

Perceived Benefits from Loyalty Program and its Influence on Relationship Quality

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Abstract—This research was conducted to see how customer’s value perceived benefits from the loyalty program at PT ABC (Monetary Savings, Exploration, Entertained, Recognition and Social Benefits) and see how they affect relationship quality through mediating perceived relationship investment. This research was conducted because of the significant customer awareness growth towards the loyalty program which was not accompanied by a significant decrease in the churn rate at PT ABC. In this study, quantitative analysis is used with SEM (Structural Equation Modeling) analysis techniques using Lisrel 8.8 software. Data collection was done through online questionnaires and obtained 200 respondents from various types of products and levels of customer loyalty. Based on the results of data processing, it is known that customer appraisal of perceived benefits variables is somewhat amenable, while customer appraisal of perceived relationship investment variables and relationship quality shows agreed values. And based on the evaluation of the effect proved that perceived benefits have a positive effect on relationship quality by mediating perceived relationship investment variables. In order to get a good relationship quality between the company and its customers, PT ABC needs to increase the benefits of the loyalty program by increasing the type and amount of rewards that can be exchanged by customers, the right reward allocation and segmentation based on the product and the level of customer loyalty and always innovating collection, exchange and expiration schemes of the loyalty program.

Keywords—perceived benefits; loyalty program; point; relationship quality

I. INTRODUCTION

The current competition between telecommunication companies in Indonesia is felt very tight. Especially in today's internet era, competitors are not only from telecommunication operators, but from various applications that offer telecommunication services or OTT (Over the Top) and from internet service provider.

In this highly competitive environment, creating customer loyalty has become an effective way to secure company profitability [1]. In maximizing customer retention, the strategy that must be done by the company is to do a loyalty building strategy which according to Lovelock consists of activities to build the foundation of loyalty, create bonds of loyalty, and reduce churn factors [2]. So that the customer describes a loyal

attitude where the customer is willing to keep using the company's products in the long run, using it exclusively and recommending the company's products to friends and colleagues [2].

PT ABC as one of the Telecommunication companies in Indonesia, in the face of tight competition, launches a customer loyalty program with a point scheme. At present the awareness of PT ABC customers towards the loyalty program increases every year according to the figure below.

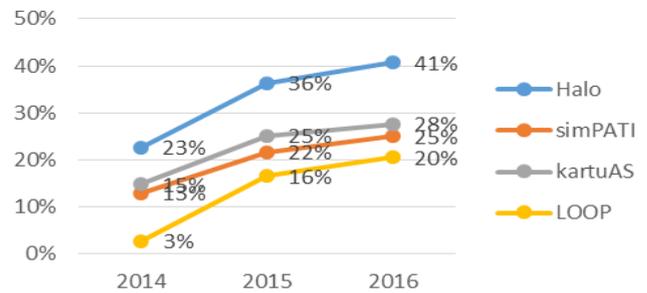


Fig. 1. The percentage of point redemption.

The increase in customer awareness has an impact on increasing the amount of cost / investment each year in an effort to maintain the quality of good relationships between customers and the company. On the other hand, the increase in awareness was not accompanied by a significant decrease in the churn rate at PT ABC, even churn which was one of the indicators to assess whether or not relationship quality in PT ABC had increased in the last three years, as illustrated below.



Fig. 2. Churn customer trends.

Perceived benefits from loyalty programs may explain why customers follow the loyalty program, in this case the benefits motivate loyalty and strengthen relationships with the company

[3]. As a result, if a customer feels little or no benefit from participating in a program, marketing investment may be inefficient or even lost [4].

Therefore, the author will conduct research with the aim to find out how the perceived benefits of PT ABC's loyalty program and its effect on relationship quality by mediating perceived relationship investment in PT ABC is based on customer ratings.

The result of this research is expected to contribute in several areas such as:

- For academic usage, the results of this study are expected to be a reference material and reference for further research, especially in research that wants to measure the relationship or influence of the benefits of loyalty programs on relationship quality between customers and companies in the retail sector, especially in the telecommunications industry.
- For practical usage, the results of the research can be input into efforts to design the type of reward, segmentation, loyalty program scheme.

II. LITERATURE REVIEW

A. Consumer Behavior

Consumer behavior is the study of the behavior of individuals, groups, or organizations and the processes used by consumers to select, use products, services, experiences or ideas to satisfy consumer needs and desires [5]. There are several factors that influence consumer behavior in selecting products to become a decision to buy, namely cultural factors, social, personal and psychological factors [6].

B. Loyalty Program

Customer loyalty is a customer commitment to persist deeply to re-subscribe or re-purchase selected products / services consistently in the future, even though the influence of the situation and marketing efforts has the potential to cause behavior change [6]. Customer loyalty has an important role in a company, maintaining them means improving financial performance and maintaining the survival of the company. In order to keep customers loyal, the company builds a loyalty program. A simple point system is one type of loyalty program that is often used.

C. Perceived Benefits of Loyalty Program

Perceived benefits of a loyalty program are six dimensions, namely monetary savings, convenience, exploration, entertaining, recognition, and social benefits [7]. Consumers follow loyalty programs because of price sensitivity, search for variety, shopping enjoyment, attitude toward loyalty programs in general, and privacy concern.

1) *Utilitarian benefits*: Utilitarian benefits refer to the results of consumer evaluations of whether the shopping experience of consumers is able to meet the needs of consumers to shop [7]. Utilitarian value characteristics for consumers include finding goods quickly and accurately. The

component that forms it is the aspect of monetary savings. Monetary savings are developed from cash-back offers, coupons, or savings on certain service payments due to accumulated points held by members [8].

2) *Hedonic benefits*: Hedonic values are derivatives of benefits that are non-instrumental, emotional, experience-based and other benefits are personal gifts [9]. The hedonic benefits are relevant in the loyalty program through two dimensions namely exploration and entertainment [7]. Trying out new product offerings, satisfying curiosity about a promotional event or offer or remaining part of a particular mode of development are examples of exploratory behavior [10]. Loyalty programs are able to attract consumer interest because of the pleasure generated from activities related to collecting and exchanging program points. In this case, the consumer acts like a party who plays and feels a pleasant experience from the activities he does [11].

3) *Symbolic benefits*: This symbolic benefit has two dimensions, namely recognition and social [7]. Customers who are members of the loyalty program feel the benefits of recognition namely the experience of being treated differently by companies than other consumers who are not incorporated in the loyalty program [12]. The loyalty program not only focuses on the product but also the experience of consumers and the consumption they do [13]. The implication is that program members consider themselves as an exclusive part of a particular consumer group, identify themselves as part of them and share similar values associated with the company's brand [14].

D. Perceived Relationship Investment

Perceived Relationship Investment (PRI) is an investment made by a company by allocating resources, time, and attention that is owned in order to maintain and improve the quality of their relationship with customers [7]. This investment is an investment that is irrevocable when the relationship between the customer and the consumer ends. Specifically, this PRI is a mediation between various marketing tactics carried out by the company and aspects of relationship.

E. Relationship Quality

Relationship Quality can be interpreted as an overall assessment of the strength of the relationship between the company and the customer [7].

F. Framework

Based on the literature review above and previous research and the results of the review and discussion with the loyalty program division related to its relevance to the loyalty program in the PT ABC the author made a framework like the picture below.

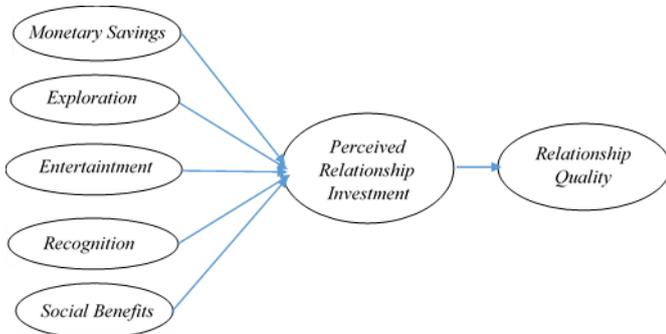


Fig. 3. Framework research.

In previous research conducted by Aida Mimouni-Chaabane and Pierre Volle in the context of the loyalty program in France it was found that all variables had a positive effect on perceived relationship investment and perceived relationship investment had a positive effect on relationship quality. In this study there are five independent exogenous variable constructs, namely Monetary Savings, Exploration, Entertainment, Recognition and Social Benefits. Variable perceived relationship investment has a role as the dependent variable of Monetary Savings, Exploration, Entertainment, Recognition and Social Benefits and independent variables for Relationship Quality [7].

Therefore, the hypothesis in this study is as follows:

- H1: There is an effect of the benefits of monetary savings on perceived relationship investment.
- H2: There is an effect of exploration benefits on perceived relationship investment.
- H3: There is an effect of entertainment benefits on perceived relationship investment.
- H4: There is an effect of the benefits of recognition on perceived relationship investment.
- H5: There are effects of social benefits on perceived relationship investment.
- H6: There is an effect of perceived relationship investment on relationship quality.

III. RESEARCH METHODS

The characteristics in this study are illustrated in the table below.

TABLE I. RESEARCH CHARACTERISTICS

No	Research Characteristics	Type
1	Based on the method	Quantitative
2	Based on objectives	Descriptive
3	Based on the type of investigation	Causal
4	Based on the involvement of researchers	Not intervening in data
5	Based on the unit of analysis	Individual
6	Based on implementation time	Cross Section

Variable operationalization in this study was built based on a literature review that was reviewed and validated by academics in the field of marketing and practitioners who handled the loyalty program at PT ABC and produced 28 indicator questions using a Likert scale: 1-7.

Determination of the minimum sample size in this study is 5 or more multiplied by the number of observable variables in this case is the measurement or question in the questionnaire [8]. The number of indicator questions in this study is 28 indicators so that the minimum sample size is 5 multiplied by 28 to 140 respondents. In this study, researchers used convenience sampling technique and the questionnaire will be filled in by the respondent (self-administered questionnaire).

The researcher conducted an offline pre-test by distributing physical questionnaires to 30 respondents to be tested for their validity and reliability. Validity test results on 28 statements were carried out using the Product Moment correlation technique formula with valid results, namely the results of $r\text{-count} > 0.361$ ($r\text{-table}$). Likewise, with the results of reliability testing with Alpha Cronbach's measurement technique that all variables are reliable, namely the Cronbach's Alpha value for each variable > 0.60 [9].

The author distributed questionnaires online through Google docs and collected 271 respondents. Of the 271 respondents, taken as a sample for as many as 200 samples because it met the criteria as respondents who had exchanged points, while the remaining 71 respondents were not included as samples because respondents never exchanged points.

In this study using quantitative analysis with SEM (Structural Equation Modeling) analysis techniques using Lisrel 8.80 software. SEM can be described as an analysis that combines the factor analysis approach, structural model, and path analysis [10].

IV. RESULT

A. Characteristics of Respondents

Characteristics of respondents in this study from various types of products, point levels, types of rewards, channels and demographics. Of the total 200 respondents who filled out the questionnaire, there were 118 or 59% of prepaid customers and 82 or 41% postpaid. From the level of points is dominated by the levels of red and gold, namely red 97 or 49% and gold 85 or 43% the remainder of mass and priority. The majority of respondents exchanged more rewards in the form of Telco and Merchant through the application. In terms of demography, the age of respondents was from 20-40 years, the sex of the majority of men was 123 or 62%, majority education was 134 or 67%, and the majority of employees were 132 or 66%.

B. Research Results

- The results of the analysis of mean scores for the five perceived benefits variable dimensions are somewhat agree that is in the average score range of 4.44 - 5.29, while the perceived relationship investment variable and relationship quality variables indicate agree that is in the average score range of 5, 30 - 6.15

- Confirmatory Factor Analysis of the five dimensions of perceived benefits of the loyalty program using the maximum likelihood estimation with Lisrel 8.8. The final model shows fit results. The probability value of testing goodness of fit shows a value of 0.11691 (<0.05), and RMSEA 0.029 (<0.08). The compatibility test results of other models such as CGI, GFI, AGFI, RFI also show values > 0.90 so the model is declared fit.

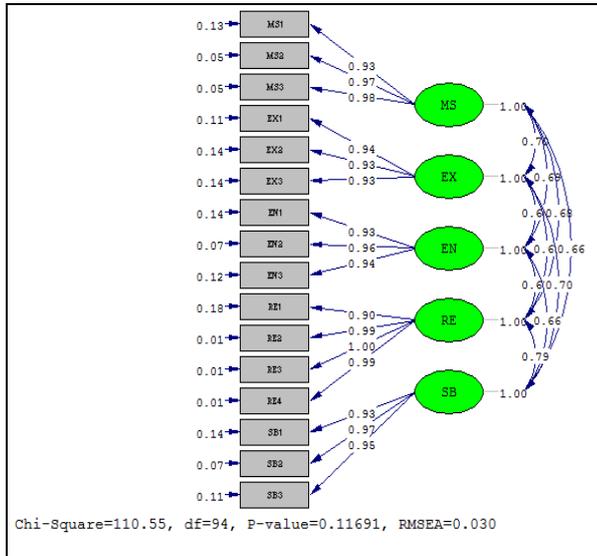


Fig. 4. Diagram path of perceived benefits (standardized solution).

- Convergent and discriminant validity test results show valid and reliable. The results of the convergent validity analysis indicate that all indicators are valid, namely standardized loading factor ≥ 0.5 . Likewise, with Reliability, all variables show reliable results where (AVE ≥ 0.5 and CR ≥ 0.6).
- Likewise, also with the results of discriminant validity analysis, where all latent variables meet discriminant validity, namely the AVE is higher than the squared correlations among the five dimensions.
- Goodness of Fit overall model, addressing fit results. The probability value of testing goodness of fit shows a value of 0.08 (<0.05), and RMSEA 0.02 (<0.08). The compatibility test results of other models such as CGI, GFI, AGFI, RFI also show values > 0.90 so the model is declared fit.
- Hypothesis Testing the Effect of Perceived Benefits and Perceived Relationship Investment Variables on Relationship Quality can be seen in the pictures and tables below

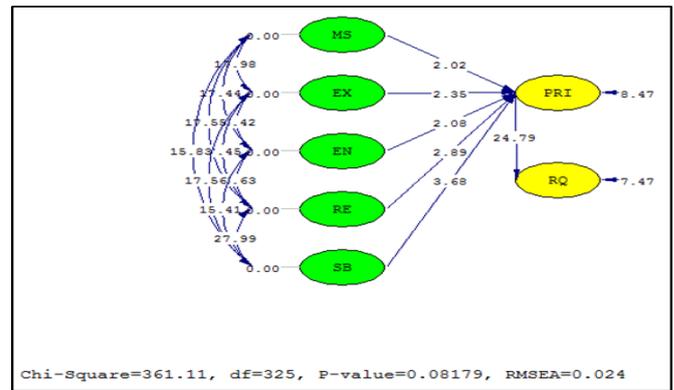


Fig. 5. Structural model path (t-value).

TABLE II. HYPOTHESIS TEST RESULTS

Hypothesis	Variable	t-count	t-table	Information
H1	Monetary Saving → Perceived Relationship Investment	2.02	1.96	Significant
H2	Exploration → Perceived Relationship Investment	2.35	1.96	Significant
H3	Entertainment → Perceived Relationship Investment	2.08	1.96	Significant
H4	Recognition → Perceived Relationship Investment	2.89	1.96	Significant
H5	Social Benefit → Perceived Relationship Investment	3.68	1.96	Significant
H6	Perceived Relationship Investment → Relationship Quality	24.79	1.96	Significant

1) H1: Monetary Savings have a positive effect on Perceived Relationship Investment: Based on the test results that H1 has a t-value of 2.02 which is ≥ 1.96 , this hypothesis is accepted. From the PT ABC loyalty program, the benefits of monetary savings can be obtained by customers in the form of sms, voice, free internet and various discounts through merchants so that the perceived benefits are one of the reasons why customers take part in the loyalty program, and in this case motivating benefits loyalty and strengthen relationships with companies [11].

2) H2: The benefits of Exploration have a positive effect on Perceived Relationship Investment: Dimensions of exploration have a positive effect on Perceived Relationship Investment with a t-value $2.35 \geq 1.96$ so that the hypothesis is accepted. Research respondents receive the benefits of exploration through vouchers or discounted prices from various merchants or online applications that can provide new

experiences for customers. So that customers can benefit from the exploration of this PT ABC loyalty program, which is trying new or innovative products, satisfying their curiosity about a program and offering promotions or seeking information to follow new trends showing examples of exploration behavior [12].

3) *H3: The benefits of Entrepreneurship have a positive effect on Perceived Relationship Investment:* Based on the results of data processing that H3 has a t-value of 2.08 which is ≥ 1.96 , this hypothesis is accepted. If it is associated with PT ABC, point collection and exchange schemes, types of rewards in the form of experiences that can entertain customers such as watch vouchers, game vouchers and types of rewards that are drawn, such as pointastic or vehicle lottery are some of the things that can shape the benefits of entertainment. So that customers take part in this loyalty program because they can feel the benefits of entertainment, especially from the point of collecting and exchanging activities, that loyalty programs attract consumers because of the pleasure associated with collecting and redeeming points [13].

4) *H4: Benefits of Recognition have a positive effect on Perceived Relationship Investment:* Based on the results of data processing that H4 obtained a t-value of 2.89 which is ≥ 1.96 , this hypothesis is concluded. In the PT ABC, there are several types of reward examples that provide recognition benefits that can be obtained by customers through point redemption, including priority service queues at ABC outlet, types of rewards that can only be exchanged based on point tiers and others. So that these programs can provide special treatment for customers who take the PT ABC loyalty program as an appreciation of the company to its customers. Loyalty programs offer opportunities to discriminate and differentiate between customers through special offers as a sign of appreciation or distinctiveness [14].

5) *H5: Social benefits have a positive effect on Perceived Relationship Investment:* Based on the results of data processing that H5 obtained a t-value of 3.68 which is ≥ 1.96 , it is concluded that this hypothesis is accepted. This benefit can be received by customers through different services and treatments based on the point tiers that they have, namely mass, red, gold and priority. As an example of exclusivity obtained at the priority level, customers can obtain special services, priority in the service queue and get a special waiting room when at the airport. So that customers feel the benefits in a community that has the same specificity as the example in that priority.

6) *H6: Perceived Relationship Investment has a positive effect on Relationship Quality:* Based on the results of data processing obtained that H6 has a t-value of 24.79 which is ≥ 1.96 , this hypothesis is accepted. This dimension mediates the relationship between benefits or benefits perceived by customers who follow the PT ABC loyalty program with relationship quality between customers and companies. This means that research respondents believe that the PT ABC has

invested its funds, time and effort to develop certain benefits in a program that is able to encourage loyalty and strengthen relationships with the company [15].

- Hypothesis Testing the Effect of Perceived Benefits Variables on Relationship Quality through Perceived Relationship Investment intervening variables.

In this study the results of the mediation test can be seen in Table below. It can be concluded that this PRI variable mediates the relationship between perceived benefits variables from customer loyalty programs (MS, EX, EN, RE and SB), some of which fully mediate partially mediate.

TABLE III. T-VALUE TEST COMPARISON WITH AND WITHOUT PRI MEDIATION

Variab le X	Mediation PB -> PRI -> RQ	No Mediation PB -> RQ	Information
MS	1,90	0,66	Full Mediation
EX	2,68	(2,35)	Partial Mediation
EN	2,11	(0,35)	Full Mediation
RE	2,87	(0,02)	Full Mediation
SB	3,14	3,39	Partial Mediation

V. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

- Customer assessment of perceived benefits from the loyalty program at PT ABC still somewhat agrees.
- The five dimensions of perceived benefits from the PT ABC loyalty program all have a positive effect on perceived relationship investment, namely the dimensions of monetary savings, exploration, entertainment, recognition and social benefits. This indicates that the better the benefits in terms of monetary savings, exploration, entertaining, recognition and social benefits provided to customers who redeem points, the higher the perceived relationship investment perceived by customers who redeem points. Perceived relationship investment has a positive effect on relationship quality. This indicates that the better the perceived relationship investment dimension, the higher the relational quality value between the customers and the company.
- The five dimensions of perceived benefits have a positive effect on relationship quality with the perceived intervening variable quality both full and partial mediating.

B. Recommendations

Suggestions for companies especially in increasing the benefits that can be received by customers from the PT ABC loyalty program, so that customer perceptions of relationship investment are good and relationship quality between companies and customers is well established, as follows:

- Conduct periodic evaluations of the number and type of rewards and allocate them appropriately according to

interests, needs and historical data related to traffic point redemption by customers (segmentation).

- Conducting innovations and updates related to points collection, exchange and expiration scheme.
- Increase the number and type of special programs or rewards to distinguish benefits obtained from each point tiers, and communicate them personally to customers for the benefits of loyalty program. So that customer awareness of the point tiers increases.

Suggestions for further research to improve the weaknesses in this study, among others:

- Research is carried out on objects other than the Telecommunications industry or carried out on other objects but with similar industries.
- Adding data collection methods by interviewing or focus group discussions to enrich research data and support the next theory.
- Focus on research for the point tiers or certain products only considering that each point tiers or Products can be different and cannot be generalized.

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