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## The Relationship between Loyalty Program, Customer Satisfaction and Customer Loyalty in Retail Industry: A Case Study

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### Abstract

Most businesses such as retail business implemented loyalty program to increase their customer's satisfaction and deter their customer from defecting to their competitors. However, the success of this program is not substantiated. The problem appears that supermarket chain loyalty programs are not successfully creating loyalty. All suffer from being too much alike and most loyalty programs feature membership card in the markets. These loyalty mechanisms are not creating ultimate loyalty to one supermarket because customers belong to more than one supermarket loyalty program in order to get special price and promotions. Thus, this study is intended to investigate the relationships among loyalty program, customer satisfaction and customer loyalty in retail industry. The findings indicate that there are positive and significant relationships among loyalty program, customer satisfaction and customer loyalty. The findings confirm that Shopping Partners' Program, Gift Redemptions, Insurance Coverage, and Special Price significantly influence customer satisfaction and Shopping Partners' Program, Member's Day, Rebate Gift Voucher and Special Price significantly influence customer loyalty. However, Rebate Gift Vouchers, Member's Day and Magazine does not significantly influence customer's satisfaction and Gift Redemption, Insurance Coverage, and Magazine does not significantly influence customer loyalty. The implications of the findings are discussed.

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Keywords: loyalty program; customer satisfaction; satisfied; dissatisfied; delightful; customer loyalty; loyal; frequent buyer; loyalty.

### 1. Introduction

Loyalty programs are frequently referred to as "points" or "rewards" programs. They are offered by airlines, grocery stores, gas stations, hotels, car rental agencies, restaurants, coffee shops, book stores and so on (Baran, Galka & Strunk, 2008). The success of the program lies in providing customers with specific rewards. The intention is to reward loyal, frequent buyers more often. The distinction is made between good and bad customers with the aid of behavior registration (Peelen, 2005). As articulated by Reichheld and Saaser (1990) and Reichheld and Teal (1996), loyal customers enable firms to generate more profit over time because of various reasons; increased purchases, reduced operating costs and increased profit margin. As competition intensified during the current economic crisis, many firms are developing or improving their loyalty programs to deter customers from defecting to their competitors (Ho, Huang, Huang, Lee, Rosten & Thang, 2009).

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