

Research Proposal

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Topic: The Impact of Customer Loyalty Programs on Customer Retention in the case of companies operating in Sydney, Australia

1.0 Introduction

The use of customer loyalty programs as an essential device of relationship marketing has gained popularity in recent years so that the loyalty of customers could be enhanced (Roking, 2005). Customer loyalty programs introduce paybacks to both companies and customers. Customer loyalty is a vital issue for success of organisations and specifically retail organisation as it is acknowledged that attracting new customers is quite more expensive than retaining existing customers (Singh and Imran 2012). It was estimated by Singh and Imran (2012) that online retailers generally lose 25% of customer base every year, and a little increase in retention of customers has the potential of increasing profits greater than this proportion.

The aim of relationship marketing is to develop life time customer base because it has normally been observed that customers having a relationship with a particular company or brand forget the offers of competitors. Consumers are motivated by companies to do this as it provides them higher efficiency in the process of decision making, diminishes processing of information, attains greater cognitive consistency, and diminishes perceived risks of future decisions. For the purpose of building loyal customer base, businesses use various kinds of loyalty programs. Major reasons for introducing customer loyalty programs include reward structures, lack of relevance of reward, and poor customer service. Customer loyalty programs are required to be redesigned with rewards, differ in accordance with various groups on the basis of their value and for the purpose of doing that it is essential for organisation to understand the behaviour and needs of their customers (Ray Shaw, 2015). According to Peiguss (2012), two main types of loyalty programs used by business for the purpose of customer retention points system and tier system.

The report offers an explanation of choices made by the researcher with respect to methodological considerations in order to achieve the objectives of study. The reason of choices of different philosophies adopted will also be discussed in detail. The report will identify the research design and approach, data collection method, sample size, sampling technique, and research instrument. The techniques used for data analysis in order to achieve

desired results will also be discussed in the report. Study variables and hypothesis along with the expected outcomes and a brief conclusion will be provided in the research proposal.

2.0 Literature Review

According to Omar et al. (2009), introducing customer relationship marketing techniques by businesses has increased in current years both in practice and theory. Customer loyalty programs is now a popular choice of businesses who believe that such programs are an important mechanism for retailers to construct store traffic and increase frequency by developing deeper relationships with customers. Nevertheless, some marketers have started to raise questions on effectiveness of customer loyalty programs in acquiring loyalty and support of customers. Lewis (2004) constructed a model for responses of customers to loyalty programs with the assumption that customer purchases reflect customers' choices who are solving a dynamic problem of optimization. The researcher depend on specific customer loyalty programs with the data from online merchants which specializes in drugstore and grocery items. The outcomes of study suggested that loyalty program which is under study is effective in growing annual purchases for a significant proportion of customers. Customer loyalty programs possess a significant effect on relationship management for businesses in travel industries such as hotels, rental cars, and airlines.

According to O'Brien and Jones (1995), major factors that are considered by customers when evaluating programs are the value of awards offered and the chances of achieving the reward. The probability or chance of achieving the reward is actually a function of time constraints and cumulative buying thresholds. Customer loyalty programs possess a long-run impact on behaviour and evaluations of customer. If such programs of loyalty rewards increase the usage levels and duration of relationship, then consumers will be exposed to a complete range of service experiences. (Keaveney 1995). Augmented satisfaction and loyalty of customers possesses a positive impact on financial performance of businesses. These financial outcomes of rewards programs surpass the investments made (Anderson, et al. 1994).

2.1 Rationale for Loyalty Programs

The growth of businesses is dependent upon acquisition of new customers or by maximising business revenues from existing customer base. The cost of acquisition of new customers is relatively higher as compared to retaining existing clientele. Thus, every

marketer must attempt to maximise efficiency of marketing campaigns by prioritising customer retention over acquisition through promotions such as customer loyalty programmes (Breugelmans, et al., 2015). According to the study conducted by Ashley, Gillespie, and Noble, (2016), it is a widely accepted conclusion that retaining clients and increasing revenues out of current customer base is much cheaper and cost efficient as compared to pursuing new clients.

Customer retention can be achieved through various methods for example persuading customer to spend more on existing products, or by offering new products to existing loyal customers, or by offering promotional discounts to increase the frequency of spending of existing customers through monetary and non-monetary rewards. For example, according to Gandomi and Zolfaghari, (2017) often marketers develop bundle offers to increase spending of customers in which they offer a package for which customers can buy two or more products on a relatively less price as compared to buying them individually. One of the techniques of “Buy more” is called “upselling” the customer after the decision to buy product has been made. Commonly marketers offer add-ons, for example, offering spa services to a guest for free if he/she subscribe to a special room or service or by a software company offering free staff training provided that the client buys new software.

The most prominent pioneer in modern types of Customer Loyalty Programs is American Airlines who offered AAdvantage program in early 1980s. The underlying philosophy of the then CEO, Robert Crandall, was to focus on developing relationship with specific customer segments instead of focusing on selling tickets to general public (Colliander, et al., 2016). Crandall observed that the “80/20 rule” (i.e. 80% of profits are derived from only 20% of customers) was critical for the success of revenue maximisation in airline industry. Therefore, he carefully developed segments and categorised passengers into leisure travellers and business travellers. He also noted that frequently-fliers such as business travellers are indifferent to price. In contrast, leisure travellers have no brand loyalty and they prefer cheapest tickets or best deals (Lucas and Spilde, 2017).

Based on the observation that the costs of ticket is only a small part of aggregate cost of a business trip and most often outweighed by the expected benefits of the trip, the airline decided to manipulate prices in a way that they could maximise revenue from existing clients. The marketing research also showed that majority of the customers were disloyal, because of the fact that majority of the competing products were close substitutes and lack unique characteristics, therefore it was essential to change marketing orientation towards relationship

building instead of mass selling and price wars. Consequently loyalty programmes were developed by airlines (Wang, et al., 2016).

2.2 Various Types of Loyalty Programmes

Although loyalty programmes of hotels, airlines, and car rental businesses are related to executives, yet they are also often used by other industries, through differing degrees and varying success. The main purpose is to persuade customers to buy more frequently and show discretion in purchase behaviour. It is important to choose appropriate loyalty programme based on the nature of product (Bowen and Chen McCain, 2015). For example, a loyalty programme based on frequency of purchases is clearly a bad example in case of a hospital emergency room as nobody wants to visit it frequently. Therefore not every business can develop programme that are based on accumulation and redemption of purchase points (Quigno and Zhang, 2016).

Svensson and Tran, (2014) cited a categorisation of customer loyalty programmes (see figure below) and concluded that lower categories (Type 1 in the figure) were not Customer Loyalty Programs in essence, but instead they were merely sales promotion offering discounts. For instance, a large bookstore chain in US namely Barnes & Noble offered a membership card to its customers (charging a small amount of fee) for which customers could get a discount of 10% on every full-price purchase they make. There were no tiers involved in the rewards and there were no special promotional efforts to selective customer segments in the overall programme. This differentiation is reasonable as it is difficult to distinguish benefits to those customers that make frequent purchases as compared to those who often switch to other brands and show less or no loyalty to the brand. There are no material benefits to loyal customers in cents off sales promotions. However, a “membership” based loyalty program which involves different tiers of customers and offer increasing degree of material benefits for customers that show increasing loyalty is more effective (Marian, et al., 2014).

Types of Loyalty Reward Programs

1. Simple percent off on all purchases
2. Buy n get one free
3. Tiered rewards (airline miles)
4. Customer relationship with frequent special offers

Similarly, often fast food chains offer the second type of rewards programme i.e., 'buy n get one free'. There is a modest effect of such programmes to encourage consumers in frequent purchasing and to discourage brand switching. But, the main limitation in this type is that they cannot contribute to growth in revenues (Ashley, Gillespie, and Noble, 2016). This is because such offers are likely to be followed by competitors in nearby proximity and thus the effect is most likely to be neutralised sooner than later. Furthermore, there are also no tiers in such offers and they also do not differentiate loyal customers from all customers. Thus it is also likely that they do not enhance customer loyalty (Colliander, et al., 2016).

In contrast, the loyalty programmes offered by hotels and airlines are often fully-featured tiered programs as indicated by in the third category. Tiered based loyalty programmes are not limited to hospitality and travel industry and are adopted by a variety of industries in a variety of contexts (Wang, et al., 2016). These programmes focus on differentiating customers on the basis of repeat purchases and loyal customers are offered material benefits for loyal behaviour. For instance, suppliers of office materials essentially offer similar goods as compared to competitors. Thus they develop tiered rewards program based on a points system (Quigno and Zhang, 2016).

3.0 Research Questions and Hypotheses

3.1 Research Questions

The research questions which would help the researcher in achieving the desired results are:

1. What is the rationale behind the loyalty programs and customer retention?
2. What are the determinants of customer loyalty programs and customer retention in the context of retail businesses in Sydney?

3. What is the impact of loyalty programs on retention of customers?
4. What is the impact of point system on the retention of customers?
5. What is the impact of tier system reward on the retention of customers?
6. What are some of the recommendations or guidelines for businesses that can be utilised to obtain loyalty of customers and attain customer retention?

3.2 Hypotheses

The hypotheses made for the purpose of achieving the objectives of study are as follows.

1. Customer loyalty programs have a significant influence on retention of customers.
2. Point System have a significant influence on retention of customers.
3. Tier system reward have a significant influence on retention of customers.

4.0 Operational Definitions and Measurement

The variable selected for the study along with operational definitions and measurement are provided below.

Dependant Variable - Customer Retention

Customer retention refers to the situation where businesses provide greater experiences to their customers in order to keep the customers for a long term. The customer retention will be measured in the study will the help of statements included in questionnaire.

Independent Variables

Loyalty Programs

Loyalty programs refer to the efforts of businesses for the purpose of rewarding them in order to obtain loyal buying behaviour for increasing the revenues.

Point System

Business often provide customers with schemes in which they can earn points and on the basis of such points, the customers earn several rewards. The point system would be measured with the help of statements provided in the questionnaire.

Tier System Reward

Tier system offers rewards to the customers for their involvement in programs and this encourages repeat purchase of customers by enhancing the value of rewards. This variable would also be measured with the help of a number of statements included in the questionnaire made for the purpose of this study.

5.0 Research methodologies: Data Collection and Analysis

The study is quantitative in nature as the outcomes and hypotheses depend on the data collected from surveys. The survey is conducted for the purpose of studying the impact of loyalty programs on customer retention.

5.1 Sampling Technique

The data collected for the study is primary in nature as the information is fort hand and survey questionnaire has been used for this purpose. The sample size selected for the study is a total of 250 respondents. Convenience sampling has been chosen in order to draw the sample from population. Moreover, secondary data has also been collected in the form of literature which helps in understanding the variables and outcomes of studies held in earlier times by various researchers.

5.2 Method of Analysis

The data will be analysed through SPSS software as it has been used previously by numerous researchers for the analysis of data regarding this topic. Frequency analysis will be conducted in order to create an understanding about the responses of participants of the study. Correlation analysis will be carried out in order to assess the relationship existing between the study variables. In addition to this, the main aim of the study will be evaluated with the help of test of regression for the purpose of finding out the impact of customer loyalty programs on customer retention (Cohen et al., 2012).

6.0 Research Process

The whole process of research is broken down into the following stages.

1. **Problem Identification:** The problem will be identified which forms the basis of the whole process of research as the outcomes of the study will be dependent on such problem.
2. **Literature Review:** The relevant literature is reviewed in the context of this study so that the varying opinions of different authors can be taken into consideration to create

an overall understanding of the topic selected. Moreover, the variables for the study will also be identified in this phase of research.

3. **Defining Terms and Concepts:** The terms and concepts used in the research will be defined and elaborated in detail.
4. **Defining the Population and Sample:** The population and sample will be selected for the purpose of primary data collection for achieving the objectives of study. Here, the sample would be drawn in the context of Sydney.
5. **Collection of Data:** The data will be collected from the sample drawn and will be put to an order in order to make effective use of it.
6. **Analysis of Data:** The primary data collected in the previous stage will be analysed using appropriate techniques which supports the aim of researcher as well as of the study.

7.0 Expected Outcomes

On the basis of objectives of study and the data collected, the expected outcome of the study is that the customer loyalty programs have a significant impact on customer retention in the context of businesses operating in Sydney.

8.0 Conclusion

The research proposal has been formed with the primary aim of analysing the impact of customer loyalty programs on customer retention. Variables selected to represent the independent variable (customer loyalty programs) are points system and tier system reward. The data will be collected through self-administered questionnaire and will be distributed to a total of 250 participants. The sample has been selected using convenience sampling method. In order to analyse the relationship between variables, test of correlation will be conducted the influence of loyalty programs on customer retention will be analysed through regression analysis. It is expected that the result of study would show a significant influence of loyalty programs on customer retention.

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