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The value of loyalty programs in marketing of services

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Abstract

This paper explores the application of loyalty programs in Malaysian as a representative sample of the Asian and South East Asian consumer. This is primarily attributed to the multi-culturalism and ethnic composition of the Malaysian society. This research concludes that the Malaysian consumers like most Southeast Asian consumers, is price sensitive, and motivated to utilize any form of loyalty program that enhances saving and increase value of purchase. Findings of this research concludes that consumers are increasingly price sensitive across Southeast Asia and Malaysia. Analysis further shows that higher fuel and general increases in the consumer price index (CPI) directly correlate to place of shopping. Analysis of secondary data further shows that consumers prefer to go to one stop shopping canter to get all their shopping needs done in one place, which often has all the facilities needed such as post office, banking services, food courts, and telecommunication services. Such one stop shopping canter provides convenience to consumers, and as a result, developers in the city of Kuala Lumpur are participating in the creation of such space and experience. Although this will create more commercial space and creation of jobs, yet the consequence of such demand and preference is over supply of retail centres that provides such shopping convenience. An efficient regulatory framework then must be in place that assesses population growth, demand and regulates supply of such retail space. Failing to adequately regulate supply of retail space would have a negative impact on zoning, the banking sector that is tied to the construction industry and developing companies of such retail space.

Keywords: Services; marketing, Asia, Malaysia, consumer loyalty

1. Introduction

Southeast Asian consumer and general and Malaysian consumers in particular are a growing to be budget conscious regarding essential grocery and non-grocery related products and services. As general commodity prices increase as measured by Consumer price Index (CPI), this tends to impact the prices of grocery related commodities. In the case of Malaysia, this is primarily because of lift of subsidies on commodities such as sugar and rice, imposing additional taxes on fuel and the introduction of Goods and Services Tax (GST). This in turn, causes a trickle-down effect on consumer goods prices, including grocery products. This is also believed to be caused by increases in transportation cost, which is directly associated to increase in fuel prices (Firend, 2015).

Such price hikes experienced in Malaysia, between 2014 to 2016 is largely cause by governmental budgetary constraints to balance a deficit in the national budget. Which in turn, causes low-income consumers to be more cautious in spending. As a result, many grocery retailers in Malaysia ranging from hypermarkets, supermarkets to small convenience stores, are expressing increasing competition in an overcrowded sector of the market (Hassan, H., & Rahman 2012). In Malaysia, although the market of small traditional retail shops or as otherwise known as convenience shops is still significant, yet, over development in real estate sector coupled with economic growth, encouraged international retailers to expand in Southeast Asia, including Malaysia. Rapid growth of international grocery shops such as department stores like Robinson, Isetan, Parkson, Metrojaya, coupled with super grocery stores such as Giant, Tesco, and Aeon are mushrooming in every state of Malaysia (Chen et. Al. 2016). As a result, retailers are facing intense competition and increasingly getting creative in luring customers back to their shops in an effort to make them repeat customers.
Loyalty cards are given to consumers with the intention to increase participation (Demoulin & Zidda, 2008). Loyalty cards provide important information on customers such as address, items purchased, frequency of purchase, preferences, and prices. Such information is vital to retailers because of the intelligence such information provides in designing discounts and special offers to increase purchasing frequency. Such information is particularly important in the age of Artificial Intelligence “AI”, where data is mined to produce patterns in consumers’ behaviour, increase retention, product design and availability, and increase purchasing frequency (Witten et. Al 2016).

2. Statement of Problem

An increasing competitive landscape in the Malaysian retail sector, over supply of commercial property in the real estate sector, coupled with increases in inflationary prices, puts pressure on both consumers and retailers to change current mechanism of purchasing patterns. Both retailers and consumers in such circumstances are forced to find new and better ways of shopping to maximise value. Retailers are increasingly forced to be more creative as far as consumer attention in the face of the increased competition. While consumers are forced to make ends meet in the face of higher-priced and limited income (Gilchrist et. al. 2017). Therefore, it is essential to explore the changing mechanism in the relationship between the retailer and the consumer in such circumstances.

![FIG. 1 Malaysia Consumer Price Index 2017](source: tradingeconomics.com | department of statistics Malaysia)

2.1 Objectives

The objectives of this study, is to provide an insight into factors that influence consumers intensions towards the utilization of loyalty cards in the Malaysian retail sector. The significance of this study, is that it provides an insight into the changing relationship between consumers and retailers, and whether current efforts by retailers to increase the use of loyalty cards as means to improve customer retention, is effective in Malaysia. Such findings can help in the process of generalising such findings across Southeast Asia. Such examination is critical to both consumers and retailers in inflationary times.

3. Literature Review

Customer relationship management continues to be an area of concern and importance both, in theory and practice (Omar, Azrin, & HanitaSarah, 2009). Yuping (2007) argue that loyalty programs provide win-win to both, consumers and organization, whereby such rewards would lead to more market share, and this is considered to be a fundamental aspect of such programs. Ziliani & Bellini (2004) suggest that rewards on loyalty cards can be monetary or non-monetary in nature. Loyalty programs compensate customers in the form of price reductions, or benefits for their patronage overtime (Magi, 2003). Loyalty can be classified into different categories on the basis of rewards or on the basis of the target membership group. Open-ended programs do not entail any membership criteria, but rather, available for everyone. Whereas limited loyalty programs are designed for specific target groups and therefore, requires the fulfilment of certain pre-membership criteria (Kumar, 2003).
Vyas and Sinha (2008) suggest that loyalty cards are simple and economic approach for implementing strategic loyalty programs. It is most commonly applied in retail sector and treated as a mechanism for identifying and rewarding loyal members. Loyalty card scheme operates by awarding points according to the amount of money spent during a given purchase. As such, accumulated points are earned only to be exchanged for cash, gifts, discounts, rebates, during current or future purchases (Wright & Sparks, 1999).

A study conducted by Worthington & Fear (2009) found that most members of programs are aware that information can be used to track their purchases, determine habits and track patterns, and are happy to be offered promotions accordingly. Such trend, will increase in volume and capacity in the age of artificial intelligence and sophisticated computational evolution (Linoff & Berry, 2011). Therefore, it is important to continually examine trends and consumer attitude towards loyalty programs in an economically vibrant region such as Southeast Asia, to explore future trends through current practices.

4. Methodology

Research methodology consists of primary and secondary data collection. Primary data collected through Survey distributed at local grocery shops, hyper-marts and shopping malls in and around the city of Kuala Lumpur, Malaysia. The city of Kuala Lumpur can be described as a representative sample encompassing ethnic diversity representative of the population of Southeast Asia in general. Location of survey distribution for random sampling took into consideration the ethnic composition of the population to include all ethnic races that comprise the Malaysian society. While secondary data was collected through publication published by the Malaysian Retail Association, which provided significant data regarding sales, trends and ethnic geographic distribution in the city of Kuala Lumpur.

Sampling framework is restricted to Kuala Lumpur and Klang Valley, because of the large ethnic diversity located within the parameters of the sampling area. Sampling included the following retail stores; AEON, Metrojaya, Isetan, Tesco and Sogo. All sampling locations and retailers are known to offer loyalty cards to the shoppers. A total of 250 questionnaires were distributed, and total of 223 questionnaires were collected for analysis. Out of which, only 200 sets of questionnaires were utilized for analysis. Result of the analysis is presented below.

The questionnaire consisted of 5-point Likert scale to measured variables such as past experience, relative advantage, privacy concerns, and questions gauging consumers’ attitude towards the utilization of loyalty cards, and consumers’ experience. Statistical analysis was conducted using statistical package for social science SPSS v.21. Descriptive analysis was run on the data sets, reliability tests, multiple regression, and Pearson correlation tests to determine statistical significance between variables in the study and to test hypotheses. For reliability, a Cronbach alpha test was conducted to measure consistency among respondents.

| Variables         | Cronbach’s Alphas |
|-------------------|-------------------|
| Relative Advantage| 0.769             |
| Past Experience   | 0.869             |
| Privacy Concerns  | 0.514             |
5. Findings

Descriptive analysis shows that 52.5% (105 respondents) were female, while 47.5% (95 respondents) were male. Ethnic distribution is as follows: a total of 43.5% of respondents were Malay, followed by ethnic Chinese 42%, Indians 9%, Sarawakian 2.5%, Sabahan 1%, and others 2%. Additionally, 51% of respondents were between the age of 20 to 29 years old. 78.5% held a diploma or higher.

Table 2: Distribution of respondents according to occupation

| Demographic Characteristics | Frequency | Percentage |
|-----------------------------|-----------|------------|
| Occupation                  |           |            |
| Professional                | 16        | 8.0%       |
| Executive                   | 86        | 43.0%      |
| Self-employed               | 19        | 9.5%       |
| Clerical                    | 31        | 15.5%      |
| Student                     | 6         | 3.0%       |
| Housewife                   | 3         | 1.5%       |
| Technical                   | 14        | 7.0%       |
| Others                      | 25        | 12.5%      |
| Total                       | 200       | 100%       |

Finding further shows that respondents mainly prefer shopping at hypermarkets where multiple services offered such as post, banking, beauty and other services to create a one-stop-shop experience. Respondents also showed a preference for shopping at supermarkets and department stores, mainly because of convenience. Price was another equally important factor for choice of shopping location. Analysis further shows that respondents visited convenience stores, independent grocery and other specialized shops mainly because of convenience of geographic proximity of stores nearby their workplace. And therefore, approximation, distance and accessibility are factors of importance to shoppers.

Table 3: Rank of factors influencing purchases made
Analysis further shows that 17.5% of respondents owned a loyalty card. 21.5% of respondents did not own any form of loyalty card, pose a gap amongst consumers that can be fulfilled by retailors. In final analysis, this study reveals that consumers in major cities prefer to do their shopping in hypermarkets followed by supermarkets, primarily because of the following combination of factors; price, convenience of location and value gained. This reflects the increasingly price sensitive consumer across Southeast Asia including Malaysia. Second analysis further supports finding of this study that higher fuel and general increases in the consumer price index directly affects the consumer and place of shopping. An increase in the utilization of loyalty cards reflects attempts made by consumers to cut corners, and cope with increases in commodity prices and items measured by the CPI. It is fair to infer that the Malaysian consumer like most of Southeast Asian consumers, is price sensitive, and keen to utilize any form of loyalty program that can help in their saving effort and increase value of purchase. Findings further supports earlier findings by Firend (2015) and Yuping (2007).

In Malaysia, analysis of secondary data further shows that consumers prefer to go to one stop shopping center to get all their shopping needs done in one place. Hypermarkets and supermarkets in Malaysia, often has all the facilities needed for consumers such as post office, banking services, food courts, and telecommunication services. Such one stop shopping centers provides convenience to consumers, and as a result, developers in the city of Kuala Lumpur are participating in the creation of such shopping centres. Although this will create more commercial space and creation of jobs, yet the consequence of such demand and preference is over supply of retail centres that provides such shopping convenience. An efficient regulatory framework then must be in place that assesses population growth, demand and regulates supply of such retail space. Failing to adequately regulate supply of retail space would have a negative impact on zoning, the banking sector that is tied to the construction industry and developers of such retail space.

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