# Assessing the Effect of Loyalty Program Benefits in Satisfaction-Loyalty Relationship: Evidence from Malaysia

*(Penilaian Kesan Manfaat Program Kesetiaan dalam Hubungan Kepuasan-Kesetiaan: Bukti Empirikal di Malaysia)*

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*ABSTRACT*

*This study aimed at examining the relationship among program benefits (utilitarian/monetary, hedonic, and symbolic), program satisfaction, and loyalty (program loyalty and store loyalty) in the retail context in Malaysia. A total of 300 questionnaires were collected via convenience sampling from program members of hypermarkets and superstores in Malaysia. A structural equation model that assessed the relationship between the proposed variables was tested using AMOS 20. The findings revealed that of the three program benefits, utilitarian benefits and symbolic benefits were statistically significant in influencing program satisfaction. In terms of loyalty, both hedonic and symbolic benefits were related to program loyalty and only hedonic benefit was positively related to store loyalty.*

*Keywords: Loyalty program; utilitarian benefits; hedonic benefits; symbolic benefits; satisfaction; program loyalty; store loyalty; Malaysia*

*ABSTRAK*

*Kajian ini bertujuan untuk mengukur perhubungan di antara manfaat program kesetiaan (utilitarian / kewangan, hedonik, dan simbolik), kepuasan program, dan kesetiaan (kesetiaan terhadap program dan kesetiaan terhadap kedai) dalam konteks runcit di Malaysia. Sebanyak 300 soal selidik telah dikumpulkan melalui kaedah persampelan mudah dari ahli program kesetiaan yang dimiliki oleh pasar raya besar dan superstore di Malaysia. Satu model persamaan struktur yang dinilai hubungan antara pemboleh ubah yang dicadangkan telah diuji menggunakan AMOS 20. Hasil kajian menunjukkan bahawa daripada tiga faedah program, faedah utilitarian dan manfaat simbolik didapati mempunyai pengaruh yang signifikan terhadap kepuasan program. Dari segi kesetiaan, kedua-dua manfaat hedonik dan simbolik berkaitan dengan kesetiaan program dan hanya manfaat hedonik mempunyai pengaruh positif yang signifikan dengan kesetiaan kedai.*

*Kata kunci: Program kesetiaan; faedah utilitarian; faedah hedonik; faedah simbolik; kepuasan; kesetiaan terhadap program; kesetiaan terhadap kedai*

## INTRODUCTION

The rapid development of retail industry in Malaysia has resulted in increased number of retailers of various formats and sizes. The growing number of foreign retailers such as Tesco, Aeon, Sogo, Debenhams, and Isetan, entering the country and receiving good reception from their Malaysian customers has further enlivened the retail industry in the country (Euromonitor International 2011). Besides, the high internet penetration rate among the customers in Malaysia, which enables them to access site and purchase products conveniently from their homes, has opened up another alternative channel for customer to shop (Euromonitor International 2014). Accordingly, customers have a broad selection of retailers to choose from and wide opportunity to reap benefits from the value proposition offered by various retailers. Consequently, with such market condition, the capability to keep the customers connected and loyal to the store has become a big challenge to the retailer.

Recent Nielsen's study on Global Survey of Loyalty Sentiments revealed that although customers place a high priority on store attributes such as price, quality, service, selection and features, 85 percent of the customers had stated on their preference in purchasing at stores with loyalty program (Nielsen 2013). Among the highest respondents favouring loyalty program are from South Asian customers covering Malaysia, Philippine, Indonesian, Singapore, and Thailand, i.e. at 90.8 percent; meanwhile, in terms of benefit, discounted or free products and enhanced customer services have been selected as the main reasons for joining loyalty program (Elaine 2013;

Nielsen 2013). For this reason, loyalty program plays a vital role in attracting, engaging, and retaining customers so that the retailers remain competitive in today's highly competitive retail market (Xie & Chen 2013).

Loyalty program has become an important tool in the establishment of relationship with customers and to turn them into long-term loyal customers. Retailers, who apply loyalty program, can benefit from improvements in revenues, profit, customer loyalty, customer retention, customers' information and above all to deter their close competitors (Dowling & Uncles 1997; Kumar & Shah 2004). Likewise, by participating in loyalty program, customer can enjoy benefits such as discount, gift, special communication, and preferential treatment (Bridson, Evans & Hickman 2008). Even though the benefit of enrolling in loyalty program can be rewarding, store patronage will diminish if the customers are unaware of the benefits, or the benefits offered are highly similar to other stores. According to a market survey taken by Nielsen (2013), 43 percent of the respondents who shop from retailers with loyalty programs stated that they would leave the loyalty program if they have no intention to buy from the store enough to realize the benefits of shopping at the store. Likewise customer may stop participating in the program if they do not draw sufficient benefits and value from their memberships (Steyn, Pitt, Strasheim, Boshoff & Abratt 2010). A recent study revealed that although the growth of overall membership is high, suggesting that the customers are interested in benefiting from the relationship with the retailers, the growth of active members is lagging behind (Colloquy 2013). The inability to keep customers engaged implies that there is staleness in the value propositions of the loyalty programs. Thus, signifying that the loyalty program fails to deliver beneficial experience to their members or the members are simply not aware of the benefits provided by the program (Colloquy 2013; Steyn et al. 2010). While keeping customers satisfied is essential in keeping them coming back to the store, failure to identify the right benefits in accordance to the need and wants of the customers can negatively affect their assessments on the loyalty program and retailer. As such, identifying the benefits that matter the most is necessary in order to satisfy their customers, which in turn can affect their loyalty to the program; and hence, the store.

While the application of loyalty program has been widely accepted and adopted by many countries, the way loyalty programs affect customer behaviour can vary due to the influence of environmental factors such as economic, social, technology, and political of the region (Robinson 2013). In fact, customers' perspective of loyalty program today might differ from the time it was first introduced. Nielsen (2013) survey showed that respondents from developing country are more likely to choose store with loyalty program (91 percent) as compared to respondents from developed country such as Europe (72 percent) and North America (76 percent). Since, most studies on loyalty program were largely conducted in North America and European regions, the results of the studies may not be applicable to Asian market. Thus, it is essential for the study to be conducted in Asian markets as it can provide an insightful perspective of customer behaviour in this region.

Based on the theory of reactance, customers will modify their behaviours when they anticipate and experience changes in program benefits (Brehm 1966). Therefore, in the context of loyalty program, it is expected that members' attitudes and behaviour are contingent on the changes of a program's benefits. Despite vast research on loyalty programs, very few studies have looked into program benefits. To date, Mimouni-Chaabane and Volle (2010) have developed a loyalty program perceived benefits scale based on utilitarian, hedonic, and symbolic benefits. However, this study did not examine how diverse program benefits are related to satisfaction, program loyalty, and store loyalty. In fact, Bolton et al. (2004) suggested that program benefits may explain why customers take part in loyalty programs, as well as how these benefits motivate loyalty and strengthen customer's relationship with the firm. Against this backdrop, the following questions arise: Do program benefits increase customers' attitudinal and behavioural loyalty? How do program benefits and program satisfactions are related to loyalty (program and store)? In response to the identified research gap, the research objectives of this study are to examine how program benefits (utilitarian, hedonic, and symbolic) influence program satisfaction, program loyalty, and store loyalty. The results of this study contribute to the literature by assessing how different types of program benefits relate to attitudinal and behavioural loyalty among members of superstore and hypermarket.

## LITERATURE REVIEW

### LOYALTY PROGRAM BENEFITS

Loyalty programs can be defined as an institutionalized incentive system that motivates consumers to purchase more in the long-term beyond the influences of price discounts or core offerings (De Wulf, Odekerken-Schroder & Iacobucci 2001; Henderson, Beck & Palmatier 2011; Palmatier, Gopalakrishna & Houston 2006). Loyalty programs play important roles in customer retention in many industries, including hotel chains, airlines, retail stores, and financial institutions (Berezan, Raab, Tanford & Kim 2013; Han & Ryu 2009; Meyer-Waarden 2008; Tanford, Raab & Kim 2010). The perceived value that the customers attached to their experience with loyalty program such as what the program provides or does for members is reffered to as program benefits (Holbrook & Hirschman 1982; Kim, Lee, Choi, Wu & Johnson 2013; Mimouni-Chaabane & Volle 2010).

In terms of branding, Keller (2003) had categorised the benefits into functional, symbolic, and experiential. While program benefit has been commonly associated with monetary benefits which is also known as economic, utilitarian or financial benefits (Kreis & Mafael 2014; Mägi

2003; Peterson 1995), other types of benefits have been increasingly presented in the loyalty program literature. Steyn et al. (2010) classified program benefits into two categories, namely financial and information; Berezan et al. (2013), in their study of hotel loyalty program classified program benefits into standard benefits, elite benefits, promotion benefits, and dilution of elite status benefits; Leenheer; Van Heerde, Bijmolt, and Smidts (2007) and Zhang and Breugelmans (2012) categorised program benefits into economic, psychological, and sociological; Evanschitzky et al. (2011) investigated program benefits in terms of social benefits, special treatment, and overall program value; Suh and Yi (2012) studied in terms of hedonic and utilitarian benefits; and Dorotic, Bijmolt and Verhoef (2012) and Mimouni-Chaabane and Volle (2010) examined it in terms of utilitarian benefits, hedonic benefits, and symbolic benefits. A recent study done by Terblanche (2014) in the context of airlines industry, conceived that program benefits are consisted of convenience, exploration, and recognition. Apparently, the benefits associated with loyalty program have been presented from one literature to another. While some of the benefits presented share the same theme, other literature had come up with distinctive benefits depending on the objective and context of the study. Accordingly, considering that the study assessed how program benefits influence program satisfaction, program loyalty, and store loyalty in the context of hypermarket and superstore, the program benefits for this study is based on utilitarian benefits, hedonic benefits, and symbolic benefits.

Utilitarian benefits, which can be achieved through monetary savings, seemed to be the primary and important driver in the customer—retailer relationship (Bridson et al. 2008; Che Wel, Alam & Mohd Nor 2011; Steyn et al. 2010). In loyalty programs, utilitarian benefits are obtained through monetary savings (e.g. coupons and cash-back offers) and convenience benefits (e.g. exclusive reservations, quick-payment counters, priority check-in) (Mimouni-Chaabane & Volle 2010). Prior studies indicated that utilitarian benefits are more valued by the customers because of its intangibility as well as being easy to evaluate and understood (Bridson et al. 2008; Gable, Fiorito & Topol 2008; Steyn et al. 2010; Verhoef 2003). Customers with economic shopping orientation such as 'cherry picker" are more likely to choose loyalty program that promotes utilitarian benefits (Suh & Yi 2012). Although utilitarian benefits are often regarded as impetus to the high switching cost among members, its impact on customer retention and loyalty in the long run is still undecided as the customers may be easily induced to switch to other stores that have better program benefits (Dorotic et al. 2012).

On the other hand, hedonic benefits are abstract and subjective (Rintamäki, Kanto, Kuusela & Spence 2006) and often associated with pleasure and fun (Reinartz 2010). Kivetz and Simonson (2002) argued that hedonic benefits are preferred and more effective than utilitarian benefits when the loyalty program involves high requirement.

Reinartz (2010) contended that hedonic benefits such as free flight to interesting destination may be more appealing to members as compared to receiving shopping vouchers of the same value. Prior studies indicate exploration and entertainment as the dimensions to hedonic benefits (Mimouni-Chaabane & Volle 2010; Rintamäki et al. 2006) and are influential in retaining customer interest (Vesel & Zabkar 2009). Collecting and redeeming points can be deemed as pleasurable and entertaining to members (Johnson 1999; Mimouni-Chaabane & Volle 2010). In fact, past researchers (e.g. Kivetz & Simonson 2003; Lacey & Sneath 2006; Meyer-Waarden 2008) had suggested that loyalty programs can induce the sense of intelligence and pride for achieving or winning a prize without having to pay the normal price; thus, creating the sense of appreciation among those customers who relate gifts to being a preferred or special customer. Rocereto and Mosca (2012) claimed that the hedonic products are affect-laden for the pleasure they provide which is reflected from the high emotional responses from their owners. Hence, it can be assumed that hedonic products trigger stronger emotional responses as compared to utilitarian products.

According to social identity theory, humans' need in boosting their self-image is motivated by their desires to belong to or relate with a high-status group (enhance their global status) (Henderson et al. 2011; Lam, Ahearne, Hu & Schillewaert 2010). Bele and Va (2001) evaluated symbolic benefits in terms of social identification, status, and personal identification. The ability of loyalty program to offer a source of identification and conform to customer's need to associate with something successful or desirable can be considered as symbolic benefits (Kaynak, Salman & Tatoglu 2007). Social comparison theory signifies that humans like to compare themselves with others as a way to satisfy their needs for self-evaluation (Festinger 1954; White & Dahl 2006). According to Anderson et al. (2001), some customers strive for certain status that encourage them to become involved in or seek out particular social environments, which in return allows them to enjoy higher status. Moreover, enhancing status and self-esteem are benefits that can be obtained when symbolic features are derived from the company, store, products, personnel, and other customers (Rintamäki et al. 2006). Kivetz and Simonson (2003) concluded that consumers prefer to be part of a loyalty program that rewards them more as compared to the non-members. As members consider themselves as part of an exclusive group and receive special treatment, this enhances the perception of social benefits.

McKercher et al. (2012) stated that loyalty is a complex and understated concept. Gustafsson, Johnson and Roos (2005) stressed that loyalty is the foundation of customer relationship management (CRM). However, Oliver (1999) suggested that satisfaction is the only achievable goal in some sectors. Yi and Jeon (2003) stated that a positive relationship exists between loyalty programs and satisfaction level. With regard to how program benefits are related to satisfaction and loyalty, past researches had

noted on the strong relationship between relational benefits of the customer-provider and customer loyalty (Chen & Hu 2010; Gwinner, Gremler & Bitner 1998; Hennig-Thurau, Gwinner & Gremler 2002).

A few studies had found that the influential impact of loyalty programs in acquiring and retaining customers relies on customers' evaluations on the benefits they receive by being a member of a program (Bolton et al. 2004; Holbrook 1996; Mimouni-Chaabane & Volle 2010) and the attractive membership benefits offered by the programs. In the context of hotel frequency programs, (Osman, Hemmington & Bowie 2009) found that both transactional and relational marketing approaches are complementary marketing strategies that create significant customer loyalty to hotels.

Babin et al. (1994) suggested that consumers are motivated by monetary factors such as cost, economic rewards (Dick & Basu 1994) and the desire to fulfil hedonic needs including entertainment or social interaction (Arnold & Reynolds 2003). Yet some researchers (e.g. Kim et al. 2011; Wakefield & Baker 1998) noted that attitudinal outcomes including positive affect, pleasure, satisfaction and purchase intentions are results of a playful and entertaining experience. Similarly, Kniveton (2005) found the evidence suggesting that from the less tangible benefits of the process-oriented experience aspects of membership, customers create affective and psychological bonds that can enhance satisfaction and loyalty. In the context of gift shopping, both utilitarian (tangibles) and hedonic (entertainment, emotional, social) benefits arise from shopping are related to consumer satisfaction (Babin, Gonzalez & Watts 2007). Similarly, utilitarian and hedonic benefits were found to predict outcomes such as satisfaction (Babin, Lee, Kim & Griffin 2005; Carpenter & Moore 2009; Jones, Reynolds & Arnold 2006); and intentions (Babin & Attaway 2000; Babin et al. 1994).

By taking program attributes into account, Bridson et al. (2008) found that an appropriate mix of program attributes, including hard attributes (discounts, vouchers, and coupons) and soft attributes (better service, special attention and recognition), can affect store satisfaction and loyalty. Another research had found that functional consumer benefits are the most critical and consistent predictors to both attitudinal and behavioural loyalty (Anisimova 2007). For symbolic benefit, prior studies also found the impact of symbolic benefits (e.g., special treatment benefits) on loyalty. The study conducted by Hennig-Thurau et al. (2002) reported that special treatment benefits enhance customer loyalty. Evanschitzky et al. (2012) also noted that special treatment benefits increased program loyalty. In addition, a recent study in the context of B2B brand communities found that all three benefits (utilitarian, hedonic and symbolic) are significantly related to brand loyalty ((Bruhn, Schnebelen & Schäfer 2014).

With this background, we posit that program benefits that consist of utilitarian, hedonic, and symbolic benefits are related to program satisfaction and loyalty. Therefore, the following hypotheses are proposed:

$H_{1a}$   Program utilitarian benefits are positively related to program satisfaction.

$H_{1b}$   Program hedonic benefits are positively related to program satisfaction.

$H_{1c}$   Program symbolic benefits are positively related to program satisfaction.

$H_{2a}$   Program utilitarian benefits are positively related to program loyalty.

$H_{2b}$   Program hedonic benefits are positively related to program loyalty.

$H_{2c}$   Program symbolic benefits are positively related to program loyalty.

$H_{3a}$   Program utilitarian benefits are positively related to store loyalty.

$H_{3b}$   Program hedonic benefits are positively related to store loyalty.

$H_{3c}$   Program symbolic benefits are positively related to store loyalty.

## PROGRAM SATISFACTION

In line with previous studies, program satisfaction is defined as a program member's affective state resulting from the cumulative evaluation of experience gained from loyalty program (Omar, Musa & Nazri 2007; Vesel & Zabkar 2009). In the retail context, several studies had suggested that satisfaction has a positive influence on loyalty to the store (Bloemer & De Ruyter 1998; Sivadas & Baker-Prewitt 2000). It is difficult for a retailer to achieve loyalty without customers having some degree of satisfaction (Vinod 2011). Indeed, past studies of loyalty programs had reported a positive association between program satisfaction and loyalty (Demoulin & Zidda 2008; Omar et al. 2007). Demoulin & Zidda (2008) examined the extent of customers' satisfaction toward loyalty program and how this affects the effectiveness of loyalty program in the food retail industry. They found that when members are satisfied with the rewards the program generated, they are more loyal and less sensitive to price. As consumers loyal toward the program rather than to the store that offers the program (Sunny Hu, Huang & Chen 2010; Yi & Jeon 2003), we posit that a member's satisfaction toward the program leads to program loyalty and store loyalty. As the core objective of any loyalty program is to convert satisfied customers into loyal customers (Vinod 2011), the following hypotheses are proposed:

$H_{4a}$   Program satisfaction is positively related to program loyalty.

$H_{4b}$   Program satisfaction is positively related to store loyalty.

## PROGRAM LOYALTY AND STORE LOYALTY

One of the goals of a loyalty program is to achieve higher level of customer retention, particularly in profitable segments, by providing increased satisfaction and value to certain customers (Bolton, Kannan & Bramlett 2000). Uncles et al. (2003) noted similar sentiments; suggesting

that two aims of customer loyalty programs stand out. The first is to increase sales revenues by increasing purchase/usage levels and increasing the range of products purchased from the supplier. The second aim is to maintain the store's existing customer base by building a closer bond between the brand and current customers. Meyer-Waarden's (2008) study followed this approach when the effect of loyalty program on purchase loyalty was investigated. However, this study highlighted that devoted members tend to have positive attitudes toward their relationship with the program rather than to the store. In fact, Chen (2004) suggested that behavioural dimension of loyalty (e.g., repeated participation) to be represented through program members' desire to participate in all program functions. In the context of sport fan's club, several scholars have suggested that most of the benefits that card members sought and identified with are the most influential factors in members becoming loyal to a particular team (Iwasaki & Havitz 2004; Tapp 2004). The commitment of these members is reflected in their attendance and participation in club activities (Chen & Hu 2010). In view that customers can be loyal to more than one alternative, it should be possible to distinguish between program loyalty and store loyalty in the conceptualization of customer loyalty (Omar, Aziz & Nazri 2011b; Sunny Hu et al. 2010). In many past studies (e.g. Omar et al. 2011; Sunny Hu et al. 2010) the causal relationship between program loyalty and customer loyalty is significant. The results of these studies revealed that program loyalty affects customer loyalty. Similarly, several researchers (e.g. Omar, Aziz et al. 2011; Yi & Jeon 2003) had pointed out that loyalty is determined, to a large extent, by program loyalty. Hence, the empirical evidence highlights the need to understand and examine the link between member's loyalty to the program and store loyalty.

Based on past studies, program loyalty (attitudinal loyalty) can be expressed as the likelihood to recommend, the likelihood to use (Anderson & Mittal 2000; LaBarbera & Mazursky 1983) and strength of affection towards a loyalty program (Petrick 2004). As some authors consider 'true loyalty' covers both attitudinal and behavioural dimensions of loyalty, in this study store loyalty covers both attitudinal dimensions (relative attitudes as well as behavioural dimensions (repeated patronage) (Dick & Basu 1994). Bearing this in mind, the following hypothesis is proposed:

H$_5$   Program loyalty is positively related to store loyalty.

## THEORETICAL FRAMEWORK

Our conceptual model (as depicted in Figure 1) is consistent with the works of Jones et al. (2006), Omar and Musa (2009), Omar et al. (2011), and Mimouni-Chaabane and Volle (2010) who recognized that successful implementation of loyalty programs partly depend upon the program's benefits and rewards, as well as the bonding with the program. Based on (Omar et al. 2011b) the cognitive psychology and the concepts of utilitarian drawn from the field of micro-economics and classical decision theory (Holbrook & Hirschman 1982) loyalty program members' overall attitude toward loyalty programs depends on the perceived economic benefits (utilitarian) and noneconomic benefits (hedonic and symbolic) (Leenheer et al. 2007). Indeed, the study by (Omar, Alam, Aziz & Nazri 2011a) suggested that, the effectiveness of a loyalty program is likely to depend on the fairness as well as the value of the program benefits. Mimouni-Chaabane and Volle (2010) had developed a new scale for loyalty program perceived benefits based on utilitarian, hedonic, and symbolic benefits covering both the economics benefits and emotional/psychological benefits. Although few researchers (e.g. Nobel & Philips 2004; Mattila 2006) postulated that the benefits provided to customers for relational exchanges may consist of price off, special treatment, and fun, there are limited studies that had considered the emotional/psychological aspects of program benefits in building relationship (Shoemaker &
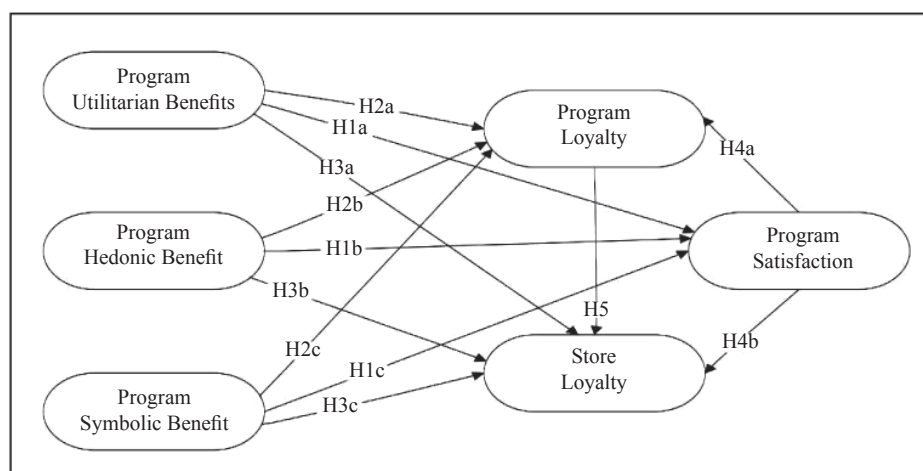


FIGURE 1. Conceptual framework

Lewis 1999). Based on an extensive and critical literature review as discussed in previous section, we applied these principles in the context of hypermarket and superstore loyalty programs. The proposed model simultaneously examines the relationships of program benefits—utilitarian, hedonic, and symbolic—with program satisfaction, program loyalty, and store loyalty. The model suggests that program benefits influence program satisfaction, program loyalty, and store loyalty. We also propose that both program satisfaction and program loyalty serve as antecedents to store loyalty. In the section that follows, we discuss the research methodology.

RESEARCH METHODOLOGY

SAMPLING DESIGN AND PROCEDURES

The present research was conducted in a superstore and a hypermarket that offer a mix of goods and services. The field study method was chosen as to gain information directly from individuals at the retail stores. This study involved the administering of questionnaire to a convenient selection of customers from superstores and hypermarkets in Klang Valley, Malaysia. According to

Mohr (1990), convenience sampling is one of the most common forms of sampling design in social science research. Hence, customers who agreed to participate in this study were given a survey to complete. As an incentive, each respondent was given a small token.

Each respondent was instructed to select a particular superstore or hypermarket loyalty program in which he or she was a member and which he or she would like to focus in the questionnaire. The loyalty programs that belong to the supermarket and hypermarket involved in this study are single-loyalty programs that fall within the program type that requires a customer to accumulate points from one-single provider through sales. Both loyalty programs require their customers to also pay a certain fee to enjoy the benefits. However, for the superstore loyalty program, members also receive a stream of benefits such as free parking and a special sales day for members. There is also an expiration date for points and membership under the superstore loyalty program.

Based on the sampling design, 300 usable questionnaires were collected and used for data analysis (superstores 115, hypermarkets = 185). The description of the sample shown in Table 1 indicates that 65% of respondents were female. Fifty percent of the respondents were single, whereas 48% were married. Furthermore, 41% of the respondents were members of retail loyalty program for l to 2 years, and 27%

TABLE 1. Description of the respondents (N=300)

| | Demographic Variable | Research Sample No. of Respondents | % |
|---|---|---|---|
| Gender | | | |
| | Female | 195 | 65 |
| | Male | 105 | 35 |
| Marital Status | Single | 150 | 50 |
| | Married | 145 | 48 |
| | Widow/Divorce/Separated | 5 | 2 |
| Number of loyalty program Membership | 1 retail loyalty card | 226 | 75 |
| | 2 retail loyalty cards | 51 | 17 |
| | 3 retail loyalty cards | 19 | 6 |
| | 4 retail loyalty cards | 3 | 1.5 |
| | 5 retail loyalty cards and above | 1 | 5 |
| Loyalty program membership duration | Less than a year | 70 | 23 |
| | 1-2 years | 122 | 41 |
| | 3-4 years | 82 | 27 |
| | 5 years and above | 26 | 9 |

of the respondents had been a member for 3 to 4 years. In addition, 75% of the respondents had only one loyalty program, while 25% of the respondents participated in more than one loyalty program.

MEASURE

Table 2 illustrates the measures devised to test the research hypotheses. Six measures are associated with the research

model. Measurement items were either adopted or adapted from related studies. Then, a survey instrument was composed based on the measurement items plus items designed to collect respondent demographics. All questions were measured on a 7-point Likert scale ranging from 1= strongly disagree to 7 = strongly agree, where respondents indicated their degree of agreement or disagreement with a series of statements. A reliability analysis revealed

TABLE 2. Research model measures

| Construct and Source | Items |
| --- | --- |
| *Program utilitarian benefits*<br>Omar and Musa (2009)<br>Mimouni-Chaabane &Volle (2010) | Being a member of this LP allows me to shop at a lower financial cost<br>Being a member of this LP allows me to spend less<br>Being a member of this LP helps me to save money |
| *Program hedonic benefits*<br>Omar and Musa (2009)<br>Mimouni-Chaabane & Volle (2010)<br>Jang & Mattila (2005) | Being a member of this LP helps me to discover products I wouldn't have discovered otherwise<br>This LP helps me to try the new products<br>Collecting points from this LP is fun<br>When I redeem my points from my LP, I feel good at myself |
| *Program symbolic benefits*<br>Jang and Mattila (2005)<br>Mimouni-Chaabane & Volle (2010) | As cardholders, I am treated better than other customers<br>My membership with the LP makes me feel like I am being recognized for doing business with the hypermarket/superstore<br>Being a member of this LP allows me to feel close to the brand<br>Being a member of this LP allows me to share the same values as the brand |
| *Program satisfaction*<br>Crosby and Stephens (1987)<br>Omar et a1. (2007) | I am satisfied with this LP<br>This LP always meets my expectations<br>My experience with this LP is excellent |
| *Program loyalty*<br>LaBarbera and Marzursky (1983)<br>Omar et al. (2011a)<br>Yi and Jeon (2003) | I would say favorable things about this loyalty program to others<br>I would recommend my friends to be a member of this loyalty program<br>I have a strong preference for this loyalty program |
| *Store loyalty*<br>Omar et al. ( 2011b)<br>Zeithamal et a1.(1996) | I visit this hypermarket/superstore more frequently than other retail stores.<br>In the near future, I will surely purchase from this hypermarket/superstore<br>I would recommend this hypermarket/superstore to others<br>I make most of my purchases from this hypermarket/superstore |

Cronbach alphas of 0.92, 0.89, 0.89, 0.93, 0.88, and 0.91 for program utilitarian benefits, program hedonic benefits, program symbolic benefits, program satisfaction, program loyalty, and store loyalty, respectively, indicating a high degree of internal consistency.

### DATA ANALYSIS

#### CONFIRMATORY FACTOR ANALYSIS AND STRUCTURAL MODEL

A two-step approach was employed to analyze the data; examination of the measurement model was followed by an examination on the structural model used to test the hypothesized relationships (Anderson & Gerbing 1988). The structural equation modeling (SEM) procedure enabled us to evaluate how well the proposed conceptual model that contained observed variables and unobservable constructs fit the collected data (Bollen 1989). A confirmatory factor analysis (CFA) was conducted in order to test the robustness and reliability of the scales (via AMOS and the maximum likelihood estimation technique), to confirm the factor loading of the six constructs (i.e., program utilitarian benefits, program hedonic benefits, program symbolic benefits, program satisfaction, program loyalty, and store loyalty), and to assess the model fit. Structural equation modelling was conducted as to assess the overall fit of the proposed model and test the hypotheses.

As suggested by Hair et al.(2009), the model adequacy was assessed by the fit indices. The analysis showed an excellent overall fit of the model (CFI = 0.97; NFI = 0.94; RFI = 0.93; AGFI = 0.90; RMSEA = 0.06; Table 3). The chi-square statistic, however, was significant ($\chi^2$=338.89; d$f$ = 174; $p$ = .00), which is common given the large sample size (Bagozzi & Youjae 1988). A better measure of fit is chi-square over degrees of freedom. This ratio for our model was 1.95, which is within the suggested 3:1 bracket (Chin & Todd 1995). Thus, the measurement

TABLE 3. Structural model fit indices

|  | Criteria | Indicators |
| --- | --- | --- |
| $X^2$ test |  | 338.89 |
| $X^2$ | P > .05 | 0.00 |
| $X^2$ / df | <5 | 1.95 |
| Fit indices |  |  |
| GFI> .90 | >.90 | 90 |
| AGFI> .90 | >.90 | .90 |
| RFI> .90 | >.90 | .93 |
| NFI> .90 | >.90 | .94 |
| Alternative indices |  |  |
| CFI> .95 | >.95 | .97 |
| RMSEA< .08 | <.08 | .06 |
| RMR< .05 | <.05 | .05 |

*Notes*: Adapted from Hair et al. (2006); Byrne (2001)

model fits well enough to suggest adequate validity and to warrant a closer look.

We assessed convergent and discriminant validity with several tests as suggested by Anderson et al. (1988). Table 4 lists the Cronbach's alpha, composite reliabilities, and variance extracted estimates (AVE). Cronbach's alpha of all dimensions ranged from 0.88 to 0.93; this clearly indicates that the scales used in this study are highly reliable (Nunnally 1978). Moreover, the composite reliability ranged from 0.82 to 0.90, all exceeding the minimum reliability standard of 0.70. Meanwhile, variance-extracted estimates all exceeded the recommended lower standard scale of 0.50 (Fornell & Larcker 1981). All tests supported the convergent validity of the scales. We assessed discriminant validity with tests recommended by Anderson

and Gerbing (1988). The correlation index among factors was low and moderate and did not exceed the cut off point of .85 (Kline 2005). In assessing multicollinearity as suggested by (Hair et al. 2009), it was found that it is not a significant issue in our data as all variance inflation factors (VIFs) were well below 3, ranging from 1.645 to 2.687. Since we obtained our data from a single source (i.e., loyalty program members), we are assessed common method bias along the lines of Podsakoff et al. (2003). We performed a Harman's single factor test and ran competing CFA models, the result showed that common method bias is not a serious issue in our study (Podsakoff et al. 2003). Given the satisfactory fit of the model, the estimated structural coefficients were then examined to test the 12 hypotheses using AMOS (see Figure 2).

TABLE 4. Discriminant validity of constructs

| | Mean[a] | SD | A | CR | Utilitarian | Hedonic | Symbolic | Prog Satis. | Prog Loyalty | Store Loyalty |
|---|---|---|---|---|---|---|---|---|---|---|
| Utilitarian | 4.41 | 1.23 | 0.92 | 0.87 | 0.70 | | | | | |
| Hedonic | 4.37 | 1.14 | 0.89 | 0.82 | 0.75 | 0.53 | | | | |
| Symbolic | 4.29 | 1.16 | 0.89 | 0.82 | 0.72 | 0.79 | 0.54 | | | |
| Prog Satis. | 4.42 | 1.16 | 0.93 | 0.90 | 0.68 | 0.71 | 0.72 | 0.76 | | |
| Prog Loyalty | 4.37 | 1.14 | 0.88 | 0.83 | 0.66 | 0.74 | 0.75 | 0.80 | 0.76 | |
| Store Loyalty | 4.47 | 1.09 | 0.91 | 0.86 | 0.65 | 0.72 | 0.68 | 0.74 | 0.77 | 0.61 |

*Notes*: Diagonals represent the average variance extracted While the other entries represent the squared correlations. Correlation is significant at the 0.01 level (2-tailed).
[a] These mean figures are based on each summated scale score divided by the number of items in each scale, for ease of interpretation; (α = Cronbach's alpha; SD = Standard deviation.
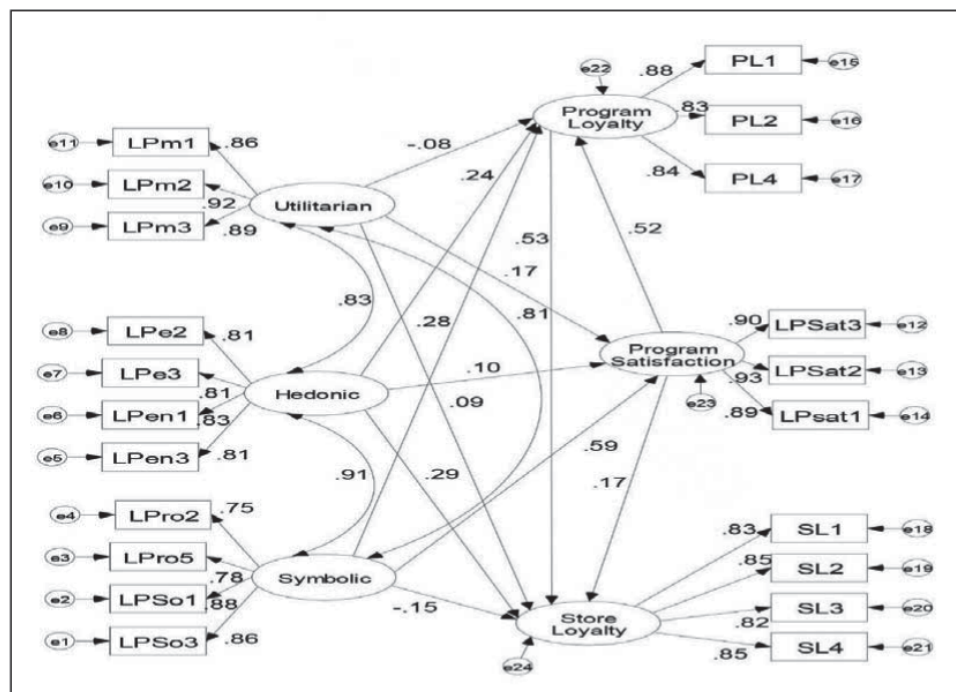


FIGURE 2. Results of the structural model

## HYPOTHESES TESTING

### EFFECT OF UTILITARIAN, HEDONIC, AND SYMBOLIC PROGRAM BENEFITS ON PROGRAM SATISFACTION, PROGRAM LOYALTY AND STORE LOYALTY

Hypotheses 1, 2, and 3 address the influence of program benefits (utilitarian, hedonic, and symbolic) on program satisfaction, program loyalty, and store loyalty, respectively. In testing these first three hypotheses, SEM was performed via AMOS 20. Two-step approach was adapted to check on the internal reliability and convergent validity of each multi-item scale by the measurement model and to test the hypotheses via a structural model (Anderson & Gerbing 1988). The composite reliability values for all constructs were above the suggested threshold of 0.70 (Fornell & Larcker 1981). The r values for all standardize factor loadings were significant ($p < 0.05$), indicating that the measures satisfy convergent validity (Gefen, Straub et al. 2000).

Hypotheses 1a, 1b, and lc predict that program utilitarian benefits, program hedonic benefits, and program symbolic benefits effect program satisfaction, respectively. The results showed that program utilitarian benefits ($\gamma = 0.17$; $t = 2.01$; $p < 0.05$) and program symbolic benefits ($\gamma = 0.60$; $t = 3.98$; $p < 0.001$) have a significant effect on program satisfaction. Therefore, $H_{1a}$ and $H_{1c}$ are accepted. In contrast, program hedonic benefits have no significant effect on program satisfaction ($\gamma = 0.09$; $t = 0.61$; $p < 0.05$) (See Table 5.)

TABLE 5. Results of the hypotheses tested

| | Hypothesized Path | Standardized Coefficient | Critical Ratio (t-value) | Results |
|---|---|---|---|---|
| $H_{1a}$ | Utilitarian - program satisfaction | 0.17 | 2.01** | Supported |
| $H_{1b}$ | Hedonic - program satisfaction | 0.09 | 0.61ns | Not supported |
| $H_{1c}$ | Symbolic - program satisfaction | 0.60 | 3.98**** | Supported |
| $H_{2a}$ | Utilitarian - program loyalty | -0.08 | -1.08ns | Not supported |
| $H_{2b}$ | Hedonic - program loyalty | 0.24 | 1.80* | Supported |
| $H_{2c}$ | Symbolic - program loyalty | 0.28 | 2.05** | Supported |
| $H_{3a}$ | Utilitarian - store loyalty | 0.09 | 1.09ns | Not supported |
| $H_{3b}$ | Hedonic - store loyalty | 0.29 | 1.94* | Supported |
| $H_{3c}$ | Symbolic - store loyalty | -0015 | -0.98ns | Not supported |
| $H_{4a}$ | Program satisfaction - program loyalty | 0.52 | 7.59**** | Supported |
| $H_{4b}$ | Program satisfaction - store loyalty | 0.17 | 1.72* | Supported |
| $H_5$ | Program loyalty - store loyalty | 0.73 | 4.11**** | Supported |

*Notes*:  **** Significant at $p < 0.001$ ($t > \pm 3.29$) * Significant at $p < 0.10$ ($t > \pm 1.65$)
*** Significant at $p < 0.01$ ($t > \pm 2.57$) n.s Non-significant
*** Significant at $p < 0.05$ ($t > \pm 1.96$)

As hypothesized, the path from program hedonic benefit to program loyalty was statistically significant ($\gamma = 0.24$; $t = 1.80$; $p < 0.10$) and the path from program symbolic benefit to program loyalty was also significant ($\gamma = 0.28$; $t = 2.05$; $p < 0.05$). The results showed that the members who received hedonic and symbolic benefits have higher loyalty toward the program. Hence, these results support $H_{2b}$ and $H_{2c}$. The direct path from program utilitarian benefit to program loyalty, however, was not significant ($\gamma = -0.08$; $t = -1.01$; $p < 0.05$), which means $H_{2a}$ is not supported.

This finding diminishes the role of a program's utilitarian benefits in forming program loyalty and consequently emphasizes the role of program hedonic benefits and program symbolic benefits for forming program loyalty.

As shown in Table 5, among program benefits, program hedonic benefits ($\gamma = 0.29$; $t = 1.94$; $p < 0.10$) are positively related to store loyalty. However, program utilitarian benefit ($\gamma = 0.09$; $t = 1.09$; $p < 0.05$) and program symbolic benefits ($\gamma = -0.15$; $t = -0.98$; $p < 0.05$) do not have a significant relationship with store loyalty. Hence, the results support only $H_{3b}$, and fail to support $H_{3a}$ and $H_{3c}$.

### PROGRAM SATISFACTION, PROGRAM LOYALTY AND STORE LOYALTY

Hypotheses 4a and 4b address the effect of program satisfaction on program loyalty and store loyalty, respectively. The results showed that program satisfaction has a positive effect on program loyalty ($\beta = 0.52$; $t = 7.59$; $p < 0.001$). Thus, $H_{4a}$ is supported. $H_{4b}$, which proposed that program satisfaction has a positive effect on store loyalty, was also significant ($\beta = 0.17$; $t = 1.72$; $p < 0.10$) and thus, is supported.

Finally, $H_5$, which suggested that program loyalty influences store loyalty, was supported by a positive standardized coefficient of $\beta = 0.53$ ($t = 4.1$ l; $p < 0.001$). In summary, we can see that it is imperative for a store to focus on strengthening program loyalty via program symbolic benefits and program hedonic benefits if it is ultimately to increase store loyalty.

DISCUSSION

Loyalty programs are commonly used by retailers to strengthen customer relationships and encourage repeated patronage by rewarding customers with benefits for each repeated behaviour (Noble & Phillips 2004). Many studies have examined the relationship between loyalty program and purchase intention (Leenheer et al. 2007), share of wallet (Omar et al. 2011b) and positive word of mouth (Gómez, Arranz & Cillán 2006). However, few studies have analysed the factors that affect customers' loyalty to the program (attitudinal loyalty) and store (behavioural loyalty) through offensive tactics (i.e. program benefits), which include functional (economic) considerations as well as psychological (experiential) motivations. Becker et al. (2009) suggested that it is vital for the customer to be attracted to the program's attributes first. As customers join a program, they should be motivated to repeat their purchases (Dowling & Uncles 1997). Although some researchers emphasized on the psychological benefits (e.g. Kniveton 2005) and their stronger influence (Jones et al. 2006), it is an incorrect to assume that emotional attachment always drives customer loyalty (Xie & Chen 2013). For example, Dowling and Uncles (1997) revealed that loyal customers are more likely to expect a price discount (economic benefits) than general customers. Although loyalty programs are marketing tools used by most retail stores to retain customers, it is not guaranteed that the benefits and rewards will lead to loyalty.

Hence, the purpose of this research was two fold:

1. To examine the relationship among program benefits (utilitarian, hedonic, and symbolic), program satisfaction and loyalties (program and store) in the context of a superstore and a hypermarket in Malaysia; and
2. To determine the relationship between program satisfaction and loyalties (program and store).

Based on the literature review, three dimensions of program benefits that influence program satisfaction, program loyalty, and store loyalty were proposed: program utilitarian benefits, program hedonic benefits, and symbolic program benefits. Theoretical relationships between program benefits that influence program satisfaction, program loyalty, and store loyalty were based on literature review. Data analysis demonstrated how program benefits influence program satisfaction and loyalty, and how program satisfaction is related to program loyalty and store loyalty in the retail context of the superstore and hypermarket sector. In addition, the relationship between loyalty to the program and store loyalty was also established.

The results of the present study can be summarized as follows. Of the three types of program benefits, utilitarian and symbolic program benefits were found to have a statistically significant influence on program satisfaction. However, hedonic program benefits were not related to program satisfaction. Given that utilitarian aspects refer to

the means of preserving or maintaining the status quo in consumption experience, while hedonic aspects are viewed as enhancing the consumption experience (Kahn & Meyer 1991), thus, it can be assumed that program utilitarian benefits are a bivalent satisfier with characteristics that can both satisfy and dissatisfy members. One prior study showed that utilitarian value is the weighing of inputs and outputs of a particular customer experience, reflecting the extent to which the shopping trip was "successful", is likely to influence satisfaction (Babin et al. 1994). High monetary benefits such as discounts lead to high satisfaction due to the nonfinancial rewards that are associated with the perception of fairness (Darke & Dahl 2003). When consumers consider the monetary benefits they received are better than other references in loyalty programs, they are likely to be more satisfied. A few studies have also underlined the positive effects of "good deals" on purchase satisfaction (Mano & Elliott 1997) and fairness in loyalty programs (Omar et al. 2011a).

Among all possible program benefits, we argue that the most significant benefits that contribute toward loyalty are psychological/emotional benefits, particularly hedonic benefits. Based on our current findings, we found that symbolic and hedonic program benefits are positively related to program loyalty. However, only hedonic program benefits are positively related to store loyalty. This result shows that program utilitarian benefits may be well necessary to program satisfaction, but not a sufficient condition in building loyalty (Jones et al. 2006; Shang, Chen & Shen 2005). This is in line with Mattila (2006) research that found benefits involving point redemption are not significantly related to loyalty.

Another possible explanation that we could relate is on the relationship duration of the members with the loyalty programs and the age of the respondents involved in this study. Based on (Meyer-Waarden & Benavent 2008), most late adopters display a lower level of purchase as they expect lower program utility and a higher associated cost. In view that almost 64 percent of the respondents in this study had memberships of less than 2 years, it is likely that utilitarian benefits are not related to loyalty. In addition, age factors can be another reason that contributes to the significant relationship between hedonic benefits and loyalty as 61 percent of the respondents were between 20 to 29 years old. Accordingly, past studies demonstrated that age has an inverse relationship with hedonic value, suggesting that young consumers are more likely to perceive a higher level of hedonic benefits as compared to older consumers (Carpenter & Moore 2009).

Contrary to our expectations, symbolic benefits are not significantly related to store loyalty. We will explain about this finding based on two reasons. First, it may due to the neutral or negative general attitude of the respondents toward loyalty programs. Arbore and Estes (2013) observed that symbolic benefits such as special treatment and exclusivity were only observed among respondents with positive attitudes toward loyalty

programs, while those with neutral or negative attitudes toward loyalty programs were unaffected by the structure of the program.

Second, another possible explanation to be considered is the type of loyalty programs and stores involved in this study. Although both stores (hypermarket and superstores) have loyalty programs that allow customers to earn points and rewards, the stores employed different types of reward frames. For example for the hypermarket, most of the benefits are tangible in nature and members are able to earn immediate discounts in their purchases. Furthermore, Palmatier et al. (2009) argued that loyalty programs in which customers earn points toward a reward (economic benefits) are not likely to generate significant gratitude as customers perceived them as contractual requirements.

However, in terms of program satisfaction to loyalty (program and store), our findings are consistent with that of previous researchers who studied program satisfaction and program loyalty (Omar et al. 2011b; Omar, Che Wel, Abd Aziz & Alam 2013) as well as those researchers who found the association between satisfaction and store loyalty (Demoulin & Zidda 2008; Omar et al. 2007). In examining the influence of program loyalty toward store loyalty, it was found that program loyalty has the most significant impact on store loyalty. This result is in line with prior studies that found a significant relationship between program loyalty and store loyalty (Omar et al. 2011b; Sunny Hu et al. 2010). Our findings imply that program providers should focus on finding ways to enhance the members' bonds with the loyalty programs. If members are loyal to the programs, they will be loyal to the stores and thus, maximize the effectiveness of the programs.

IMPLICATIONS

In terms of academic perspective, our study contributes to the investigation of the development of store loyalty by examining the contribution of program benefits, i.e. utilitarian, hedonic, and symbolic benefits on program satisfaction, program loyalty and store loyalty. Additionally, the influence of program satisfaction on program loyalty and store loyalty was also examined. The study revealed that both program satisfaction and program loyalty are significant drivers of store loyalty. However, we found that program loyalty is a significantly stronger driver of store loyalty in a single-loyalty program (as in the case in our study). However, for multiple loyalty programs, it might not work as customers can become loyal to the program without being loyal to any particular program provider.

Our findings suggest several implications for those retail store providers that are interested in offering loyalty programs that are different from other offerings and at the same time are able to retain customers through appealing and compelling loyalty programs with various program benefits. Instead of focusing only on the economic benefits (monetary rewards through point redemption), program providers need to look at the processes and the experiences of the customers by being a member of a loyalty program. It is the less tangible, process oriented, experiential aspects (hedonic and symbolic benefits) that create members bonding; hence, enhancing the program and store loyalties (Kniveton 2005; Shoemaker & Lewis 1999). Recent researches pointed out that differentiation through nonmonetary benefits such as personalized services or value-added information may offer a useful strategy in differentiating the program in an environment where competitors' programs are highly similar (Mimouni-Chaabane & Volle 2010). This change allows firms to move away from the conventional wisdom of the "me, too'" approach in establishing loyalty programs with a distinct competitive edge.

In this regard, to build store loyalty through a loyalty program, the store should invest in the hedonic benefits of the loyalty program in order to trigger the feelings of excitement and fun. Therefore, it is no longer sufficient for a retailer to operate in a conventional manner by enticing members with pricing strategies or transactional tactics. Instead, the emotional aspects of a loyalty program, which include elements of entertainment, fun, and specialized services, play an important role in retaining customers. Furthermore, the psychological benefits related to customer emotions and experience deliver the sense of exclusivity to members and source of differentiation from other providers. Indeed a few researchers (i.e. Boedeker 1997; Smith et al. 2003) had suggested that to create a loyalty program, firms need to focus their attention on social "means," or on how one is treated rather than on the economic "outcome". This is supported by the findings of recent studies whereby the effect of loyalty programs depends on segments (e.g., price-oriented and service-oriented) (Kopalle, Sun, Neslin, Sun & Swaminathan 2012) and levels of loyalty (Tanford & Baloglu 2013).

To capture store loyalty, some retailers offer both loyalty card and co-branded credit card. Co-branded credit card has emerged as a way to provide more value to the credit cardholder when they shop at a particular store and has been predominantly applied by various types of retailers including hypermarkets and superstores. In fact, some retailers do not choose to provide loyalty card, but instead offer co-branded credit card in order to build relationship with customers. As such, the findings of this study may also be beneficial to the co-branded credit card issuer in understanding the drivers of program satisfaction and program loyalty as it may determine customer retention with the program in the long run. In ensuring the success of their programs, it is crucial for credit card issuers to design appropriate element of program benefits for the success of the program in the long run.

LIMITATIONS AND FUTURE RESEARCH

The present study presents certain limitations. First, it relies on a sample drawn from a limited geographical area in Malaysia. The convenience sampling technique may not represent the entire population and therefore

requires replication. This study relates to the high percentage of loyalty programs in the retail sector, specifically superstores and hypermarkets, which prevents generalization of the results. Second, this study relies on survey-based, cross-sectional data, and thus causality of the relationships between predictor and criterion variables cannot be claimed.

However, our interpretation of the findings is based on theories and prior researches. Third, this research used data from customers, thus social desirability bias could be present. To minimize the bias, this study tested for common method bias (Lindell & Whitney 2001) and it was found that it is not a threat to the study's findings. Based on the limitations of this study, future research might want to further verify or extend the proposed model within different study contexts.

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