87
wtp2 willing to pay higher prices	0.91	2.95	1.42	0.84
wtp1 would continue to do business even if prices increase	0.91	3.25	1.43	0.84
<b>Eigenvalue</b>	3.39			
<b>% of Variance Extracted</b>	84.67			
<b>Alpha</b>	0.94			

Note: I<sub>TOTAL</sub> refers to item-to-total correlations

To further demonstrate the uni-dimensionality of these behavioural loyalty dimensions (Word-of-Mouth & Willingness-to-Pay), all items retained from the preceding analyses were factor analysed simultaneously. In total, nine items were factor analysed using the principal components method and obliquely rotated using direct Oblim. The factor analysis resulted in a clear and interpretable factor solution, which accounts for 81.00% of total variance. The results of factor analysis are shown in Table 5.8. As can be seen, two

factors were extracted. No cross-loadings were detected from this analysis hence all items were retained for subsequent analysis.

**Table 5.8 EFA of Behavioural Loyalty**

Scale items Sample n=628	Factor Loading	
	F1	F2
<b>Word-of-Mouth</b>		
wom4 often recommend company to others	0.92	
wom1 say positive things about the company	0.91	
wom2 recommend to someone who seeks my advice	0.90	
wom3 encourage friends and relatives to do business with company	0.88	
wom5 try to convince friends, family or co-workers to switch	0.77	
<b>Willingness-to-Pay</b>		
wtp3 willing to pay more to shop		0.95
wtp4 if prices rise, I would accept the higher prices		0.94
wtp2 willing to pay higher prices		0.89
wtp1 would continue to do business even if prices increase		0.89
<b>% of Variance Extracted</b>	81.00%	

### 5.7 EFA and Reliability Analysis of Moderators

**Customization.** The factor analysis of four items reflecting customization yielded a one-factor solution that accounted for 75.92% of the total variance. Again, this one-factor structure supports the initial conceptualization of customization that was put forward in Chapter Three. Analysis of coefficient of alpha further supported the internal consistency of these scales (customization  $\alpha=0.89$ ). The results of the factor analysis are shown in Table 5.9.

**Table 5.9 EFA of Customization**

Scale items Sample n=628	Factor Loading	Scale Statistics		
	F1	Mean	SD	I <sub>TOTAL</sub>
<b>Customization</b>				
cu2 get better prices than other customers	0.90	3.74	1.42	0.75
cu1 get discounts or special deals other customers don't get	0.86	4.46	1.41	0.76
cu3 company performs services for me they don't normally do for other customers	0.86	4.00	1.45	0.82
cu4 get customized offers because I am a member	0.86	4.23	1.47	0.74
<b>Eigenvalue</b>	3.04			
<b>% of Variance Extracted</b>	75.92			
<b>Alpha</b>	0.89			

Note: I<sub>TOTAL</sub> refers to item-to-total correlations

In summary, exploratory factor analysis (EFA) was applied as a preliminary tool to analyse the factor structure in the data and to establish the uni-dimensionality and reliability of the measures (Anderson & Gerbing, 1988). Although EFA does not provide a stringent test of uni-dimensionality for a set of items, the results of the EFA provide preliminary support for the measurement structure and a foundation for the evaluation of the measurement and structural model using SEM (Anderson & Gerbing, 1988; Hall, Snell, & Foust, 1999). Using the specified measurement model from EFA, confirmatory factor analysis (CFA) was then applied to the measures to further refine and test the uni-dimensionality of each construct.

## 5.8 Structural Equation Modelling (SEM)

The research framework of this study was assessed through Structural Equation Modelling (SEM) using AMOS 20. A two-step approach as suggested by Anderson and Gerbing (1988) was employed. The first step involves validating the measurement model through confirmatory factor analysis (CFA). Upon validating the measurement model, the structural relationships between the latent variables in the research framework are then

estimated to complete the two-step approach (Anderson & Gerbing, 1988). The next section discusses the model estimation and model evaluation procedures adopted.

### **5.8.1 Model Estimation: Partial Disaggregation Measurement Model**

The analysis of the measurement model and structural model for this study was based on a partial disaggregation approach. The partial disaggregation measurement model is a compromise between an aggregated approach, in which all items are summed to form a single composite indicator, and a disaggregated approach in which each item is used as an indicator of the relevant factor (Bagozzi & Heatherton, 1994). When a total disaggregated approach is employed, the measurement model is likely to be rejected based on standard statistical criteria due to high levels of random error (Bagozzi & Heatherton, 1994). The likelihood of poor model fit increases as the number of items per factor and sample size increases. In a partial disaggregation model, items are combined to form composite indicators which will then be used to estimate a latent variable (Garver & Mentzer, 1999). This technique is also known as item parcelling. The advantage of using a partial disaggregation approach is that it overcomes the difficulties inherent in a completely disaggregated model by reducing random error, and producing more stable estimates, yet maintains the concept of multiple indicator measurement (Bagozzi & Heatherton, 1994; Bandalos, 2002).

**Item Parcelling.** Application of item parcelling involves summing two or more items and using these averaged parcel scores in SEM analysis. Item parcelling is conventionally used to deal with multivariate non-normality and the continuous measurement assumptions required for the maximum likelihood and Generalized Least Squares (GLS) estimation techniques (Bandalos, 2002). Thus, item parcelling fits the situation of the current study well. This technique is preferred over using individual items as it provides a better fitting model and results in less bias in the



structural parameters of the model (Bandalos, 2002; Garver & Mentzer, 1999; Hall et al., 1999).

**Item Parcelling Strategy.** The advice given by methodology scholars on the manner in which parcels should be created differs. The parcelling strategy adopted in this thesis was operationalized based on the guidelines specified by Hall et al. (1999). Using a one-factor congeneric model, each variable of interest in the research framework was assessed for its uni-dimensionality based on goodness-of-fit. In cases whereby the specified one-factor congeneric measurement model can achieve adequate model fit without correlating error terms, the allocation of items to a parcel was random since all items were assumed to similarly represent the underlying construct. However, the existence of error covariances is often required in a one-facet CFA model to achieve good fit (Hagtvet & Nasser, 2004). Under such circumstances, Hall et al. (1999) suggest using one of two approaches to handle covariances among measurement items – an isolated uniqueness strategy (IUS) versus a distributed uniqueness strategy (DUS). IUS involves parcelling items which share an unknown secondary influence (indicated by error covariances), while DUS places items with error covariances into separate parcels (Hall et al., 1999). Of the two, IUS is the preferred and adopted strategy in this thesis as it produces more accurate parameter estimates (Hall et al, 1999).

The item parcelling strategy adopted in this thesis resulted in the development of twenty-seven composite indicators based on sixty-three original items. These composite indicators and the original items are listed in Appendix VI.

## 5.8.2 Model Evaluation

The measurement and structural models of this research were assessed for goodness-of-fit following a two-step process. (1) The overall model was first assessed for fit, followed by, (2) components of the model (both measurement and structural) were also examined for fit. The fit indices and diagnostic indicators used for each step in model assessment are discussed next.

### 5.8.2.1 Overall Model Fit

The overall measurement and structural models were assessed using multiple fit, as recommended by Byrne (2001). The measurement and structural models were first assessed for absolute fit using (1) the Chi-square statistic ( $\chi^2$ ), (2) Adjusted Goodness-of-Fit index (AGFI), and (3) Root Mean Square Error of Approximation (RMSEA). Each of these absolute fit indices and their acceptable thresholds are outlined below.

**Chi-square statistic.** The chi-square statistic ( $\chi^2$ ) represents the discrepancy between the matrix of implied variance (& co-variance) ( $\Sigma$ ) and the matrix of sample variance (& co-variance) ( $S$ ). Thus,  $\chi^2$  is a test of exact fit. The conventional criteria for acceptable model fit for  $\chi^2$  is  $p > 0.05$ . A model with  $\chi^2, p > 0.05$  indicates that there is less than 5% likelihood that  $\Sigma$  is significantly different to  $S$ , hence, a non-significant  $\chi^2$  value would provide support for acceptable model fit. However,  $\chi^2$  is sensitive to large sample sizes ( $\geq 200$ ) and violation of normality (Raykov & Marcoulides, 2006). A more complex model will have bigger  $\chi^2$ , hence, it is more likely to be rejected. For this reason, other fit indices were used along with  $\chi^2$  to evaluate model fit.

**Adjusted Goodness-of-Fit index.** Adjusted Goodness-of-Fit index (AGFI) assesses the fit of a proposed model to an independence or null model (i.e., a model where no relationship exists among variables) taking into account the degree of freedom for a model. A well-fitted model should have values close to 1, whereas a model of poor fit will have values close to zero. As a general rule of thumb, an AGFI value  $\geq 0.90$  is indicative that a model fits relatively well compared to the null model (Byrne, 2001). However, researchers have cautioned that AGFI is sample-size dependent and performs less well with large samples (Fan & Sivo, 2005; Sharma, Mukherjee, Kumar, & Dillon, 2003). Therefore, the AGFI index is included as a complementary indication of fit rather than stringent criteria of good model-fit.

**Root Mean-Square Error of Approximation.** Root Mean-Square Error of Approximation (RMSEA) measures the discrepancy between the observed and estimated covariance per degree of freedom for the model in terms of the population. A smaller RMSEA value would indicate a better fitting model. The acceptable cut-off point for RMSEA for reasonable good fit is  $\leq 0.08$ . However, it was recently noted that values up to 0.10 would indicate mediocre fit for a model (Byrne, 2001).

Besides absolute fit indices, the overall measurement and structural models were also evaluated for goodness-of-fit using incremental or comparative indices to adjust for bias resulting from large sample sizes. These indices, including: (1) normed fit index (**NFI**), (2) comparative fit index (**CFI**), and (3) Tucker-Lewis Index (**TLI**), are calculated based on a comparison of the hypothesized model against a baseline model (i.e., independence model). These additional fit indices are relatively independent of sample size and are accurate and consistent in assessing different models and, thus, are highly recommended. The recommended threshold value of  $\geq 0.90$  was adopted for all incremental fit indices. The fit indices and their respective criterion values used in assessing the measurement and structural models of this thesis are shown in Table 5.10.

**Table 5.10 Summary of Overall Model Fit Indices**

<b>Indices</b>	<b>Symbol</b>	<b>Criterion value</b>
<b>Absolute Fit Indices</b>		
Chi-square	$\chi^2$	$P \geq 0.05$
Adjusted Goodness-of-Fit index	AGFI	$AGFI \geq 0.90$
Root Mean-Square Error of Approximation	RMSEA	$RMSEA \leq 0.08$
<b>Incremental Fit Indices</b>		
Normed Fit Index	NFI	$NFI \geq 0.90$
Comparative Fit Index	CFI	$CFI \geq 0.90$
Tucker-Lewis Index	TLI	$TLI \geq 0.90$

Apart from the above fit indices, additional diagnostic indicators specific to the components of the measurement and structural part of the model were also used to assess model fit. These indicators are discussed next.

### **5.8.2.2 Component Model Fit**

After assessing the overall goodness-of-fit, the measurement and structural part of the postulated research framework was evaluated separately using specific diagnostic indicators. The measurement model was examined for dimensionality, scale reliability, and validity (i.e., convergent, discriminant, and predictive validity) while the structural model was assessed for significance and meaningful structural relationships (Hair et al., 2010).

#### **5.8.2.2.1 Measurement Model**

In assessing the dimensionality of the components of the measurement model, standardized parameter estimates, critical ratio values, squared multiple correlations, standardized residuals, and modification indices were examined. As an indication of unidimensionality, estimates should be in the correct direction (+,-), have a magnitude  $\geq 0.70$  and be statistically significant based on a critical value of  $\pm 1.96$  ( $p \leq 0.05$ ) for a two-tailed test of significance. The squared multiple correlations ( $R^2$ ) were also used as a gauge for the adequacy of measures. The recommended squared multiple correlation of  $\geq 0.50$  was

adopted to indicate that the model explained at least 50% of item variance. The cut-off for standardized residuals was  $\leq 2.58$  ( $p \leq 0.01$ ), indicating that the difference between the implied covariance and its corresponding sample covariance was not significantly different from zero (i.e., a good fitting model). Large standardized residual value might indicate cross-loading, a bad item or lack of uni-dimensionality for a factor. Modification indices greater than 7.88 were considered substantial and an indication of poor model fit (Garver & Mentzer, 1999).

Although the reliability of the measurement scale was examined using coefficient alpha during the exploratory stage of the analysis, item and scale reliability were further assessed using SEM to provide a more stringent test. *Item reliability* was assessed by examining the squared multiple correlation ( $R^2$ ) value associated with each indicator and its construct. A higher  $R^2$  value reflects a reliable indicator for the latent variable (Garver & Mentzer, 1999) and for the purpose of this research, the conventional  $R^2 \geq 0.50$  is adopted. *Scale reliability* was assessed using the construct reliability formula  $C_{REL} = (\sum \lambda)^2 / [(\sum \lambda)^2 + (\sum \delta)]$  devised by Fornell and Larcker (1981), whereby lambda ( $\lambda$ ) is the factor loading of each item and delta ( $\delta$ ) represents the error variance term. This formula measures the internal consistency of the items used to measure a latent construct. The rule of thumb for this reliability value to reflect good scale reliability is  $C_{REL} \geq 0.70$  or greater (Hair et al., 2010). Apart from  $C_{REL}$ , variance extracted ( $AVE_{VE}$ ) was also used as a complementary measure of construct reliability to further assess the reliability of the measures used in this study. Variance extract can be calculated using the formula  $AVE_{VE} = \sum \lambda^2 / [\sum \lambda^2 + \sum (1 - \lambda^2)]$ . This formula measures the total amount of variance in the indicators accounted for by the latent variable (Garver & Mentzer, 1999). According to this approach, latent variables accounting for 50% ( $AVE_{VE} \geq 0.50$ ) or more of the variance in the indicators suggest adequate scale reliability.

Once dimensionality and reliability have been established, constructs in the measurement model were subjected to convergent, discriminant, and predictive validity testing. *Convergent validity* measures the extent to which indicators of a latent variable share a common proportion of variance (i.e., load together on a single construct) in the measurement model. Convergent validity is established when: (1) the overall measurement model achieved acceptable fit, (2) average variance extracted estimates ( $AVE_{VE}$ ) are greater than 0.50, and (3) the parameter estimates of each indicator are  $\geq 0.50$ , are in the correct direction and are statistically significant (Garver & Mentzer, 1999). *Discriminant validity* measures the extent to which a construct is truly distinct from other constructs in the measurement model (Hair et al., 2010). Using Fornell and Larcker's approach (1981), discriminant validity is supported when the  $AVE_{VE}$  for each construct is greater than the corresponding squared inter-construct correlation estimate (SIC). A construct with  $AVE_{VE} > SIC$  means that the indicators have more in common with the construct they are associated with than other constructs in the measurement model (Hair et al., 2010). *Predictive validity* is a test of whether the correlation between constructs in the measurement model makes sense. This measure can be achieved when a construct of interest and a construct that it should predict have a substantial and statistically significant correlation estimate (Garver & Mentzer, 1999). Based on the above discussion, a summary of all criterion values for measurement model is provided in Table 5.11.

**Table 5.11 Criterion Values Applied in Measurement Model Assessment**

Criterion	Symbol	Acceptable Level
Standardized Parameter Estimates/Regression Weights	$\Lambda$	$\geq 0.70$
Critical Value	$CR_{value}$	$CR_{value} \geq \pm 1.96$ ( $p \leq 0.05$ )
Direction	+/-	Positive
Squared Multiple Correlations	$R^2$	$\geq 0.50$
Standardized Residuals	SR	$\leq 2.58$ ( $p \leq 0.01$ )
Modification Indices	MI	$\leq 7.88$
Construct Reliability	$C_{REL}$	$\geq 0.70$
Variance Extracted	$AVE_{VE}$	$\geq 0.50$ ; $AVE_{VE} > SIC$

Using the above fit indices and diagnostic indicators as a guide for measurement model evaluation, refinement and modifications to the measurement model were considered. However, the reader should note any re-specifications to the measurement model were done only if the modifications were consistent with theory (Garver & Mentzer, 1999). In particular, the criterion values for standardized residuals (SR) and modification indices (MI) can be relaxed as many models will reveal some SR and MI of relatively large values (Garver & Mentzer, 1999). Upon validating the internal and external consistency of the measurement model, the analyses proceed to the structural model for hypotheses testing (in Chapter Six).

#### **5.8.2.2.2 Structural Model Evaluation**

The validity of the structural model was first ascertained through the assessment of overall model fit using the same criteria as the measurement model (i.e.,  $\chi^2$   $p \geq 0.05$ , AGFI, RMSEA, NFI, CFI, TLI). Once a good fit is achieved, the standardized parameter estimates (path coefficients) and their statistical significance, size and direction were also examined to establish model fit (Hair et al., 2010). Using the general rules of thumb to interpret the standardized effects between variables, values less than 0.1 were considered indicative of a small effect, values around 0.30 were considered indicative of a medium effect, and values greater than 0.50 were considered indicative of a strong effect (Kline, 2011). Path coefficient values aside, the significance of these estimates was also assessed on the basis of the critical ratio value of  $\pm 1.96$  ( $p < 0.05$ ) for a two-tailed test of significance. The direction of the estimates was checked to be in relation to the predicted direction consistent with theory to further support the fit of the model (Hair et al., 2010). A summary of all criterion values for the structural model is provided in Table 5.12.

**Table 5.12 Criterion Values Applied in Structural Model Assessment**

Criterion	Symbol	Acceptable Level
Standardized Parameter Estimates/regression weights	B	< 0.10 weak effect ≥ 0.10 small effect ≥ 0.30 medium effect ≥ 0.50 large effect
Critical Value	CR <sub>value</sub>	CR <sub>value</sub> > ±1.96 (p ≤ 0.05)
Direction	+/-	Positive/negative

### 5.8.3 Assessment of Measurement Model

The measurement model specifies the hypothesized relationship among latent variables and observed indicators. The uni-dimensionality, reliability, and validity of the measurement model specified in EFA was evaluated using confirmatory factor analysis (CFA) based on the criterion discussed *a priori*.

**Confirmatory Factor Analysis.** CFA was adopted in conjunction with exploratory factor analysis (EFA) to provide for a more rigorous test of dimensionality for the measurement model. It provides a statistical test of how well a specified factor model explains the reproduced sample correlations/co-variances pattern in terms of model fit (Levine, 2005). The analysis of CFA was carried out following the guidelines set forth in the literature. CFA was first conducted on each latent variable then on related latent constructs (Garver & Mentzer, 1999). Finally, the overall measurement model was evaluated using CFA and the dimensionality of each construct was assessed.

#### 5.8.3.1 CFA for Program Value Constructs

The conceptual model stipulated in EFA posits the conceptualization of program value as comprising six primary constructs. Based on the EFA findings, a measurement model was constructed in which the composite indicators were constrained to reflect their



respective LP construct. These composites are listed in Appendix VI. The measurement model for program value was assessed using CFA and is shown in Figure 5.1.

The results of this analysis are shown in Table 5.13. As can be seen from the fit indices, the measurement model for the program value construct indicated excellent fit to the data, with the exception of the  $\chi^2$ . The RMSEA was below the cut-off threshold of 0.08; and AGFI as well as all incremental fit indices, NFI, CFI and TLI, exceeded the criterion value of  $\geq 0.90$ . Collectively, these fit indices provide support for the fit of this model to the data. Although the  $\chi^2$  value was significant ( $p \leq 0.01$ ), this was not unexpected given the large sample size ( $n=628$ ).

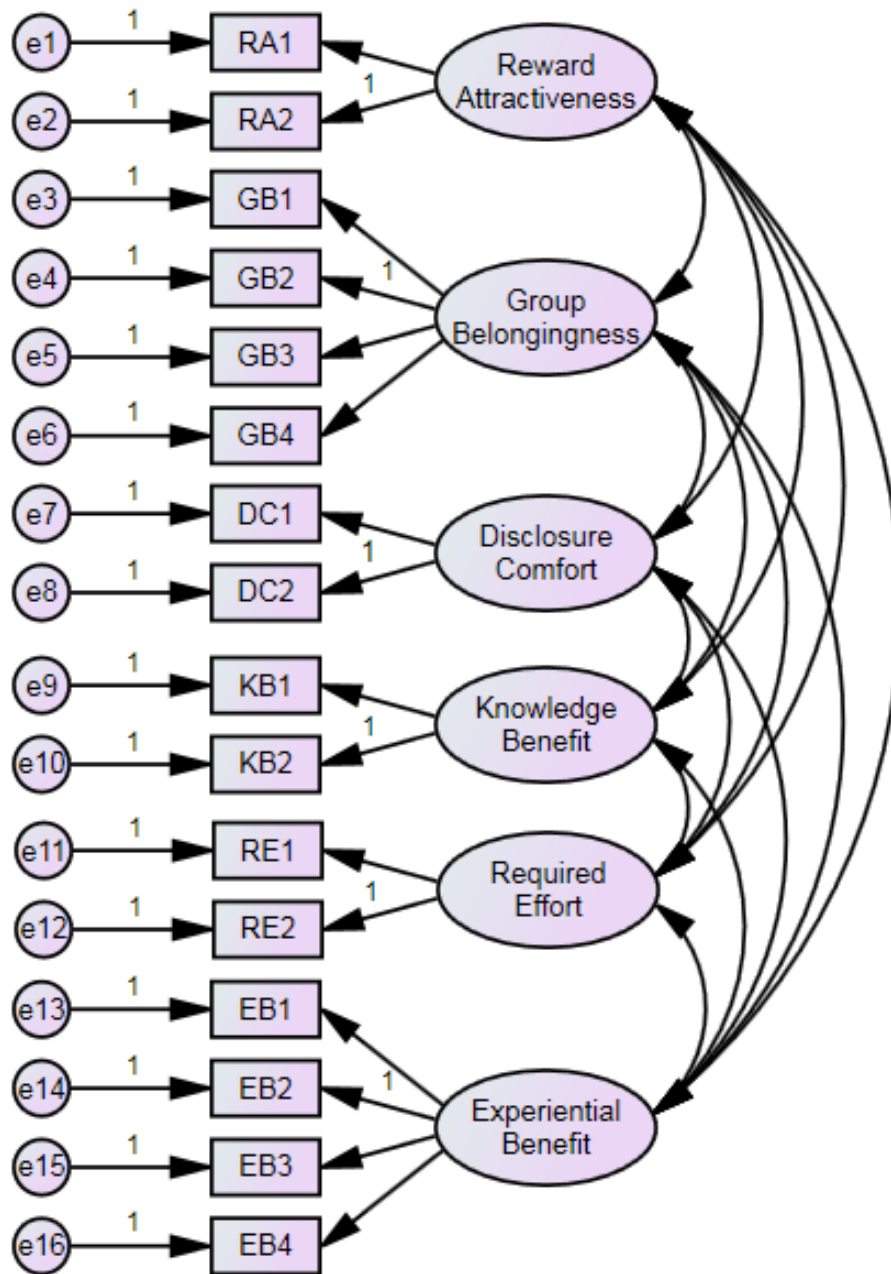
**Table 5.13 Fit Indices for Program Value Construct**

<b>Model Fit for CFA on Program Value Construct</b>	<b>Goodness-of-Fit Indices</b>							
<b>Research Sample (N=628)</b>	$\chi^2$	<i>P</i>	<i>df</i>	<b>AGFI</b>	<b>RMSEA</b>	<b>NFI</b>	<b>CFI</b>	<b>TLI</b>
	285.0	0.00	89	0.91	0.06	0.98	0.98	0.97

Examination of the parameter estimates and their statistical significance established the uni-dimensionality of each primary construct for LP value. All parameter estimates were statistically significant ( $> \pm 1.65$ ,  $p \leq 0.05$ ) at the expected direction (positive/+) and had values that exceeded the criterion value of 0.70. The parameter estimates and their respective critical values are shown in Table 5.14. Subsequent analysis of the standardized residuals ( $SR \leq 2.58$ ), modification indices, and squared multiple correlations provided further support for the strength of the indicators to serve as measures of their respective constructs.

Figure 5.1 CFA on Measurement Model for Program Value

Model 1



**Table 5.14 Parameter Estimates and Critical Ratio Values for Program Value Construct**

<b>Composite Indicator and Latent Variables for Program Value Construct</b>	<b>P<sub>Estimate</sub></b>	<b>CR<sub>value</sub></b>	<b>R<sup>2</sup></b>
Reward Attractiveness → RA1	0.84	30.85	0.71
Reward Attractiveness → RA2	0.94	N/A	0.88
Group Belongingness → GB1	0.92	38.00	0.85
Group Belongingness → GB2	0.91	N/A	0.83
Group Belongingness → GB3	0.95	42.45	0.90
Group Belongingness → GB4	0.92	38.97	0.85
Disclosure Comfort → DC1	0.99	30.91	0.98
Disclosure Comfort → DC2	0.93	N/A	0.86
Knowledge Benefit → KB1	0.90	29.65	0.81
Knowledge Benefit → KB2	0.88	N/A	0.77
Required Effort → RE1	0.80	19.32	0.64
Required Effort → RE2	0.93	N/A	0.86
Experiential Benefit → EB1	0.97	64.76	0.94
Experiential Benefit → EB2	0.96	N/A	0.92
Experiential Benefit → EB3	0.92	48.63	0.85
Experiential Benefit → EB4	0.91	45.93	0.83

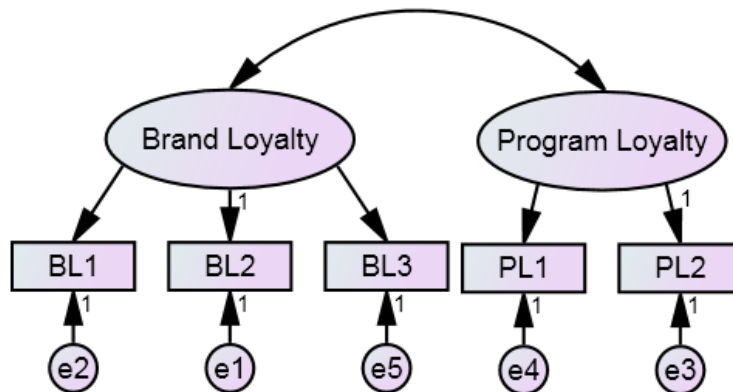
Note: The reported parameter estimates are standardised regression weights. N/A (not applicable) indicates the parameter was constrained to “1” for model identification purposes.

### 5.8.3.2 CFA for Attitudinal Loyalty

Using the measurement model stipulated in EFA, attitudinal loyalty is operationalized as comprising two primary dimensions - brand loyalty and program loyalty. The composite indicators were constrained to their respective latent variables in the measurement model. These composite indicators are listed in Appendix VI. The measurement model for attitudinal loyalty assessed using CFA is shown in Figure 5.2.

**Figure 5.2 CFA on Attitudinal Loyalty**

Model 2



Collectively, all goodness-of-fit indices from the CFA indicated good fit to the data. RMSEA was below the 0.08 threshold value and the other fit indices (AGFI, NFI, CFI and TLI) were well above the criterion value of  $\geq 0.90$ . The results of CFA are listed in Table 5.15.

**Table 5.15 Fit Indices for Attitudinal Loyalty**

Model Fit for CFA on Attitudinal Loyalty	Goodness-of-Fit Indices							
	$\chi^2$	<i>P</i>	<i>df</i>	AGFI	RMSEA	NFI	CFI	TLI
Research Sample (N=628)	13.63	0.00	3	0.96	0.07	0.99	0.99	0.99

The parameter estimates, critical ratios, and directions of the estimates provide further support for the uni-dimensionality of the measurement model for the attitudinal loyalty dimensions. All parameter estimates were statistically significant ( $> \pm 1.96$ ,  $p < 0.05$ ) and in the correct direction, and were found to be larger than the criterion value of 0.70. Examination of the standardized residual, modification indices, and multiple squared correlations also indicated good model fit to the sample data. The parameter estimates and critical ratio values are listed in Table 5.16.

**Table 5.16 Parameter Estimates and Critical Ratio Values for Attitudinal Loyalty**

Composite Indicator and Latent Variables for Attitudinal Loyalty	P <sub>Estimate</sub>	CR <sub>value</sub>	R <sup>2</sup>
Brand Loyalty → BL1	0.93	35.37	0.86
Brand Loyalty → BL2	0.89	N/A	0.80
Brand Loyalty → BL3	0.88	32.27	0.78
Program Loyalty → PL1	0.78	21.64	0.60
Program Loyalty → PL2	0.91	N/A	0.84

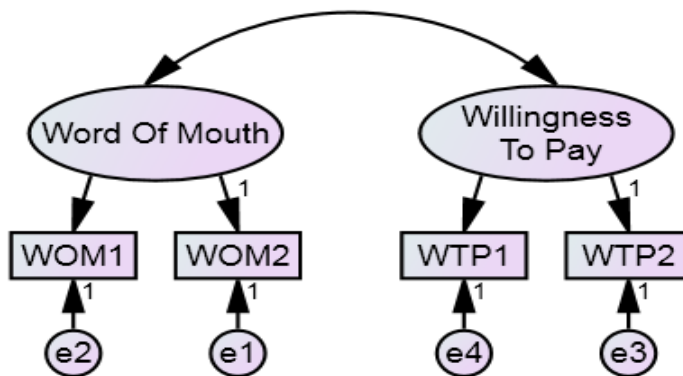
Note: The reported parameter estimates are standardised regression weights. N/A (not applicable) indicates the parameter was constrained to “1” for model identification purposes.

### 5.8.3.3 CFA for Behavioural Loyalty

The conceptual model developed in Chapter Three included two latent behavioural loyalty variables – Word-of-Mouth and Willingness-to-Pay. Exploratory factor analysis of these variables supports this model structure. To further analyse the strength of these measures, confirmatory factor analysis was performed, as shown in Figure 5.3. The results of this analysis are presented in Table 5.17. The composite indicators and the original scales are listed in Appendix VI.

**Figure 5.3 CFA on Behavioural Loyalty Constructs**

Model 3



**Table 5.17 Fit Indices for Behavioural Loyalty**

Model Fit for CFA on Behavioural Loyalty	Goodness-of-Fit Indices							
	$\chi^2$	<i>P</i>	<i>df</i>	AGFI	RMSEA	NFI	CFI	TLI
Research Sample (N=628)	0.65	0.42	1	0.99	0.00	1.00	1.00	1.00

As illustrated in Table 5.17, the model fit indices for the measurement model were excellent. The  $\chi^2$  was not significant and the RMSEA value was well below 0.08. AGFI, NFI, CFI and TLI were all greater than the criterion value of 0.90, indicating that the model has good fit to the data.

Assessment of parameter estimates and critical ratio values showed that all loadings were in the correct direction, substantially larger than the acceptable value of 0.70, and statistically significant ( $> \pm 1.96$ ,  $p \leq 0.05$ ). Evaluation of the standardized residuals, modification indices, and squared multiple correlations also suggest adequate model fit. Together, these fit indices confirmed the uni-dimensionality of the measurement model for behavioural loyalty constructs. The parameter estimates and critical ratio values are listed in Table 5.18.

**Table 5.18 Parameter Estimates and Critical Ratio Values for Behavioural Loyalty**

Composite Indicator and Latent Variables for Behavioural Loyalty	$P_{\text{Estimate}}$	$CR_{\text{value}}$	$R^2$
Word-of-Mouth → WOM1	0.85	22.92	0.72
Word-of-Mouth → WOM2	0.97	N/A	0.94
Willingness-to-Pay → WTP1	0.93	28.86	0.87
Willingness-to-Pay → WTP2	0.93	N/A	0.87

Note: The reported parameter estimates are standardised regression weights. N/A (not applicable) indicates the parameter was constrained to “1” for model identification purposes.

### 5.8.3.4 CFA for Overall Measurement Model

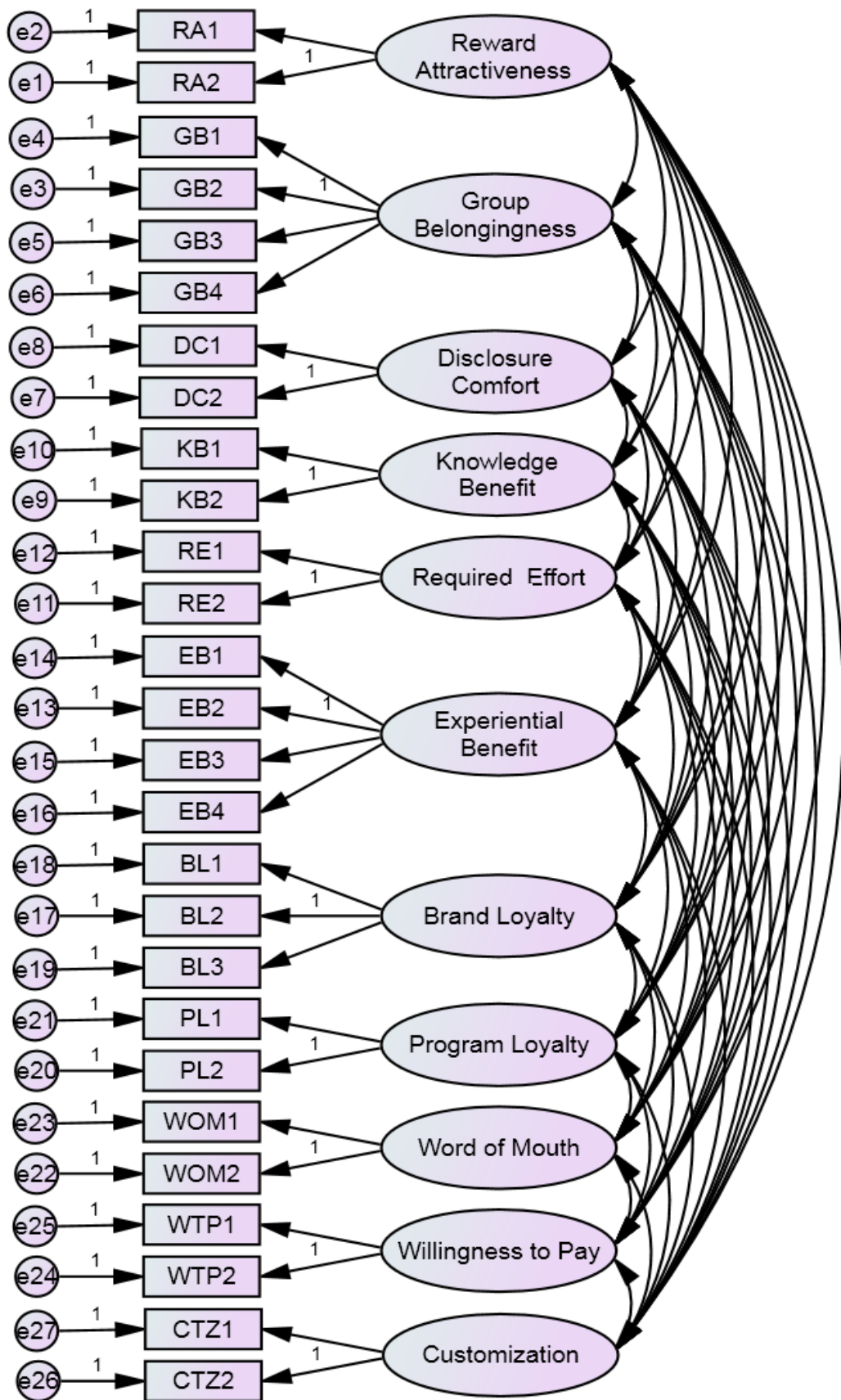
Next, all measures were tested for goodness-of-fit in a single measurement model; that is, model 1-3 (Figure 5.1, Figure 5.2, and Figure 5.3) were combined to form a single measurement model. The full measurement model is shown in Figure 5.4. The potential moderator of customization was also included in the overall measurement model. The results of this analysis are shown in Table 5.19. As can be seen, the model fit indices show that the overall measurement model fitted the data well. While AGFI is slightly below the cut-off value of 0.9, this is not unexpected given the model complexity and large sample size (n=628); other fit-indices less dependent on sample size indicated good fit to the data. The NFI, CFI, and TLI were all above the criterion value of 0.90 and the RMSEA value was well below 0.08.

**Table 5.19 Fit Indices for Overall Measurement Model**

Model Fit for CFA on Overall Measurement Model	Goodness-of-Fit Indices							
	$\chi^2$	<i>P</i>	<i>df</i>	AGFI	RMSEA	NFI	CFI	TLI
Research Sample (N=628)	869.63	0.00	269	0.85	0.06	0.96	0.97	0.96

The preceding analysis validates the dimensionality of the constructs in the measurement model. To further test the psychometric properties of the measurement scales used in this study, the reliability and validity of the scales were assessed using SEM. The reader should note that reliability and validity tests were conducted on the disaggregated measurement scales rather than parcel composites to provide a more solid assessment of the measures. The reliability and validity results are reported next.

Figure 5.4 CFA on Full Measurement Model





#### 5.8.3.4.1 Reliability

As can be seen from Table 5.20, values for scale reliability ( $C_{REL}$ ) were well above the criterion value of 0.70, and the values for average variance extracted ( $AVE_{VE}$ ) for all constructs were higher than the criterion value of 0.50. Based on these results, it can be concluded that the measurement scales used in the current study exhibit internal consistency and reliability.

**Table 5.20 Reliability Indicators for Overall Measurement Model**

<b>Reliability of Latent Variables for Measurement Model</b>	<b><math>C_{REL}</math></b>	<b><math>AVE_{VE}</math></b>
Knowledge Benefit	0.92	0.69
Reward Attractiveness	0.91	0.68
Disclosure Comfort	0.96	0.84
Required Effort	0.85	0.54
Experiential Benefit	0.97	0.77
Group Belongingness	0.96	0.73
Brand Loyalty	0.93	0.69
Program Loyalty	0.87	0.64
Word-of-Mouth	0.93	0.72
Willingness-to-Pay	0.94	0.80
Customization	0.90	0.70

#### 5.8.3.4.2 Validity

**Convergent validity.** As shown in Table 5.19, fit indices of the overall measurement model indicated acceptable fit to the data ( $RMSEA \leq 0.08$ ;  $NFI, CFI, TLI \geq 0.90$ ). As can be seen in Table 5.14, Table 5.16 and Table 5.18, the parameter estimates in the measurement model had values greater than 0.50, were statistically significant, and in the correct direction. On this basis, evidence of convergent validity has been established.

**Discriminant validity.** Discriminant validity is established when the average variance extracted ( $AVE_{ve}$ ) for each construct is greater than the corresponding squared inter-construct correlation estimates (SIC). The  $AVE_{ve}$  and SIC for each construct are reported in Table 5.21. Values on the diagonal of Table 5.21 are the  $AVE_{ve}$  and the squared structural path coefficients between all possible pairs of constructs are presented in the upper triangle of the matrix. From Table 5.21, all constructs exhibit  $AVE_{ve} > SIC$ , except for the pairs (1)  $R_{Attract} - E_{xpBenefit}$ , (2)  $E_{xpBenefit} - P_{Loyalty}$ , (3)  $R_{Attract} - P_{Loyalty}$ , (4)  $B_{Loyalty} - P_{Loyalty}$ , and (5)  $B_{Loyalty} - G_{Belonging}$ , demonstrating evidence of discriminant validity for the research scales used in this study.

For cases where discriminant validity was not achieved using Fornell and Larcker's (1981) stringent criteria, the chi-square difference test was applied as recommended by Anderson and Gerbing (1988). Following their approach, a calculated  $\chi^2$  value that is statistically significant at  $\alpha < 0.05$  between the constrained and unconstrained models demonstrates discriminant validity. For the construct pairs where the SIC path is greater than the  $AVE_{ve}$  of the corresponding construct, the difference in  $\chi^2$  values was calculated. As shown in Table 5.22, all calculated  $\chi^2$  difference values were greater than the criterion value of  $\chi^2_{0.05} = 3.841$ , indicating that the correlation between the pair of tested construct was significantly different from 1. Collectively, these findings established the discriminant validity of the measures used in this study.

**Predictive validity.** Examination of the correlations between related constructs showed that the correlations between hypothesized independent and dependent variables were all statistically significant. Hence, predictive validity was established.

**Table 5.21 Discriminant Validity of Construct Pairs for the Sample**

Research Sample (n=628)	<b>K<sub>Benefit</sub></b>	<b>R<sub>Attract</sub></b>	<b>D<sub>Comfort</sub></b>	<b>R<sub>Effort</sub></b>	<b>E<sub>xpBenefit</sub></b>	<b>G<sub>Belonging</sub></b>	<b>B<sub>Loyalty</sub></b>	<b>P<sub>Loyalty</sub></b>	<b>W<sub>ofMouth</sub></b>	<b>W<sub>toPay</sub></b>	<b>C<sub>ustmz</sub></b>
<b>K<sub>Benefit</sub></b>	0.69	0.60	0.14	0.17	0.50	0.58	0.51	0.47	0.48	0.22	0.36
<b>R<sub>Attract</sub></b>		0.68	0.22	0.42	<b>0.75*</b>	0.57	0.58	<b>0.69*</b>	0.49	0.27	0.37
<b>D<sub>Comfort</sub></b>			0.84	0.15	0.24	0.27	0.27	0.26	0.24	0.11	0.11
<b>R<sub>Effort</sub></b>				0.54	0.39	0.21	0.28	0.48	0.26	0.07	0.15
<b>E<sub>xpBenefit</sub></b>					0.77	0.60	0.69	<b>0.81*</b>	0.54	0.22	0.37
<b>G<sub>Belonging</sub></b>						0.73	<b>0.71*</b>	0.61	0.49	0.30	0.44
<b>B<sub>Loyalty</sub></b>							0.69	<b>0.75*</b>	0.68	0.44	0.39
<b>P<sub>Loyalty</sub></b>								0.64	0.61	0.28	0.37
<b>W<sub>ofMouth</sub></b>									0.72	0.40	0.34
<b>W<sub>toPay</sub></b>										0.80	0.22
<b>C<sub>ustmz</sub></b>											0.70

Note: **K<sub>Benefit</sub>** = Knowledge Benefit, **R<sub>Attract</sub>** = Reward Attractiveness, **D<sub>Comfort</sub>** = Disclosure Comfort, **R<sub>Effort</sub>** = Required Effort, **E<sub>xpBenefit</sub>** = Experiential Benefit, **G<sub>Belonging</sub>** = Group Belongingness, **B<sub>Loyalty</sub>** = Brand Loyalty, **P<sub>Loyalty</sub>** = Program Loyalty, **W<sub>ofMouth</sub>** = Word-of-Mouth, **W<sub>toPay</sub>** = Willingness-to-Pay, **C<sub>ustmz</sub>** = Customization

**Table 5.22  $\chi^2$  Difference Test for Assessing Discriminant Validity**

Unobserved Structural Path Constructs	Unconstrained		Constrained		$\chi^2$ Difference
	$\chi^2$	<i>df</i>	$\chi^2$	<i>df</i>	
<b>Sample n=628</b>					
(1) Reward Attractiveness → Experiential Value	364.3	97	376.7	98	12.4
(2) Experiential Value → Program Loyalty	396.4	83	408.3	84	11.9
(3) Reward Attractiveness → Program Loyalty	83.2	24	89.9	25	6.7
(4) Brand Loyalty → Program Loyalty	119.1	33	131.6	34	12.5
(5) Brand Loyalty → Group Belongingness	271.6	101	283.5	102	11.9

## 5.9 Conclusion

This chapter substantiated the measurement model used in this research before proceeding to the structural model for hypotheses testing. The process began with a preliminary examination of the research data. Exploratory factor analysis was then used to identify the underlying factor structure in the data that were later used in confirmatory factor analysis. SEM was used to examine the reliability and validity of the research scales through the assessment of scale reliability, average variance extracted, parameter estimates, path directions, loading magnitude, critical ratio values, squared multiple correlations, and squared structural path coefficients between related construct pairs. Findings from these tests indicated that the research measures used in this study are reliable and valid. On this basis, the structural model and the posited research hypotheses can now be examined. This process is elaborated on in the next chapter.

## **Chapter Six**

### **Analysis of the Structural Model and Hypotheses Testing**

#### **6.1 Chapter Summary**

In the previous chapter (Chapter Five), the strength and psychometric properties of the research scales used in this study were established. Upon validating the measurement model, this chapter aims to complete the second step of the two-step approach by Anderson and Gerbing (1988) which involves estimating the structural model. First, the fit of the overall research model was assessed using the fit indices described in Chapter Five. The results of the structural model are then discussed in three sections. The first section demonstrates the influence of the program value constructs on customer attitudinal loyalty (brand loyalty and program loyalty). In the second section, the impact of attitudinal loyalty on behavioural loyalty is examined. Lastly, the hypothesized moderating effect of customization and member duration in LP are tested using SEM multi-group analysis of invariance and moderated regression. Although the findings for the research model are presented in three separate sections, the reader should note that the analysis was conducted using one simultaneous SEM model. The chapter concludes with a summary of all seventeen hypotheses examined in this thesis, and aligns these hypotheses with the research themes and objectives set out in Chapter One.

#### **6.2 The Research Model**

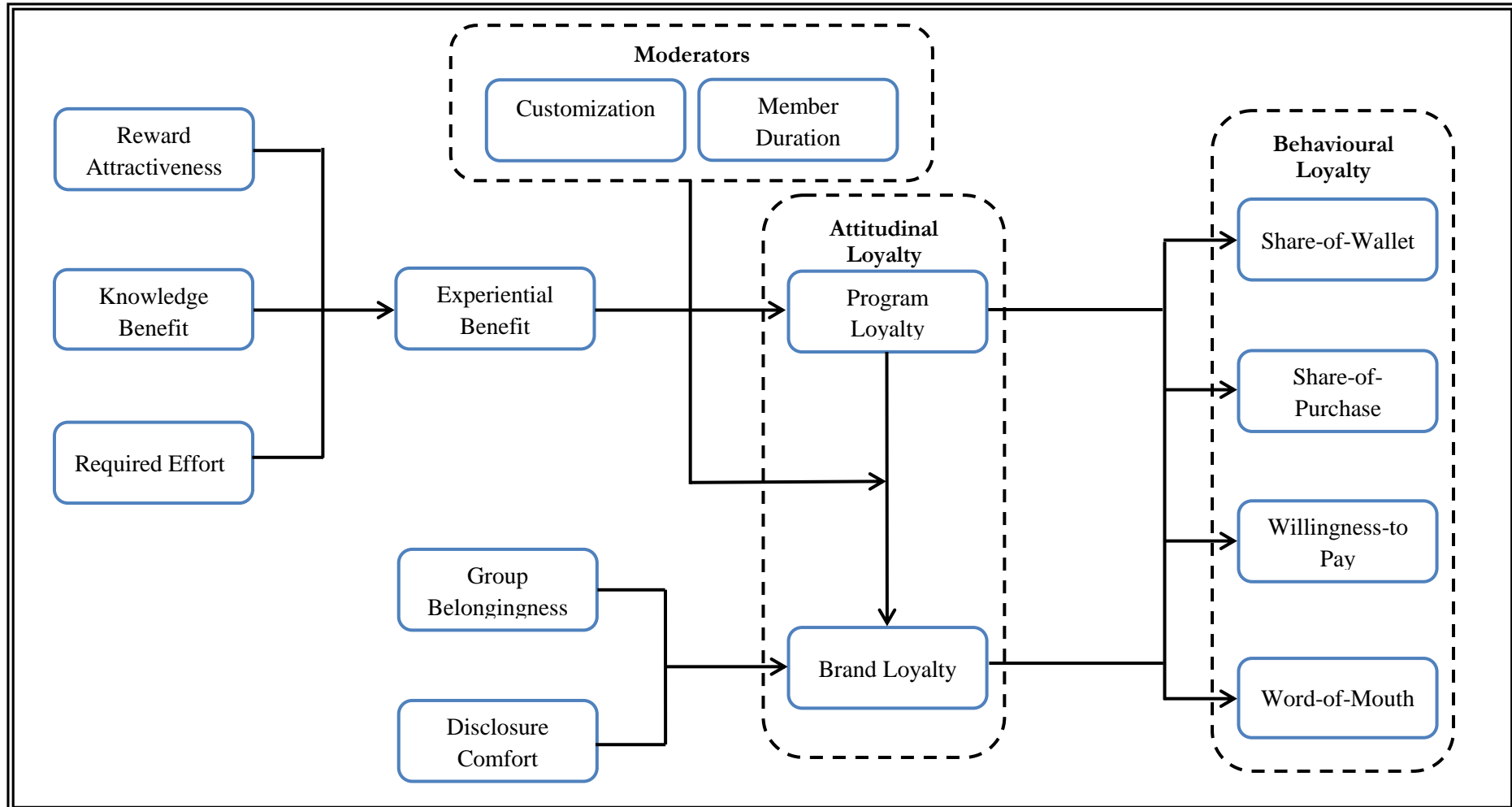
The research model developed in this study addresses three underlying research themes. The first of these research themes examines the different program value constructs customers derive from being a member of a LP. The second research theme investigates the effect of different LP value constructs on customer loyalty, including attitudinal and

behavioural loyalty. The last research theme identifies the moderating effect of customer and program characteristics on the loyalty development process as derived via a LP.

Thus far, the first research theme has been addressed through Chapter Four and Chapter Five of this thesis. Based on the findings from the focus group interviews (referring to Chapter Three), program value was postulated as comprising six primary constructs (reward attractiveness, knowledge benefit, experiential benefit, group belongingness, disclosure comfort, and required effort). The validity and reliability of these six program value constructs was established in Chapter Five through exploratory and confirmatory factor analysis. In this chapter, the impact of the six program value constructs on customer loyalty is examined using SEM. Then, the moderating effects of customization and member duration are investigated using multi-group analysis of invariance and moderated regression. Thus, research theme two and research theme three of this thesis are addressed. The overall research model is as shown in Figure 6.1. This model was subjected to SEM to test the hypothesized path relationships.

The fit statistics of the research model are presented in Table 6.1. As can be seen from Table 6.1, the proposed research framework fitted the data well. As both  $\chi^2$  and AGFI indices are sensitive to sample size, it is not unexpected to get a significant  $\chi^2$  value and AGFI value slightly lower than the cut-off criteria of 0.90 (Fan & Sivo, 2005; Hoyle & Panter, 1995). Given these considerations, model fit was largely assessed based on the criteria set forth for the RMSEA, CFI, NFI, and TLI indices. Examination of these fit indices indicated acceptable model fit to the data. The NFI, CFI, and TLI indices were well above the criterion value of  $\geq 0.90$ . Moreover, the RMSEA index was less than 0.08. To further assess model fit, the ratio of  $\chi^2$  value to the degree of freedom was also evaluated. The general “rule-of-thumb” for a good-fitting model is indicated when the  $\chi^2: df$  ratio is less than 5 or less than 3 for excellent fit (Hair et al., 2010). The normed chi-square ( $\chi^2/df$ ) value for the proposed model is approximately 3.6, indicating a good-fitting model.

**Figure 6.1 Full Research Model**



Note: To improve clarity, composite indicators, inter-correlations and error variables are not presented in the above research model. Details of the analysis are: (1) each composite indicator had an associated error variable ( $\epsilon$ ) and had one path set to 1 for identification purposes; (2) the endogenous variables (experiential benefit, program loyalty, brand loyalty, Willingness-to-Pay, Word-of-Mouth) had an associated error variable ( $\zeta$ ), (3) the exogenous antecedent constructs were inter-correlated ( $\Phi$ ).

**Table 6.1 Fit Statistics for the Full Research Model**

<b>Model Fit for Full Research Model</b>	<b>Goodness-of-Fit Indices</b>							
<b>Research Sample (N=628)</b>	$\chi^2$	<i>p</i>	<i>df</i>	<b>AGFI</b>	<b>RMSEA</b>	<b>NFI</b>	<b>CFI</b>	<b>TLI</b>
	1069.9	0.00	296	0.84	0.06	0.95	0.96	0.95

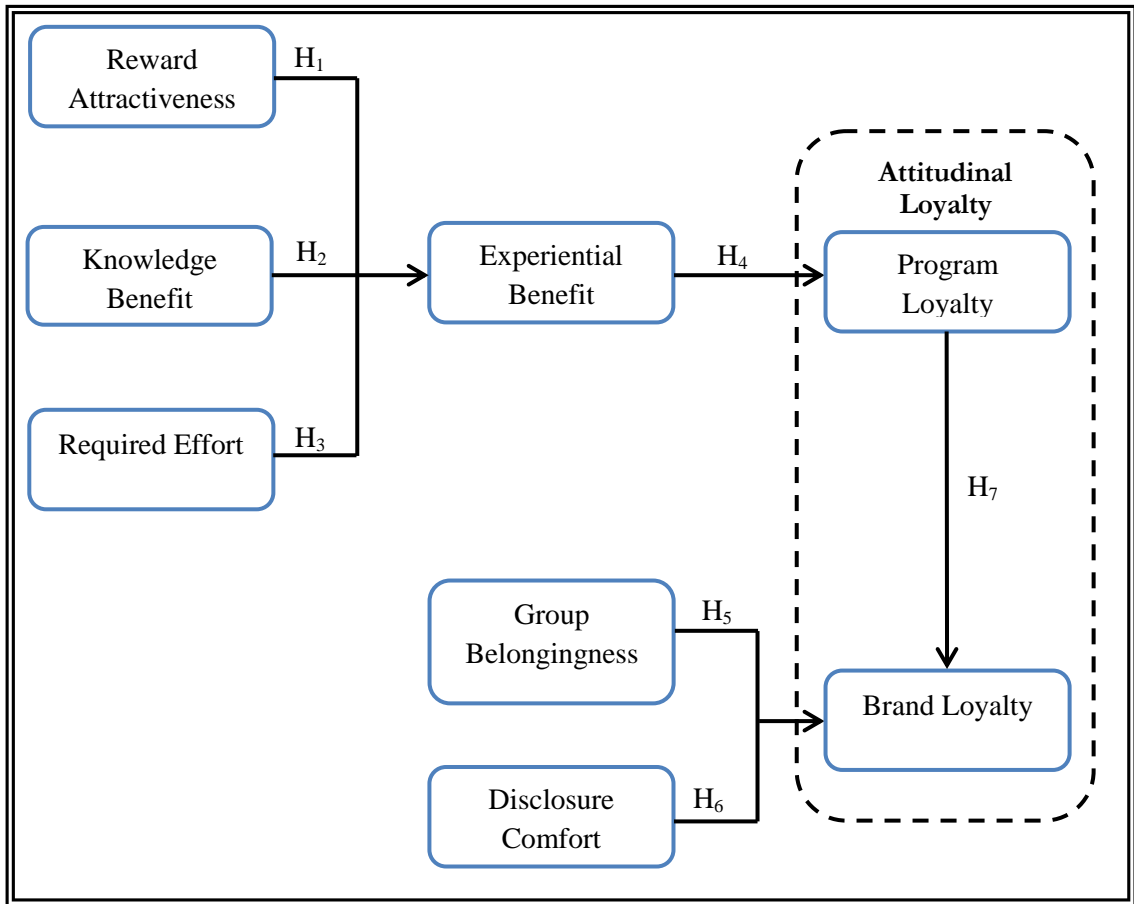
Having established the overall model fit, the structural paths of the model were then estimated using AMOS version 20. Again, the reader should take note that while the proposed framework was analysed simultaneously using SEM, the results of this model are presented in three separate sections to facilitate the interpretation of the structural estimates obtained. First, the effect of program value on customer attitudinal loyalty is examined. Second, the impact of attitudinal loyalty on behavioural loyalty is investigated. Finally, the impact of customization and member duration as moderators of the relationship between program loyalty and brand loyalty is tested.

### **6.3 Program Values and Attitudinal Loyalty**

Chapter Three postulated six program value constructs that would influence a customer's attitudinal loyalty. These program values include *reward attractiveness*, *knowledge benefit*, *experiential benefit*, *group belongingness*, *disclosure comfort*, and *required effort*. Reward attractiveness, knowledge benefit, and required effort were hypothesized as drivers of experiential benefit. Experiential benefit was hypothesized to have a positive and significant impact on program loyalty whereas both group belongingness and disclosure comfort were postulated to influence the customer's brand loyalty. Furthermore, program loyalty was hypothesized to have a positive association with brand loyalty. In total, Chapter Three put forward seven hypotheses to investigate the relationship between the program value constructs and attitudinal loyalty. The results for these hypotheses are reported in this section. A graphical representation of these relationships is presented in Figure 6.2. The results of this analysis are shown in Table 6.2.



**Figure 6.2 Research Model for Program Value and Attitudinal Loyalty**



**Table 6.2 Path Estimates: Program Value Constructs – Attitudinal Loyalty Model**

Relationship	$\beta$	CR	p
<b>Antecedents of Experiential Benefit</b>			
H <sub>1</sub> : Reward Attractiveness → Experiential Benefit	0.22	2.02	**
H <sub>2</sub> : Knowledge Benefit → Experiential Benefit	0.56	6.12	***
H <sub>3</sub> : Required Effort → Experiential Benefit	- 0.19	- 4.37	***
<b>Program Values and Attitudinal Loyalty</b>			
H <sub>4</sub> : Experiential Benefit → Program Loyalty	0.91	29.19	***
H <sub>5</sub> : Group Belongingness → Brand Loyalty	0.44	12.21	***
H <sub>6</sub> : Disclosure Comfort → Brand Loyalty	0.05	2.01	**
<b>Program Loyalty and Brand Loyalty</b>			
H <sub>7</sub> : Program Loyalty → Brand Loyalty	0.51	13.54	***
SMC Experiential Benefit*	0.80		
SMC Program Loyalty*	0.83		
SMC Brand Loyalty*	0.81		

Note: \*\*p < 0.05; \*\*\*p < 0.001, \*SMC=squared multiple correlation (i.e., the strength of the linear relationship between the dependent variable and independent variables).

As can be seen from Table 6.2, all hypothesized relationships were statistically significant and in the hypothesized direction. Reward attractiveness and knowledge benefit were found to have a positive impact on the experiential benefit customers derive as a LP member, thus supporting H<sub>1</sub> and H<sub>2</sub>. In contrast, the required effort for a member to engage with a LP has a negative impact on a member's experiential benefit which supports H<sub>3</sub>. Among the three antecedents, knowledge benefit has the largest effect ( $\beta=0.56$ ) on perceived experiential benefit. This is followed by reward attractiveness ( $\beta=0.22$ ) and required effort ( $\beta=-0.19$ ). Together, these antecedents explained about 80% of variance in experiential benefit. The results further suggest that a LP member's perception of experiential benefit derived from program membership has a strong effect ( $\beta=0.91$ ) on their program loyalty, as suggested by H<sub>4</sub>. Moreover, the squared multiple correlation for program loyalty was 0.83, indicating that about 83% of the variance in program loyalty was explained by experiential benefit. Further examination of the parameter estimates and critical ratio values indicated that group belongingness, disclosure comfort, and program loyalty each had a significant and positive impact on brand loyalty. These findings support H<sub>5</sub>, H<sub>6</sub>, and H<sub>7</sub>. Perceived disclosure comfort ( $\beta=0.05$ ) had a small positive effect, while group belongingness ( $\beta=0.44$ ) and program loyalty ( $\beta=0.51$ ) had moderately strong and positive associations with brand loyalty. Together, the three predictors of brand loyalty explained about 81% of its variance.

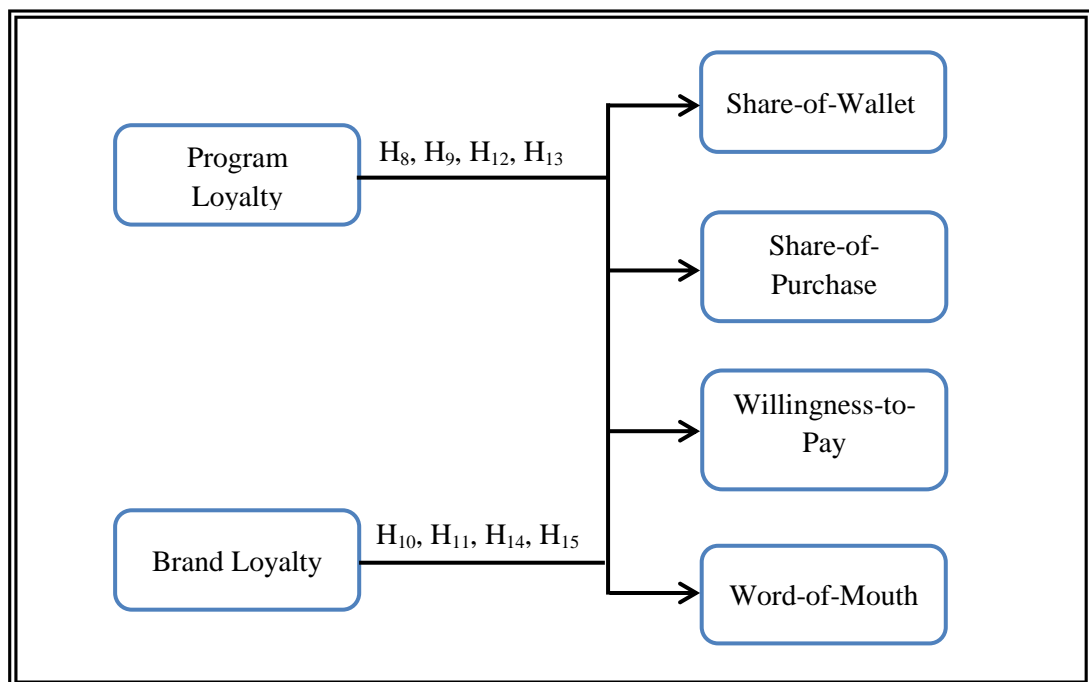
The results support the argument that customers' brand loyalty and program loyalty are driven by the different value constructs that customers derive from their LP membership. To increase a member's dedication to a LP, marketers should put effort into enhancing a member's overall experience with the LP (experiential benefit). The findings also suggest that a member's perception of the experiential benefit they obtain from program memberships is primarily determined by three contributing factors, including: (1) provision of relevant information to LP members, (2) enhancing a LP's reward attractiveness, and (3) lowering the effort required by LP members to use and engage with their program. In contrast, marketers should focus on cultivating a member's sense of group belongingness

with the LP and ensure members are comfortable disclosing information for a LP in order to increase their dedication to the firm. The findings also suggest that members who have strong loyalty towards a LP tend to have strong brand loyalty.

#### 6.4 Attitudinal Loyalty and Behavioural Loyalty

Chapter Three posited that a customer's attitudinal loyalty would have a significant impact on four behavioural loyalty outcomes. In particular, it was hypothesized that attitudinal loyalty, including program loyalty and brand loyalty would have a significant positive impact on a customer's Share-of-Wallet (SOW), Share-of-Purchase (SOP), Willingness-to-Pay (WTP), and Word-of-Mouth (WOM) behaviour. In total, eight hypotheses have been conjectured to test the relationships between attitudinal loyalty and behavioural loyalty. The findings of the eight hypothesized relationships are presented in this section and a graphical representation of the reported relationships is presented in Figure 6.3. The results of this analysis are shown in Table 6.3.

**Figure 6.3 Research Model for Attitudinal Loyalty and Behavioural Loyalty**



**Table 6.3 Path Estimates: Attitudinal Loyalty – Behavioural Loyalty Model**

Relationship	$\beta$	CR	p
<b>Program Loyalty and Behavioural Loyalty</b>			
H <sub>8</sub> : Program Loyalty → Share-of-Wallet	0.44	5.86	***
H <sub>9</sub> : Program Loyalty → Share-of-Purchase	0.44	5.88	***
H <sub>12</sub> : Program Loyalty → Word-of-Mouth	0.25	4.27	***
H <sub>13</sub> : Program Loyalty → Willingness-to-Pay	- 0.30	- 3.87	***
<b>Brand Loyalty and Behavioural Loyalty</b>			
H <sub>10</sub> : Brand Loyalty → Share-of-Wallet	0.13	1.82	n.s.
H <sub>11</sub> : Brand Loyalty → Share-of-Purchase	0.15	2.07	**
H <sub>14</sub> : Brand Loyalty → Word-of-Mouth	0.63	10.35	***
H <sub>15</sub> : Brand Loyalty → Willingness-to-Pay	0.94	11.62	***
SMC Share-of-Wallet*	0.32		
SMC Share-of-Purchase*	0.33		
SMC Word-of-Mouth*	0.73		
SMC Willingness-to-Pay*	0.50		

Note: \*\*p < 0.05; \*\*\*p < 0.001, n.s.=not significant, \*SMC=squared multiple correlation (i.e., the strength of the linear relationship between the dependent variable and independent variables).

As can be seen in Table 6.3, program loyalty has a significant and moderately strong impact on SOW ( $\beta=0.44$ ) and SOP ( $\beta=0.44$ ) but only a small effect on WOM ( $\beta=0.25$ ). These results support H<sub>8</sub>, H<sub>9</sub>, and H<sub>12</sub>. Surprisingly, the results indicate that the effect of program loyalty on a member's WTP is negative ( $\beta=-0.30$ ) which does not support H<sub>13</sub>. With regard to brand loyalty, the results suggest that brand loyalty had a significant and large influence on WTP ( $\beta=0.94$ ) and WOM ( $\beta=0.63$ ), but a weak effect on SOP ( $\beta=0.15$ ), thus supporting H<sub>11</sub>, H<sub>14</sub> and H<sub>15</sub>. Brand loyalty, unexpectedly, did not have a significant association with SOW at  $p \leq 0.05$  and, therefore, H<sub>10</sub> is not supported (however, this relationship was significant at  $p \leq 0.1$ ). As indicated by the squared multiple correlation values, drivers of SOW and SOP explained over 30% of their variances. Results also show that SMC for the Willingness-to-Pay construct was 0.50, indicating that about 50% of the variance in WTP can be explained by program loyalty and brand loyalty. As for the WOM construct, program loyalty and brand loyalty explained nearly three-quarters of its variance.

These results illustrate that both types of attitudinal loyalty have an impact on a customer's behavioural loyalty. The influence of program loyalty is greater on objective measures gauging actual purchase behaviour such as SOW and SOP. In contrast, brand loyalty has a stronger impact on more subjective, intention-based loyalty behaviours including WTP and WOM. Based on the above findings, marketers should focus on cultivating both forms of attitudinal loyalty to increase a customer's behavioural loyalty towards the firm. In particular, marketers should concentrate on improving a LP member's program loyalty if they are aiming to increase their member's actual purchase behaviour. However, if managers wish to cultivate intention-based behaviours such as a member's WOM and WTP, then they need to put more effort into building brand loyalty. Interestingly, managers should take note that the impact of program loyalty on a customer's WTP is negative.

## 6.5 Moderation Tests

Chapter Three hypothesized the effect of two moderating variables on the relationship between program loyalty and brand loyalty. Moderating effects were tested using a multi-group analysis of invariance following Hair et al. (2010). The initial step was to establish some form of measurement invariance before the structural model estimates were examined for moderation effects. The chi-square ( $\chi^2$ ) difference test was used for this purpose. The critical value of  $\chi^2$  difference is 3.84 ( $p < 0.05$ ) with one or more degrees of freedom. The detailed steps taken in testing for moderation are described below.

**Multi-group.** A moderator that is a continuous/metric variable (like those used in this study), needs to be re-coded into non-metric moderators by splitting moderator values into groups in a manner that makes sense based on theory or logic, before multi-group analysis can be performed (Hair et al., 2010). Median-split and creating groups around each mode on a bimodal variable are the commonly preferred

techniques for splitting metric variables for a moderation test (Evanschitzky & Wunderlich, 2006; Hair et al., 2010). Once two or more groups have been created based on the scores of a moderator variable, these groups are then used for subsequent configural, metric and structural invariance tests.

**Configural Invariance.** As a prerequisite, all groups were assessed for configural invariance before testing for metric invariance. Configural invariance is established when all groups have identical factor structures. Using the overall measurement structure developed in Chapter Five, each group was evaluated separately for an appropriate level of model fit and validity.

**Metric Invariance.** Once configural invariance has been established, the baseline model is then tested for metric invariance. Metric invariance involves empirically testing the equivalence of factor loadings (measurement model) across model groups based on a chi-square ( $\chi^2$ ) difference test. Using the baseline model, all groups of interest are tested simultaneously for goodness-of-fit. The  $\chi^2$  value is then used as the baseline value against which subsequent tests for invariance are compared. By placing constraints on factor loadings for all models and thereby forcing factor loadings to be equal across compared groups, a non-significant  $\chi^2$  test, that is, the constraint did not significantly decrease the model fit, would indicate invariance for the tested relationships in the measurement model. Following Byrne's (2009) recommendation, a fully constrained model with the assumption of all factor loadings being invariant across groups should first be tested.

**Moderation Test.** To test the moderation effect, a restriction is imposed on the regression coefficient of the structural model under investigation. Then, the  $\chi^2$  values of the non-restricted model and restricted model are compared. Unlike metric invariance, moderation is detected when there is a *significant* difference in the  $\chi^2$

value across all groups. Note that the tests for moderation (including configural and metric invariance) were assessed on the disaggregated measurement scales to provide for stronger detection of  $\chi^2$  values differences. The required criteria used for assessing moderation effects are summarized in Table 6.4.

**Table 6.4 Summary of Criteria for Moderation Effect**

Models	Levels of Invariant	Criteria
Baseline Model	Configural Invariance	Identical factor structure across groups
Measurement Model	Partial Invariance	$\chi^2 \leq 3.84$ ( $df=1$ )
Structural Model	Variant	$\chi^2 \geq 3.84$ ( $df=1$ )

While multi-group analysis is a common technique used to test moderation, the approach of dichotomizing the continuous scores of a moderator variable has been criticized for being less rigorous and sacrificing too much statistical power (Stone-Romero & Anderson, 1994). Thus, in this thesis, moderated regression was performed alongside multi-group analysis of invariance to investigate the moderating effect of customization and member duration on the program loyalty → brand loyalty relationship. Moderated regression was performed using an SPSS computational procedure termed MODPROBE developed by Hayes and Matthes (2009).

## 6.6 Testing the Moderating Effect of Customization

As the first step, a median split was performed on the values of customization to create a non-metric variable for multi-group analysis. The scale median of customization is 4.25. Hence, the first re-coded non-metric variable of customization has values  $\leq 4.25$  and is labelled “low customization”, while the second group has value  $> 4.25$  and is labelled “high customization”. Inspection of the factor structure for both “low customization” and “high customization” groups yielded identical models, hence satisfying the criteria of configural invariance. This baseline model was then used to test for estimates invariant at the measurement and structural level of the model. The goodness-of-fit statistics related to this

two-group unconstrained model are reported in Table 6.5. The chi-square value of 6389.6, with 3478 *df* provides the baseline value for comparison for the subsequent invariance tests.

**Table 6.5 Summary for Goodness-of-Fit Statistics for Test of Invariance**

Models	$\chi^2$	<i>df</i>	$\Delta \chi^2$	$\Delta df$	<i>p</i>	RMSEA	CFI	TLI	NFI
Baseline Model	6389.6	3478	-	-	-	0.04	0.92	0.91	0.84
Metric Invariance	6440.2	3518	50.63	40	0.12	0.04	0.92	0.91	0.83
Moderation Test	6448.5	3519	8.3	1	0.03	0.04	0.92	0.91	0.83

As shown in Table 6.5, CFI and TLI are above the cut-off criterion value of 0.9, and RMSEA is below 0.08, indicating good fit to the data. Although the NFI value (0.84) is somewhat less than the recommended cut-off criterion of 0.9, other fit indices suggest that the overall model still has a relatively good fit across the two groups. In addition, the normed chi-square value ( $\chi^2/df$ ) for the model is less than 3, indicating good fit to the data. Accordingly, the baseline model was accepted in testing for measurement and structural invariance. A full metric invariance test yielded a significant  $\Delta \chi^2$ , which is not unexpected given the complex model structure. After freeing nine factor loadings, the  $\Delta \chi^2$  test results from the metric invariance model show that the remaining 40 factor loadings compared between the “low customization” and “high customization” groups were not significantly different. Hence, partial metric invariance has been established for the low-high customization models. Following that, the path estimate of interest (program loyalty → brand loyalty) was constrained to be equal between the groups, and the restricted model exhibited a significant  $\chi^2$  difference (at  $p < 0.05$ ), supporting the claim for moderation. Further examination of the standardized regression weights shows that path estimates are significantly higher for customers in the “high customization” group ( $\beta=0.61$ ) than customers in the “low customization” group ( $\beta=0.49$ ). The results suggest that the effect of program loyalty on brand loyalty is significantly stronger for customers who perceive their LP membership to be customized according to their needs. Thus,  $H_{16}$  was supported. As



such, the findings suggest managers should focus on delivering a customized experience for their LP members. This should then strengthen the impact of program loyalty on brand loyalty.

In addition to the multi-group analysis, a moderation regression was also implemented using the MODPROBE macro, as devised by Hayes and Matthes (2009). The results of this analysis are shown in Table 6.6. For the purpose of producing more accurate estimates, gender, income, distance (i.e., customer’s perceived accessibility to the retail store in terms of travel distance from their home), age, and state were included as covariates to control for their potential influence on the regression coefficient estimates. However, the influence of these covariates was found to be non-statistically significant.

**Table 6.6 Model Regression Summary using MODPROBE**

	$\beta$	S.E	t	p
Constant	1.27	0.37	3.46	0.00
Program Loyalty	0.29	0.07	3.95	0.00
Customization	-0.02	0.08	-0.24	0.81
Interaction	0.04	0.02	2.38	0.02
<b><math>\beta</math> at values of moderator variables</b>				
$\beta_{1 }(C=2.86) = 0.41, p < 0.00$				
$\beta_{2 }(C=4.11) = 0.46, p < 0.00$				
$\beta_{3 }(C=5.36) = 0.51, p < 0.00$				

As can be seen from Table 6.6, the interaction effect of customization is significant ( $p < 0.05$ ) indicating that customization does moderate the relationship between program loyalty and brand loyalty, supporting the findings from the multi-group analysis. Further observation of the coefficients for customization at  $\pm 1$  standard deviations (SD) from the mean indicated that when the level of customization is lower (i.e.,  $C=2.86$ ), the coefficient for program loyalty  $\rightarrow$  brand loyalty is weaker ( $\beta=0.41$ ), whereas, at a higher level of program customization ( $C=5.36$ ), the coefficient is stronger ( $\beta=0.51$ ). The findings indicate that LP members who perceive that they receive relatively higher levels of customization

report stronger brand loyalty when they express greater loyalty towards the program. This again provides support for H<sub>16</sub>.

## **6.7 Testing the Moderating Effect of Member Duration**

To investigate the moderating effect of member duration, a median split was first performed based on the values of the moderator – member duration. As a result, member duration in LP was divided into a low and a high group using the median value of 36 months (i.e., 3 years). The low group, labelled “newer members”, consists of members who were enrolled in a LP for  $\leq 36$  months, while the high group, labelled “more established members”, have been members of a LP for  $> 36$  months.

Both groups have the same model structure and were found to achieve good fit, hence, configural invariance was established. The goodness-of-fit statistics related to this two-group unconstrained model are reported in Table 6.7. As shown in Table 6.7, the overall model achieved relatively good-fit, with CFI and TLI values above the cut-off criterion value of 0.9, RMSEA below 0.08, and normed chi-square value below 3. Again, the value of NFI (0.85) is somewhat less than the recommended cut-off criterion of 0.9, but this is not unexpected given the large number of model parameters to be estimated on a disaggregated measurement model (Bandalos, 2002). For these reasons, the baseline model was accepted in testing for measurement and structural invariance. Using the baseline model’s  $\chi^2$  value ( $\chi^2 = 6671.8, 3480 df$ ) as a reference, a fully constrained model across both groups yielded a non-significant change in  $\chi^2$  value ( $p > 0.05$ ), thus suggesting full metric invariance. That is, the measurement model did not vary between the groups.

**Table 6.7 Summary for Goodness-of-Fit Statistics for Test of Invariance**

Models	$\chi^2$	<i>df</i>	$\Delta \chi^2$	$\Delta df$	<i>p</i>	RMSEA	CFI	TLI	NFI
Baseline Model	6671.8	3480	-	-	-	0.04	0.92	0.92	0.85
Metric Invariance	6717.1	3529	45.3	49	0.62	0.04	0.92	0.92	0.85
Moderation Test	6720.9	3530	3.7	1	0.05	0.04	0.92	0.92	0.85

A  $\chi^2$  difference test ( $\Delta \chi^2 = 3.7, 1 df$ ) on the path estimate of interest (program loyalty  $\rightarrow$  brand loyalty) between the non-restricted model and restricted model was found to be significant, at  $p < 0.05$ . Examination of the standardized regression weights indicated that the positive influence of program loyalty on brand loyalty is stronger for “newer members” ( $\beta=0.58$ ) compared to “more established members” ( $\beta=0.46$ ). The results suggest that the brand loyalty of newer members is affected more by their program loyalty than for LP members who have been involved in the program for a longer period of time. This finding supports  $H_{17}$ .

The effect of member duration on program loyalty and brand loyalty was also tested using the MODPROBE procedure. The results of the MODPROBE are shown in Table 6.8. Once again, gender, income, distance, age, and state were included as covariates to control for their potential influence on regression coefficient estimates. Findings show that all covariates were not statistically significant, except for distance ( $p=0.03$ ). The result indicates that customers’ perceived accessibility to the retail store has an influence on their brand loyalty. This is not surprising as customers who have easier access to the retail store are expected to utilize and engage with their LP more often, which in turn, facilitate the cultivation of brand loyalty.

As can be seen, the interaction effect between program loyalty and membership duration is significant ( $p < 0.05$ ). When member duration in a LP is shorter (i.e.,  $D=8.44$ ), the coefficient for program loyalty is higher ( $\beta=0.56$ ), whereas, at a higher level of member duration (i.e.,  $D=60.02$ ), the coefficient is lower ( $\beta=0.46$ ). Thus, it seems that the brand

loyalty of LP members who are relatively new to the program is influenced more by their program loyalty compared to the more established members. However, the effect of program loyalty on brand loyalty seems to weaken as duration of membership increases. Again, these findings reinforce the results obtained from multi-group analysis, and H<sub>17</sub> was, therefore, supported.

**Table 6.8 Model Regression Summary using MODPROBE**

	$\beta$	S.E	t	p
Constant	0.61	0.27	2.30	0.02
Program Loyalty	0.57	0.04	13.01	0.00
Member Duration	0.01	0.00	1.89	0.06
Interaction	0.00	0.00	2.02	0.04
<b><math>\beta</math> at values of moderator variables</b>				
$\beta_{1 }(D=8.44) = 0.56, p < 0.00$				
$\beta_{2 }(D=34.23) = 0.51, p < 0.00$				
$\beta_{3 }(D=60.02) = 0.46, p < 0.00$				

## 6.8 Conclusion

This chapter presents the findings from the analysis of the structural model, thus completing the two-step approach to SEM. These findings were discussed in four sections. The first section reported the goodness-of-fit statistics of the full structural model studied in this thesis. In the second section, the focus was to investigate and report the relationship between LP value and attitudinal loyalty. In the third section, the relationships between attitude loyalty and behavioural loyalty were examined. Finally, the varying effects of program loyalty on brand loyalty, as moderated by customization and member duration, were estimated using multi-group analysis and a moderated regression technique. In total, seventeen hypotheses have been postulated and examined to address the research themes and objectives put forward in Chapter One. Of the seventeen hypotheses, fifteen were supported and two (H<sub>10</sub> and H<sub>13</sub>) were rejected. A summary of the research outcomes is presented in Table 6.9. The implications of these findings, the limitations involved in this research as well as future research avenues, are discussed in the next chapter (Chapter Seven).

**Table 6.9 Research Theme, Objectives and Hypotheses**

Research Objective	Research Hypotheses	Evidence
<b>Research Theme One: Loyalty Program Value Constructs</b>		
(1) Examine the different value constructs that customers derive from being a member of a LP.		
<b>Research Theme Two: Program Value Constructs and Loyalty</b>		
(1) Examine the effect of different LP value constructs on attitudinal loyalty including program and brand loyalty.	H <sub>1</sub> : Reward attractiveness has a significant and positive impact on the experiential benefit customers derive from LP membership.	Supported
	H <sub>2</sub> : Knowledge benefit has a significant and positive impact on the experiential benefit customers derive from LP membership.	Supported
	H <sub>3</sub> : Required effort has a significant and negative impact on the experiential benefit customers derive from LP membership.	Supported
	H <sub>4</sub> : Experiential benefit has a significant and positive impact on program loyalty.	Supported
	H <sub>5</sub> : Group belongingness has a significant and positive impact on brand loyalty.	Supported
	H <sub>6</sub> : Disclosure comfort has a significant and positive impact on brand loyalty.	Supported
	H <sub>7</sub> : Program loyalty has a significant and positive impact on brand loyalty.	Supported
(2) Examine the effect of the different types of attitudinal loyalty on behavioural loyalty including Share-of-Wallet (SOW), Share-of-Purchase (SOP), Word-of-Mouth (WOM) and Willingness-to-Pay (WTP).	H <sub>8</sub> : Program loyalty has a significant and positive impact on SOW behaviour.	Supported
	H <sub>9</sub> : Program loyalty has a significant and positive impact on SOP behaviour.	Supported
	H <sub>10</sub> : Brand loyalty has a significant and positive impact on SOW behaviour.	Not Supported
	H <sub>11</sub> : Brand loyalty has a significant and positive impact on SOP behaviour.	Supported
	H <sub>12</sub> : Program loyalty has a significant and positive impact on WOM behaviour.	Supported
	H <sub>13</sub> : Program loyalty has a significant and positive impact on WTP behaviour.	Not Supported
	H <sub>14</sub> : Brand loyalty has a significant and positive impact on WOM behaviour.	Supported
H <sub>15</sub> : Brand loyalty has a significant and positive impact on WTP behaviour.	Supported	
<b>Research Theme Three: Customer and Program Characteristics</b>		
(1) Examine the moderating effect of consumer and program characteristics on the impact of program loyalty and brand loyalty.	H <sub>16</sub> : A higher level of program customization will strengthen the association between program loyalty and relationship quality	Supported
	H <sub>17</sub> : A longer duration of program enrolment will weaken the association between program loyalty and relationship quality	Supported

## **Chapter Seven**

### **Conclusion, Contributions, and Implications**

#### **7.1 Chapter Summary**

This final chapter summarizes the important research findings from this study and discusses their relevance to theory and practice in three sections. In the first of these sections, the three research themes guiding the overall framework of this thesis are reintroduced and the findings with respect to each theme are summarized. The second section discusses the implications and contributions of the study in terms of theoretical and managerial viewpoints. Finally, the chapter concludes with a discussion of the research limitations and presents suggested future study directions.

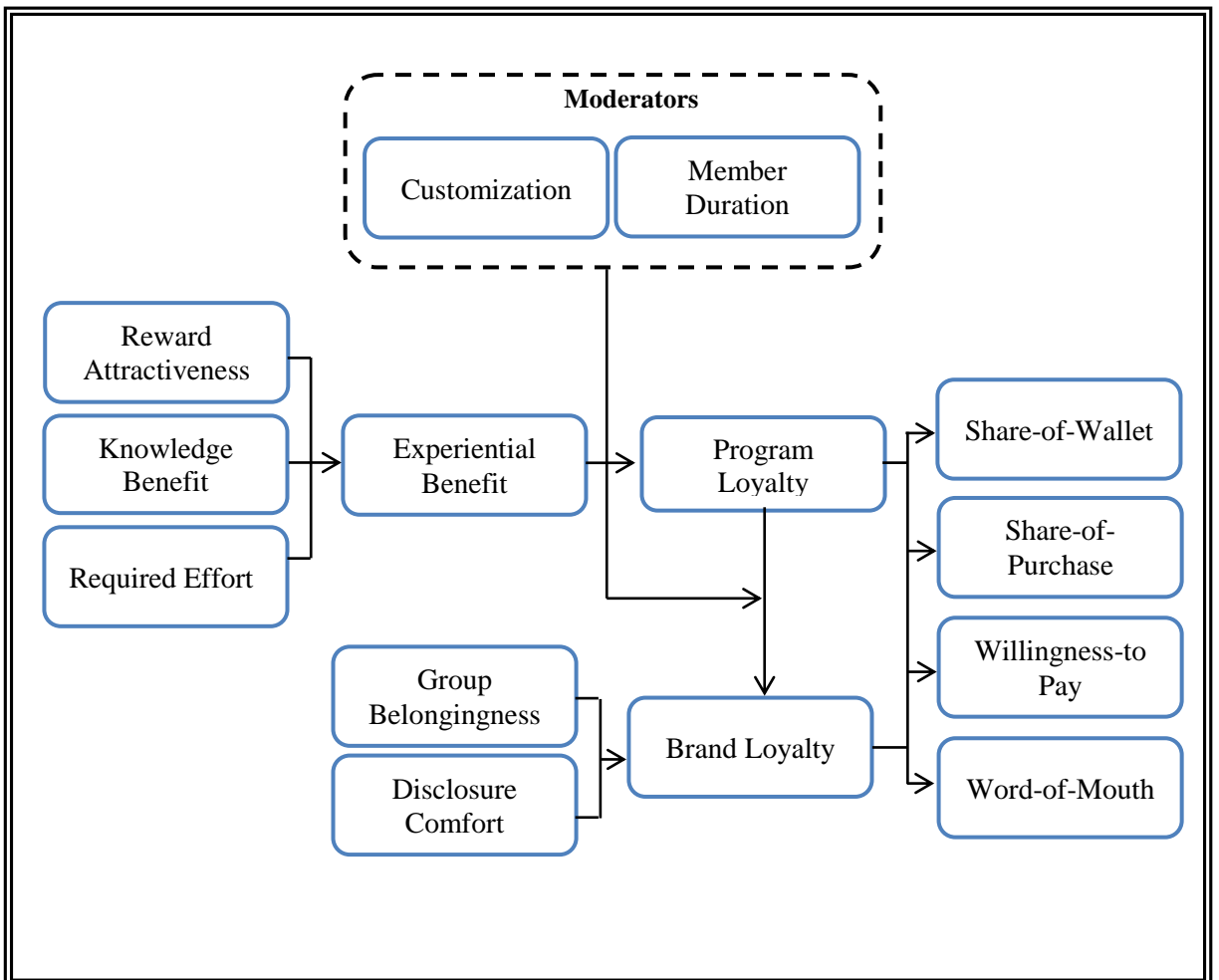
#### **7.2 Effectiveness of a Loyalty Program: The Mechanisms that Underlie Program Membership**

The effectiveness of LPs has been a popular area of research interest in the marketing literature for several decades, yet academics have not reached a conclusion on whether these programs are worthwhile for businesses in the long-run (McCall & Voorhees, 2010). The present study proposed a model that investigates the mechanisms that underlie LP membership to advance current understanding about program memberships (Xie & Chen, 2013). The full research model is shown in Figure 7.1.

The development and analysis of the research framework is guided predominantly by three inter-related research themes. The first of these research themes explores the different value constructs customers derive from being a LP member. The second research theme investigates the impact of different LP values on customer loyalty, including

attitudinal and behavioural loyalty. The third research theme examines the effect of two contingency variables that moderate the effectiveness of program loyalty on brand loyalty. Collectively, these research themes provide a holistic evaluation of LP membership from the customer's point of view. The resultant model strives to provide managers with a valuable framework to effectively implement their LPs, improve the competitiveness of their LPs, and tailor LP elements to suit the needs of their customers. The following sections highlight the research gaps addressed by each research theme and summarize the research findings.

**Figure 7.1 Research Model: The Mechanisms Underlying LP Membership**



### 7.3 Research Theme One: Perceived Loyalty Program Value

Existing studies on LP value have been described as divergent, ambiguous, and requiring further research (Henderson et al., 2011; Yi & Jeon, 2003). Prior studies have proposed several LP value constructs but few have validated these concepts (Dowling & Uncles, 1997; O'Brien & Jones, 1995). Moreover, past studies often adopt a one-dimensional view when investigating the link between LP value and customer loyalty, despite the urgency for a more holistic approach in examining LP value (Henderson et al., 2011). Researchers have called for future studies to uncover a more comprehensive set of factors that represent LP value (Leenheer et al., 2007; Liu, 2007). Against this background, the first research theme of this study aims to address this issue by understanding the different value constructs customers derive from becoming a member of a LP.

Addressing this research theme led to the conceptualization of six primary program value constructs. These constructs include *reward attractiveness*, *knowledge benefit*, *required effort*, *experiential benefit*, *group belongingness*, and *disclosure comfort*. These findings indicate that the value delivered by LPs is more complex than the uni-dimensional concept suggested in past literature (Wirtz et al., 2007; Yi & Jeon, 2003). Each of these constructs is briefly discussed below.

**Reward Attractiveness.** Prior studies have attempted to capture the overall utility of LP reward schemes based on monetary-oriented facets such as monetary savings (Mimouni-Chaabane & Volle, 2010), cash value (O'Brien & Jones, 1995), reward discounts, and gifts (Bridson et al., 2008). However, the present study found that customers perceive the economic benefits of LP in a more holistic manner. Based on the findings, this study provides empirical evidence that *reward attractiveness* (which encompasses economic value of program rewards, reward options, and the availability of these rewards offered to customers) is an important construct of a LP.



**Knowledge Benefit.** As a member of a LP, customers are often updated on a firm's special promotions, improved services, new products, upcoming events or current trends through different communication channels that can sometimes lead them to make purchases they might otherwise not have made (Baumgartner & Steenkamp, 1996). This increase in customer knowledge leads to novel experiences which were found to be a salient LP value construct in this study. This study suggests, therefore, that *knowledge benefit*, which reflects the ability of a LP to enrich members' consumption experience through additional knowledge, is an important LP value construct.

**Required Effort.** Required effort encompasses the sacrifices incurred by customers for using, engaging, and interacting with their LP membership. This construct reflects the "give" element of customer value. While the importance of understanding the customer's effort in being a LP member has been repeatedly stressed in the literature (e.g., Liu, 2007; Noble & Phillips, 2004; O'Malley & Prothero, 2004), few studies have operationalized this construct in the LP context. The findings of this study provide empirical evidence for *required effort* to be a salient component of LP value. This construct suggests that customers base their perceptions of required effort on various factors including ease of use, likelihood of attaining threshold points for reward redemption, amount of money spent, cost of travel, and the complexity involved in the process of reward redemption.

**Experiential Benefit.** Experiential benefit refers to the positive experience members have from interacting with their LP. LP members can engage with their program membership through activities such as collecting points and redeeming rewards. These activities add participative value to the overall experiences members have with their program membership. However, it appears to date that prior research has not attempted to operationalize experiential benefit as a salient LP value construct. This study provides the first empirical evidence that *experiential benefit* is an important value construct that customers derive from their LP.

**Group Belongingness.** Group belongingness denotes the customers' feeling of belonging to a community. The feeling of group belongingness can arise from privileges given to LP members, group activities where customers interact with other program members or an emotional connection to the community (Rosenbaum et al., 2005). While group belongingness has been acknowledged as a crucial aspect that builds customer loyalty to a firm (McAlexander et al., 2002), few studies have examined this construct as a LP value (Rosenbaum et al., 2005). From the empirical findings, this study provides evidence to support *group belongingness* as a crucial LP value construct.

**Disclosure Comfort.** Disclosure comfort represents the level of comfort members experience when disclosing personal information to a firm. Customers are reluctant to disclose personal information to firms in the retail sector as firms have often bombarded their LP members with unsolicited communications such as junk mail and spam (Noble & Phillips, 2004). Yet, this information is important because it assists firms in better understanding and fulfilling the customers' needs (Spake et al., 2003). From the results, this study found empirical support for *disclosure comfort* as an important LP value construct.

Based on the findings, it is argued that firms need to: (1) ensure that their LP delivers a high level of reward attractiveness, (2) provides knowledge benefit, (3) minimizes the required effort for customers to enrol and engage with their membership, (4) enhances the experiential benefit delivered, (5) implements marketing tactics that cultivate feelings of group belonging, and (6) mitigates customers' concerns over loss of privacy or of being ambushed by spam mail/email, before firms can build a stronger relationship with customers through LP membership.

#### **7.4 Research Theme Two: LP Value – Customer Loyalty**

The second research theme aims to address two critical gaps that exist in the literature before marketers can fully understand how LPs can be utilized to build customer loyalty. First, few studies distinguish between program loyalty and brand loyalty (Evanschitzky et al., 2012; Yi & Jeon, 2003). As acknowledged by Tanford et al. (2010), LP value can induce customer loyalty to either the program, the firm, or both, and these attitudinal loyalties drive different customer behaviours (Oliver, 1999). Yet, the effect of different LP value constructs on these two types of loyalty has not been tested. Second, prior studies tend to examine the effect of LPs on behavioural or attitudinal loyalty. While truly loyal customers exhibit repeat purchase behaviours (behavioural loyalty) backed by a positive attitude towards the firm (attitudinal loyalty), little empirical evidence has substantiated the impact of a LP on both types of loyalty (Gomez et al., 2006). Addressing these identified gaps, the second research theme of this study aims to: (1) investigate the effect of different LP values on attitudinal loyalty including program loyalty and brand loyalty, and (2) determine the effect of attitudinal loyalty on behavioural loyalty.

The research findings show that three antecedents, namely, reward attractiveness, knowledge benefit, and required effort, influence a LP member's perceived experiential benefit which, in turn, has a significant influence on program loyalty. The results also show that group belongingness, disclosure comfort, and program loyalty drive brand loyalty. The results further indicate that program loyalty and brand loyalty can have either a positive or a negative impact on a customer's behavioural loyalty, including Share-of-Wallet (SOW), Share-of-Purchase (SOP), Word-of-Mouth (WOM) and Willingness-to-Pay a higher price (WTP). A summary of these results and a brief discussion of the implications is presented in the following section.

#### **7.4.1 The Effect of Reward Attractiveness, Knowledge Benefit, and Required Effort on Experiential Benefit**

The findings from the present study suggest that the attractiveness of LP rewards and the knowledge benefit delivered to customers are critical in their evaluation of the experience they have with a LP. When customers perceive their LP to be offering a variety of rewards that are relevant and valuable to them (i.e., a high level of reward attractiveness), they tend to increase participation and engagement with their LP which results in a more positive overall membership experience (Johnson, 1999). Similarly, LPs that satisfy members' desire for exploration and variety by offering a high level of knowledge benefit are expected to deliver a better program membership experience to the customers. On the contrary, required effort was found to have a negative influence on the customers' experiential benefit. This is because higher effort to use or participate in meaningful program activities hinders members from further engaging with their LP (Ashley et al., 2011). Therefore, when required effort is high, members are not able to fully enjoy the overall experience of their program membership.

The above findings suggest that managers can increase a LP member's experiential benefit by enhancing the attractiveness of the program rewards and increasing the knowledge benefit of the membership. In addition, it is imperative for managers to ensure that the effort required for program participation is kept at a level that is reasonable for firms to make a profit, but not so high as to deter customers from being interested and involved in the LP.

#### **7.4.2 The Effect of Experiential Benefits on Program Loyalty**

Offering LP members an overall positive membership experience was found to have a strong impact on customers' dedication to the program. Customers who have positive

interactions with their LPs tend to use their memberships more effectively which increases their likelihood of reaping program benefits (Smith & Sparks, 2009a). These program benefits, in turn, increase customers' psychological tendency to favour their LP membership against other competing LPs in the market (Frisou & Yildiz, 2011; Kumar & Shah, 2004). This finding implies that managers can enhance members' dedication to their LP by providing them with pleasurable and positive membership experiences.

### **7.4.3 The Effect of Group Belongingness, Disclosure Comfort, Program Loyalty on Brand Loyalty**

The study found that a member's sense of group belonging can have a significant impact on their brand loyalty. Being part of a LP can make members feel like they belong to a group of customers who share the same values (Rosenbaum et al., 2005). This sense of group belonging drives customers to identify themselves more strongly with the firm and deepens their devotion towards the company. Also, a customer's perception of disclosure comfort was found to have an influence on brand loyalty. This is possibly because when customers are comfortable disclosing personal information to the firm, the firm is better able to understand and meet the needs of the customer (Spake et al., 2003). This, in turn, leads to customers' stronger dedication to the brand.

In addition, the results indicate that customers' dedication to a LP had a significant influence on their brand loyalty. As customers experience satisfactory interactions with their LP, their devotion to the LP can lead to a stronger form of customer loyalty, that is, brand loyalty which reflects customers' genuine liking towards the firm. This is a crucial finding as program loyalty has been viewed as less sustainable and less profitable for the firm in comparison to brand loyalty (Dowling & Uncles, 1997). As a result, past studies have cautioned practitioners not to design a structure that encourages program loyalty (Kumar & Shah, 2004). However, this study suggests that program loyalty is important because

customers can develop favourable attitudes towards the firm as they become loyal to the LP. Collectively, results from this study suggest that managers can develop stronger brand loyalty among LP members through enhancing the customers' sense of group belongingness, increasing their level of disclosure comfort, and fostering program loyalty.

#### **7.4.4 Program Loyalty and Behavioural Loyalty**

The findings show that program loyalty had a positive impact on both SOW and SOP as well as a smaller positive impact on WOM. The results suggest that program loyalty, in general, has a positive impact on a customer's behavioural loyalty. Customers who are program loyal view their LPs as relatively more attractive than alternative programs being offered in the market (Wirtz et al., 2007). With a favourable attitude towards the program, a customer's interaction with the firm (i.e., SOW and SOP) is expected to increase to speed up reward redemption. Furthermore, it was found that the additional benefits received by program members are likely to induce them to share positive and enjoyable experiences with others (i.e., increase WOM) (Wirtz & Chew, 2002). Given that program loyalty drives positive customer behaviour, managers are encouraged to build program loyalty among their LP members.

Unlike the other behavioural loyalty outcomes, program loyalty was found to have a negative impact on a customer's Willingness-to-Pay (WTP) a premium price. The results suggest that customers who are devoted to their LPs are more likely to be sensitive to a price increase. The characteristic of program loyal customers being "deal loyal" might explain the negative relationship between program loyalty and WTP (Rothschild & Gaidis, 1981). As suggested in the literature, program loyalty has a more economic foundation, whereby members in general place greater emphasis on the monetary benefits offered by LPs (Evanschitzky et al., 2012). As such, LP members may expect to be offered greater financial savings such as price promotions and other privileges in return for their loyalty to the firm.

When customers are loyal to economic incentives, they are likely to pay more attention to retail price movements and are less willing to pay a premium price for the firm's products.

Jointly, these findings indicate that the influence of program loyalty on a customer's behavioural loyalty, such as SOW, SOP, and WOM, is favourable, however, these benefits come at the cost of decreasing a customer's Willingness-to-Pay (WTP) a higher price for a firm's product offerings. Therefore, this study suggests that managers who are concerned with increasing a customer's purchasing activities and customer advocacy should focus on encouraging program loyalty among LP members. However, the study cautions that doing so would also decrease customers' WTP a price premium.

#### **7.4.5 Brand Loyalty and Behavioural Loyalty**

In regard to brand loyalty and behavioural loyalty, the analysis indicates that customers' devotion to a firm is a critical driver of their behavioural loyalty. First, results show that brand loyalty had a large positive influence on a customer's WOM and WTP. This impact is likely because strong brand loyalty signifies the customers' desire to continue a valued relationship with the firm (Verhoef, 2003). In addition, customers who have a strong connection and affiliation towards a firm are expected to be enthusiastic advocates for the firm. This observation supports Reichheld's (2003) premise that only customers who have a strong affiliation with the firm are willing to risk their own reputation by giving a referral. Furthermore, customers with a strong commitment to a firm would be more willing to dedicate extra resources for the firm's offerings in order stay with the current provider (Tanford et al., 2010). These findings suggest that it is important for managers to build strong brand loyalty among their customers to increase their WOM and WTP.

Second, this study found that brand loyalty drove a customer's SOP. With a strong affiliation to the firm, brand loyal customers are expected to devote their purchase

transactions only to the firm (Tanford et al., 2010). While the impact of brand loyalty on customers' SOP was positive, surprisingly, brand loyalty did not have a significant influence on customers' SOW. As a result, this study suggests that customers who are brand loyal are expected to dedicate higher SOP to the firm but not necessarily higher SOW.

Collectively, results from this study demonstrate that the influence of brand loyalty on customers' WOM, WTP, and SOP is favourable. However, brand loyalty has no significant influence on customers' SOW. Given the importance of this construct in influencing customer's behavioural loyalty, it is imperative that managers enhance a LP member's brand loyalty. This can be done through developing customers' group belongingness, increasing their disclosure comfort, and fostering stronger program loyalty among members.

## **7.5 Research Theme Three: Customer and Program Characteristics**

While LP researchers have begun examining the contingency factors that impact on LP effectiveness (Liu, 2007), much remains unknown about which factors moderate the loyalty development process and exactly how moderation affects this process (Leenheer et al., 2007). To address this issue, the third research theme of this study examines the moderating effect of customization and member duration in a LP on the relationship between program loyalty and brand loyalty. Program loyalty, much like deal loyalty, reflects the customers' loyalty that is based on the performance of the LP (i.e., benefits vs. cost evaluation) (Dowling & Uncles, 1997; Oliver, 1999). On the contrary, brand loyalty reflects a form of affective loyalty where customers have a genuine liking towards the brand. Unlike program loyalty, brand loyalty is not as easily dislodged and customers who are brand loyal do not defect to competitors as easily as customers who are only program loyal (Tanford et al., 2010). In situations where program loyalty has been cultivated, it would be in the interests of a firm to translate customer program loyalty into brand loyalty.



Despite the importance of understanding moderating variables that could accentuate the influence of program loyalty on brand loyalty, this area of research has not yet been explored. As a result, this study puts forward customization and member duration in a LP as two variables that can moderate the program-brand loyalty relationship. A brief discussion of the findings for each moderator is presented next.

**Customization.** Researchers have proposed that customizing program membership to better meet the needs of individual customers is an effective route to elevate a customer's loyalty from program level to brand level (Shugan, 2005). However, no prior research has empirically validated this claim. This study suggests that program customization is an important moderator for the program-brand loyalty relationship. Findings indicated that higher levels of program customization can effectively enhance the influence of program loyalty on brand loyalty, as suggested in the literature (e.g., Henderson et al., 2011; Shugan, 2005). Customization assists customers in deriving greater benefits from their membership, which includes more efficient shopping experiences, enjoyable interactions with program membership, and financial advantages during purchase (Henderson et al., 2011). These benefits will likely lead to a customer's favourable evaluation of the LP and result in stronger program loyalty. As a result, when the level of program customization increases, customers become more attentive towards their membership, thus increasing the effect of program loyalty on brand loyalty. This result is particularly relevant to LPs that have only managed to build strong program loyalty among their members but not brand loyalty. For these LPs, this study suggests firms invest resources in creating unique membership experiences for their customers through program customization to heighten the effect of program loyalty on brand loyalty.

**Member Duration.** As reported in prior studies, the purchasing behaviour of LP members is likely to change over time (Liu, 2007; Taylor & Neslin, 2005). However, the impact of member duration in a LP on the loyalty development process is unclear. Findings

from this study show that member duration in a LP has a moderating impact on the relationship between program loyalty and brand loyalty. In particular, it was found that the longer a customer stays with the LP (i.e., the member duration increases), the weaker the influence of program loyalty on brand loyalty. Previous research has shown that established LP members possess higher levels of expertise in utilizing their program memberships (Frisou & Yildiz, 2011; Smith et al., 2003). Hence, members who have enrolled in a LP for a longer time are likely to base their liking towards the firm on a wide range of offerings such as customer services and retail environment besides the LP (Evanschitzky & Wunderlich, 2006). On the other hand, newer LP members rely more on their liking towards the program in evaluating their loyalty towards the firm. With that reasoning, it is argued that the impact of program loyalty on brand loyalty is expected to be weaker for established members than for newer LP members. This finding implies that customers who are newer members of a LP are more susceptible to the influence of program loyalty on their assessment of loyalty towards the firm. Therefore, it is important that managers cultivate strong program loyalty among newer members to build stronger brand loyalty, and foster brand loyalty for those who have been in the program for a longer period.

## **7.6 Contribution to Theory**

### **7.6.1 Loyalty Program Value Constructs**

The identification of different LP value constructs that influence the effectiveness of a membership program makes two significant contributions to marketing theory. First, this study represents the first effort in the LP literature to develop and examine a comprehensive list of value constructs that impact on customer loyalty. LPs are often considered a value-enhancement instrument because they increase a customer's perception of what a firm has to offer in addition to the firm's core offering (Liu, 2007). However, research shows that LP memberships are not perceived as valuable to customers (Daryanto et al., 2010). The failure

of existing LPs to deliver attractive value for customers has led to calls for research to extend the current conceptualization of LP value beyond the generic uni-dimensional construct (Henderson et al., 2011). Thus, the present study puts forward a model that addresses this gap in the literature by conceptualizing LP value as a multi-construct variable. This multi-construct approach enables the study to capture the “full” impact of a LP by considering multiple economic and psychological mechanisms in evaluating the effectiveness of a LP. In a second, related contribution, the findings of this research indicate that program value comprises both benefits and sacrifices. While the benefits of relationship marketing have been widely recognized in the marketing literature, few studies have examined the impact of perceived cost/effort on a program’s effectiveness (Liu, 2007). Yet several researchers have suggested that a customer’s perceived costs may be the underlying reason for the downfall of a firm’s relationship-building initiatives such as LPs (Noble & Phillips, 2004; O’Malley & Prothero, 2004).

The results from this study suggest that six factors, namely, *reward attractiveness*, *knowledge benefit*, *required effort*, *experiential benefit*, *disclosure comfort*, and *group belongingness*, were the salient constructs of LP value that customers derived from joining a program membership. These findings represent a significant advancement on our current understanding of the value propositions offered by LPs from a customer’s viewpoint. While past studies (e.g., Dowling & Uncles, 1997; Johnson, 1999; O’Brien & Jones, 1995) have projected numerous economic and psychological benefits as attractive value constructs derived from a LP, few studies have empirically validated these claims. This research has embarked, therefore, on a rigorous procedure of applying both exploratory and confirmatory factor analysis to uncover the underlying constructs that constitute customer perceived value in a LP context. The structure of perceived program value found in this research is underpinned by the Theory of Consumption Value proposed by Sheth et al. (1991). Applying this generic value structure in the context of LPs, the present research is one of the

first to identify a comprehensive list of constructs to operationalize the customers' perception of value of a LP.

As suggested by previous literature (e.g., Leenheer et al., 2007; Peterson, 1995), the economic aspect of program rewards is the central driver of customer participation in a LP. In the present study, this value enhancement function is captured in the construct of *reward attractiveness*. However, reward attractiveness also encompasses O'Brien and Jones's (1995) premise of a redemption option, which is a crucial, but often unexplored, element underlying a customer's perception of reward value. Economic benefits aside, researchers have also alleged that LPs provide members with numerous psychological benefits including the feeling of recognition, sense of belonging (Dowling & Uncles, 1997), being a smart shopper (Kivetz & Simonson, 2002b), exploration, entertainment, and excitement in point collection and reward redemption (Smith & Sparks, 2009a). In accordance with previous studies, this research found support for customers' feelings of *group belongingness* as a salient non-monetary benefit delivered by LPs. The findings of this study also found three additional important non-monetary based LP values, namely, *knowledge benefit*, *experiential benefit*, and *disclosure comfort* have not been fully explored in the LP context. The importance of providing customers with more knowledge to stimulate novel consumption experiences has been repeatedly stressed in the literature as a crucial aspect of a sustainable customer-firm relationship (Berezan et al., 2013). Firms that fail to satisfy the customers' needs for additional information and variety, risk being alienated by their customers (Sheth and Parvatiyar, 1995). However, limited studies have emphasized the importance of knowledge benefit as a salient construct of LP value.

Also, results indicate that customers evaluate their involvement with LPs based on an overall emotional experience (i.e., experiential benefit) which encompasses psychological benefits such as excitement, entertainment, and recognition. Yet, the significance of experiential benefit in a LP context has not been sufficiently highlighted in the past research.

In addition, disclosure comfort was also found to be an important LP value. While the importance of customer comfort in relationship building has been recognized, this notion has not been introduced as a LP value thus far. Apart from the abovementioned economic and psychological benefits, *required effort* was incorporated as the cost component associated with LPs. This addresses recent calls in the literature for research to better understand the sacrifices incurred by LP members and how they impact on a LP's effectiveness (Liu, 2007).

### **7.6.2 Program Value and Customer Loyalty Relationships**

The present study also advances previous research by investigating the relationships between the perceived value constructs and customer loyalty. The research further adds value to the existing literature by examining the impact of program value constructs on both attitudinal and behavioural aspects of customer loyalty. Clarifying the relationship between program value, customer's attitudinal loyalty, and behavioural loyalty is an important contribution because prior studies have not examined the holistic factors that influence customer loyalty in the LP context. This study further extends previous research by examining the impact of LP value on two attitudinal loyalty constructs, namely, program loyalty and brand loyalty. The conceptual domain of attitudinal loyalty was defined in this way since it has been suggested that customer loyalty elicited by a LP can be directed towards the program, the brand or both (Yi & Jeon, 2003). This is the first study to empirically examine the influence of different program value constructs on both program loyalty and firm loyalty. Such analysis makes an important contribution to theory by extending our current knowledge of the value-loyalty relationship in the LP context.

In a related contribution, this study also advances prior research by investigating the impact of attitudinal loyalty on behavioural loyalty outcomes, including SOW, SOP, WOM, and WTP. By providing empirical evidence about the impact of program loyalty and brand

loyalty on behavioural loyalty outcomes, this study offers significant new insights into the attitudinal-behavioural loyalty relationship.

### **7.6.3 Customer and Program Characteristics**

There have been increasing calls for research in the LP area to account for contingency factors that can moderate the effectiveness of a LP (e.g., Liu, 2007; Mägi, 2003). However, few studies have answered these calls. The present research is one of the first studies that empirically examines the moderating impact of customization and member duration in a LP on the value-loyalty framework and, in particular, the program-brand loyalty relationship. The outcomes suggest that customization and member duration in a LP should, in fact, be considered by managers during LP implementation as they can enhance the effectiveness of a program membership. As these moderating effects have not been previously investigated, this study makes an important contribution to the literature by providing new insights into how LPs can effectively cultivate customer loyalty. In addition, such findings extend prior knowledge and add evidence that customer loyalty development is a complex process. Therefore, future research should consider including contingency factors besides customization and member duration in investigating a LP's effectiveness.

## **7.7 Contribution to Practice**

**Loyalty Program Value.** The findings show that six constructs constitute customers' perception of the value they derive from their LP membership. Thus, managers intending to enhance the effectiveness of their LPs in building customer loyalty should be particularly concerned with improving these six salient program values, namely, reward attractiveness, knowledge benefit, required effort, experiential benefit, group belongingness, and disclosure comfort. Results show that if these antecedents are well-managed, they will enhance customers' loyalty to the program and, ultimately, loyalty to the firm. Recognition of the

importance of the different LP value constructs should allow managers to develop more sophisticated strategies. To assist managers in operationalizing these findings, Table 7.1 depicts a list of strategies and tactics that can be deployed by LP managers to improve the operation of their LPs.

As shown in Table 7.1, managers who wish to enhance the effectiveness of their LPs could improve the customers' perceptions of the value they derive from their membership by ensuring that: (1) the program rewards are attractive to customers both financially and in terms of variety available, (2) the program offers knowledge that exposes members to a range of novel experiences, (3) the entire process of being a LP member is hassle-free for customers, (4) the customers' overall experience with the LP is enjoyable and entertaining, (5) the customers feel that they belong to a community of people who share the same values through special benefits and increased interactions among program members, and ensuring that (6) they reassure members of their confidentiality, do not send promotional materials that are not of interest to them, and promise not to share personal information with a third party to improve the member's disclosure comfort.

As an example, Priceline Sister Club could enhance the knowledge benefit offered to its LP members through providing a free yearly Priceline magazine. The magazine can contain information such as updates about new brands and products the company is carrying or inform members about the latest health and beauty trends in the market. In addition, Priceline Sister Club could improve LP members' experiential benefit by introducing a smart phone application as a platform to better engage with Sister Club members. Through the app, LP members could gain full access to the world of rewards and real-time update on their point balance after they have made purchases at Priceline. With regards to MyerOne, managers can enhance LP members' feeling of group belongingness by launching an official online community for its members. The online community facilitates frequent

**Table 7.1 Strategies to Improve Effectiveness of a LP**

<b>Program Value Construct</b>	<b>Managerial Strategies</b>	<b>Specific Tactics</b>
<b>Reward Attractiveness</b>	<ul style="list-style-type: none"> <li>• Ensure that program rewards offered have sufficient economic value to be attractive to customers</li> <li>• Ensure that there is a variety of rewards available for redemption</li> <li>• Ensure that the promised reward options are available to customers during reward redemption to avoid customer disappointment</li> </ul>	<ul style="list-style-type: none"> <li>• Allow customers to redeem accumulated points from a variety of options. These redemption choices should contain a mixture of cash rewards/vouchers and aspirational rewards such as a luxury yacht trip</li> </ul>
<b>Knowledge Benefit</b>	<ul style="list-style-type: none"> <li>• Ensure that the latest market trends and relevant information of interest to the customers is communicated to them</li> <li>• Ensure that there are sufficient promotional activities that encourage members to cross-buy different product categories</li> <li>• Ensure that customers are familiar with their LP membership and relevant information on program membership is communicated to the customers.</li> <li>• Ensure that relevant new products are recommended to customers based on data collected from their purchase history</li> </ul>	<ul style="list-style-type: none"> <li>• Collect information on customers' interests and communicate relevant market updates on these topics to them</li> <li>• Collect information on customers' purchase behaviour, e.g., what they purchase, where, and how often these purchases are made to assist firm in:               <ul style="list-style-type: none"> <li>○ Promoting relevant offers that are not currently purchased by the customers to encourage product trial in other product categories</li> <li>○ Recommending relevant products/brands that might be of interest to customers</li> </ul> </li> <li>• Provide clear instructions to LP members on how to effectively use their memberships, e.g., how many points</li> </ul>



		<p>are rewarded for each dollar spent, how/where to check for membership details, information on reward redemption etc.</p>
<p><b>Required Effort</b></p>	<ul style="list-style-type: none"> <li>• Ensure that the process involved in reward redemption is hassle-free for customers</li> <li>• Ensure that threshold points required for reward redemption are reasonable for the customers</li> <li>• Ensure that members can easily check their accumulated points for reward redemption</li> </ul>	<ul style="list-style-type: none"> <li>• Create an online website or smartphone application that allows LP members to log-in and check their membership details at a convenient time</li> <li>• Create a smartphone application that incorporates an e-card. This gives customers an option to either present the membership card physically or present the e-card through a smartphone at check-out</li> <li>• Provide customers with a membership ID that can easily be remembered, e.g., phone number as membership ID</li> <li>• At times when customers forget to bring their membership card, firm can request for customers' membership ID or look for customers' membership details in the LP system to ensure points are awarded for all purchases made</li> <li>• Conduct survey to monitor customers' perception of the effort required for reward redemption. When threshold points are perceived to be highly unattractive, managers should lower the threshold level to avoid member attrition</li> <li>• Dedicate a LP ambassador in-store who is the go-to person for any questions related to the program</li> </ul>

<p><b>Experiential Benefit</b></p>	<ul style="list-style-type: none"> <li>• Ensure that the program membership is engaging and entertaining for customers</li> <li>• Ensure that the process of collecting and accumulating points is enjoyable and exciting for customers</li> <li>• Ensure that the rewards offered generate feelings of delight and gratitude among customers</li> </ul>	<ul style="list-style-type: none"> <li>• Send customers an annual “Thank You” note to express firm’s appreciation for their LP participation</li> <li>• Attach a list of redemption options available to customers along with the quarterly point-update statement to create excitement and enjoyment</li> <li>• Update customers on newly-included reward options available for redemption, e.g., new holiday destinations</li> <li>• Offer reward choices that support customers’ personal interest, e.g., an option for environmental enthusiasts to donate to World Land Trust, a charity organization that protects the rainforests and wildlife</li> <li>• Reward loyal program members with customized rewards that are aligned with their interest, e.g., pampering sessions for spa enthusiasts</li> <li>• On the website/smartphone application, provide a list of possible new features that can be incorporated into the LP membership. Then, allow customers to vote for their favourite feature to be introduced.</li> </ul>
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<p><b>Group Belongingness</b></p>	<ul style="list-style-type: none"> <li>• Ensure that a community is available for customers to interact with other program members</li> <li>• Ensure that communication between program members is available to foster group belongingness</li> <li>• Ensure that customers feel privileged belonging to the LP</li> </ul>	<ul style="list-style-type: none"> <li>• Invite customers to VIP-only events</li> <li>• Allow LP members to pre-purchase products before the offers are introduced in-store</li> <li>• Establish an online community where LP members can interact with each other, e.g., ask questions, share ideas, and general topics of discussion</li> <li>• Invite LP members to “interest group” events where customers who share the same passion are invited to participate on a related topic, e.g., invite fanatic cooks to a cooking class</li> <li>• Offer complementary services/gifts to LP members, e.g., free internet services and coffees in-store</li> <li>• Provide extended opening hours to LP members.</li> </ul>
<p><b>Disclosure Comfort</b></p>	<ul style="list-style-type: none"> <li>• Ensure that customers are reassured of their confidentiality when they disclose personal information to the firm</li> <li>• Ensure that a secure platform is available to transmit customer information from customer’s end to the firm</li> </ul>	<ul style="list-style-type: none"> <li>• Before collecting any information from customers, assure them that all details collected will be strictly confidential</li> <li>• Assure LP members that personal information will not be sold or shared with other parties</li> <li>• Include a clause in the membership form that highlights the firm’s promise not to misuse the collected information</li> <li>• Do not spam customers’ email with promotional offers that are not of interest to them</li> </ul>

communications between MyerOne members which, overtime, may create a sense of social belongingness through shared goals or values.

The abovementioned strategies have important implications for managers. From a *management* perspective, the first step is to commit to delivering a LP of superior value to customers. This may involve setting a LP structure that best aligns with the firm's long-term strategy. Once the appropriate program structure is in place, managers need to implement a system to monitor the progress of the LP as well as deploy quality improvement strategies to ensure that the program consistently delivers value that is of a high standard to members. Also, managers would be required to integrate the LP initiatives into organizational guidelines and the daily operation of the firm. This would include communicating details of the program to all employees since frontline staff is the customers' first point-of-contact with the company. If the frontline employees have an in-depth understanding of the nature of LP value and its impact on customers, they can contribute towards building the value proposition of the program membership. Therefore, the ability of staff to deliver program value to customers could significantly impact on the success of a LP. It is also important for managers to put in place a system that can effectively solicit members' feedback about the LP so that managers can work on areas of the program where customers feel the LP fell short of their expectations. More importantly, the constant improvement of program features is needed to ensure that the LP has a competitive advantage over other competing programs.

From a *marketing* perspective, managers should understand that all LPs are inferior if their value propositions have not been successfully communicated and delivered to their customers. In short, a successful LP must be perceived as valuable from the customer's viewpoint. As a result, managers should focus on communicating and highlighting to their customers the features of their LPs that are superior to competing programs. The next section provides examples of existing LPs that have successfully emphasized different value

constructs of their program to enhance the customer's perception of what the firm has to offer;

- *Reward Attractiveness.* Neiman Marcus's InCircle program offers its members a wide range of reward redemption options including drinks and appetizers at The St. Regis, a private six-day European golf tournament traveling in a private luxury jet, pampering sessions at one of their premier salons, and monogrammed items purchased from the firm.
- *Knowledge Benefit.* Qantas Frequent Flyer made a series of videos to educate its LP members on how to accumulate points quicker and earn rewards faster.
- *Experiential Benefit.* Tesco ClubCard entices its customers with activities that make program participation enjoyable and entertaining. Members earn a "key" when they spend \$38 in a single transaction; fifty keys will earn the member a title of "keyholder", and 100 keys will make a member "premium keyholder". "Keyholders" are entitled to a range of benefits not offered to other customers.
- *Group Belongingness.* Harrods organized special trips that cater to the interests of the members, such as a day-trip to the studio of jewellers Boodle & Dunthorne, where they create their own jewellery or a motor-racing experience with other motorcycling enthusiasts. The trips are available by invitation only.
- *Required Effort.* Acknowledging that the required effort for customers to participate in a LP can significantly weaken the value proposition of a LP, Hilton Hotels, Marriott International, and Starwood Hotels & Resorts have abolished blackout dates for their LP members, hence allowing members to redeem rewards with no date restrictions. This move has successfully made their LPs more appealing to customers.

- *Disclosure Comfort.* Sephora’s White Card dedicated a section in its “Terms and Conditions” website to explain the protection measures implemented by the firm on the personal data collected from customers. This is to assure customers that Sephora will not misuse the collected information and all data will be treated with the highest level of confidentiality.

This study also offers managers a valid and reliable instrument to measure LP value. The LP scales have demonstrated sound and stable psychometric properties. The survey can be used to gauge the program value constructs and thus allow managers to monitor and evaluate customers’ perceptions of the value they derive from their membership. Unlike prior studies, the current research provides a more comprehensive way to measure LP value that is currently unavailable. In detail, the instrument developed in this study is designed to:

- Provide managers with a valid and reliable survey that can be used to monitor and evaluate customers’ perceptions of program value
- Provide managers with a diagnostic tool to identify areas of a LP that are being executed excellently or are underperforming
- Improve the strategic planning process
- Assimilate the culture of measuring and appraising the performance of the LP into the organization
- Provide efficient resource allocation by prioritizing limited resources to LP elements which have a greater impact on customer loyalty

**LP Value and Customer Loyalty.** The results from this study indicate that LP providers should be particularly concerned with improving experiential benefits and the feelings of belonging to a group that customers derive from program membership. These two constructs are crucial aspects of a LP as they have a substantial influence on customers’ attitudinal loyalty. LP managers need to focus on managing the experiential benefit

delivered to members because the positive overall membership experience has shown to be effective in generating customers' favourable attitudes towards the program. In particular, this can be achieved through three specific areas of a LP: (1) providing an attractive reward scheme, (2) managing the knowledge benefit delivered to customers, and (3) reducing the required effort for customers to engage in the LP. If these antecedents are well-managed, a LP member's perception of experiential benefits could be enhanced. An overall positive membership experience will result in stronger liking towards the LP among customers which leads to positive behavioural outcomes. The feeling of group belongingness was also found to have a strong impact on customers' brand loyalty. In addition, the customers' feeling of disclosure comfort was found to have a positive but weaker impact on brand loyalty in comparison to program loyalty and group belongingness.

While the above findings indicate that managers should be concerned with improving customers' perceptions of program value, the results also suggest that these value constructs do not contribute equally to a customer's attitudinal loyalty. Such information is an important managerial contribution as it assists managers in their resource allocation decisions to improve program value propositions. With this information, LP managers can develop a more effective program structure in building customer loyalty. For instance, if customers rate the perception of group belongingness from their program membership as low when it was found that group belongingness is a major contributor of customers' brand loyalty, this would suggest to managers that more attention needs to be focused on this aspect of their LP. The detailed understanding of the relationships between program value and customer attitudinal loyalty will allow managers to monitor and improve their LPs more effectively.

**Attitudinal Loyalty and Behavioural Loyalty.** The findings indicate that a customer's brand loyalty can be cultivated through a customer's program loyalty. This highlights program loyalty as an important concept that should be encouraged among LP

members, because a customer's loyalty towards a program can be transferred to the brand. In contrast to previous studies (e.g., Kumar & Shah, 2004; Uncles et al., 2003), this research argues that managers should not be particularly concerned about discouraging customers' loyalty towards LPs because program loyalty is beneficial to the firm. As shown in this study, program loyalty is a significant contributor to brand loyalty. Therefore, managers can build a loyal customer base through their LPs which allows the firm to be more resilient to competition. Besides, program loyalty may enhance a customer's switching cost. As customers become increasingly program-loyal, the costs involved for customers to switch (e.g., the points accumulated, time and effort to sign up, learning to use the program, and so forth) to another LP increase (Wirtz et al., 2007). Thus, a high level of program loyalty encourages the customers to "stick" with a particular firm. The ability of a firm to retain customers through stronger program loyalty is an important advantage for industries characterized by largely undifferentiated offerings (i.e., the retail market).

Furthermore, this study also provides managers with knowledge of the differential impact program loyalty and brand loyalty have on behavioural loyalty outcomes. Given that customer behaviour is reliant on their attitude, it is important for managers to focus on improving and maintaining a customer's positive attitude towards both the program and the firm. However, managers need a balance of both program loyalty and firm loyalty to develop effective management strategies in meeting organizational objectives, as the magnitude of their impact on behavioural outcomes differs. Besides, managers should be aware that the impact of program loyalty on a customer's WTP is negative. Therefore, managers who are planning to enhance customers' program loyalty must be cautious that they might be compromising the customers' Willingness-to-Pay (WTP) more for the firm's offerings in the long-run.



**Customization and Member Duration.** The findings suggest that managers should consider the impact of customization and member duration in their strategic decisions because these factors improve the effectiveness of a LP in building customer loyalty. Given that customer loyalty has a direct association with a firm's profitability, understanding the contingency factors that impair the effect of a LP is of vital importance to managers. As indicated by the results of this study, a higher level of customization can increase the influence of program loyalty on brand loyalty. Therefore, managers should focus on customizing aspects of the LP that can better serve the needs of their individual customers to build stronger loyalty towards the firm. A list of strategies that can be implemented by managers to customize a LP is given below:

- Allow customers to opt-in to receive VIP offers, special invitations, and promotions
- Offer relevant suggestions to customers based on the collected purchase history
- Welcome customers by their names to build a more personal and intimate relationship with LP members
- Enable LP members to inform the firm about their favourite brands/products which allows firm to make relevant suggestions in the future based on their stated preferences
- Allow LP members to share special moments in their life with the firm, e.g., birthdays, weddings, anniversaries, so that customized offers can be delivered to customers

In addition, the findings showed that the longer a member stayed with a LP, the weaker the influence of program loyalty on brand loyalty. According to these results, managers should customize program features according to their members' needs during the early stages of program adoption, as brand loyalty can be achieved most effectively at this time.

## 7.8 Research Limitations

As with all studies, this research suffers from several limitations that should be acknowledged. First, the cross-sectional design of this study does not allow any causal inferences to be drawn from the findings; rather, correlational inferences are drawn. Given that the process of building customer loyalty through a LP is dynamic, the model developed for this research represents a static framework. Second, this study relied on self-reported measures of patronage behaviours which might not be an accurate reflection of actual customer behaviour in a real-time setting. The confidence in our findings could be strengthened with access to database information that provides behavioural information on a customer's purchase history.

Third, the qualitative inquiry adopted in this study has also been subjected to a number of criticisms. Since the focus group discussion was carried out in a group setting, respondents might be pressured to answer in conformity with the group's opinion (Imms & Ereaut, 2002). This situation may have suppressed the views of some respondents (Carson et al., 2001). Nevertheless, to ensure that these potential limitations were reduced, the researcher encouraged discussion, asked probing questions, and made sure all focus group members had an opportunity to contribute. Moreover, the topic of LP membership is not a sensitive topic and the researcher has emphasized that the present study was not affiliated to any firm. Thus, participants should not have felt the need to withhold their opinions.

Fourth, the data collection method of using a self-administered survey might result in self-selection bias. That is, the respondents who chose to respond might be different from those who chose not to fill in the online questionnaire. Self-selected respondents are likely to be more interested and involved in the study topic, hence the data collected may be unrepresentative of the general population (Burns & Bush, 2006). To minimize the effect of self-selection bias, a representative sample was obtained, where possible, from major capital

cities throughout Australia. A broad representation of the demographic population was sought. A research company that has a high quality panel for use in such surveys was hired to reduce the likelihood of the sample being unrepresentative. In addition, the sample obtained was compared against data available from the Australian Bureau of Statistics as a way of checking for representativeness.

Fifth, the core premise underlying the research framework follows the conventional wisdom that a customer's attitude loyalty drives behavioural loyalty. However, there is also the possibility that because of consistent purchase behaviour, customers develop an interest towards the brand which in turn motivates them to sign up for a LP. Overtime, customers may develop attitudinal loyalty towards the brand and LP. The reverse logic whereby behavioural loyalty of a customer drives attitudinal loyalty has not been considered in this research. As such, readers should take this limitation into consideration when interpreting the research findings. This assumption represents a potential area for future research in the LP context.

Finally, the constructs included in the research model represent a limited sub-set of the marketing concepts that could have been potentially included. For example, the impact of other consumer-related motivators such as variety-seeking and shopping-orientation on the value-loyalty relationship could have been included. However, the research framework was limited in this way to achieve parsimony. While this limitation should be considered when interpreting results and inferring implications, they are not expected to compromise the generalizability or the implications of our research findings.

## 7.9 Directions for Future Research

The findings and limitations of the present study suggest several important avenues for future research. First, future studies might consider replicating the research framework in other industries or other countries to enhance the generalizability of the findings from this study. Second, researchers could extend the current framework by including other consumer-factors such as variety seeking, deal-proneness, customer's usage level or customer relationship proneness to better understand how these factors impact on the effectiveness of a LP. Third, future studies should investigate whether a reverse logic of behaviour-attitude sequence upholds in the LP context. Specifically, rival models to the proposed value-attitude-behaviour effect could be tested to identify potential alternative explanations for the relationships among the studied constructs. Fourth, future research could examine the long-term impact of a LP by applying the developed model to a longitudinal study. It would be interesting to find out how the value-loyalty relationship changes over time in the LP context.

Fifth, it would also be fruitful to examine how well the model developed in this study applies to a business-to-business context. It is expected that a more complex program value structure would exist for a B2B context as decision-making is often made by a group of individuals as opposed to a single person in the B2C context. Since both parties (i.e., seller and buyer) must mutually benefit from their exchanges to achieve a sustainable firm-customer relationship (Berry, 1995), it would be worthwhile to explore the constructs that drive LP value from a firm's perspective. In particular, future research could benefit from gaining a better understanding about the different costs incurred by the firm for having a LP (e.g., setting up the LP infrastructure, implementing and maintaining the LP, serving LP members, and providing program rewards and benefits). Additionally, the shared-value created for both firm and customer through a LP is another interesting avenue for future research in the area of LP.

Sixth, it would be worthwhile for future studies to go beyond the two programs examined in this study. It would be interesting to observe the market dynamism of LPs and examine the change in customers' perceptions/expectations with the presence of other LPs. Taking into consideration the competitive environment would extend our current understanding about how customer loyalty can be effectively built using a LP in the presence of other competing programs. Moreover, future studies should consider the impact of competitor's marketing efforts and business practices in relation to the firm on the effectiveness of a LP.

Finally, researchers should also consider the impact of continuance loyalty which is reflected by customers' feelings of being locked in a relationship (e.g., paid memberships) in the LP context. As suggested by Fullerton (2003), customer loyalty is a complex construct with at least an affective and a continuance component. While the affective aspect (i.e., brand loyalty) has been examined in this study, more research is needed to investigate the impact of continuance commitment on customers' perceptions of program value and, subsequently, their behavioural loyalty.

## **7.10 Conclusion**

Prior to this research, a comprehensive framework that examines the underlying mechanisms that drive customer loyalty in the LP context was not available in the literature. The development and testing of one of the first original research frameworks that encompasses a comprehensive list of value constructs that impact on LP effectiveness moves this agenda forward, and makes a significant contribution to theory. The program value constructs identified in this study provide managers with invaluable insights into the value factors that build customer loyalty. In addition, the measurement scales developed for these program value constructs can also be used by managers to monitor and appraise the performance of their LPs. This knowledge allows managers to better manage their LPs and

cultivate customer loyalty in a cost-effective manner. Such efforts are crucial as customer loyalty has a direct link to a firm's profitability and long-term survivability.

Furthermore, this research provides empirical support for the relationships between the constructs in the value-loyalty framework developed in this study. Such knowledge is imperative for managers to better grasp the overall impact of a LP on the customers' loyalty. Also, this information can assist managers in their resource allocation decisions on different aspects of the LP to achieve the greatest impact on customer loyalty. Overall, the research model developed and tested in this study has significantly advanced our current understanding of how LPs actually work. More importantly, it gives researchers and practitioners a holistic perspective on the mechanisms that underlie a LP membership by capturing the impact of multiple LP value elements on the customers' attitude and, ultimately, on their behaviours.

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**Appendix I: Question Guide for Focus Group Interviews**

<b>Moderators Question Guide: Departmental Stores/Airline</b>		
<b>Objectives</b>	<b>Specific Questions</b>	<b>Probe Questions</b>
Facilitate Discussion	Tell us your name and which departmental store's (airline's) loyalty program you belong to.	
Determine loyalty program value constructs	<p>In your opinion, what makes a loyalty program attractive/appealing to you? (What things do you like about the loyalty program and what things do you dislike about the program?)</p> <p>What were the main drivers for you to join and continue using the loyalty program?</p> <p>What are the other benefits of being a member of a loyalty program?</p> <p>In your words, how would you describe your overall experience with the loyalty program you are in?</p>	<p>Cognitive Value</p> <ul style="list-style-type: none"> <li>• Economic Value <ul style="list-style-type: none"> <li>- What factors indicate to you that the loyalty program is of good economic value?</li> </ul> </li> <li>• Epistemic Value <ul style="list-style-type: none"> <li>- Being a loyalty program member, what is your comment on the opportunities provided by the program in terms of product discovery?</li> <li>- Being a loyalty program member, do you receive newsletters or emails from the company? What is your reaction towards these marketing communication tools?</li> </ul> </li> </ul> <p>Psychological Value</p> <p>Do you derive any psychological benefit from being a member of the firm's loyalty program?</p>

	<p>What element would make a loyalty program less attractive to you?</p>	<ul style="list-style-type: none"> <li>• Social Value <ul style="list-style-type: none"> <li>- What about social value? Like being able to identify or associate with certain groups?</li> </ul> </li> <li>• Emotional Value <ul style="list-style-type: none"> <li>- How do you feel about point collection and point redemption?</li> <li>- How about the services provided for loyalty program members?</li> </ul> </li> <li>• Conditional Value (Comfort) <ul style="list-style-type: none"> <li>- Was there any really unpleasant or positive experiences you have had during the period you are a member of the loyalty program?</li> </ul> </li> </ul> <p>Effort Requirement</p> <p>Could you comment on the level of effort required in staying or redeeming rewards from the loyalty program? How does it affect your value perception on the loyalty program?</p>
<p>Determine the effect of loyalty program</p>	<p>In your opinion, does a loyalty program actually make you loyal? If it does, what is it about the program that does make you loyal? Or what doesn't make you loyal?</p>	<p>Do you think the value of loyalty program (all those factors we have discussed before) affects the overall attractiveness of the loyalty program? How about its effect on the relationship between you and the firm implementing the loyalty program?</p>



<p>Determine the effect of brand loyalty</p>	<p>In your opinion, what is the definition of brand loyalty? What factors indicate that you are brand loyal? How do you define brand loyal behaviour?</p>	<ul style="list-style-type: none"> <li>• Brand Loyalty <ul style="list-style-type: none"> <li>- What about your dedication of business to that particular firm? Do you feel devoted to the company?</li> </ul> </li> </ul>
<p>Determine the role of consumer characteristics in loyalty program effectiveness</p>	<p>From your point of view, do your personal characteristics (e.g. knowledge of loyalty program) have an impact on the effectiveness of loyalty program? How?</p>	<p>Does program knowledge have an impact on your value perception of the loyalty program? If yes, (of all those factors we have discussed before) which of the value component will be affected?</p>
<p>Conclude Session</p>	<p>Is there anything else you would like to add on to help the departmental stores (or airlines) in improving their loyalty program elements for you?</p>	

## **Appendix II: Invitation Email to Participate in Focus Groups**

Title: Invitation to a Focus Group Study

Dear Sir/Madam,

Hello! My name is Jing Theng So, a PhD candidate in the Department of Marketing, at Monash University. I am writing this email to ask for your help with my dissertation research. The topic of my study involves examining consumer's opinion about their loyalty programs. In particular, I am investigating the effectiveness of loyalty programs on customers' loyalty.

I will be conducting a few focus groups next month to obtain some preliminary findings on this subject. If you are a member of any loyalty programs such as FlyBuys, Qantas Frequent Flyer, MyerOne etc., I would like to invite you to participate in the focus groups. The focus groups will involve a small discussion between 5 to 6 people and will take approximately an hour's time to complete. These focus groups will be conducted in the behavioural lab in Building S, Caulfield Campus. I would appreciate your participation in this study if you are interested.

If you are willing to participate, please reply to this email with an indication of your preferred time (am/pm) for the focus group discussions so that we can arrange the most convenient time for everyone to participate in the study. Please be assured that every response collected in this study will be held in the strictest confidence. Responses will be reported anonymously and you will not be identified in the dissertation.

I apologize for sending you this email without your permission, but I appreciate your time and consideration. If you have any enquiries about any aspect of this study, I would be happy to respond to them.

I look forward to your participation and have a wonderful day!

Best Regards,

Jing Theng

Department of Marketing, Faculty of Business and Economics, Monash University  
Room 5.30 Level 5, Building S, Caulfield Campus, 26 Sir John Monash Drive, Caulfield  
East, VIC 3145; P.O Box 197, Caulfield East, VIC 3145.

Phone: + 61 3 9903 2476

## Appendix III: Explanatory Statement



### Explanatory Statement

Dear Participants,

This statement serves to seek your participation in the above-mentioned project being conducted in the Department of Marketing at Monash University, Melbourne, Australia. My name is So Jing Theng and I am conducting this research project under the supervision of Associate Professor Tracey Dagger and Senior Lecturer Dr Samir Gupta of the department, towards a PhD in Business and Economics.

The aim of this study is to gain insights into customers' attitudes (likes and dislikes) towards loyalty programs offered by various organizations. You have been recruited for this study through an online market research company. Your participation is very important to the success of this study.

This survey involves answering questions about your membership in a loyalty program and it takes approximately 20 minutes to complete. Your participation in this study is voluntary and you are under no obligation to consent to participate. However, if you do consent to participate, you may only withdraw prior to the questionnaire being submitted. A decision not to participate in this research, or withdraw at any time prior to submission, will not disadvantage you in any way.

All information obtained from this survey will be accessible by authorized personnel only. Storage of the data collected will adhere to Monash University's regulations and kept on University premises in a locked cupboard/filing cabinet for 5 years within a secure environment. All notes of the survey will be de-identified before storage. However, please keep in mind that it is sometimes impossible for the researcher to make an absolute guarantee of confidentiality/anonymity.

A report of the study may be submitted for publication but participants will not be identifiable in such a report. This anonymous data may also be used for other purposes outside the current research but, again, individual participants will not be identified.

If you would like to be informed of the aggregate research findings, please contact So Jing Theng at [REDACTED]

If you would like to contact the researchers about any aspect of this study, please contact the Investigators:	If you have a complaint concerning the manner in which this research [2010001719] is being conducted, please contact:
<p>Tracey Dagger, Dr Associate Professor Email: [REDACTED] Phone: [REDACTED] Fax: [REDACTED]</p> <p>Samir Gupta, Dr Senior Lecturer Email: [REDACTED] Phone: [REDACTED] Fax: [REDACTED]</p>	<p>Executive Officer Monash University Human Research Ethics Committee (MUHREC) Building 3e Room 111 Research Office Monash University VIC 3800 Tel: +61 3 9905 2052 Fax: +61 3 9905 3831 Email: <a href="mailto:muhrec@monash.edu">muhrec@monash.edu</a></p>

If you encounter any technical difficulties, please contact technical support at [membersupport@cint.com](mailto:membersupport@cint.com).

Thank you

Jing Theng

## Appendix IV: Measures for Constructs Adopted in this Study

Respondents rated on each scale item using a 7-point Likert scale (1=strongly disagree, 7=strongly agree) except for Share-of-Wallet (SOW) and Share-of-Purchase (SOP). SOW was rated in percentage (i.e., range from 0% to 100%) whereas SOP was rated from 1 to 10.

### **Program Value Constructs**

#### **Reward Attractiveness**

- ra1: get monetary reward for purchases
- ra2: program is very economical
- ra3: program provides good value for money
- ra4: program offers attractive financial benefits
- ra5: offers rewards that I want
- ra6: variety of rewards offered by program is excellent
- ra7: program provides good variety of redemption options

#### **Knowledge Benefit**

- kb1: discovered new products
- kb2: discovered products wouldn't have found
- kb3: tried new products
- kb4: learnt more about the products
- kb5: get to know more about the company

#### **Experiential Benefit**

- eb1: excited about the rewards
- eb2: excited to use the program
- eb3: enthusiastic about collecting points
- eb4: the program is appealing to me
- eb5: collecting points from program is entertaining
- eb6: redeeming points is enjoyable
- eb7: feel good when I redeem points for rewards
- eb8: enjoy using the program
- eb9: feel rewarded by the program
- eb10: delighted by the rewards
- eb11: happy receiving rewards for my purchases

**Group Belongingness**

- gb1: share the same values as the brand
- gb2: feel close to the brand
- gb3: strong sense of identification with the brand
- gb4: like a regular customer of the brand
- gb5: part of a community who likes the brand
- gb6: like part of a family as a member
- gb7: belong to a community of people who share the same values
- gb8: feel like an important customer to the brand
- gb9: feel appreciated as a member
- gb10: more privileged than other customers

**Disclosure Comfort**

- dc1: comfortable disclosing information
- dc2: very much at ease
- dc3: worry-free when disclosing information
- dc4: secure disclosing information

**Required Effort**

- re1: process of redeeming rewards is troublesome
- re2: minimum purchase required for reward redemption is unreasonable
- re3: required points is too difficult to achieve
- re4: need to make additional purchases to redeem rewards
- re5: go out of my way to use the program
- re6: too troublesome to use the program

**Attitudinal Loyalty****Program Loyalty**

- pl1: recommend program to others
- pl2: strong preference for this program
- pl3: like program more than others programs
- pl4: likely to use program in the next 12 months

**Brand Loyalty**

- bl1: loyal towards brand
- bl2: very committed to brand
- bl3: deserves my maximum effort to maintain business with
- bl4: brand is very important to me
- bl5: brand is something I really care about
- bl6: I consider this brand my first choice when shopping
- bl7: I would still buy from the brand even if another store has sales

## **Behavioural Loyalty**

### **Word-of-Mouth**

- wom1: say positive things about the company
- wom2: recommend to someone who seeks my advice
- wom3: encourage friends and relatives to do business with company
- wom4: often recommend company to others
- wom5: try to convince friends, family or co-workers to switch to this retailer

### **Willingness-to-Pay**

- wtp1: would continue to do business even if prices increase
- wtp2: willing to pay higher prices
- wtp3: willing to pay more to shop
- wtp4: if prices rise, I would accept the higher prices

### **Share-of-Wallet**

- sow: What percentage of your total expenditures for retail items do you spend in this store?

### **Share-of-Purchase**

- sop: Of the past 10 times you bought items at a retail store, how many times do you select this?

### **Moderator**

### **Program Customization**

- cu1: get discounts or special deals other customers don't get
- cu2: get better prices than other customers
- cu3: company performs services for me they don't normally do for other customers
- cu4: get customized offers because I am a member

## Appendix V: Approval Letters from MUHREC



Monash University Human Research Ethics Committee (MUHREC)  
Research Office

### Human Ethics Certificate of Approval

Date: 8 December 2010  
Project Number: CF10/3296 - 2010001719  
Project Title: Drivers of an effective loyalty program  
Chief Investigator: Assoc Prof Tracey Dagger  
Approved: From: 8 December 2010 To: 8 December 2015

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#### Terms of approval

1. The Chief investigator is responsible for ensuring that permission letters are obtained, if relevant, and a copy forwarded to MUHREC before any data collection can occur at the specified organisation. **Failure to provide permission letters to MUHREC before data collection commences is in breach of the National Statement on Ethical Conduct in Human Research and the Australian Code for the Responsible Conduct of Research.**
2. Approval is only valid whilst you hold a position at Monash University.
3. It is the responsibility of the Chief Investigator to ensure that all investigators are aware of the terms of approval and to ensure the project is conducted as approved by MUHREC.
4. You should notify MUHREC immediately of any serious or unexpected adverse effects on participants or unforeseen events affecting the ethical acceptability of the project.
5. The Explanatory Statement must be on Monash University letterhead and the Monash University complaints clause must contain your project number.
6. **Amendments to the approved project (including changes in personnel):** Requires the submission of a Request for Amendment form to MUHREC and must not begin without written approval from MUHREC. Substantial variations may require a new application.
7. **Future correspondence:** Please quote the project number and project title above in any further correspondence.
8. **Annual reports:** Continued approval of this project is dependent on the submission of an Annual Report. This is determined by the date of your letter of approval.
9. **Final report:** A Final Report should be provided at the conclusion of the project. MUHREC should be notified if the project is discontinued before the expected date of completion.
10. **Monitoring:** Projects may be subject to an audit or any other form of monitoring by MUHREC at any time.
11. **Retention and storage of data:** The Chief Investigator is responsible for the storage and retention of original data pertaining to a project for a minimum period of five years.



Professor Ben Canny  
Chair, MUHREC

cc: Dr Samir Gupta, Ms So Jing Theng

Postal – Monash University, Vic 3800, Australia  
Building 3E, Room 111, Clayton Campus, Wellington Road, Clayton  
Telephone +61 3 9905 5490 Facsimile +61 3 9905 3831  
Email [muhrec@adm.monash.edu.au](mailto:muhrec@adm.monash.edu.au) [www.monash.edu/research/ethics/human/index/html](http://www.monash.edu/research/ethics/human/index/html)  
ABN 12 377 614 012 CRICOS Provider #00008C



## **Appendix V: Approval Letters from MUHREC - Continued**

Dated: 16/5/2012

Dear Researchers

Thank you for submitting a Request for Amendment to the above named project.

This is to advise that the following amendments have been approved and the project can proceed according to your approval given on 8 December 2010:

Change to procedures:

- 3 Explanatory statement wording amended to provide participants with greater details about the project
- 4 Screening Question Changes - A question about the respondent's state of residence included as a screening question to ensure all respondents are currently residing in Australia. The question on age moved to the first section to ensure respondents are aged 18 and over
- 5 Survey Changes - Removal of a few items from the original survey to better reflect the underlying latent constructs to be measured. Minor rewording to improve readability and a few additional items included in the current survey to reflect changes made to the initial research framework.

Please forward an annual report to comply with the Terms of Approval.

Thank you for keeping the Committee informed.

Professor Ben Canny  
Chair, MUHREC  
Human Ethics  
Monash Research Office

## Appendix VI: Composite Indicators and Original Items Used in this Research

Composite Indicator	Original Items
RA1	ra6: variety of rewards offered by program is excellent
	ra7: program provides good variety of redemption options
RA2	ra2: program is very economical
	ra3: program provides good value for money
	ra4: program offers attractive financial benefits
KB1	kb4: learnt more about the products
	kb5: get to know more about the company
KB2	kb1: discovered new products
	kb2: discovered products wouldn't have found
	kb3: tried new products
RE1	re1 process of redeeming rewards is troublesome
	re5 go out of my way to use the program
RE2	re3 required points is too difficult to achieve
	re4 need to make additional purchases to redeem rewards
	re6 too troublesome to use the program
GB1	gb8 feel like an important customer to the brand
	gb9 feel appreciated as a member
GB2	gb6 like part of a family as a member
	gb7 belong to a community of people who share the same values
GB3	gb1 share the same values as the brand
	gb2 feel close to the brand
	gb10 more privileged than other customers
GB4	gb3 strong sense of identification with the brand
	gb4 like a regular customer of the brand
	gb5 part of a community who likes the brand
DC1	dc1 comfortable disclosing information
	dc2 very much at ease
DC2	dc3 worry-free when disclosing information
	dc4 secure disclosing information

EB1	eb3 enthusiastic about collecting points
	eb9 feel rewarded by the program
	eb11 happy receiving rewards for my purchases
EB2	eb8 enjoy using the program
	eb10 delighted by the rewards
	eb4 the program is appealing to me
EB3	eb1 excited about the rewards
	eb2 excited to use the program
	eb5 collecting points from program is entertaining
EB4	eb6 redeeming points is enjoyable
	eb7 feel good when I redeem points for rewards
BL1	b12 very committed to brand
	b11 loyal towards brand
BL2	b13 deserves my maximum effort to maintain business with
	b14 brand is very important to me
BL3	b15 brand is something I really care about
	b17 I would still buy from the brand even if another store has sales
PL1	p11 recommend program to others
	p14 likely to use program in the next 12 months
PL2	p12 strong preference for this program
	p13 like program more than others programs
WOM1	wom1 say positive things about the company
	wom2 recommend to someone who seeks my advice
WOM2	wom3 encourage friends and relatives to do business with company
	wom4 often recommend company to others
	wom5 try to convince friends, family or co-workers to switch to this retailer
WTP1	wtp1 would continue to do business even if prices increase
	wtp4 if prices rise, I would accept the higher prices
WTP2	wtp2 willing to pay higher prices
	wtp3 willing to pay more to shop
Cust1	cu1 get discounts or special deals other customers don't get
	cu3 company performs services for me they don't normally do for other customers
Cust2	cu2 get better prices than other customers
	cu4 get customized offers because I am a member

## Appendix VII: Online Questionnaire Survey

### Introduction



Survey Completion  
0%  100%

## Customer Loyalty Programs:

## The Role of Different Value Constructs in Building Customer Loyalty

A PhD research project conducted by

Jing Theng So

Department of Marketing  
Faculty of Business and Economics  
Monash University, Australia

Supervisors:

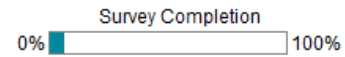
**Ass. Prof. Tracey Dagger**

**Dr. Samir Gupta**

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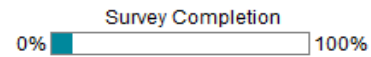
### Question on Age



Please indicate your age:



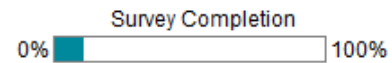
### Question on Place of Residence



Please indicate your place of residence.



### Question on LP membership



Please select the loyalty program(s) you are enrolled in (you are allowed to select more than one program).

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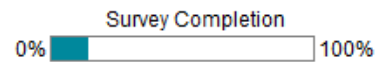
- FlyBuys
- Everyday Rewards
- Qantas Frequent Flyer
- MyerOne
- Amcal Club
- Millers Retail Club
- Priceline's Sister Club
- Velocity Rewards
- RewardsCentral
- Pulse Rewards Program
- Others, please Specify



### Question on LP membership – Continued



**MONASH** University  
Business and Economics



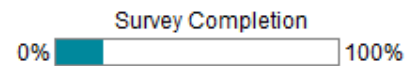
Please rank these loyalty programs according to your preference (i.e. 1 = most preferred).

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- FlyBuys
- Everyday Rewards
- Qantas Frequent Flyer
- MyerOne
- Amcal Club
- Millers Retail Club
- Priceline's Sister Club
- Velocity Rewards
- RewardsCentral
- Pulse Rewards Program



## Congratulatory Website



Congratulations! You now qualify to participate in this survey.

### **Important Notice:**

Please note that all questions in this survey will be based on your **MyerOne** membership.

Please answer all questions, even if some appear to be similar.

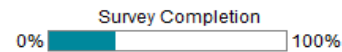
Your patience and cooperation is very much appreciated.

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Questions measuring perceived value customers' derived from a LP

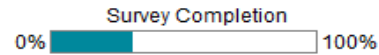


Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
MyerOne provides me with good variety of redemption options.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I have discovered new products as a result of being a member of MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I have discovered products I wouldn't have found if I had not been a member of the MyerOne loyalty program.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
MyerOne offers me rewards that I want.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The variety of rewards offered by MyerOne is excellent.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I get to know more about the company (Myer) through MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
MyerOne provides good value for money.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
MyerOne offers attractive financial benefits.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I've tried new products while being a member of MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
MyerOne is very economical.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I've learnt more about the products being offered by Myer through MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I get a monetary reward for the purchases I make using my MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring perceived value customers' derived from a LP – continued

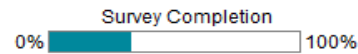


Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
Redeeming points from MyerOne is enjoyable.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Collecting points from MyerOne is entertaining.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am delighted by the rewards offered by MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel rewarded by MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am excited to use MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I enjoy using MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
MyerOne is appealing to me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am excited about the rewards I'll get from MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel happy receiving rewards for my purchases from MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am enthusiastic about collecting points from MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel good when I redeem points for rewards from MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

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Questions measuring perceived value customers' derived from a LP – continued



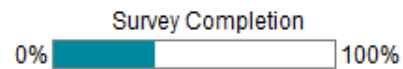
Please indicate how much you agree or disagree with each of the following statements.

Being a member of MyerOne, ...

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I feel like I am an important customer to (Myer)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel that I am part of a community who likes the brand (Myer).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Being a MyerOne member, I feel like I belong to a community of people who share the same values.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel I share the same values as the brand (Myer).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel a strong sense of identification with the brand (Myer).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel like a regular customer of the brand (Myer).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel more privileged than customers who are not MyerOne member.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Please select "Strongly Disagree" for this item.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel like part of a family as a member of MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel appreciated as a member of MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel close to the brand (Myer).	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring perceived value customers' derived from a LP – continued

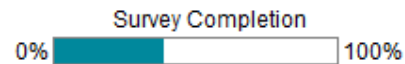


Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I am comfortable disclosing information to MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am worry-free when I disclose information to MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel very much at ease disclosing personal information to MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I feel secure disclosing information to MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring perceived value customers' derived from a LP – continued

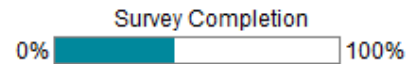


Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
It's too troublesome to use MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
In order to redeem rewards from MyerOne, I would need to make additional purchases that I would not have otherwise made.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The process of redeeming MyerOne rewards is troublesome.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The required points for reward redemption is too difficult to achieve.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I have to go out of my way to use MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
The minimum purchase required to redeem a reward from MyerOne is unreasonable.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring attitudinal loyalty – program loyalty

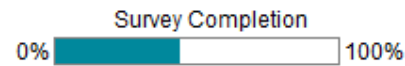


Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I would recommend MyerOne to others.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I have a strong preference for MyerOne.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
It is likely that I will continue to use MyerOne for the next 12 months.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I like MyerOne more than other loyalty programs.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring attitudinal loyalty – brand loyalty



Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I am loyal towards Myer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Myer is very important to me.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Myer is something I really care about.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I consider Myer to be my first choice when shopping at a Department store.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Myer deserves my maximum effort to maintain business with.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am very committed to Myer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Even if another Department store has a sale, I would still buy from Myer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring behavioural loyalty –Share-of-Purchase (SOP) and Share-of-Wallet (SOW)



Think about the past 10 times you bought items that could be purchased at a Department store, how many times (out of 10) did you purchase at Myer compared to other Department stores (e.g. David Jones Pty, Harris Scarfe)?

1	2	3	4	5	6	7	8	9	10
<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Think about the total amount of money you would spend on items from Department stores in an average year.

Now, please estimate what percentage (%) of this amount you would spend with Myer and what percentage (%) you would spend with other retailers?

Myer	<input type="text"/>
Other Retailers (e.g. )	<input type="text"/>





Questions measuring behavioural loyalty – Word-of-Mouth (WOM) and Willing-to-Pay (WTP)



Please indicate how much you agree or disagree with each of the following statements.

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I encourage friends and relatives to do business with Myer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Please select "Disagree" for this item.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I would continue to do business with Myer even if the company decides to increase prices.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am willing to pay a price higher than what other competitors are charging for the benefits I'm receiving from Myer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I would recommend Myer to someone who seeks my advice.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Because of my experiences with Myer, I would try to convince friends, family or co-workers to switch to this retailer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
If Myer raises its prices, I would accept the higher prices.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I say positive things about Myer to other people.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I often recommend Myer to others.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I am willing to pay more to shop at Myer.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



Questions measuring moderator - customization



Please indicate how much you agree or disagree with each of the following statements.

As a loyalty program member of MyerOne, ...

	Strongly Disagree	Disagree	Somewhat Disagree	Neither Agree nor Disagree	Somewhat Agree	Agree	Strongly Agree
I believe I get discounts or special deals that customers who are not MyerOne members don't get.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I believe I get better prices than customers who are not MyerOne members.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I believe Myer performs services for me that they don't normally do for customers who are not MyerOne members.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I believe I get customized offers from Myer because I am a MyerOne member.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>



**Questions measuring moderator – member duration**



Please indicate the duration (in MONTHS) you have been a MyerOne member from the drop-down menu below.

I have been a member of MyerOne for approximately



**Questions measuring demographic variables**



**Please select the answers or fill in the blanks accordingly.**

**Please indicate your gender:**

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- Male
- Female

**Please indicate your annual income (before tax):**

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- Less than \$20,000
- \$20,000 - \$40,000
- \$40,001 - \$60,000
- \$60,001- \$80,000
- More than \$80,000
- Not Applicable

**Questions measuring demographic variables – continued**

**Are you enrolled in other loyalty program(s) which you think are comparable to MyerOne?**

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If Yes. Please specify the names of these loyalty programs.

No

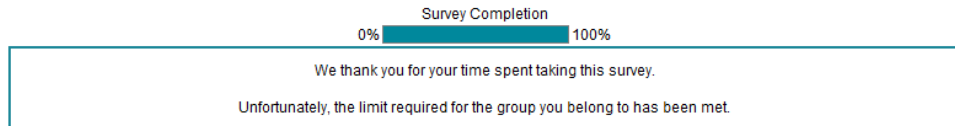
**Please indicate how near or far away the Myer store you usually shop at is from your home.**

Please drag the indicator along the scale to the point that you feel reflects the distance of the Myer store you usually shop at from your home. On this scale, 0 indicates that the store you usually shop at is very near to your home and 100 indicates that this shop is very far.

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### Message displayed for “Quota Met” participants



### Message displayed for “Not Qualified” participants

Unfortunately, you haven't qualified for any surveys at this time. We hope you'll try again later.

Lo sentimos pero no has calificado para ésta encuesta. Esperamos que puedas participar pronto.

Nous sommes désolés, vous ne vous êtes pas qualifié pour cette étude. Dans l'attente de votre future participation.

Es tut uns leid, aber leider passen Sie nicht zu der gesuchten Zielgruppe. Wir hoffen, dass Sie in Zukunft weiter an unseren Umfragen teilnehmen.

Siamo spiacenti ma non sei stato scelto per questo sondaggio. Speriamo parteciperai in futuro.

Vi ber om ursäkt men du passar tyvärr inte in i målgruppen för denna undersökning. Vi ser fram emot ditt deltagande i kommande undersökningar.

### Message displayed for “Questionnaire Complete” participants

Success! You have completed our survey.

¡Gracias por completar nuestra encuesta!

Merci d'avoir répondu à notre sondage!

Vielen Dank für Ihre Teilnahme an dieser Umfrage!

Grazie per la partecipazione al sondaggio!

Tack för att du svarat på vår undersökning!