

Loyalty Programs Effectiveness and Customer–Company Identification

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In the current competitive market, specialists and experts have underscored the importance of close connections with clients for an effective business. Organizations are being differentiated to pull in potential clients and hold existing ones. It is acknowledged that loyal customers generate prominent incomes and benefit and maybe somewhat, expanded market share. Hence, it is a profitable idea to have an association towards client loyalty. Literature review revealed that introduction of loyalty programs is a prevalent instrument through which firms differentiating themselves and, in that capacity, these programs have turned out to be one of the real determinants of organizations' accomplishment. Customer loyalty programs are characterized as defensive marketing instruments structured by organizations to change the customers personal conduct standards in long term by giving them motivators, so they stay with a particular brand or company. The results of article both empirically and conceptually sets up a deep investigation system that can help marketing managers and specialists assess and improve dedication program adequacy.

Key words: *Marketing, Loyalty Program, Customer–company identification.*

Introduction

Loyalty programs are broadly utilized in relationship advertising. The present loyalty reward projects give particular treatment to their high-paying or frequent customers (Wetzel et al., 2014). Customers are isolated into well-characterized levels depending on their spending levels. Reliability programs offer extraordinary advantages to the company's best clients, including hard advantages (e.g., rewards) delicate advantages (e.g., acknowledgment). In the new stratified client society, those at the top of the hierarchy appreciate access to exclusive services and remarkable degrees of individual consideration (Liu and Mattila, 2016).

In the existing economical trade setting, analysts and professionals have underlined the criticalness of close customer connections to an effective business (Kang, 2016; Mullins et al., 2015). As a significant method for customer relationship management, loyalty programs discovered extensive usage in airlines, grocery stores, hotels and other enterprises and these plans have pulled in impressive enthusiasm among specialists (Ivanic, 2015; Liu and Mattila, 2016; Jermstittiparsert, Sutduean, & Sriyakul, 2018).

Loyalty projects utilize numerous kinds of systems to draw in and hold faithful clients. A portion of these techniques include: enabling clients to collect emphases, miles or other program-explicit monetary standards for procurement of prizes, for example a concrete rewards-based technique; providing clients better treatment or administrations that are not accessible to other people, for example, need boarding, for example a particular treatment-based methodology; or blessing clients with favoured status or first class enrolments, for example an apparent status-based procedure. These techniques expect to incite desirable, benefit producing client behaviours, for example, retention, loyalty and share of wallet (Ma et al., 2017). Notwithstanding, Shugan (2005) contended that programs of loyalty produce liabilities for organizations and not future incomes. We may likewise discover that individuals of loyalty programs demand lower costs, benefits or additional contemplations from organizations. These nonsensical practices can be comprehended as entitlement behaviours that undermine income and profitability (Wetzel et al., 2014).

The development and extension of Loyalty Programs worldwide in enterprises from hospitality to retail to entertainment has quickened due to the phenomenal pace of globalization and digitalization. Reward or dependability programs (LPs) plays a progressively significant part in retaining shoppers, invigorating utilization and creating connections. The redemption rates of Loyalty Programs are low for the world's biggest LP supplier, Simile.io, averaging around the globe: 13.67% (McEachern, 2018). The breakdown demonstrates that low redemption rates are predictable crosswise over societies: 9% for Indonesia, 17% for Singapore, 12% for Hong Kong, 14% for New Zealand, 14.8% for the

United States, 15% for Australia, 15% for the United Kingdom and 16.8% for Canada (Morgan et al., 2019).

Theoretical background

Loyalty of customers & Loyalty programs

The customer's frame of mind, willingness to purchase and conduct to incline toward one brand over all the other competitor brands due to fulfillment with the item or service is known as "Customer Loyalty". It is the condition which make the customers to shop more. Since loyalty is the outcome of past positive encounters creation with the customers and having them returning to the company again and again because of previous positive encounters, regardless of whether they might not have the best item, cost or service conveyance. It is being said that loyalty is added of a repetitive action. Customers can illustrate dependability to value, brand, business and different clients. Though, satisfaction of customers to the company influences them to shop from there due to improved services. This expects the essential components that influences loyalty of customers: consumer loyalty, emotional bonding, trust, decision propensity and history of company (Magatef & Tomalieh, 2015).

Consumer loyalty with the products or services is seen as an approach to organization's prosperity and long-term competitiveness. Therefore, the motive of organization should be to move a fulfilled customer to faithful customer. Customer commitment is a consequence of a positive enthusiastic experience, physical trait-based fulfillment. Loyalty programs are organized showcasing endeavours that reward and, in this way, energize, steadfast purchasing conduct, which is advantageous to the firm. Reward programs are presented to those customers making purchases every now and then. Loyalty program is beneficial as it gives customers access to new items, uncommon deals coupons or free products. Registration of customers' own data with the company and it becomes the reason that proves beneficial to customers as they can do cumulative purchasing over time. Loyalty programs plays a major part in developing customer relationship by offering the points, rebates, discounts etc. Loyalty offers support to the customers and is a tool which can build loyal customers, by offering company's a chance to accumulate data about customer shopping preferences which in future helps modify the services of company (Magatef & Tomalieh, 2015).

The point of loyalty projects is to distinguish and support those customers showing a high customer lifetime value (CLV), we advance a view that regularly isn't observed in CLV of existing customers. For instance, almost all customers start their connections with the firm as observers, but if they feel firm's behaviour as unreasonable to them, they may think that it's hard to later build up a firm relationship. As indicated in research, getting a reward evokes gratitude of that target customer towards the organization (Steinhoff and Palmatier, 2016).

Customer–company identification

Loyalty projects are utilized in organizations to remunerate and energize repeat support. The prizes or advantages of such programs can be either monetary/financial or non-monetary/social. CCID as distinguished by researches as a compelling sociological system through which devotion projects can keep up relationship-based client devotion and fabricate. This creates a need for progressively centred research for advantages of devotion programs and fills the research gaps required in CCID. In the setting of reliability programs, a more profound relationship and identification with the organization, specifically CCID, is developed due to non-financial advantages provided to the customers. Identification of customers links clients and their characters to the company's image, representatives and brands. CCID is subsequently a significant aspect of the client organization relationship which keeps the clients associated and is a key pointer of relationship value (Brashear-Alejandro et al., 2016). Great results are prompted by CCID, for example, faithfulness, share of wallet, positive informal and eagerness to pay (Netemeyer et al., 2012).

Conceptual model

The theoretical model and study speculations found in Figure 1, pursue a loyalty formation structure utilized in earlier study writing. Within this structure, formed of program value, program faithfulness and company loyalty, the current study centres around the impacts of monetary and public advantages on loyalty programs and therefore the loyalty of organization. In loyalty programs, clients are likely to create relationship-based reliability to the organization just if the program of loyalty offered is useful and the clients have great frames of mind toward the program. As per this procedure, CCID is a driver of relationship-based faithfulness and in this manner gives a potential connection among program loyalty and loyalty towards organization. In expansion, customer loyalty can be managed distinctively by program loyalty and company loyalty; client dependability to a program as opposed to the organization speaks to a double-edged sword. Both positive and negative outcomes are evaluated of client loyalties, this examination incorporates both client share of wallet and inactive monetary risks.

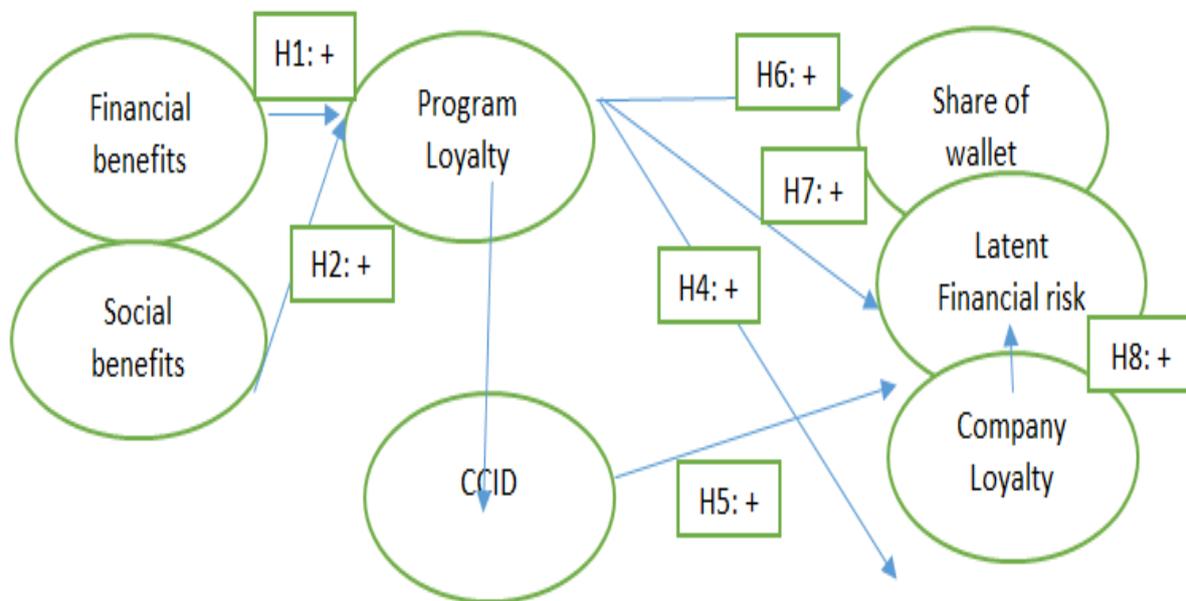
Hypotheses

Constructing program loyalty

Loyalty programs are formulated to encourage customers to buy more, build connection with the company and encourage more loyal customers (Hughes, & Ahearne, 2010). Loyalty programs, through promotion, contribute emphatically to improve buys and product consumption. Depending on instruments; their aim is to retain customers having a high financial worth. These benefits created the frequency of buying and the number of averages

buys a customer makes. The more purchases made by the customer from the same company, the increment of profit also increases. This in return creates a trust between the vender and buyer. It is simpler, as indicated by a few specialists, attract non-purchasers and to increase sales based on trust because, the expense of new client is multiple times higher if we compare it with the cost of keeping a client acquired. The authors Vesel and Zabkar in 2009 affirm this and characterize the loyalty program as a discriminative advertising instrument that prizes not just the frequent yet furthermore the reliable clients.

Figure 1. Conceptual Model.



The customer loyalty benefits the company in long run, hence below statement is hypothesized:

H1. The financial benefit a loyalty program offers relates positively to program loyalty.

Customer loyalty enables the organization to proceed the business relationship from time to time and to set up and create a history. Loyalty develops from a dream based on the necessity's fulfillment to a societal vision. It is communicated by duty and trust between the trades on-screen characters. It is a dynamic idea that is created by fortifying shared duty and trust in accomplice. The organization points, through fulfillment, trust and responsibility, the dedication of its most beneficial clients. As indicated by, dedication is estimated by enthusiastic and intellectual states. They can be showed by attitudinal loyalty, protection from resisting offers, affinity to be loyal, complaining behaviour intentions and loyalty (Bahri-Ammari, 2013). A sense of belonging fulfils emotional belonging of the consumers and maintains a relation with the customers hence below statement is hypothesized:

H2. The social benefits a loyalty program offers relate positively to program loyalty.

Constructing loyalty for company

Loyal customers tend to develop more good relationships with the company sponsoring them for gifts and discounts. Customers can also interact directly with the company by gaining access to the information. The perception of customers towards company influences customer company identification and they view attributes of company more attractive (Kang et al., 2015). The development of loyalty to store, in return lessen the negative side of the store, if available and is augmented by the positive effects (Krithika & Ganesh, 2013).

H3. Program loyalty relates positively to customer–company identification.

Customers bring out commitment towards the individuals who treat them well or offer some incentive (DeWulf et al., 2001). In this manner loyalty projects can make full of feeling duty, general positive respect for and connection to, the association. As such loyalty programs purchases not only increase the buys but also gains client dedication.

Positive effect of loyalty cards has been observed in previous literature on expanding client unwaveringness. This is once more accentuated by Gilbert who stated, "reliability cards plan to construct additional noteworthy client unwaveringness and maintenance; longer-term connections are be created by techniques and lead at last to expanded deals and benefits".

H4. Program loyalty relates positively to company loyalty.

Results of Loyalty Programs on company loyalty

Customer–company identification states the essential psychological substrate for profound, committed and significant connections that advertisers are progressively looking to work with their customers. CCID prompts positive results, for example, dependability, share of wallet, positive word of mouth and eagerness to pay. Customer identification sets the customers linkages and their identities to the organization's image, brands and employees. CCID is in this way a significant aspect of the relationship between customer-company which keeps clients associated with firm and is a key marker of relationship value (Ronald & Amelia, 2017).

Loyalty, share of wallet, positive word of mouth and willingness to pay are the promising consequences of CCID. Rise in customer spending and capturing share of customer wallet are the results of loyalty programs (Brashear-Alejandro et al., 2016). Having a formal connection

(e.g loyalty cards) with the company provides a promising state for identification and to build CCID, hence below statements are hypothesized:

H5. Customer–company identification relates positively to company loyalty.

H6. Program loyalty relates positively to share of wallet.

Positive Results of Loyalty Programs

Loyalty programs are characterized by the American Marketing Association as "continuity incentive programs a retailer offers to remunerate clients and energize repeat business" (Dorotic et al., 2012, p. 218). Accordingly, principle objective of loyalty projects is to set up and improve client connections (Steinhoff and Palmatier, 2016) to produce an unfaltering income stream. The present examination has inspected the loyalty programs viability in creating faithfulness of clients (Stathopoulou and Balabanis, 2016), empowering repeated buys (Steinhoff and Palmatier, 2016) and expanding share of wallet (Verhoef, 2003), altogether of which conceivably lead to expanded income and benefit. Given that adjacent associations with clients might upgrade organization execution, client connections can be interpreted a loyalty program generating positive results.

H7. Program loyalty relates positively to company latent financial risk.

Negative Results of Loyalty Programs

Wetzel et al. in 2014 declares that loyalty programs offer companies to endorse close relationships which in return increase the company's performance. It also results in proposing extra privileges which results in the decline of profits. Loyalty programs have negative effects as well.

Shugan (2005) contended that loyalty plans are contradictory to marketing connections since they extricate short-term income from clients, while creating significant future commitments to them in return. Considering the investigation by Wetzel et al. (2014) called attention to that prioritization methodologies prompt clients to turn out to be excessively requesting and demanding. Their discoveries show that loyalty program individuals feel qualified for solicitation for additional endeavours by organizations, that is, privilege behaviour. Earlier research has talked about the negative results of client entitlement. Client entitlement behaviours can undermine profitability of account, such as lower prices and these privilege actions proliferates the cost of service which ultimately causes profits reduction (Wetzel et al., 2014), adversely influence the physical and mental prosperity of laborers (Fisk and Neville, 2011), consumer faithfulness reduction (Zboja et al., 2016) and challenge perceived

fairness. In this exploration, we also analyze about customer qualification practices to have an undesirable result of loyalty programs.

Taking everything into account, most existing exploration centres around the positive impacts of loyalty programs. Yet, constrained writing investigates the negative results of these projects, which thus constrains the capacity of scholastics and experts to completely comprehend these projects.

H8. Company loyalty relates negatively to company latent financial risk.

Methodology

The information was accumulated from online panel members of loyalty programs in Indonesia. Snowball sampling is used for the investigation of distinct loyalty behaviours to recognize the online respondents. Loyalty studies use convenience tests (e.g., Liu and Yang, 2009) and give a sensible way to get to specific networks without the involvement of resources. The authors additionally qualified the board of members by guaranteeing every respondent interest in any one of the loyalty program and acts as a purchase leader. Total of 580 purchasers were considered, 47% of whom were ladies, the average age of them is 29 years, similar to tests in past investigations of customer loyalty (Kwon and Lennon, 2009) and CCID (Lee et al., 2011). At start of the study, respondents are asked to keep that loyalty program of which they are members in their mind through the survey.

Measures

This examination utilized Likert scales measures (1 = "strongly disagree," 2 = "disagree," 3 = "neutral," 4 = "agree," 5 = "strongly agree"). Appendix 1 displays measurement items, factor loadings, psychometric properties and sources. The money related and social advantages views of respondents earned through the loyalty program, as indicated by a few regular loyalty program attributes.

To evaluate apparent money related advantages, rewards, prices and in general financial value are included in survey (Palmatier et al., 2007) ($\alpha = .69$). For social benefits, this analysis estimated employees with customer acquaintance, personal recognition and friendship development ($\alpha = .80$).

The measure of program loyalty utilized a three-item scale from Yi and Jeon (2003) ($\alpha = .80$) while company loyalty depended on three items adapted from Palmatier et al. (2007) ($\alpha = .88$). Every estimated item referenced either organization or the program, to abstain from confusing program loyalty questions with company loyalty questions.

For the measurement of CCID, three items adapted from Homburg et al. (2009) ponder ($\alpha = .82$). Share of wallet showed the level of future purchases intended by the respondent to make through the present loyalty program, as indicated by a proportion scale (Meyer-Waarden, 2008). The standardized estimation of ratio showed up in the estimated model account for the different products and service categories. However, scale used in paper by Palmatier et al., 2007 is utilized to measure latent financial risk, showing the level of a respondent's buys that would move if a loyalty program finished.

Analysis

Considering the nature and study sample size PLS-SEM method is suitable. In PLS-SEM, R-square values are used for model evaluations of the dependent constructs and the effect size, significance level and t-values of the structural path coefficients. The assessments of t-values and standard errors originated from a procedure of bootstrap resampling (Kang et al., 2015; Anyanwu, et.al 2016).

Results

Validation

Multi-item scales constructs are connected to build construct reliability, convergent validity and discriminant validity tests. Appendix 1 displays each latent construct psychometric properties and Table 1 shows their intercorrelation. The outcomes show adequate reliability and validity. In support of the reliability of the multi-item scales, Cronbach's alpha qualities (α) and composite reliabilities (ρ) were over .69. Values of all average variance extracted (AVE) were more noteworthy than .49, adequate convergent and discriminant validity is being shown as the value of each construct AVE was more noteworthy than the squared correlation with any other construct.

After the estimation of the structural model which uses a single, latent method variable in the structural model analysis, an examination uncovered that the path coefficients remained significant (see Appendix 2).

Structural model and hypothesis testing

The outcomes affirm the hypotheses. Table 2 contains the evaluated path coefficients, t-values and R-square values estimations of every construct. Specifically, positive relation between financial benefits, social benefits and program loyalty is affirmed by value .55 for H1 of standardized path coefficients and .15 for H2. H3 also gets support by predicted positive relationship between program loyalty and CCID ($\gamma = .56, p b .01$). If we talk about

H4 and H5, program loyalty ($\gamma = .29, p b .01$) and CCID ($\gamma = .54, p b .01$) positively relates to company loyalty, separately.

The outcomes affirm H6, a positive outcome on program loyalty is anticipated on share of wallet of customer ($\gamma = .20, p b .01$). At last, for H7 and H8, program loyalty has a positive impact ($\gamma = .17, p b .01$), though a negative effect applies on company loyalty ($\gamma = -.15, p b .01$) on financial risk of the company.

We can conclude it by saying that combined impact of program loyalty on company latent financial risk is positive but not significant ($\gamma = .08, p b .10$). The R square values for program loyalty is .35, company loyalty is .44, company latent financial risk is .01, value for share of wallet = .03 and CCID is .33 which confirms that model explanatory power is rationally high.

Table 1: Descriptive statistics and correlations (N = 580).

Construct	Mean	SD	1	2	3	4	5	6	7
Financial benefits	4.00	.60	.72						
Social benefits	2.25	.97	-.02	.84					
Program loyalty	3.78	.70	.50a	.13a	.88				
Customer–company identification	3.61	.75	.33a	.25a	.55a	.85			
Company loyalty	3.72	.73	.32a	.20a	.61a	.69a	.90		
Share of wallet	.60	.29	.24a	.02	.20a	.12a	.21a	-	
Company latent financial risk	.49	.32	.13a	.02	.10	.01	-.02	-.19a	-

Hypothesis Testing

Hypothesis are affirmed by the outcomes. The values of each dependent construct of estimated path coefficients, t-values and R-square are in Table 2. Positive relation among financial benefits, social benefits and program loyalty is shown by standardized path coefficients values of .55 for H1 and .15 for H2. Support ($\gamma = .56, p b .01$) is also got by positive relationship between program loyalty and CCID is anticipated (H3). In backing of H4 and H5, company loyalty relates positively to program loyalty ($\gamma = .29, p b .01$) and CCID ($\gamma = .54, p b .01$). The outcomes affirm H6, which anticipated a beneficial outcome on program loyalty on customer share of wallet ($\gamma = .20, p b .01$). A negative impact applies on company loyalty ($\gamma = -.15, p b .01$) on company latent financial risk however, a positive impact has been seen on program loyalty ($\gamma = .17, p b .01$) in support of H7 and H8. Altogether, the absolute impact is positive however not significant of program loyalty on

company latent financial risk is observed ($\gamma = .10$). High explanatory power of the model with R-square values for program loyalty = .35, company loyalty=. 54, CCID=.33, company latent financial risk=.01 and share of wallet = .03 are analyzed.

Table 2: Structural model coefficients

		Initial Model			Final Model		
		Coefficient	t-Value	R2	Coefficient	t-Value	R2
H1	Financial benefits → program loyalty	.55	14.55*		.54	14.75*	
H2	Social benefits → program loyalty	.15	5.00*	.35	.15	4.58*	.35
H3	Program loyalty → CCID	.56	17.00*	.33	.52	15.29*	
H4	Program loyalty → company loyalty	.29	7.39*		.30	7.39*	
H5	CCID → company loyalty	.54	12.9*	.44	.49	13.20*	.54
H6	Program loyalty → share of wallet	.20	4.33*	.03	.20	4.39*	.03
H7	Program loyalty → company latent financial risk	.17	3.00*		.15	2.98*	
H8	Company loyalty → company latent financial risk	-.15	-2.40	.01	-.15	-2.34*	.01
	Social benefits → CCID	–	–	–	.20	6.46*	.34

Notes: The t-value estimates used the bootstrap resampling procedure in SmartPLS (580 cases)

* p b .01.

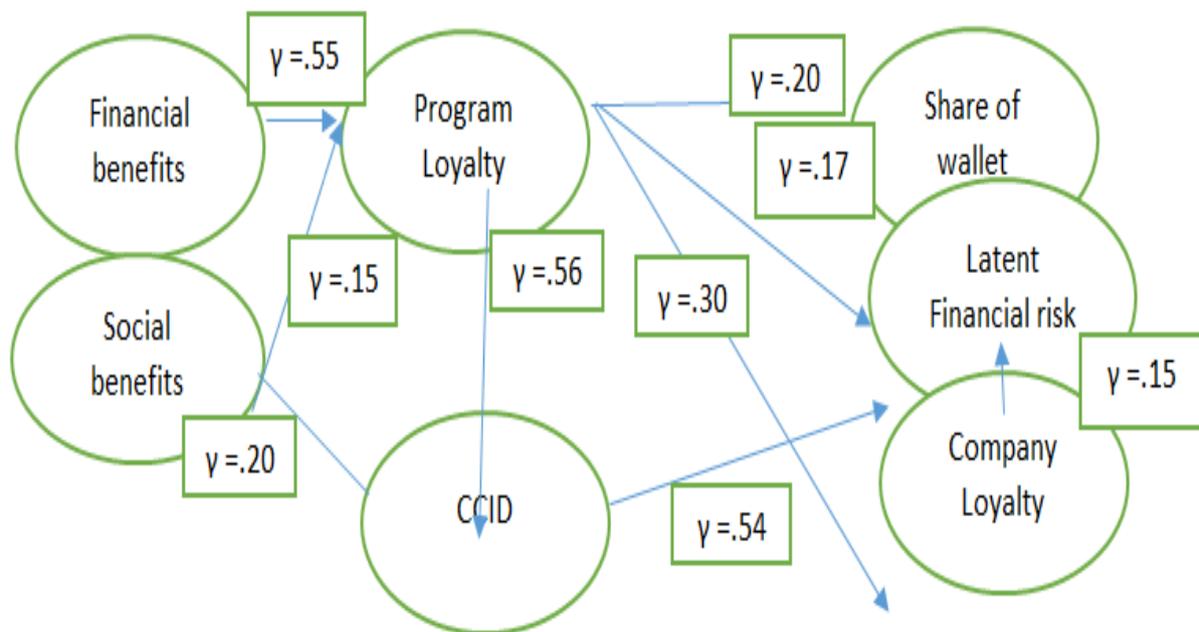
Mediation tests

Zhao et al. in 2010 investigated the program loyalty and CCID mediating role by looking at nested models. The F-tests of the contrasts between models shows whether the R-square of each dependent construct demonstrates change (Cohen, Cohen, West and Aiken, 2003).

The outcomes demonstrate that program loyalty and CCID fully mediate the company loyalty on impacts of financial and social benefits; the immediate impacts of financial benefits ($F = .13$) and social advantages ($F = .06$) are not significant on company loyalty. Only partial mediation of program loyalty with those of social benefits ($\gamma = .22$, p b .01; $F = 19.70$) and fully mediates the impacts of financial benefits ($F= 2.69$) on CCID. Direct impact of program

loyalty ($F= 41.45$) is significant on company loyalty, demonstrating partial mediation in this relationship by CCID. The direct path from social benefits to CCID is shown in last model in Figure 2 below:

Figure 2. Final Model



Discussion

This investigation gives new research discoveries which plays a significant part for relationship marketers on the role of marketing tools in managing CCID. It demonstrates that CCID can be prompted through customer loyalty programs by investing in non-budgetary advantages. This finding shows that loyalty projects provide extra assessment in the formation of profound client networks. Traditional points of view on loyalty projects empowers repeated buys through monetary prizes, also the financial trade on creating and keeping up client connections (Ronald & Amelia, 2017).

This examination demonstrates that a relationship implanted in social needs and collaborations can be created through CCID if non-money related incentives to loyalty program individuals are utilized. There exist both loyalty programs outcomes i.e. positive and negative. The strategies utilized by loyalty programs have constructive outcomes on relationship quality. Our outcomes feature the difficulties related with creating productive loyalty programs in administration and retail ventures, particularly those in profoundly competitive settings, for example, airlines, hotels, banking and catering. Customer



identification cannot be formed without persuading client sentiments of status even if the rewards are delivered through a loyalty program.

Conclusion

As per the outcomes of the current study it is concluded that building and sustaining customer loyalty programs is very important. It also means that loyalty program initiatives can benefit the company by retaining customers. Retailers and marketers attract customers by offering certain sales promotion to increase their sales by providing different deals and additional incentives. As it is also stated in the literature review retaining customers is less expensive than to find new ones. Based on the above findings, we can say that loyalty programs play a major role in improving consumers buying decision power. Research shows that customer loyalty is improved through offering certain loyalty programs which impacts purchase behaviour positively which increases profitability. The research would be beneficial in designing tactics to stay in close contact with customers and to maintain relationship with them by offering them rebates, discounts etc. It is important for the marketer to focus on loyalty programs as a sales promotion tool to make it a perfect promoting strategy for advertising of products.

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