CUSTOMER RELATIONSHIP MANAGEMENT: THE EFFECTIVENESS OF RETAIL STORES CUSTOMER LOYALTY PROGRAM IN MALAYSIA

LOGANTHIRAN M.RAJAN

UNIVERSITI TEKNIKAL MALAYSIA MELAKA

‘I/We hereby declared that I/We had read through this thesis and in my opinion that this thesis is adequate in terms of scope and quality which fulfill the requirements for the award of Bachelor of Technology Management (High Technology Marketing)

SIGNATURE : ………………………………………………………………
NAME OF SUPERVISOR : PUAN AZRINA BINTI OTHMAN
DATE : ………………………………………………………………

SIGNATURE : ………………………………………………………………
NAME OF PANEL : DR. NURUL ZARIRAH BINTI NIZAM
DATE : ....

CUSTOMER RELATIONSHIP MANAGEMENT: THE EFFECTIVENESS OF RETAIL STORES CUSTOMER LOYALTY PROGRAM IN MALAYSIA

LOGANTHIRAN A/L M.RAJAN

The thesis is submitted in partial fulfilment of the requirements for the award of Bachelor of Technology Management (High Technology Marketing)

Faculty of Technology Management and Technopreneurship
Universiti Teknikal Malaysia Melaka

JUNE 2017

DECLARATION OF ORIGINAL WORK

“I hereby declare that this report is the result of my own, except certain explanations and passage where every of it is cited with source clearly.”

Signature :
Name : LOGANTHIRAN M.RAJAN
Date :

DEDICATION

I would like to dedicate the appreciation to my family members who supported me in terms of spiritual and financial, beloved supervisor and panel who guided me throughout the research and course mates that assisted me through the journey of research.

ACKNOWLEDGEMENT

First of all, I would like to express my sincere gratitude and appreciation to my respected final year project supervisor, Pn Azrina Binti Othman for the continuous support, motivation and guiding me throughout the research. Moreover by her guidance, I managed to finish my final year project successfully.

There are also other important people involved in my project, for instance, my lecturers, friends and course mates. I am deeply grateful for the guidance towards this project as play an important role for this project. Besides that, I would like to thank to my parents especially, to my beloved mother, Selvi a/p Balakrishnan, who always pray for my success and my father, M.Rajan a/l Muniandy, who always support me in any decision that I made. In addition, I also would like to thank too my helpful siblings and family members who always support me.

Additionally, I would like to express my sincere appreciation and thanks to Universiti Teknikal Malaysia Melaka (UTeM) for offering this Final Year Project (FYP) as a subject. The knowledge and experience gained is extraordinary and will be very useful for future undertakings. Besides that, not to forget my final year project panel, Dr. Nurul Zarirah Binti Nizam who provided a lot of comments and suggestions during PSM I and PSM II. Those were very helpful in completion of final year project. Finally, I wish to thank God for giving me a chance to complete the project and report successfully even after struggling and through hard times.

ABSTRACT

Customer Relationship Management is one of the most important tools used by firms in maintaining long term relationship with customers. Loyalty program has become one of CRM activities that offered to customers to enhance repeated buying and foster loyalty to a firm. Moreover, customers are easily attracted to the rewards being offered through loyalty programs. For that reason, this study was conducted to investigate the effectiveness of retail stores customer loyalty program by various types of rewards that offered through loyalty programs. The data for this study was collected using questionnaires from 392 respondents in Southern Malaysia (Selangor, Kuala Lumpur, Melaka). The collected data was analysed and discussed. The results showed 3 type of rewards; direct and indirect rewards, monetary and non-monetary rewards, necessary and luxury rewards were significant influence on the effectiveness of the retail stores loyalty program while immediate and delayed rewards was not significant. The outcomes of the study will be a new insight in restructuring the existing loyalty program in retail stores. The restructuring of loyalty program in the aspect of rewards will increase the satisfaction to customer that enhances loyalty.

Keywords: Customer Relationship Management (CRM), loyalty program, rewards

ABSTRAK

Pengurusan Perhubungan Pelanggan (CRM) adalah salah satu alat yang paling penting yang digunakan oleh syarikat-syarikat dalam mengekalkan hubungan jangka panjang dengan pelanggan. Program kesetiaan (Loyalty Program) telah menjadi salah satu aktiviti CRM yang ditawarkan kepada pelanggan untuk meningkatkan pembelian berulang dan kesetiaan kepada firma. Selain itu, pelanggan mudah tertarik dengan ganjaran yang ditawarkan melalui program kesetiaan. Atas sebab itu, kajian ini telah dijalankan untuk mengkaji keberkesanan program kesetiaan pasar raya dengan pelbagai jenis ganjaran yang ditawarkan melalui program ini. Data untuk kajian ini telah dikumpulkan dengan menggunakan soal selidik daripada 392 responden di bahagian timur selatan Malaysia (Selangor, Kuala Lumpur, Melaka). Data yang diperolehi dianalisis dan dibincangkan. Hasil kajian menunjukkan 3 jenis ganjaran; ganjaran langsung dan ganjaran tidak langsung, ganjaran berbentuk wang dan bukan berbentuk wang, ganjaran berbentuk keperluan asas dan ganjaran berbentuk mewah mempunyai pengaruh yang besar ke atas keberkesanan program kesetiaan pasar raya manakala ganjaran segera dan ganjaran lewat tidak mempunyai pengaruh terhadap kajian ini. Hasil kajian akan menjadikan pemahaman baru dalam penyusunan semula program kesetiaan yang sedia ada di pasar raya. Penyusunan semula program kesetiaan dalam aspek ganjaran akan meningkatkan kepuasan kepada pelanggan yang meningkatkan kesetiaan.

Kata kunci: Pengurusan Perhubungan Pelanggan (CRM), program kesetiaan, ganjaran

TABLE OF CONTENT

CHAPTER	CONTENT	PAGES
	RECOGNITION	i
	DECLARATION OF ORIGINAL WORK	ii
	DEDICATION	iii
	ACKNOWLEDGEMENT	iv
	ABSTRACT	v
	ABSTRAK	vi
	TABLE OF CONTENT	vii-xi
	LIST OF TABLES	xii-xiii
	LIST OF FIGURES	xiv
	LIST OF ABBREVATION	xv
	LIST OF APPENDIX	xvi

CHAPTER 1 INTRODUCTION

1.0 Introduction 1

1.1 Background of Study 1-4

1.2 Problem Statements 4

1.3 Research Questions 5

1.4 Research Objectives 5

1.5 Scope of Study 5-6

1.6 Limitations of Study 6

1.7 Importance of Study 6-7

1.8 Summary 7

CHAPTER 2 LITERATURE REVIEW

2.0 Introduction 8

2.1 Customer Relationship Management 8-9

2.2 Customer Relationship Management Activities 9

2.3 Loyalty Programs 10

2.4 Type of Loyalty Programs 10-11

2.5 Loyalty Programs in Retail Stores 11-12

2.6 Rewards and benefits that given in Loyalty Programs in Retail Stores 12-13

2.6.1 Direct versus indirect rewards 13-14

2.6.2 Monetary versus non-monetary rewards 14-15

2.6.3 Necessary versus luxury rewards 15

2.6.4 Immediate versus delayed rewards 16-17

2.7 Theoretical framework 17

2.8 Hypotheses 18

2.9 Summary 19

CHAPTER 3 RESEARCH METHODOLOGY

3.0 Introduction 20
3.1 Research Design 21-22
3.2 Methodology Choices 22
3.3 Primary and Secondary Data Source 23
3.4 Location of Research 23-24
3.5 Questionnaire Design 24-25
3.6 Sampling Design 25-26
3.7 Research Strategy 26
    3.7.1 Pilot Test 26-27
3.8 Time Horizon 27
    3.8.1 Cross-sectional studies 27
3.9 Data Analysis Method 27-28
    3.9.1 Descriptive Analysis 28
    3.9.2 Pearson correlation’s analysis and regression 28-29
3.10 Validity, Reliability and Generalizability 29
    3.10.1 Internal Validity 30
    3.10.2 External Validity 30
    3.10.3 Construct Validity 31
    3.10.4 Reliability 31
3.11 Summary 32

CHAPTER 4 DATA ANALYSIS

4.0 Introduction 33
4.1 Descriptive Statistics Analysis 34
    4.1.1 Demographic 34
        4.1.1.1 Gender 34-35
        4.1.1.2 Age range 35
        4.1.1.3 State 36
        4.1.1.4 Education Level 37

4.1.1.5 Occupation 38
4.1.1.6 Income level 39
4.1.1.7 Loyalty card usage frequency 40
4.1.1.8 Favourite loyalty card 41
4.2 Data analysis of Research Questions 41-42
4.2.1 Direct and indirect rewards 42-43
4.2.2 Monetary and non-monetary rewards 43-44
4.2.3 Necessary and luxury rewards 45-46
4.2.4 Immediate and delayed rewards 46-47
4.3 Result of Measurement 47
4.3.1 Validity Test 47-49
4.3.2. Reliability Test 49-51
4.4 The Usage Level Of Loyalty Program (Loyalty Card) At Retails Stores 51-52
4.5 Hypothesis Testing 52-53
4.5.1 Multiple Regression Analysis 53-59
4.6 Summary 59

CHAPTER 5 CONCLUSION AND RECOMMENDATIONS

5.0 Introduction 60
5.1 Summary of the Descriptive Analysis 60-62
5.2 Scale Measurement 62
5.2.1 Validity 62-63
5.2.2 Reliability 63
5.3 Discussion of Research Objectives and Hypotheses Tests 63
5.3.1 Research Objective 1 63-64
5.3.2 Research Objective 2 64-65
5.3.3 Research Objective 3 65-66

5.4 Implications 67-68
5.5 Recommendation for Future Research 68-69
5.6 Conclusion 69
5.7 Summary 70

REFERENCES 71-80

APPENDIX 81-91

LIST OF TABLES

TABLE	TITLE	PAGE NUMBER
4.1.1.1	Frequency Analysis of Respondents by Gender	34
4.1.1.2	Frequency Analysis of Respondents by Age	35
4.1.1.3	Frequency Analysis of Respondents by State	36
4.1.1.4	Frequency Analysis of Respondents by Education Level	37
4.1.1.5	Frequency Analysis of Respondents by Occupation	38
4.1.1.6	Frequency Analysis of Respondents by Income Level	39
4.1.1.7	Frequency Analysis of Respondents by Loyalty Card Usage	40
4.1.1.8	Frequency Analysis of Respondents by Favourite Loyalty Card	41
4.2.1	Descriptive Analysis of Respondents by Direct and Indirect Rewards	42
4.2.2	Descriptive Analysis of Respondents by Monetary and Non-monetary Rewards	43
4.2.3	Descriptive Analysis of Respondents by Necessary and Luxury Rewards	45
4.2.4	Descriptive Analysis of Respondents by Immediate and Delayed Rewards	46
4.3.1	Correlation Analysis of Respondents for all Variables That Influence The Effectiveness of Retail Stores Customer Loyalty Program.	48

4.3.2(i)	Cronbach’s Alpha Coefficient range and its strength of association	50
4.3.3(ii)	Reliability Test Analysis of Respondents for Variables That Influence The Effectiveness of Retail Stores Customer Loyalty Program.	50-51
4.4(i)	Descriptive Analysis of Usage Level of Loyalty Program	51
4.4(ii)	Mean Score Interpretation	52
4.4.1(i)	Model Summary of Multiple Regression Analysis	54
4.4.1(ii)	ANOVA Table of Multiple Regression Analysis	55
4.4.1(iii)	Coefficients Multiple Regression Analysis	56
4.4.1(iv)	Ranking of Type of Rewards According to Customers’ Favourite	59

LIST OF FIGURES

FIGURE	TITLE	PAGE NUMBER
2.7	Theoretical Framework	24

LIST OF ABBREVIATIONS

ABBREVIATIONS	MEANING
CRM	Customer Relationship Management
H_0	Null hypothesis
H_a	Alternative hypothesis
SPSS	Statistical Packages for Social Science
Gen-Y	Generation Y
LPE	Loyalty program effectiveness
DI	Direct and indirect rewards
MN	Monetary and non-monetary rewards
NL	Necessary and luxury rewards
ID	Immediate and delayed rewards

LIST OF APPENDIX

APPENDIX	**TITLE**
APPENDIX 1	Gantt Chart PSM1
APPENDIX 2	Gantt Chart PSM1 and PSM2
APPENDIX 3	Questionnaire

CHAPTER 1

INTRODUCTION

1.0 Introduction

In this chapter, the researcher had covered the background study of the research topic which is Customer Relationship Management and Retail Stores Customer Loyalty Programs. In addition, the researcher included about the retail stores. Furthermore, problem statement, scope and limitation of study, important of research and research questions were presented in this chapter.

1.1 Background of Study

Customer relationship management (CRM) is an approach that used by an organization which integrates strategy, business processes and functionalities to build up, expand and maintain relationships with customers (Urvashi and Harinder, 2012). Meanwhile, Lakshman Jha (2008) defined CRM is a multifaceted process, mediated by a set of information technologies that focuses on creating two-way exchanges with customers so that the firms have an intimate knowledge of customers' need, wants and buying patterns. The exchanges are done through email, website and mobile phone applications (Yazbek, 2001).

The transition in marketing today is giving more importance to have long-term relationship with customers in order to the firm can study on customers' individual needs. (Payne et al., 2009; Peppers and Roger, 2010). Thus, this transition provides sufficient information and resources for the firm to do improvements and innovations in their existing products and services proportional to customers' preferences. CRM had proved as a crucial tool that raise a firm's profitability in over past decades by determining the best customer and fulfil their needs so that they continuously stay loyal to the firm's activities. (Thomas and Sullivan, 2005).

From the understanding of CRM concept, the researcher identified some of CRM activities such as bonus and loyalty programs, dynamic pricing, service quality programs, value offers and deals, social media web sites, internet blogging as a route to enhance buyer-seller interactive relationship. This has been confirmed in the study of Lo et al. (2007), Greenberg (2000), Peppers and Rogers (2010) Kaplan and Haenlein, (2010) Nguyuen, 2011). Therefore, to extend the study of this CRM activities the researchers highlighted loyalty programs as one of CRM activities that comprise integrated systems of marketing actions and communications that aim to increase loyalty, repeat buying and switching costs by providing economical, hedonist, informational, functional, and sociological or relational reward (Giwnner et. al,1998; Gable et.al.,2008). These programs encourage repeat buying and improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes.(Lewis, 2004). Therefore, to extend the study of this CRM activities the researchers would like to highlight loyalty program as one of CRM activities that can promote repeat buying and improve retention.

Although the loyalty program is a tool to increase the loyal customers of an organization but they are also an opportunity to gather information about customer shopping habits and preferences. The first loyalty program was launched in 1981 by American Airlines and quickly used by other airlines and hotels, car rental companies, credit card organizations and retailers. These organizations used reward programs to retain their best customers and these customers will be awarded redeemable points that prcan be converted into free services, upgrades in class and exchange of products and services (Sima and Elham, 2015).

Sima and Elham (2015) stated that loyalty programs used by many organizations but there are several types of loyalty programs being used by them. These types of programs are points system, tier system, charge an upfront fee for VIP benefits, non-monetary programs, partner with another company to provide all inclusive offers, loyalty card program, frequent buyer program, gift card or certificates, return to policy for loyal customer, payback money to loyal customers, discount over time or volume of goods, and bundle goods. They added loyalty card program is an incentive plan that enhance a retail business to collect information about its customers and they are product discounts, coupons, points towards merchandise or some other reward in exchange for their voluntary participation in the business

The history of retail stores in Malaysia has undergo a continuous and market change over the decades (Omar et al.,2013). Abdul Rahman et al. (2001) stated that the rapid expansion of Malaysian over last ten years (despite the economic crisis in 1997/1998) combined with external economic and social influences have led to a retail boom in the country, which in turn has encouraged the entry of new players as well as aggressive approaches by existing retailers such as the introduction of new retail formats and competitive price wars. Due to the rise and expansion retailers in Malaysia has contributed to high competition among them that led to the growth of loyalty programs as a structured marketing effort to retain customers. Moreover, loyalty programs are offered to customers as one way to deliver value for money and as a tool to build relationship. (Omar et al., 2013).

Hence, researcher identified loyalty program in retail stores was one of tool to retain its existing customers and turn them into loyal customers. A good loyalty programs with benefits and reward of a retail store is regarded as an essential thing to build good relationship with customer. Thus, the researcher measured the effectiveness of retail stores customer loyalty program based on the rewards given in the loyalty program.

1.2 Problem statement

According to John T Bowen and Shiang-Lih Chen Mc Cain (2015), the Millennials grabbed the highest portion in retail stores membership program. Loyalty programs have become a well-known tool for most of the retail managers to enhance customer experience, satisfaction and loyalty (Gable et. al., 2008). However, research on loyalty programs has so far failed to reach solidarity on their effectiveness (Kopalle et. al, 2012; Liu, 2007; Reinartz and Kumar, 2002). This is because loyalty program is highly subjective and variable dimension within the industry (Charania, 2011). Thus, loyalty programs can be an effective CRM activity and can be not at the same time. In spite of the fact that the effectiveness of loyalty program is questionable but the loyalty programs are developed to increase customer loyalty level and value contribution along with a firm’s increased profitability (Lam, Shanker, Erramilli, & Murthy, 2004). Thus, it is crucial to identify whether the goal is accomplished or not (Myongjee Yoo, 2011). Therefore, the researcher studied the influence loyalty programs rewards on loyalty program effectiveness.

1.3 Research Question

RQ 1: What is the usage level of loyalty program among customers in retail stores?

RQ 2: What are the types of rewards leading towards effectiveness of loyalty program in retail stores?

RQ 3: What is the most favourable reward type that influence effectiveness of loyalty program in the retail stores?

1.4 Research Objectives

RO 1: To identify the usage level of loyalty program at the retail stores by customers.

RO 2: To determine the type of rewards that lead customers to use retail stores loyalty programs.

RO 3: To investigate the most favourable reward type that influences the effectiveness of retail stores customer loyalty program in the retail stores.

1.5 Scope of study

This study was conducted is to identify on how frequently the loyalty cards is used by the customers at retail stores. Moreover the researcher studied on the type of rewards that lead retail customers to use the loyalty cards being offered at retail stores. This is because the researcher believed that the rewards have strong impacts on customers to use particular retail store loyalty cards. In addition, the researcher also studied on which type of rewards of loyal programs at retail stores is most favourable that influence on the loyalty program effectiveness around southeast Malaysia specifically at Melaka, Selangor and Kuala Lumpur.

1.6 Limitations of Study

The researcher limited the study in the aspect of geographical. This study was only focused on certain provinces in Malaysia which is in Melaka, Kuala Lumpur and Selangor state. Hence, the data collection for this research was limited and the result could not be generalized in all provinces in Malaysia. This is due to time constraint where approximately 6 months only given to complete the study. Therefore, future study can be included with larger sample of provinces in Malaysia.

Furthermore, the research was limited to retails stores that provides loyalty cards and to its customers only. Hence, the effectiveness of loyalty cards in other business types could not be identified. On the other hand, the data collection process also had limitation. Since, the data collected was conducted at retail stores; most of the customers weren't give full attention in completing the questionnaires while rushing back to home. Hence, the researcher was unable to get accurate data collection from all the referred respondents.

1.7 The importance of the research

The study on the effectiveness of loyalty program of retail stores in Southeast Malaysia benefited the retailers to study about view of customers towards retail stores loyalty programs (loyalty cards). The retailers also benefited through this study since the study covered the rewards that lead the customers to use the retail loyalty cards. Hence, the retailers will be able to improve type of loyal card rewards and benefits that preferred by customers.