

**A STUDY ON THE INFLUENCE OF LOYALTY PROGRAM MEMBERSHIP  
TOWARDS CUSTOMER PURCHASE BEHAVIOUR**

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## SUPERVISOR VERIFICATION

I/We, hereby declared that I/We had read through this thesis and in my/our opinion that this thesis is adequate in terms of scope and quality which fulfil the requirements for the award of Bachelor of Technology Management

(High Technology Marketing)

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

Faculty of Technology Management (High Technology Marketing)

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## DECLARATION

I declare that this project entitled “The Influence of Loyalty Program Membership towards Customer Purchase Behaviour” is the result of my own research except as cited in the references. The project paper has not been accepted for any degree and is not concurrently submitted in the candidature of any other degree.

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DATE : MAY 2019

## DEDICATION

I would like to dedicate this research to my beloved parents, my siblings and all of my lecturers. Their unconditional love and encouragement have allowed me to strive and push myself beyond limits that I have never thought would be possible. With their support, I am able to give this thesis as a special gift to all of them. Not to forget, also to all my fellow friends that going through this journey together with me for the past years of our degree life.

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## ABSTRACT

The importance of loyal customers and their impact on business profitability is indisputable, but it is more difficult to build customer retention than it may appear. Marketers and for that matter retailers are doing so many things to establish a strong relationship with their customer. Various strategies including loyalty schemes and discounts cards are sometimes used in an effort to retain customers and also influence their buying behaviour, but their success is questionable. This study seeks to summarize the evolution of research and current thinking as it related to the different methodological approaches for loyalty program membership to the customer purchase behaviour and to provide a discussion of future directions. The objective of this study is to determine the factor of loyalty program membership that influences customer purchase behaviour in the context of retail and franchise in Malacca. This research is conducted by using a quantitative method to identify the influence of loyalty program towards customer purchase behaviour. In this research, data collection are based on the questionnaire with a research strategy of using a survey of 384 respondents. The analysis is carrying out using the Statistical Package for Social Science (SPSS) and Microsoft Excel. The questionnaires are distributed among the customer of the local franchise in Malacca. The finding of this research shows all four variables are positively significant by using multiple linear regression analysis. As a result, the identification of the loyalty program membership influencer helps the marketing practitioners to establish effective marketing strategies to attract customers. In order to create a successful brand, the marketing manager should be more devoted to attract their customer and make brand loyalty as part of their sales strategy.

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## CHAPTER 1

### INTRODUCTION

#### 1.0 Background of Study

Every organization goals are to retain their customer and be loyal to them. Rather than focusing to acquire a new customer, it is more beneficial for a business to retain customers as the price of maintaining current customers is far less than the cost of obtaining others. Retention of customers will not only helps to reduce the marketing costs but also helps to improve the company by increasing customer purchases, cross-buying and purchasing. Generally, an existing customer is willing to buy things even at a premium price. Consequently, customer retention is an appealing proposition. However, retaining the client as it said is not simple.

Retaining customers could benefit in so many ways. In order to that, companies may be using several customer retention tools to secure the existing customer. For instance, loyalty programs, e-mail promotions and many more. Loyalty programs are implemented to reward clients for their ongoing patronage and buy over time assist to reduce customer switching by forming obstacles to exit. These programs were discovered to cause opposition to the promotions of another rivals, assist in spreading favourable word of mouth, and thus encourage customers to join the program.

Furthermore, companies that came up with a long-term strategy of loyalty programs may also boost the customer loyalty by enhancing relationship bonds between customers and companies. Given these benefits, it is not surprising that companies across industries such as retail, franchise, beauty and healthcare, hospitality, food and beverages, airlines, banks, travel companies and many more have begun to offer their customers

loyalty programs membership. Popular loyalty programs in Malaysia include personal care and beauty stores such as Watsons, Guardian and Sephora. Beverage stores such as Starbucks, Tealive and Boost Juice. Fuel Companies such as Petronas and Petron. Supermarket and mall such as Aeon and Tesco.

A customer card, reward card, loyalty card, point card, club card or advantage card, is a form of plastic or paper card that are used in the sector of retail and franchise marketing. It is visually comparable to a credit card or debit card identifying the cardholder as a member of a loyalty program or known as a member. The fundamental aim of issuing these custom cards is to define customers as members and promote faithful purchasing behaviour. If the customer experiences the loyalty program membership, what is the factor that triggers their buying behaviour towards the retail and franchise in Malaysia? In such a case, it is necessary to figure out which other variables come into play in order to impact a customer's purchasing choice. The research was performed to determine how customers decide to purchase their products and services, and for that matter, the prospective buyers who involve or offered membership in the loyalty program.

### **1.1 Problem Statement**

Loyalty programs have become an important part in any firms as its role as the customer relationship marketing strategies and this strategy is implemented by most of retail and franchise but not all of them. Despite the benefits granted to the loyalty program participation, the members of the loyalty programs do not always turn out to be loyal card users especially retailing shops.

According to a study made in the U.S., it is estimated that more than half of the adults are enrolled in at least one loyalty program (Kivetz and Simonson 2003). Their effectiveness is not well understood even though with the prevalent use of the loyalty programs (Bolton, Kannan, and Bramlett 2000). Because of that, some researchers question the actual value of loyalty programs. For example, Dowling (2002) suggests that loyalty programs do not necessarily foster loyalty and are not cost effective and that the proliferation of loyalty programs is a hype or a “me-too” scheme. On the contrary, there are some studies that proved loyalty programs actually have a positive impact on



consumers' re patronage intention and their share of wallet (e.g., Lewis 2004; Verhoef 2003).

Therefore, to curb and avoid these problems, retailing shops had started to issue customer cards for their customer as an effort to retain their regular customer by granting the customers with some benefits. This membership loyalty program ultimately reinforces the customer bond and the customer loyal purchasing behaviour for that matter. According to Harif (2011), franchising has developed rapidly because of the changing lifestyle of Malaysian society over the last decade. Its emergence as a significant force was influenced by a variety of economic, demographic and social factors, such as the increasing difficulty faced by independent small business, the changing attitudes to convenience and product quality, and the increasing reliance on technology.

Although most research and practice assumes that customer loyalty programs are part of the relationship marketing effort, little research has approached customer loyalty programs from a relationship-building standpoint. Since a relationship cannot be imposed unilaterally and implies an enduring process that goes beyond a discrete and instant exchange, it probably is taken for granted by marketers that customer loyalty programs show consumers that “we recognize and value your patronage”.

## **1.2 Research Questions**

The research question is related to the problems that facing by the retail and franchise. There are several research questions as below:

- i. What is the factor that influences customer purchase behaviour?
- ii. What is the relationship between loyalty program membership and customer purchase behaviour?
- iii. What is the most significant factor of loyalty program membership that influences the customer purchase behaviour?

### **1.3 Research Objectives**

The research objectives are developed to give a clear direction to solve the problem. Again, the research examined factors that might affect such customers' purchasing behaviour.

1. To identify the factor of loyalty program membership that influences customer purchase behaviour.
2. To study the relationship between loyalty program membership and customer purchase behaviour.
3. To determine the most significant factor of loyalty program membership that influences the customer buying behaviour.

### **1.4 Scope of Study**

This research aimed to determine the factor of loyalty program membership that can influence the customer purchase behaviour towards the retail and franchise in Malacca. The researcher focus on the geographical areas in Malacca which have a unique composition of many retail and franchises. The respondents can be the range of different ages, income level, gender and occupation. The respondents also could be the one who already has experience the loyalty program membership and the one who never did. All of the respondents is the person that has the choice to direct and indirectly shop at the franchise. The information will be collected using several specific methods.

By studying the importance of loyalty program membership, it helps the business gain a competitive edge and can hence increase profitability and ensure customer intention to purchase. The retailers can ensure that their programs offer both value and other customer benefits. Understanding the effectiveness of loyalty cards option helps in customer retention.

### **1.5 Limitations**

The limitation of the study could affect the result of the study significantly. Limitations were influences beyond the researcher control in every single study. The limitation of this study was the limited coverage of the state which only covered around Malacca. Therefore, the result of the study is limited and cannot be generalized to every single state in Malaysia. Future research will need to include a larger sample of states. Besides that, the researcher only suggested four variables that affect customer buying behaviour while it could be a lot more than that. Hence, more variables are needed for future research to niche down the most significant factor that affects the customer buying behaviour towards the loyalty program.

### **1.6 Significant of Study**

This research is relevant to management in an organization practitioner especially the marketers in organization because the finding may reveal the important aspects in loyalty program about the factor contributing to the customer purchase behaviour. This research is expected to be valuable to other researchers for future research and also to the local retail and franchise in Malaysia to attract loyal customer. This study hopefully can contribute to those businesses who want to start the local franchise by doing the right plan in term of the loyalty program. Besides that, this study will also serve as a future reference for the researcher to proceed on the topic of the factor of loyalty program that affects customer purchase behaviour. Since the local franchise in Malaysia is growing rapidly, therefore research in this area will need to be increased and update from time to time.

## 1.7 Summary

This chapter discusses the foundation of the research and highlights the problem statement in the preliminary stage. The research questions and objectives provide clear and coherent direction to further proceed with this study. While scope and limitation encountered, significant study and contribution of the study provide valuable information about the research. Customer response is the ultimate test of whether the loyalty program strategy to succeed. Thus, retail and franchise base in Malacca should incorporate knowledge about the customer, especially for regular users. Data about customer buying behaviour helps Malaysian retail and franchise and related organization such as SME to define the need and identify threats and opportunities to attract customer and make sure they are a loyal customer. From the point of view, customer loyalty measurement can be useful to increase the sales of business. The next chapter will provide a review of previous literature and discuss the independent variables and dependent variables in order to design a suitable theoretical framework for this research.

## CHAPTER 2

### LITERATURE REVIEW

#### 2.0 Introduction

According to Boote, D.N. & Beile, P. (2005), literature reviews involves a lot of activities such as the study on the current issue, analyse journal or article that related with the project and other. A literature review is an evaluative report of studies found in the literature related to the selected area. The review should give a theoretical basis for the research and help to determine the nature of research.

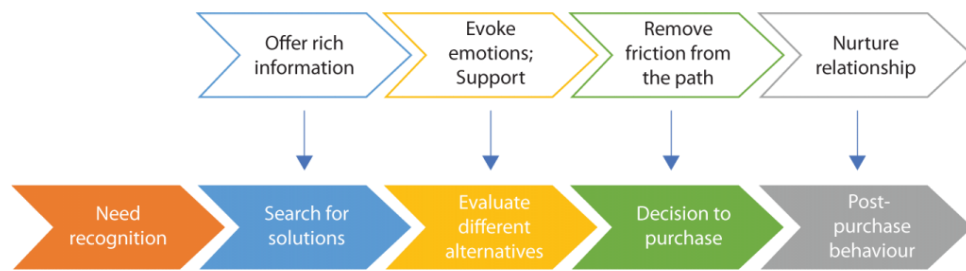
This research examines the influence of loyalty program membership towards customer purchase behaviour. This literature seeks the four elements of loyalty program membership that influence customer purchase behaviour. The literature review demonstrates the importance of loyalty program in this era. The information from the literature review is used to identify the factor of loyalty program that influences customer purchase behaviour. Moreover, this chapter discusses the overview, keyword research, theory and concept of the loyalty program, and customer purchase behaviour. The outline of the loyalty program as well as the factor that influence the customer purchase behaviour in the local franchise in Malacca and several of previous studies that are related to the study is viewed.

## 2.1 Customer Purchase Behaviour

Customer purchase behaviour is the process of making decisions and consumers' acts involving purchasing and using products or services, or basically about what and why they purchased the products or services to fulfil their needs and wants. It relates to all the thinking, perception and actions that the customer had or used before or when buying the product, service or idea. Customer purchase behaviour is also a concept of a buyers' decision.

Many firms had the struggle to sustain and remain in the market as the business environment are rapidly changing all around the world. According to Koltet and Armstrong, (2014) stated that customer buying behaviour undergoes several steps before buying a product or services as shown in the figure below. While Tietje (2002) stated that focused on the role of rewards offered by loyalty programs and concludes that obtaining certain rewards can generate positive feelings towards the retailer implementing the program. These feelings linked to the purchase experience involve a greater satisfaction leading to higher purchase intentions (Price et al., 1995; Oliver et al., 1997). In support of the positive impact of participation on loyalty programs on the purchase volume in the retailer, Benavent et al. (2000) and Meyer-Waarden (2002) conclude that owners of loyalty cards purchase more than people without them.

The study of customer buying behaviour was very important in the marketing field as it would help firms to plan an effective marketing strategy with the help of getting the ideas about the factors that would affect the decision making of customers in the market. Customers that are loyal increases the company's profitability (Woolf, 1996; Heskett et al., 1997) and profitability of one individual customer grows constantly during his relationship with the company (Reichheld and Sasser, 1990; Anderson et al., 1994; Reichheld and Teal, 1996).



**Figure 2. 1 Consumer Buying Process**

## 2.2 Loyalty Program Membership

A loyalty program is described as a program that enables customers when they make repeated purchases with a company to receive free benefits. Usually, such a program will only benefit consumers if they purchase more than once as the program itself intended to foster customer loyalty over time. Loyalty programs are also often considered as the value-sharing instruments and can enhance consumers' perceptions of what a firm has to offer (Bolton, Kannan, and Bramlett 2000; Yi and Jeon 2003). This value enhancement function is important because the ability to provide superior value is instrumental to customer relationship initiation and retention.

Besides that, other researcher states that loyalty programs are marketing strategy roles as an incentive with the aim of securing customer loyalty to a retailer. Since achieving rewards is related with purchasing frequency, this type of programs are also called frequent purchase programs or reward program (Shoemaker and Lewis, 1999; Long and Schiffman, 2000; Bell and Lall, 2002).

## 2.3 Element of Loyalty Program

### 2.3.1 Attitude

According to the previous studies conducted using attitude, it was found that attitude is the strongest predictor of intention as compared to the other two constructs in TPB which is the perceived behavioural control and subjective norms (Bansal & Taylor, 1999; Bansal & Taylor, 2002), and it can well predict customer loyalty in many areas such as apparel brands, retail stores and consumer goods. While according to Shook & Bratianu (2010), one shapes one's attitude based on one's convictions of possible results. If the chance is more favourable, the greater the intention will be to do the behaviour, and vice versa, if the chance of the outcome is less favourable, the weaker the intention will be to do the behaviour.

Ajzen in Aarti Kataria (2013) supported that attitudes contain cognitive components (environmental issues for the consumer), effective components (emotional or feeling) and conative/behavioural components (action towards products). Thus, it can be said that attitude is the expansion of one individual like or dislike to behave. Many studies perceive environmental attitude as one of the strongest antecedents influencing environmental behaviours (Anota, 2013). Knowledge-attitude-behaviour models in TPB also showed that attitudes had directly connected to behaviours or indirect as mediated factors. Attitude is also a significant predictor of customer purchase behaviour.

Oliver (1980) defined attitude as the comparatively ongoing affection of the consumer towards a product or experience. The function of attitude in customer loyalty is essential, as repetitive behaviour needs to be considered as real loyalty. We can quote Ayala and Neslin (2004), if they claim that the reward from a loyalty program can boost the subsequent buying behaviour as long as the rewarded customer has a favourable attitude towards the retailer.