

Influence of Loyalty Card Programs on Customer Satisfaction and Engagement in the Retail Industry of Colombo District

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ABSTRACT

The retail industry in Sri Lanka is marked by fierce rivalry, with significant progress observed in the last ten years. This development is ascribed to changes in consumer lives, which are progressively shaped by Western influences. Due to intense competition, supermarkets must focus on customer acquisition and retention methods to improve their market share. Even with the efficacy of acquisition campaigns, prominent supermarket chains admit that previously recruited customers are transitioning to rival companies. In order to gain a competitive advantage, supermarket chains should give high priority to implementing efficient customer retention programs, such as loyalty programs, that have a substantial impact on the overall operation of the firm. Nevertheless, reward systems in supermarkets frequently fail to provide the expected advantages due to intrinsic limitations that discourage customer engagement, arising from widespread discontent with loyalty programs. This study aims to determine the variables that impact customer satisfaction with loyalty programs in the grocery sector. Based on a thorough examination of the literature, four crucial elements—Anticipated Benefits, Privacy Concerns, Variety Seeking, and Customer Involvement and Commitment—were important factors influencing customer engagement in loyalty programs. The study examines Keells, Cargills, Arpico, and Laugfs shoppers with various loyalty cards. The population under consideration for this study comprises all individuals residing in the Colombo district participating in supermarket transactions. The study's findings clarify the effect of loyalty card programs' customer retention and engagement elements on total customer satisfaction, highlighting the significant influence of these aspects on consumer contentment.

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KEYWORDS: Loyalty Card, Customer Satisfaction, Retail Industry, Colombo

Background

Traditional marketing focused initially on isolated transactions, but the evolving perspective in marketing now centers around relationship marketing. Relationship marketing, as highlighted by However, strongly emphasizes acquiring and retaining customers, with customer loyalty being a pivotal aspect of this approach. The direct impact of customer retention on business profitability is well-established, with past research suggesting that retaining customers is cost-effective and more profitable than customer acquisition strategies. According to Barnett and Mallory (2000), acquiring a new customer can be up to five times more expensive than retaining an existing one.

Recognizing the significance of customer relationship marketing, organizations allocate a considerable portion of their time and marketing budget to develop customer retention strategies. Among these strategies, the implementation of Customer Loyalty programs stands out. The core of marketing lies in creating value for customers, as successful enterprises are driven by profit and value creation.

Beyond financial gains, relationship marketing targets the development of long-lasting, cost-effective connections between organizations and customers, necessitating a continuous understanding of ever-changing customer needs and expectations [2].

In the context of business success, the ability to grow and maintain a loyal customer base is crucial. Therefore, developing and maintaining long-term customer relationships are considered critical for business performance. Thus, Relationship marketing is an imperative strategy for achieving success and addressing challenges such as gaining a global competitive advantage and navigating rapid changes in the business environment and technology. Considering these arguments, customer retention through customer satisfaction emerges as a critical element for inducing business success, positioning relationship marketing as a pivotal strategy to retain customers, drive business success, and increase market share [1].

Relationship Marketing Loyalty Program

Relationship marketing is characterized by the company's efforts to reward customers for their loyal behavior. In the current business landscape, loyalty programs are an influential technique companies employ to retain customers and foster customer loyalty. Widely recognized for the mutual benefits it offers consumers and companies, relationship marketing utilizes instruments such as loyalty programs and frequent reward initiatives as viable strategies for customer retention and establishing enduring customer relationships.

Loyalty card systems have proven to drive supermarket chains to generate sales without incurring additional costs when optimally utilized. Consequently, several supermarket chains in Sri Lanka have introduced loyalty programs to capitalize on this strategic approach. Research studies indicate that customers tend to develop loyalty when receiving financial and social benefits. Therefore, the current loyalty programs are designed to provide such benefits, aiming to foster customer loyalty. In the face of heightened competition, loyalty programs are also employed to differentiate a business from its competitors and discourage customers from defecting to rival establishments.

Studies conducted by Meyer-Waarden (2008) have unveiled that loyalty card holders exhibit higher levels of behavioral and attitudinal loyalty towards a specific retail organization than customers without loyalty cards. Based on these findings, it becomes evident that loyalty programs serve as a means to achieve the ultimate goals of relationship marketing. Companies, particularly in the retail industry, should regard loyalty programs as valuable tools for retaining existing customers while ensuring customer satisfaction. Thus, there is a compelling need for companies to prioritize the design and

implementation of effective loyalty programs tailored to meet the preferences of supermarket customers [2].

Examining Loyalty Programs in the Supermarket Industry of Sri Lanka

Although there are several retail companies in Sri Lanka, such as Keells Super, Cargills Supermarket network, Laugfs Supermarkets, Arpico Supercenters, and Lanka Sathosa, the market is primarily controlled by critical players like Cargills, Keells, and Arpico. Within this fiercely competitive industry, major supermarket chains actively strive to retain clients and deter them from defecting to rival companies. In order to negotiate this fierce competition, these chains utilize a range of marketing methods to guarantee client loyalty and long-term viability in the market.

Supermarket chains encounter the dual problem of competing with one another and battling with alternative shopping options, such as open-air markets and smaller grocery stores, due to the competitive nature of the retail business and the presence of substitutes. Consumer brand loyalty is low, leading supermarkets to prioritize the acquisition of customer loyalty and happiness.

Supermarkets provide a distinctive shopping experience where customers may engage with various products and take advantage of assertive marketing efforts and incentives. As stated in a 2013 analysis by Bartleet Religare Securities, the intense competition in the market requires frequent incentives, loyalty programs, and advertising to maintain a customer base, as the cost for customers to transfer is cheap [4].

Industry Trends

The supermarket concept in Sri Lanka experienced significant expansion after 2000, despite being introduced in the 1980s, as indicated by industry trends. The supermarket industry in Sri Lanka is in the burgeoning phase of its life cycle, propelled by the escalating impact of Western lifestyles. The rise in consumer brand awareness in Sri Lanka has increased supermarket demand. This is mainly driven by their convenience, such as extended operating hours and a diverse range of products. Moreover, the allure of processed food products found in supermarkets, which are more convenient to cook, contributes to the increase in demand.

Several entities, including Cargills Supermarket network, Keells Super, Laugfs Sunup Supermarkets, Arpico Supercenters, and Lanka Sathosa, are active participants in the retail industry due to the increasing consumer demand. Nevertheless, Cargills outshines its competitors by possessing many retail stores and extending its business activities to towns in the surrounding regions. The objective is to introduce

contemporary retail establishments in these locations and enhance their retail sales influence.

Problem Statement

Intense competition characterizes the supermarket chain industry, with key players like Keells, Cargills, Arpico, and Laugfs vying for market share. Loyalty schemes have become a common strategy to combat this competition and foster customer loyalty. However, despite the widespread adoption of loyalty programs in the Western context, their effectiveness has yet to be questioned. In Sri Lanka, while loyalty programs initially experienced rapid growth, they have recently seen a decline in usage due to various factors.

Recognizing the potential benefits for businesses and customers and preserving the viability of relationship instruments like loyalty programs is crucial. Understanding the factors influencing customer participation in loyalty programs is essential, especially before significant investments are made in relationship-building efforts. Supermarket chains implementing loyalty programs must consider factors influencing customer satisfaction and engagement to enhance program effectiveness and overall business performance.

This research addresses the fundamental question: "What is the impact of anticipated benefits, privacy concerns, variety seeking, customer involvement, and commitment to loyalty card programs on customer satisfaction and engagement in the supermarket industry in Sri Lanka?" By examining the interplay of these elements, the study seeks to provide insights tailored to the context of Sri Lankan supermarkets.

Objectives

1. Assess the Influence of Anticipated Benefits:

- A. To examine the perceived benefits customers, anticipate from loyalty card programs in the retail industry of Colombo District.
- B. To identify the relationship between anticipated benefits and customer satisfaction and engagement.

2. Investigate the Impact of Privacy Concerns and Variety Seeking:

- A. To analyze the level of privacy concerns among customers participating in loyalty card programs.
- B. To explore the influence of privacy concerns and variety-seeking behavior on customer satisfaction and engagement.

3. Evaluate the Role of Customer Involvement and Commitment:

- A. To assess the level of customer involvement in loyalty card programs within the supermarket industry in Colombo District.

- B. To determine the impact of customer commitment on overall satisfaction and engagement with loyalty card programs.

Research Questions

1. How do anticipated benefits influence customer satisfaction and engagement in loyalty card programs within the retail industry of Colombo District?

Sub-question: What specific benefits are customers expecting from participating in loyalty card programs?

2. What is the relationship between privacy concerns, variety seeking, and customer satisfaction and engagement in loyalty card programs in the Sri Lankan supermarket industry?

Sub-question: How do privacy concerns and variety-seeking behaviors manifest among participants?

3. To what extent does customer involvement and commitment contribute to satisfaction and engagement with loyalty card programs in the Colombo District retail sector?

Sub-question: How does the level of customer commitment impact the effectiveness of loyalty card programs?

Literature Review

Customer satisfaction is typically described as the comprehensive evaluation resulting from the complete process of purchasing and using a product or service for an extended duration. The research findings suggest that users intentionally choose a loyalty card program rather than making a random pick. Customers typically participate in a loyalty program when its advantages exceed their expected expenses. The membership process of the loyalty program is a crucial component that, unfortunately, gives rise to privacy problems for clients, as they are obligated to disclose personal information [7].

The enrolling process is a crucial point in the loyalty program that significantly impacts clients' feelings of privacy. People who value diversity and are hesitant to restrict their options may be motivated to resist committing to a particular group. This habit is especially evident among consumers who prioritize diversity in their choices.

Reliance on a specific organization might be perceived as a financially advantageous partnership within relationship marketing initiatives. The interaction between expenses and advantages influences customers' decision-making process and long-term loyalty to a firm. The research findings emphasize the significance of client satisfaction in relationship marketing initiatives. The study

highlights the importance of maintaining a solid customer-organization relationship. [6].

Methodology

The study focuses on individuals residing in the Colombo district who participate in supermarket shopping as the specific population of interest. The study utilizes structured questionnaires, including manual and Google Forms, to collect primary data. Responses were obtained from approximately 100 clients through the distribution of a questionnaire. In order to conduct a targeted and influential evaluation, the process of selecting participants for data collection was based on quantitative sampling. This involved conducting interviews with industry experts to identify the specific demographic group with a substantial engagement level with supermarkets. The interviews revealed that people aged 21-55 significantly influence the grocery industry. Hence, the survey was primarily disseminated to individuals spanning several age brackets, specifically focusing on those aged between 21 and 55.

Conceptualization and Hypotheses Development

The interim model will function as a framework for the forthcoming industry survey. It has been built using the factors examined in the current body of literature. The problem at hand is the low level of customer involvement in loyalty programs established by supermarkets. Additionally, there is a need for more established theories that specifically identify the aspects influencing customer engagement in these programs. Thorough examinations of previous scholarly works by different authors uncovered numerous variables influencing client involvement [5].

In order to formulate a theory, we employed these discovered variables in combination with an examination of numerical data confirmed by qualitative evaluations. The resulting preliminary hypotheses express the connections within the dependent variable:

H₁ The expected advantages substantially impact customer satisfaction with loyalty schemes.

H₂: Privacy concerns substantially impact customer satisfaction with loyalty schemes.

H₃: Variety-seeking substantially impacts customer satisfaction with loyalty schemes.

H₄: Customer engagement and dedication substantially impact customer satisfaction with loyalty programs.

Discussion

The main objective of this study was to evaluate the impact of customer satisfaction on loyalty card programs to retain and engage customers in Sri

Lanka's supermarket industry. Approximately 100 consumers were given a survey questionnaire, resulting in the collection of replies. The key dependent variable in this study was consumer satisfaction, while the independent factors included predicted advantages, privacy concerns, variety seeking, and customer involvement. During the inquiry, the investigator developed four hypotheses.

After conducting the analysis phase, the study found that the expected advantages had a considerable influence on customer satisfaction with loyalty card programs, therefore verifying the acceptance of hypothesis H₁. Privacy concerns among customers significantly impact customer satisfaction with loyalty card schemes, hence supporting the adoption of hypothesis H₂. However, it was discovered that desiring variety did not substantially influence customer satisfaction with loyalty card programs, resulting in the rejection of hypothesis H₃. Moreover, it was shown that customers' privacy concerns did not substantially affect customer satisfaction with loyalty card programs, leading to the dismissal of hypothesis H₄.

Therefore, the study indicates that in this particular situation, the expected advantages and worries about privacy are of more importance. In future research, scholars need to consider these two aspects, as well as other pertinent variables that influence customer satisfaction in loyalty card programs. Nevertheless, it is essential to emphasize that the study does not consider variety-seeking and customer interaction as significant aspects.

Conclusion

Ultimately, the study's assumptions sought to investigate diverse elements that impact customer satisfaction within the framework of loyalty card programs. The study validated the first hypothesis, suggesting that expected advantages have a substantial influence on customer satisfaction, affirming a positive correlation between these factors.

Furthermore, the second hypothesis, which proposes that privacy concerns substantially impact customer happiness, was confirmed. The results emphasize the need to tackle and comprehend privacy-related concerns in loyalty card programs to augment overall client contentment.

In contrast, the study's results did not provide evidence to support the third hypothesis, which suggests that variety-seeking has no meaningful effect on customer satisfaction. Within the context of this analysis, the goal of diversity in loyalty card programs may not substantially impact customer happiness.

The data did not support the fourth hypothesis, which suggests that customer interaction has no substantial impact on customer satisfaction. This implies that endeavors to enhance client interaction may not inevitably result in heightened pleasure within the framework of loyalty card programs.

The study provides valuable insights into the complex dynamics of customer satisfaction in loyalty card programs, highlighting the separate effects of expected benefits and privacy concerns. It also challenges assumptions about the roles of variety-seeking and customer involvement.

Regression analysis, sometimes called least squares regression or ordinary least squares (OLS), is a statistical technique employed to examine the linear association between variables. The R-value, also known as the multiple correlation, represents the correlation between the model's dependent and independent variables. The R-value in this study is 0.443.

The R²-value, often known as R-squared, quantifies the proportion of variability in the dependent variable that can be accounted for by changes in the independent variables. Anticipated benefits, privacy concerns, variety seeking, and customer involvement collectively account for 19.6% of the variation in customer satisfaction in this scenario. The modified R²-value, considering the degrees of freedom, is 16.2%.

The Durbin-Watson value, which assesses the autonomy of observations, is 1.918, indicating that variables exhibit independence. An optimal value is typically one that is closer to 2.

The ANOVA table evaluates the statistical significance of the regression model. The F-statistic is 5.799, with a significant level 0.000, suggesting that the model accurately predicts consumer satisfaction.

The coefficients table offers valuable insights into the distinct contributions of predictors. The expected advantages and worries regarding privacy substantially influence customer satisfaction, with statistical significance values of 0.027 and 0.002, respectively. However, the need for variety and customer engagement does not significantly impact satisfaction, with statistical significance values of 0.266 and 0.437, respectively.

The outcomes of the hypothesis testing are as follows:

Ultimately, the study's assumptions sought to investigate diverse elements that impact customer satisfaction within the framework of loyalty card programs. The analysis confirmed a positive

association between anticipated benefits and customer satisfaction, substantiating the initial premise that anticipated benefits significantly impact customer contentment. Furthermore, the second hypothesis, which proposes that privacy concerns substantially impact customer happiness, was confirmed. The results emphasize the need to tackle and comprehend privacy-related concerns in loyalty card programs to augment overall client contentment.

In contrast, the study's findings did not support the third hypothesis, which suggests that variety-seeking has no meaningful effect on customer satisfaction. Within the context of this analysis, it can be inferred that the pursuit of diversity in loyalty card programs may not substantially impact customer happiness. The data did not support the fourth hypothesis, which suggests that customer interaction has no substantial impact on customer satisfaction. These findings indicate that attempts to enhance customer involvement may not necessarily result in increased satisfaction in the context of loyalty card programs. The study provides valuable insights into the complex dynamics of customer satisfaction in loyalty card programs. It highlights the separate effects of anticipated benefits and privacy concerns and challenges assumptions about the roles of variety-seeking and customer involvement.

This study offers valuable insights into the determinants influencing consumers' hesitancy to engage in supermarket loyalty programs. Consumer satisfaction with loyalty card programs supplied by enterprises is influenced by factors such as expected advantages, privacy apprehensions, the need for diversity, and the level of engagement and dedication. Additionally, the study underlines the unique concept of customer retention and engagement with supermarkets, demonstrating its positive relationship with consumer satisfaction in loyalty card programs offered by supermarkets.

Enterprises must understand the elements that promote and impede consumer satisfaction in loyalty programs within the supermarket setting, considering that these practices, like loyalty programs, involve substantial expenses in relationship marketing. This study provides organizations with a methodology to thoroughly assess their current loyalty programs, enabling them to identify areas that can be enhanced. By acknowledging and resolving consumer apprehensions and implementing strategic modifications, companies can significantly improve the efficacy of their loyalty programs, ultimately promoting excellent customer retention and engagement.

Recommendations

This research aims to improve our comprehension of the elements that affect the influence of customer loyalty programs on customer satisfaction, specifically retention, and engagement, as stated in the literature review. Multiple discoveries correspond with earlier research results. The study highlights that the expected advantages are crucial in shaping customer satisfaction with loyalty card programs, shedding light on practical approaches to keeping and engaging supermarket customers.

Considering the vital influence of expected advantages in motivating consumer engagement in loyalty programs, organizations must guarantee that the benefits are captivating and appealing to clients. Organizations should prioritize creating loyalty programs that encourage consumer engagement and provide concrete benefits and exclusive privileges, thereby strengthening good customer experiences.

Moreover, the report emphasizes the need to resolve privacy issues in loyalty programs. A negative correlation emerges between privacy concerns and satisfaction with loyalty programs for customer retention and engagement. In order to surmount this hindrance, organizations should formulate explicit and resilient client privacy policies while pushing loyalty card programs. Ensuring confidence by implementing transparent and open privacy protocols, particularly when managing sensitive data such as addresses and national identity card numbers, is crucial. Implementing a clearly defined set of regulations and protective measures will cultivate a favorable first impression, enhancing the probability of consumer engagement and guaranteeing the effectiveness of loyalty card programs. Organizations should optimize their loyalty programs by prioritizing anticipated advantages and addressing privacy concerns to retain and engage customers effectively in the competitive grocery business.

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