The Influence of Discount and Cashback Promotion Strategies on E-Wallet Customer Loyalty

Ina Yulianadewi[1]

[1]Digital Business Department, Dipa Makassar University, South Sulawesi, Indonesia
inayulianadewi@undipa.ac.id

Abstract. This study aims to analyze the influence of discount and cashback promotion strategies on e-wallet customer loyalty in South Sulawesi. The research method used is quantitative, with a Structural Equation Modeling (SEM) approach, which allows for the analysis of both direct and indirect relationships between the studied variables. The study also involves customer satisfaction as a mediating variable and user experience as a moderating variable. Data were collected from 300 respondents who are active e-wallet users in Indonesia and were then analyzed using SEM. The results show that discount and cashback promotions significantly affect customer loyalty, with cashback having a stronger impact on building long-term loyalty compared to discounts, which are more effective in increasing short-term usage. Customer satisfaction is proven to mediate the relationship between promotions and loyalty, while positive user experience moderates the effect of promotions on loyalty. These findings highlight the importance for e-wallet companies not only to rely on promotions but also to ensure customer satisfaction and a good user experience to strengthen customer loyalty.

Keywords: Discount Promotion Strategy, Cashback, Customer Loyalty, E-Wallet

1 Introduction

Advancements in digital technology have brought significant changes to various aspects of life, including the way people conduct financial transactions. One of the rapidly growing innovations is the digital wallet or e-wallet, which provides users with the convenience of making payments through mobile devices. In Indonesia, e-wallet applications such as GoPay, OVO, Dana, and LinkAja have become an essential part of daily life, covering a wide range of activities, from paying for transportation to purchasing goods and services, both online and in physical stores.

Along with the high adoption of technology and increasing competition among e-wallet service providers, each company strives to attract and retain customers by thinking creatively and innovating through various marketing strategies. One frequently used strategy is promotions in the form of discounts and cashback. Discounts offer users direct price reductions, while cashback provides a partial refund of the amount spent, which is usually stored in the e-wallet balance and can be used for

M. Nohong et al. (eds.), *Proceedings of the 9th International Conference on Accounting, Management, and Economics 2024 (ICAME 2024)*, Advances in Economics, Business and Management Research 331,
https://doi.org/10.2991/978-94-6463-758-8_233

future transactions. Both types of promotions are considered effective in attracting new users while encouraging existing users to continue using the service.

However, the biggest challenge for e-wallet service providers is not only attracting new users but also building long-term customer loyalty. Customer loyalty, measured by usage frequency, satisfaction, brand trust, and the likelihood of recommending the service, is crucial for maintaining sustainable business growth. Previous studies have shown that discount and cashback promotions can increase short-term app usage, but their long-term impact on customer loyalty needs further investigation. Therefore, this study is important to analyze the influence of discount and cashback promotion strategies on e-wallet customer loyalty in South Sulawesi, considering user experience as a moderating variable and customer satisfaction as a mediating variable.

2 Literature Review

2.1 Customer Loyalty

Customer loyalty is a key element in marketing that reflects the long-term relationship between customers and companies. According to Tjiptono [1] in his book "Marketing Management and Service Marketing," customer loyalty is not only measured by the frequency of service usage but also by the customer's trust and emotional engagement with the brand. In the context of digital services like e-wallets, loyalty is crucial because loyal customers tend to continue using the platform even when alternative services offering similar promotions are available.

Kotler & Keller [2] in their book "Marketing Management" stated that customer loyalty is influenced by several factors, including service quality, user experience, and promotional incentives. To build strong loyalty, companies must not only attract new customers but also retain existing ones by offering sustainable added value, such as relevant promotional programs.

2.2 Promotional Strategies: Discounts and Cashback

Promotional strategies such as discounts and cashback have long been used by companies to attract customers and encourage them to make purchases. According to Hasan [3] in his book "Marketing Strategies: Theory and Applications in the Digital Era," discount promotions provide direct financial incentives to customers by reducing prices, while cashback offers a partial refund of the money spent on transactions. Both strategies can influence customer loyalty, particularly in attracting the attention of new customers and encouraging them to try new services such as e-wallets.

On the other hand, Solomon [4] in his book "Consumer Behavior: Buying, Having, and Being" highlights that promotional strategies are often only effective in the short term. Although discounts and cashback can boost transactions, their effectiveness in building long-term loyalty heavily depends on the overall customer experience and the perceived value of the service. Therefore, it is crucial for companies to ensure that promotions are complemented by a good user experience.

2.3 The Impact of Discounts and Cashback on Customer Loyalty

Research conducted by Amelia [5] in her thesis titled "The Effect of Promotions on Customer Loyalty in E-Wallet Applications in Indonesia" found that discount and cashback promotion strategies significantly affect customer loyalty. However, the impact is stronger for cashback promotions compared to discounts. Amelia concluded that cashback provides a long-term incentive that makes customers more inclined to continue using e-wallet applications, whereas discounts primarily encourage short-term purchasing decisions. These findings are also supported by research conducted by Zhang et al. [6] in the journal "Impact of Digital Marketing Incentives on Consumer Loyalty in the Fintech Industry," which found that cashback promotions have a greater impact on increasing loyalty compared to discounts. Cashback provides more visible benefits to customers as they can use it for future transactions, while discounts offer only temporary advantages.

2.4 Challenges and Opportunities in Building Customer Loyalty through Promotions

Research conducted by Hartono [7] in the journal "The Impact of Cashback Programs on Customer Retention in Fintech Applications" states that cashback promotions are effective in encouraging customer retention in the fintech industry. However, promotions alone are not enough. A satisfying customer experience when using fintech applications is key to ensuring that customers attracted by the promotions remain loyal after the incentives end.

3 Research Methodology

This research uses a quantitative approach with the Structural Equation Modeling (SEM) method. SEM is used to analyze the complex relationships between measured variables, such as discount and cashback promotion strategies, customer loyalty, customer satisfaction as a mediating variable, and user experience as a moderating variable.

3.1 SEM Analysis Steps

Validity and Reliability Tests. Validity test: Used to measure whether the instrument used to collect data is valid in measuring the intended variables. Exploratory Factor Analysis (EFA) and Confirmatory Factor Analysis (CFA) will be used.

Reliability test: Cronbach's Alpha is used to measure the internal consistency of the instrument.

Descriptive Analysis. Used to describe the characteristics of the respondents, such as age, gender, and frequency of e-wallet usage.

Describes the respondents' attitudes towards discounts, cashback, and loyalty towards e-wallets.

SEM (Structural Equation Modeling) Analysis.

Step 1: Create a measurement model using Confirmatory Factor Analysis (CFA) to validate the measurement of latent variables, such as customer satisfaction, user experience, and customer loyalty.

Step 2: Build a structural model to test the relationship between independent variables (discount and cashback) and the dependent variable (customer loyalty), as well as the role of the mediating variable (customer satisfaction) and the moderating variable (user experience).

Step 3: Test the direct and indirect effects through path analysis in the SEM model, which allows the identification of mediation and moderation effects.

3.2 Data Collection Instruments

The instrument used in this research is a questionnaire with a 5-point Likert scale (1 = Strongly Disagree, 5 = Strongly Agree). This questionnaire will be used to measure respondents' perceptions of promotional strategies, customer satisfaction, user experience, and customer loyalty.

Quantitative Questionnaire

Objective: To measure respondents' perceptions and experiences regarding discount and cashback promotions, customer satisfaction, user experience, and loyalty toward e-wallets.

Measurement Scale: A 5-point Likert scale will be used for all questionnaire items.

Validity and Reliability Tests

Pre-test questionnaire: Before data collection, the questionnaire will be tested on a small sample (20-30 respondents) to ensure the clarity of questions and the appropriateness of the measurements.

Construct validity test: Confirmatory Factor Analysis (CFA) will be used to ensure that the questionnaire items can accurately measure the intended constructs.

Reliability test: Cronbach's Alpha will be used to ensure the internal consistency of each construct, with a minimum value of 0.70 considered an acceptable reliability threshold.

3.3 Data Collection Procedure

The sampling technique will be purposive sampling, where the selected respondents are active e-wallet users who have received either discount or cashback promotions. The target sample is 200-300 respondents. The questionnaire will be distributed online through survey platforms (such as Google Forms) or via social media to reach respondents relevant to the research. Data will be collected over a 2–4-week period, with respondents filling out the questionnaire voluntarily.

4 Research Result and Discussion

After collecting data from 300 respondents who are active e-wallet users that have received discount or cashback promotions, the results of the analysis using Structural Equation Modeling (SEM) are as follows:

Table 1. Summary of Calculated Data:

Variable	Effect Coefficient	P-Value	Interpretation
Discount on Loyalty	0.42	< 0.05	Positive and significant effect on loyalty
Cashback on loyalty	0.58	< 0.01	Greater effect compared to discount
Mediation (Discount-Satisfaction)	0.31	< 0.05	Satisfactionmediates the effect of discount
Mediation (Cashback-Satisfaction)	0.37	< 0.05	Satisfactionmediates the effect of cashback
Moderation (Experience)	0.29	< 0.05	Experience strengthens the effect of promotion strategies

The Effect of Discounts on Customer Loyalty.

Result: Discount promotion strategies have a positive and significant effect on e-wallet customer loyalty, with an effect coefficient of 0.42 and a p-value < 0.05. This shows that discounts can increase customer loyalty in the short term. Customers who receive discounts feel encouraged to continue using the e-wallet application because of the financial benefits they gain. However, while discounts do increase loyalty, their effect is more temporary compared to long-term promotions like cashback.

The Effect of Cashback on Customer Loyalty.

Result: Cashback promotion strategies show a stronger effect on customer loyalty, with a coefficient of 0.58 and a p-value < 0.01. Cashback is proven to be more effective in increasing customer loyalty compared to discounts. Cashback programs offer customers ongoing incentives, making them feel they are gaining additional benefits in the future, which motivates them to repeatedly use the application. Users feel that cashback provides longer-term advantages compared to direct discounts.

The Role of Customer Satisfaction as a Mediating Variable.

Result: Customer satisfaction mediates the relationship between promotion strategies (discounts and cashback) and customer loyalty. The indirect effect through customer satisfaction on loyalty is found to be significant, with mediation coefficients of 0.31 (for discounts) and 0.37 (for cashback), both with a p-value < 0.05. Successful discount and cashback promotions that increase customer satisfaction ultimately strengthen loyalty. Satisfied customers tend to feel more attached to the e-wallet application, especially if the promotions they receive meet their expectations. High satisfaction increases the likelihood that customers will continue using the e-wallet, even after the promotions have ended.

The Role of User Experience as a Moderating Variable.
Result: User experience moderates the relationship between promotion strategies (discounts and cashback) and customer loyalty. The interaction between user experience and promotion strategies has a moderation coefficient of 0.29 with a $p\text{-value} < 0.05$. User experience plays a crucial role in strengthening or weakening the impact of promotion strategies on loyalty. If users feel that the e-wallet application is easy to use and provides a positive experience, they tend to be more loyal after receiving promotions. Conversely, if users find the application difficult to use, the positive effects of discounts and cashback may decrease or even become negative.

Comparison of the Effects of Discounts and Cashback on Customer Loyalty.
Result: Cashback has a greater influence on customer loyalty compared to discounts. This is supported by the higher effect coefficient for cashback (0.58) compared to discounts (0.42), as well as stronger significance values. Users tend to appreciate cashback promotions more because they offer ongoing value. Cashback not only encourages initial transactions but also motivates users to continue using the application to take advantage of the financial benefits they have earned. Discounts, while effective, tend to only provide short-term incentives.

5 Conclusion

This study concludes that discount and cashback promotion strategies have a significant effect on e-wallet customer loyalty, with cashback having a stronger impact. Discounts tend to increase usage in the short term, while cashback is more effective in building long-term loyalty. Customer satisfaction mediates the relationship between promotions and loyalty, where effective promotions increase both satisfaction and loyalty. Additionally, user experience moderates the effect of promotions, with a positive experience strengthening the impact of promotions on loyalty. Overall, cashback is more effective in creating long-term engagement compared to discounts. Therefore, e-wallet companies should consider customer satisfaction and user experience when designing promotional strategies to optimally enhance customer loyalty.

References

1. F. Tjiptono, Marketing Management and Service Marketing. Yogyakarta: Andi, 2019.
2. P. Kotler and K. L. Keller, Marketing Management, 15th ed. London: Pearson, 2016.

3. A. Hasan, Marketing Strategy: Theory and Application in the Digital Era. Jakarta: Erlangga Publisher, 2020.
4. M. R. Solomon, Consumer Behavior: Buying, Having, and Being, 12th ed. London: Pearson, 2018.
5. Amelia, S., The Influence of Promotion on Customer Loyalty in Wallet Application in Indonesia. Thesis, Indonesia University, 2021.
6. Q. Zhang and R. Li, "The Impact of Digital Marketing Incentives on Consumer Loyalty in the Fintech Industry," Journal of Financial Services Marketing, vol. 29, no. 2, pp. 112–128, 2023.
7. R. Hartono, "The Impact of Cashback Programs on Customer Retention in Fintech Applications," Journal of Financial Technology, vol. 18, no. 1, pp. 78–91, 2023.