How can loyalty programmes improve brand loyalty?

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How can loyalty programmes improve brand loyalty?

Abstract

Title: How can loyalty programmes improve brand loyalty?

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Aim: To investigate how customers loyalty can be improved through loyalty programmes.

Method: Mixed approach, both qualitative and quantitative data, is chosen for this study. The qualitative data using telephone interviews with customers and the firm was carried out at the beginning of the study to formulate the survey. Online survey with closed questions was designed and sent to 3500 potential respondents. The contact list from IvyWear’s CRM database was used to distribute the survey. 309 respondents (9%) completed the survey, which was available online for 7 days. The quantitative data was analysed using descriptive statistics.

Result & Conclusions: The empirical data and analysis has shown that IvyWear customers can be categorised as “true loyals”, “latent loyals”, “spurious loyals”, and “not loyals”. It was also found that “bonuses and points” are the most preferred reward among customers that can be used to improve loyalty toward IvyWear.

Suggestions for future research: The findings may not reflect brand loyalty and effects of loyalty programmes on loyalty beyond the clothing retail industry. Comprehensive study covering other industries and targeting respondents outside membership registers would provide deeper understanding of brand loyalty among customers.

Contribution of the thesis: The study adds to the debate on loyalty programmes and how members of these programmes can be managed in the way that they can not only choose the brand, but also attract new customers through positive word of mouth. The results are particularly important for managers and marketers in the retail industry, who are under pressure to show the benefits of loyalty programmes. The results will be invaluable in the design of loyalty programmes to impact on the long-term profitability of firms.

Key words: Brand loyalty, loyalty programmes, customer loyalty, and retail industry
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Gävle, 10 June 2015

Gideon Mekonnen Jonathan
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1 Introduction

*In this introductory chapter, a brief background of the research area will be presented. Previous studies and practical relevance of brand loyalty and loyalty programmes for today’s businesses will be elaborated. The gap in literature and significance of the study will be elaborated in the research problem. The delimitation of the study follows the two aims of the study.*

1.1 Background

The globalised market with few barriers for market entry, along with similarity of products and services offered have made competition tough for firms (Reinartz & Kumar, 2002). As it is becoming challenging to gain competitive advantage, organisations are looking for different strategies that can help them to gain high market share, increased sales, and lower production and marketing costs, which will help them to continuously improve their profitability (Dick & Basu, 1994; Gable, Fiorito & Topol, 2008).

One of the changes observed in the past decades, both in marketing literature and practice, is how firms have shifted their focus from attempting to attract new customers to keeping the customers they already have (Dowling & Uncles, 1997; Gómez, Arranz & Cillan, 2006; Reichheld & Sasser, 1990). According to the authors, this trend has been observed in most industries. However, empirical studies indicate that some industries rely on long-term customer retention more than the others. For instance, Gable et al. (2008) argue that creating a long-term relationship with customers is considered to be significant in the retail industry. However, this strategy, also referred as creating brand loyalty, has become a standard in many organisations across industries (Bharadwaj, Varadarajan & Fahy, 1993).

According to Mellens, Dekimpe & Steenkamp (1996), the new business environment has created a situation where success of a firm is determined according to its ability not only to attract, but also to keep its customers loyal to its brand. Rosenberg & Czepiel (1984) claim that the role of customers’ loyalty to firms’ long-term growth and profitability cannot be overstated. According to the authors, companies spend as much as six times more to attract new customers than they spend to maintain their existing customers. Thus, many companies have resorted to
designing and introducing strategic marketing measures in their attempt to build customer loyalty (Yi & Jeon, 2003). O’Malley (1998) and Uncles et al. (2003) argue that loyalty programmes are the most widely referred to of these marketing tools.

The success of loyalty programmes in the airline industry in USA has been steadily followed by introduction of these programmes in many other industries, in the US, Europe and Asia as well (O’Malley, 1998). According to the author, the frequent-shopper programmes in the retail marketing and frequent-guest programmes are two of the most common customer loyalty programmes available today. This development has caught the attention of academic researches (Sharp & Sharp, 1997). Many studies have shown that loyalty programmes have gained the position as the most common marketing tool (e.g., Dowling & Uncles, 1997; Gómez, Arranz & Cillan, 2006; Leenheer, Van Heerde, Bijmolt & Smidts, 2007; Mauri, 2003; Liu, 2007).

Authors describe the reasons organisations have to introduce loyalty programmes in their marketing mix. For instance, according to Dowling & uncles (1997), empirical studies have shown that the main purpose of these programmes is to get increasing sales, by encouraging customers to buy more of the same product or more products of the same brand. Liu (2007) and Mauri (2003), argue that loyalty programmes are increasingly being used to gather the data necessary to help firms in marketing campaigns and marketing activities that can target individual customers.

According to Liu & Yang (2009), the proportion of firms that are offering loyalty programmes has been increasing since the emergence of these programmes. The authors argue that it is difficult to find firms that are not caught up with the trend. As products and services are becoming difficult to differentiate, organisations find it difficult to keep their customers loyal. Both Dowling & Uncles (1997) and Liu & Yang (2009) argue that firms (for instance, supermarkets, gas stations, and airlines) that offer similar products or services are under pressure to keep their customers loyal. The authors argue that repeat patronage can be a matter of survival in some industries (retail marketing industry, for instance).

Even though the findings of previous studies have shown that Loyalty programmes have gained prominence, as a tool to forge loyalty of customers, there are also authors that question the
effectiveness of loyalty programmes (Mägi, 2003; Sharp & Sharp, 1997). For instance, Reichheld (2003) argues that the notion that loyalty programmes encourage consumers to be loyal and increase their purchases is overly simplistic. Similarly, O’Malley (1998) states that, while assessing the role of loyalty programmes in creating customer loyalty, the impact of other factors than loyalty programmes are neglected. These factors, such as: availability of choice, convenience, price, and income of customers, can override the impact of loyalty programmes. Dowling & Uncles (1997) argue that few customers are loyal to a single brand, but purchase products or services from different brands, which the authors referred as polygamous loyalty.

1.2 Problem

Scholars have acknowledged the increasing attention given to brand loyalty in marketing literature, since the publication of Copelands’ seminal work in 1923 (for instance, Alhabeeb, 2007; Chaudhuri & Holbrook, 2001; Khan, 2008; Mellens et al., 1996; O’Malley, 1998). Recent studies have confirmed the significance of customer loyalty to firms. For instance, Reinartz & Kumar (2002) argue that loyalty of customers has been found to be the key source of success for many businesses.

The measurement of customer loyalty, or a common definition that captures the concept of loyalty is yet to come (Aaker, 1996; Alhabeeb, 2007; Khan, 2008; Kuusik, 2007; O’Malley, 1998). For instance, earlier marketing literature provided a definition of loyalty from the perspective of repeat purchase behaviour (e.g., Cunningham, 1956; Farley, 1964; Jacoby & Kyner, 1973). Recently, authors have identified different dimensions of loyalty (e.g. Dick & Basu, 1994; Oliver, 1999; Worthington, Russell-Bennett & Härtel, 2010). The authors identified different levels of customer loyalty, based on the nature of the dimensions of loyalty. For instance, Dick & Basu (1994), identify 4 levels of customer loyalty, based on relative attitude and repeat patronage, while Worthington et al. (2010) categorise customers into eight different groups. The different definitions and lack of common loyalty measurements is a challenge for managers and marketers, who have to use several measures to build and strengthen loyalty among their customers (Aaker, 1996; O’Malley, 1998). With the help of empirical data and constructed theoretical framework, this study will investigate if the
customers in the clothing retail industry can be categorised into the four different levels of customer loyalty – true loyals, latent loyals, spurious loyals, and not loyals.

Loyalty programmes have been introduced by many organisations to help in building and strengthening customer loyalty (Yi & Jeon, 2003; O’Malley, 1998; Uncles et al. 2003). Even though the interest has been prevalent, studies have not established the relationship between loyalty programmes and customer loyalty (Liu, 2007). However, few authors claim a direct relationship between customer loyalty and loyalty programmes (e.g., Lewis, 2004; Gómez et al., 2006), the literature reviewed for this study shows that there is a growing consensus among scholars regarding the notion that loyalty programmes can be designed to build or strengthen customer loyalty if different variables are taken into consideration (e.g. Liu & Yang, 2009; Mauri, 2003; O’Brien & Jones, 1995; Wright & Sparks, 1999).

Liu & Yang (2009) identify different variables that can affect the effectiveness of loyalty programmes in building and strengthening customer loyalty. According to the authors, these variables may either be programme-related, consumer-related, or competition-related. Authors argue that loyalty programmes differ in the context of each industry (Jang & Mattila, 2005; Rundle-Thiele & Bennett, 2001; Sharp & Sharp, 1997). The literature review shows studies of how customers’ loyalty has been improved through loyalty programmes in different industries. However, researches of loyalty programmes in retailing have focused on grocery stores (Bellizzi & Bristol, 2004). Mauri, 2003; McGoldrick & Andre, 1997; Wright & Sparks, 1999). This study investigates customer loyalty in garment retailing. The study is carried out in collaboration with IvyWear, one of the major fashion brands in Europe. The company has around 500 stores in different markets. IvyWear offers membership to its loyalty programme for its customers. According to the company, there are around 2 million members participating in the loyalty programme.

Berman (2006), have identified four types of loyalty programmes. Kumar & Shah (2004) proposed a process helping firms to tackle the programme-related variables that can improve the effectiveness of loyalty programmes in improving brand loyalty. In their study, the authors recommend the introduction of different reward schemes in loyalty programmes according to
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loyalty levels of customers. However, Jang & Mattila (2005) argue that there are few studies on reward preferences of members of loyalty programmes in different sectors and how these rewards affect brand loyalty. This study, therefore, will investigate how rewards in a loyalty programme can be used to improve levels of loyalty among customers.

1.3 Research aim and research questions
The aim of the study is to investigate how customers’ loyalty can be improved through loyalty programmes. The following two research questions are formulated:

1. How can customers be grouped according to their level of loyalty?

2. How can an organisation improve brand loyalty through loyalty programme?

1.4 Delimitations
How factors affect the level of loyalty among customers will not be addressed in the study. IvyWear customers who purchase clothes other than women’s wear, lingerie, cosmetics, and children clothes are not targeted in this study. Thus, men are excluded from the mailing list.
2 Literature Review

In this chapter, a literature review with the theories relevant to this study is presented. Brand loyalty is discussed, with its advantages to businesses and how it is created and maintained. Different conceptual frameworks and models on customer loyalty, along with factors that can affect brand loyalty, are discussed. Loyalty programmes and the debate surrounding the effectiveness of these programmes in creating loyalty are presented. A typology of loyalty programmes, and different types of reward schemes aimed to improve loyalty levels of customers, are also outlined. The state-of-the-art presents the dominating, emerging, and proposed theories in the area of research. Finally, the theoretical framework is presented in a model, followed by the research questions of the study.

2.1 Brand Loyalty

Brand loyalty, as a marketing phenomenon, has evolved through time (Alhabeeb, 2007; Dick & Basu, 1994; Khan, 2008; Kuusik, 2007; Worthington et al., 2010). According to Morgan (1999), loyalty in context of branding is one of the marketing terms defined in different ways. Yi & Jeon (2003) argue that two major approaches dominate the characterisation of brand loyalty and its behavioural and attitudinal indicators.

The earliest definitions of brand loyalty were based on customers’ behaviour (Brown, 1953; Cunningham, 1956; Tucker, 1964). Accordingly, brand loyalty was presented as frequent purchase behaviour of a particular brand (Kahn, Kalwani & Morrison, 1986; Morgan, 1999). According to Selin, Howard, Udd & Cable (1988), behavioural interpretation of loyalty has led to identification of four different levels of customer loyalty. These 4 levels of loyalty, according to Brown (1953), are: undivided loyalty, divided loyalty, unstable loyalty, and no loyalty. These were expressed based on a particular sequence of purchasing brand “A”. Undivided loyalty is characterised by the sequence “AAAAAA”, divided loyalty follows the sequence “ABABAB” while sequences “AAABBB”, and “ABCDEF” represent unstable loyalty and no loyalty, respectively. Another definition of brand loyalty based on customers’ purchasing behaviour, was given by Cunningham (1956:118), as a percentage figure indicating the largest single brand bought – out of all the purchases made.
Authors argue that repeat purchase is not an effective indicator of loyalty (Jacoby & Kyner, 1973; Reichheld, 2003). For instance, Kuusik (2007) points out a situation where repeat purchase does not necessarily indicate customers’ loyalty. According to the author, customers may not always switch brands even though they don’t have any intention of being loyal, but keep purchasing the brand due to a phenomenon, which he referred as “inertia”. Odin, Odin & Valette-Florence (2001) describe inertia as a situation where customers are inclined to keep on buying the same brand with little involvement and without appreciating the difference between different brands. The reasons behind this “choice of brand” can either be: (1) customers feel the alternatives are just as bad as the brand they are using, or inertia may also be caused by (2) lack of information about attractive characteristics of the alternative brands (Kuusik, 2007).

Later studies identified attitudinal component of loyalty and described brand loyalty as a systematic favourable expression of preference for a particular brand, or it is characterised by an emotional attachment customers may develop towards a brand (Dick & Basu, 1994; Morgan, 1999). Unlike earlier studies which presented brand loyalty as one-dimensional (behavioural) construct, Day (1969) argues that brand loyalty is a phenomena with both behavioural and attitudinal dimensions.

The main difference between the behavioural and attitudinal components of loyalty (see figure 1) is the fact that the later has been presented to provide reasons for customer loyalty. According to Khan (2008) and Oliver (1999), analysis of customers’ attitude towards a brand can help businesses to describe the underlining motives and preferences. On the other side, the authors argue that measures of attitudinal component of loyalty are challenging. Different propositions have been made in relation to measurement of customers’ attitude toward a brand. For instance, Rundle-Thiele & Bennett (2001) argue that customers may be asked whether they want to engage in positive word of mouth or their future purchase intentions.

The behavioural component of loyalty is the degree to which a participant purchases a service or a program repeatedly (Day, 1969; Jones & Sasser, 1995; Park & Kim, 2000) and is expressed and measured through purchase of a product or usage of a service (Kahn, Kalwani & Morrison,
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1986; Mascarenhas, Kesavan & Bernacchi, 2006). According to Day (1969) and Hallowell (1996), even though the behavioural component of loyalty has its advantages for making measurement of customer loyalty relatively objective and easier, it does little to offer explanation on why the customer loyalty is as it is. On the other hand, the attitudinal component of loyalty is the degree to which the customer is psychologically attached to a brand (Day, 1969; Fournier, 1998). Authors argue that the attitude of customers toward a brand is manifested in the form of long-term relationship with the company of their choice (Mascarenhas et al., 2006). According to both Jacoby & Kyner (1973) and Oliver (1999), the psychological factors (attitudinal and emotional attachments) to a brand have gained significant attention in recent studies.

Figure 1. Components of two dimensional loyalty.


The conceptualisation of brand loyalty as a two-dimensional construct did not settle the debate surrounding customer loyalty. Even though authors agree that the previous models and definitions have contributed to better understanding of brand loyalty, inconsistencies have also emerged in marketing literature (Worthington et al., 2010). The authors argue that the applicability of both behavioural and attitudinal components of loyalty in certain situations, for instance in business-to-business settings, is limited. Researchers acknowledge the significance of psychological element of loyalty, which consists of both attitudinal and emotional loyalty (Chaudhuri & Holbrook, 2001; Jacoby & Kyner, 1973; Oliver, 1999; Reichheld, 2003). However, Worthington et al. (2010) argue that loyalty should be expressed as combination of the thoughts and feelings about a brand that would call for an action. Accordingly, the authors
argue, attitudinal loyalty can be divided into cognitive loyalty and affective loyalty. These components are then added to what is referred as behavioural loyalty (in the two-dimensional construct), which will form the three-dimensional loyalty model (see Figure 2).

**Figure 2. A tri-dimensional approach to brand loyalty.**

![Tri-dimensional Approach to Brand Loyalty](source: Worthington et al. (2010:245))

Literature review shows that the two-dimensional representation of brand loyalty remain dominant in marketing literature (see also table 3). The associated model (figure 2) categorises customers into different groups based on whether they are behaviourally or emotionally loyal to a brand (Day, 1969; Dick & Basu, 1994; Selin et al., 1988). Accordingly, behaviourally loyal-

**Figure 3. Two dimensional loyalty model.**

![Two Dimensional Loyalty Model](source: Dick & Basu (1994: 101))
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customers have loyalty to the brand and act loyal but these customers have no emotional attachment with the brand.

Based on the two-dimensional loyalty model (see figure 3), Dick & Basu (1994) categorise customers into four levels of brand loyalty – true loyals, latent loyals, spurious loyals and those with no loyalty (see table 1). The authors proposed the use of relative attitude and repeat purchase as criteria to categorise customers.

Table 1. Customer loyalty levels.

<table>
<thead>
<tr>
<th>Type of loyalty</th>
<th>Customer characteristics</th>
</tr>
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| True loyals     | 1. Score high on relative attitude and repeat purchase scales.  
                  2. Characterised by their high level of involvement.  
                  3. Engage in positive word of mouth, referrals and act as brand advocates,  
                     ➔ Firms should put programmes that can reward these customers. |
| Latent Loyals   | 1. Have high regard for the brand,  
                  2. Do not make repeat purchases.  
                  ➔ Firms should make continuous assessment and address factors affecting situational purchase decision |
| Spurious loyals | 1. Perceive little difference between the available brands  
                  ➔ Purchase decisions may be based on factors that are beyond the control of firms. Create awareness. |
| Not loyals      | Score low in both repeat purchase and relative attitude.  
                  ➔ Firms should attempt to create awareness about their brand. |

Dick & Basu (1994) argue that categorisation of customers according to their levels of loyalty is very important for organisations, as it reveals not only how loyal these customers are, but also helps to design marketing activities. As shown in table 1, “true loyals” are the most preferred type of customers. These customers have satisfied both behavioural and attitudinal loyalty criteria. The recommended strategy, for keeping customers loyal and from leaving the brand, is to introduce a loyalty programme that would reward them.

“Latent loyals”, do not satisfy the criteria pertaining to behavioural loyalty. These customers have very high regard for the brand and engage in positive-word-of-mouth, but fail to make repeat purchases themselves. According to O’Malley (1998), there are several reasons that can affect the customers’ propensity to frequently purchase a brand. The reasons might be available of choices, convenience, price, and the income of customers. According to Dick & Basu (1994), firms stand to benefit if they can identify why “latent loyals” do not make frequent purchases and attempt to address the reasons.

“Spurious loyals” perceive little differences between available brands. Firms should attempt to introduce marketing activities that can help in creating awareness. “Spurious loyals” can be encouraged to turn into “true loyals”, if they are informed about the distinctions between available brands. This group of customers make rational assessments before they make their purchases.

The last group of customers — the “not-loyals”, have very low attitude toward the brand. These customers also fail to make repeat purchases. Unlike the “latent loyals”, the reasons for the purchase infrequency might be factors beyond the control of the firm.

Even though loyalty programmes can be designed to encourage customers to be loyal, organisations have to address the different factors that can affect brand loyalty (Mellens et al., 1996; O’Brien & Jones, 1995; Wright & Sparks, 1999).

Factors affecting brand loyalty

According to Mellens et al. (1996), creating brand loyalty among customers is challenging task for organisations. The complexity of customer loyalty emanates from the numerous factors that can affect it. For instance, Oliver (1999) argues that it is important for firms to identify the
factors behind customer loyalty, such as attitudes, and intentions influencing consumer behaviour. Kuusik (2007) lists six factors (see figure 4) that can influence brand loyalty.

Figure 4. Factors affecting customer loyalty.


The following paragraphs present brief description of the six factors that can influence brand loyalty.

**Satisfaction:** The role of satisfaction on creating brand loyalty has been debated in marketing literature. Kuusik (2007) claims that empirical studies have established a positive relationship between satisfaction and loyalty. However, there are studies that questioned the applicability of satisfaction as a predictor for customer loyalty in different industries. Reichheld (2003) argues that between 60 and 80 per cent of customers, who switched to competitor brands, indicated that they were satisfied with the brand they used to purchase. The authors, therefore, argue that satisfaction is not an important factor in customer loyalty.
**Brand image:** Kuusik (2007) argues that brand image is one of the complex factors that are considered to affect brand loyalty. The author presents two different situations where brand loyalty is affected by image of a brand. First, customers make purchase decisions based on their conscious or unconscious preferences to represent their own image. This will lead to a loyalty to some brands that the customers perceive can express their image. On the other hand, Fournier (1998) argues that the choice of brand can also be influenced by the social identity of customers. This leads to preference and purchase decision not based on personal evaluation.

**Trust:** The ability of firms to create the feelings of trustworthiness among their customers is considered to be one of the important factors that can affect loyalty to a brand. Scholars have acknowledged the positive relationship between trust and customer loyalty (Chauduri & Holbrook, 2001; Kuusik, 2007). According to Alhabeeb (2007), firms attempt to display trustworthiness through frontline employees and their customer relationship management practices that can ultimately create trust or distrust.

**Commitment:** Another potential factor in relation to customer loyalty is commitment. Authors define commitment in many ways; for instance, the will to remain in a relationship (Morgan, 1999), an assurance given to a counterpart to remain in a relationship, even when other alternatives are present (Gustafsson, Johnson & Roos, 2005). However, both authors agree that commitment establishes a bond that keeps customers loyal even when satisfaction is low.

**Word-of-mouth:** Several studies try to measure the effects of word-of-mouth on customer loyalty. Alhabeeb (2007) found that the role of word-of-mouth on customer loyalty is significant. Other studies have confirmed that brand loyalty results in positive word-of-mouth (Zeithaml, Berry & Parasuraman, 1996). Reichheld (2003) argues that willingness of customers to recommend the brand to others not only indicate the presence of loyalty, but it is also a factor that can strengthen brand loyalty.

**Importance of relationship:** Marketing literature describes customer loyalty as important
relationship that extends through time (Dick & Basu, 1994). According to the customer relationship management practices, the main purpose of marketing strategies is to create two way communication and relationship that can benefit both the firm and its customers (Liu, 2007). However, Kuusik (2007) argues that the importance of the relationship to a customer is as important as the relevance of the product or the service, the risks involved and the costs of termination of the relationship. The author further argues that customer loyalty is improved if the importance of the relationship between the brand and the customer is high.

Benefits of brand loyalty

The significance of brand loyalty in success of organisations has been given due attention by scholars and practitioners alike (Gable et al., 2008; Reichheld & Sasser, 1990). Authors acknowledge the importance of long-term relationship between organisations and their customers for sustainable profitability (e.g. Al-Wugayan, Pleshko & Baker, 2008; Reichheld & Sasser, 1990; Rosenberg & Czepiel 1984). Management and marketing literature also dictate that it is in the best interest of organisations to design and implement marketing measures that are efficient in developing, maintaining, and strengthening customer loyalty (Dick & Basu, 1994). On the contrary, organisations, which chose to attract new customers instead of maintaining the customers they already have, can incur higher costs.

Scholars have found significant benefits of customer loyalty and quantitatively expressed the advantages of retaining existing customers instead of attracting new customers. For instance, Rosenberg & Czepiel (1984) estimate the cost of attracting new customers to be 6 times higher than the marketing cost of maintaining existing customers. An empirical study by Reichheld (2003) found that in some industries, the increase in profit due to customer loyalty could be as high as 60%.

According to Odin et al. (2001) and Reichheld & Sasser (1990), maintaining loyal customers costs less, because the expenses of attracting these customers have already been realised. However, one of the widely discussed advantages of long-term relationship in today’s business world is the fact that this strategy can be applied in mature markets (e.g., Chaudhuri &
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Holbrook, 2001; Mellens et al., 1996; O’Malley, 1998). According to Al-Wugayan et al. (2008), businesses find it difficult to compete by growing their market share, when differentiation of products and services is becoming challenging. According to the authors, this situation calls for marketing tactics that can help business to succeed without the need to compete for new customers. Reichheld (2003) argues that customer acquisition and serving costs are significantly lower when firms have loyal customers. However, the author states that loyal customers are desirable for organisations for three additional reasons. Firstly, since loyal customers stay long with the firm, they usually not only buy more over time, but also possibly at a premium price. Secondly, loyal customers help in marketing activities, which are commonly carried out through the spread of positive word-of-mouth about the company. Finally, loyal customers are difficult for competitors to win over, as they are likely to resist marketing efforts.

2.2 Loyalty Programmes

Customer loyalty program is a marketing tool that has gained significant attention in the past several decades (O’Malley, 1998). Gómez et al. (2006) define loyalty programmes as membership-based marketing strategy toward a particular brand or a firm. It is argued that loyalty programmes are designed for the purpose of encouraging customers to engage in long-term patronage by offering them special benefits (Berman, 2006; Liu & Yang, 2009). On the other hand, there are scholars who argue that loyalty programmes have broader objectives than enhancing sales through repeat purchase. For instance, it is stated that customer loyalty programmes are intended to help the building of attitudes and behaviours among customers affecting brand loyalty to a specific organisation (Lacey, Suh & Morgan, 2007:243).

According to Dowling & Uncles (1997) and O’Brien & Jones (1995) loyalty programs, if designed and implemented effectively, contribute to the realisation of economic and non-economic benefits for both organisations and their customers. For firms, the benefits come in the form of abilities to differentiate and gain advantages over their competitors, through retaining current customers and preserving profit. The authors argue that loyalty programmes encourage customers not only to increase the volume and frequency of purchases, but also to engage in positive word of mouth and bring in new customers by referrals. Increasing the
perception of value added and satisfaction of extant customers, is another reason for organisations to introduce loyalty programmes. However, the ultimate objective of these programmes is to enhance customer loyalty toward the firm’s brand.

Authors argue that the success of loyalty programmes in the airline industry has encouraged marketers across industries to include them in their marketing tools mix (Liu, 2007; Mauri, 2003; O’Malley, 1998). “Frequent-flyer programmes” in the airline industry, “frequent-guest programmes” in the hospitality industry, and “frequent-shopper programmes” in the retail marketing industry are among the most common customer loyalty programmes available today (Kim, Shi & Srinivasan, 2001). Kumar & Shah (2004) argue that loyalty programmes are considered to improve the perception of value toward the brand, improved satisfaction, and establish trust.

Marketing literature shows the growing interest of loyalty programmes in marketing research. However, the main topic of debate revolves around whether these programmes have favourable effect in creating customer loyalty (Liu, 2007). Even though the findings of these studies are contradictory, there is a growing consensus supporting the claim that loyalty programmes have become one of the most common marketing tools used to attract and retain customers (e.g. Dowling & Uncles, 1997; Gómez at al., 2006; Leenheer et al., 2007; Mauri, 2003).

**Objectives of loyalty programmes**

According to O’Malley (1998) and Reinartz & Kumar (2002), marketers find it challenging to define the specific objectives of loyalty programmes. However, the authors argue, organisations’ overall objective can be stated crudely as augmentation of value to customers and to themselves. Reinartz & Kumar (2002) categorise potential specific objectives of loyalty programmes in to five groups:

1. **Building True Loyalty**: Even though building customer loyalty is a daunting task to achieve, organisations main intention of implementing loyalty programmes is making their customers loyal (Sharp & Sharp, 1997). O’Malley
(1998) argues that organisations suggest the aim of their loyalty programme is to create true loyalty, which according to Dick & Basu (1994), combines both behavioural and attitudinal loyalty.

2. Efficiency Profits. According to Meyer-Waaden (2007), firms introduce loyalty programmes with the intention of rewarding customers’ behaviour, which leads to repeat purchase. Reinartz & Kumar (2002) argues that managers and academicians particularly indicate higher volume of sales, larger share of wallet, or greater buying frequency is one of the clearly stated objectives of loyalty programmes. However, enhancing profits through increased frequency and volume of sales are intended for immediate impact on profits, rather than long-term customer retention (Gómez et al., 2006).

3. Effectiveness Profits. According to O’Malley (1998), having the necessary customer information that can be used by firms to identify, for instance, shopping patterns is considered to be invaluable. Meyer-Waaden (2007) and Reinartz & Kumar (2002) further argue that collection of information on customers’ behaviour and preferences can be carried out if firms are able to implement loyalty programmes that can keep customers data. According to the authors, firms can design marketing activities and communication that can effectively target customers and eventually help to realise long-term profitability.

4. Value Alignment. Marketing research suggest that the main aim of loyalty programme is augmentation of value to the firm and customers who remain loyal to a brand (Dowling & Uncles, 1997; O’Malley, 1998; Reinartz & Kumar, 2002). Wisdom from human behaviour and psychology also indicate that firms should reward customers according to their expressed behaviour that is favourable to the best interest of the firm (Reinartz & Kumar, 2002). According to the author, value alignment, which refers to identification of customers based on the economic values to the firm and rewarding them accordingly, is important in such industries where customers are heterogeneous. The airline industry, hospitality industry and financial service industry are known to use loyalty programmes to considerably align the value they provide to their customers according to the benefit they present to the firm (Berman, 2006; Reinartz & Kumar, 2002).
5. Competitive Parity. As presented in the preceding sections, the increasing commoditisation of products and services has presented several challenges for marketers (Yi & Jeon, 2003; O’Malley, 1998; Uncles et al., 2003). In their attempts to create competitive advantages, firms are designing and implementing measures (including loyalty programmes) that can increase perceived value to their customers (O’Malley, 1998). According to Dowling & Uncles (1997), firms implement loyalty programmes as defensive measures to combat loyalty programmes from their competitors. However, the authors claim that this is one of the objectives of these programmes that is expressed publicly.

Types of loyalty Programmes

As presented in the previous section, firms have different reasons and objectives of launching loyalty programmes. These programmes, also referred as frequent programmes or reward programmes, may have different designs and purposes in different industries. For instance, according to Liu & Yang (2009), loyalty programmes can be designed as promotional activities that can provide customers with immediate rewards. Such programmes include instant-win scratch cards, coupons, or discount cards (Liu & Yang, 2009). According to the authors, these kinds of loyalty programmes contribute to short-term increase in repeat purchase and improve the volume of sale for the duration of limited time.

According to Berman (2006), there are four different types of loyalty programmes available across industries (see table 2). Closer look to the four types of these loyalty programmes indicate that the classification is based on managerial commitment, resources allocated, purpose of the programme, rewards to the members, amount of data collected, and levels of membership. Type 1 loyalty programmes are the most basic form of loyalty programmes available today. Membership is open for anyone interested. Since small firms with limited resources mainly conducted the programme, customers’ information that can be used to observe shopping patterns and preferences are not kept. The managerial commitment and defensive measures against more targeted loyalty programmes from competitors is low. However, the author argues that these programmes fail to reward frequent purchase behaviour.
Table 2. Typology of loyalty programme types.

<table>
<thead>
<tr>
<th>Loyalty Programme Type</th>
<th>Characteristics of Programme</th>
<th>Example</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type 1:</strong></td>
<td>• Membership open to all customers</td>
<td>Supermarket programs</td>
</tr>
<tr>
<td>Members receive</td>
<td>• Clerk will swipe discount card if member forgets or does not have card</td>
<td></td>
</tr>
<tr>
<td>additional discount at</td>
<td>• Each member receives the same discount regardless of purchase history</td>
<td></td>
</tr>
<tr>
<td>register</td>
<td>• Firm has no information base on customer name, demographics, or purchase history</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• There is no targeted communications directed at member</td>
<td></td>
</tr>
<tr>
<td><strong>Type 2:</strong></td>
<td>• Membership open to all customers</td>
<td>Local car wash, nail salon, SuperCuts, Airport FastPark, PETCO</td>
</tr>
<tr>
<td>Members receive 1 free</td>
<td>• Firm does not maintain a customer database linking purchases to specific customers</td>
<td></td>
</tr>
<tr>
<td>when they purchase n</td>
<td></td>
<td></td>
</tr>
<tr>
<td>units</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Type 3:</strong></td>
<td>• Seeks to get members to spend enough to receive qualifying discount</td>
<td>Airlines, hotels, credit card programs, Staples, Office Depot</td>
</tr>
<tr>
<td>Members receive rebates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>or points based on</td>
<td></td>
<td></td>
</tr>
<tr>
<td>cumulative purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Type 4:</strong></td>
<td>• Members are divided into segments based on their purchase history</td>
<td>Tesco, Dorothy Lane Markets, Wakefern’s ShopRite, Giant Eagle Supermarkets, Hallmark</td>
</tr>
<tr>
<td>Members receive</td>
<td>• Requires a comprehensive customer database of customer demographics and purchase history</td>
<td></td>
</tr>
<tr>
<td>targeted offers and</td>
<td></td>
<td></td>
</tr>
<tr>
<td>mailings</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


On the other hand, all other types of loyalty programmes (types 2, 3, and 4) are designed to encourage frequent purchase (Berman, 2006). Members themselves manage Type 2 programmes rewards. For instance, a customer will keep track of his purchases and redeem his
reward according to the amount of purchase. One free subway sandwich after purchase of six meals illustrates how type 2 loyalty programmes work. According to the author, this type of programmes is easy to administer, but fail to keep the necessary customer data that can be used for marketing purposes.

Type 3 loyalty programmes are more advanced than the previous types of programmes. Berman (2006) argue that these programmes encourage customers to make frequent purchases by tracking their previous purchase history. Even though the customers’ data can be invaluable to customise values to the customers (Reinartz & Kumar, 2002) and use the information for other marketing purposes (e.g. promotions), these programmes are challenging to administer (Berman, 2006). However, firms that use these types of programme do not customise their communication with their customers. On the other hand, firms that have implemented loyalty programmes of type 4, use customised and individualised communications to their customers. The author states that complex data mining and databases are used to keep track of past purchases and determine rewards based on points.

2.3 Loyalty Programmes and brand loyalty
The previous sections have presented brand loyalty constructs, and loyalty programmes along with their purpose and types. Even though firms continue to introduce loyalty programmes across industries for different purposes, the main purpose of these programmes still remain to be the creation and maintaining of customer loyalty (O’Malley, 1998). However, there is a debate surrounding the effectiveness of loyalty programmes, in creating brand loyalty (see table 4). The remaining part of the literature review presents the different views on effectiveness of loyalty programmes in regard to creating customer loyalty.

Effect of loyalty programmes on customer loyalty
The effectiveness of loyalty programmes in creating customer loyalty is one of the most debated topics in marketing literature (Dowling & Uncles, 1997). Even though the implementation of these programmes have increased in the past decades, the findings of empirical studies (see
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Table 3) investigating the effect of loyalty programmes on customer loyalty is contradictory (for instance, Gómez et al., 2006; Lewis, 2004). Dowling & Uncles (1997) summarised the questions raised by marketing researchers into three categories. The first group of studies investigate whether loyalty programmes create customer loyalty. The second area of study is to find out if loyalty programmes increase purchases. The remaining studies investigate if customers return to purchase because of loyalty programmes.

Table 3. Relationship between loyalty programmes and customer loyalty.

<table>
<thead>
<tr>
<th>Loyalty programmes positively affect customer loyalty</th>
<th>Loyalty programmes have no real effect on customer loyalty</th>
<th>The effect of loyalty programmes on customer loyalty depends on different variables</th>
</tr>
</thead>
</table>

Source: Own.

Majority of the empirical studies and literature reviewed for this study confirmed the positive relationship between loyalty programmes and customer loyalty (see table 3). However, these studies acknowledge the relevance of different variables that can significantly affect whether these programmes will be effective or not. Some authors (for instance, O’Brien & Jones, 1995; Wright & Sparks, 1999) argue that creating loyalty among customers through loyalty programmes is a complex task and is the function of several factors (see figure 4). Accordingly, the success of loyalty programmes in creating customer loyalty is dependent on how these programmes are able to address these factors. For instance, the types of loyalty programmes and the reward
scheme along with the intended behavioural and attitudinal changes should be identified before implementation of loyalty programmes.

Kumar & Shah (2004) propose a framework (see figure 5) that can distinguish between activities and rewards that can address both attitudinal and behavioural loyalty among customers. The authors argue that building customer loyalty and realisation of profitability, as a result of created loyalty is a multi-stage process. This process consists of creating and augmenting behavioural loyalty, cultivating attitudinal loyalty, and relating customer loyalty to profitability to the firm. The first two steps are briefly presented in the next paragraphs.

*Figure 5. Creating customer loyalty through loyalty programme.*

![Figure 5](source: Kumar & Shah (2004:320)).

The starting point for creating customer loyalty, according to Kumar & Shah (2004) is to identify practices that can help firms to focus on building both attitudinal and behavioural loyalty. Categorisation of customers based on analysis of their attitudinal and behavioural scales helps to customise the rewards for each group.
During the first step (figure 5), which the authors called “Tier 1”, all customers in the programme will be rewarded based on their spending. This reward is intended to reinforce expressed behavioural loyalty among customers (Dick & Basu, 1994). In “Tier 1” reward scheme, Kumar & Shah (2004) propose to reward all customers based on past and present purchases without consideration for their attitude or purchase pattern. The main objective of this reward scheme is to encourage spending both in volume and frequency. On the other hand, “Tier 2”, is an attempt to manipulate both future behavioural- and attitudinal performance (Kumar & Shah, 2004). According to the authors, it is on firms’ best interest to identify customers according to not only expressed behavioural loyalty (measured by past and present purchase) but also future behavioural and attitudinal intentions.

One of the challenges in customer loyalty studies is the lack of commonly accepted measurement of customer loyalty, particularly attitudinal loyalty (O’Malley, 1998). Following the framework by Kumar & Shah (2004), the “Tier 2” reward strategy calls for customers’ behavioural and attitudinal analysis using the profile information firms possess. The authors propose attitudinal analysis of customers to be based on attitudinal strength and attitudinal differentiation. The authors further argue that the success of loyalty programmes in creating customer loyalty is if firms can be able to fulfil what customers consider added value. One example the authors provided shows how customers shopping in a retail store get discounts on selected products or cash-rewards on frequently purchased items. Furthermore, the authors state that customers, who qualify for a reward based on “Tier 2” scheme, should be awarded with specifically differentiated reward that will make them feel special. However, as the authors put it, Tier 2 rewards are specifically reserved for individual customer levels. These are the only customers the company is interested to have continued loyalty.

2.4 State-of-the-art
The evaluation of theories explored in the literature review presented in this section (see table 5) summarises the scientific articles reviewed to help in finding gap in literature and formulate the problem and research questions of the study. Its main purpose is to categorise the phenomena contained in these articles and show the strength of the theories based on citations.
supporting these theories (Philipson, 2014). The state-of-the-art is also source of an overview of the differences between the theories explored in the literature review.

**Table 4. Evaluation of theories**

<table>
<thead>
<tr>
<th>Citations</th>
<th>Validation</th>
<th>Strength of theories</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt;500</td>
<td>Well validated</td>
<td>Dominating</td>
</tr>
<tr>
<td>200 -450</td>
<td>Some validation</td>
<td>Emerging</td>
</tr>
<tr>
<td>&lt; 200</td>
<td>Limited validation</td>
<td>Proposal</td>
</tr>
</tbody>
</table>

*Source: own*

According to Philipson (2014), the state-of-the-art is a “scale” or the degree (from zero until under 100 per cent), to which a theory explains reality. Accordingly, theories may be placed in to three levels. Dominating theories are represented with values between 50 and 70 per cent while the figure for emerging theories lies between 20 and 30 per cent. Proposed theories, on the other hand, have values between 5 and 10 per cent. The evaluation of theories (into dominating, emerging, or proposal) was carried out using two criteria (see table 4). First, the number of citations was assessed using Google Scholar’s “cited by” function. The second criterion was the validation of the theories, which was carried out by checking whether the theory is independently empirically validated by the citing authors or not. The abstracts of a sample of citing articles were reviewed to confirm the validation.

**Table 5. Evaluation of theories in the literature review.**

<table>
<thead>
<tr>
<th>Phenomenon</th>
<th>References</th>
<th>Citation</th>
<th>Validation</th>
<th>Strength of theories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty as one-dimensional construct</td>
<td>Brown (1953)</td>
<td>450</td>
<td>Some validation</td>
<td>Emerging</td>
</tr>
<tr>
<td></td>
<td>Cunningham (1956)</td>
<td>641</td>
<td>Well validated</td>
<td>Dominating</td>
</tr>
<tr>
<td></td>
<td>Tucker (1964)</td>
<td>450</td>
<td>Some validation</td>
<td>Emerging</td>
</tr>
</tbody>
</table>
How can loyalty programmes improve brand loyalty?

<table>
<thead>
<tr>
<th>Loyalty as multi-dimensional construct</th>
<th>Kahn (1986)</th>
<th>364</th>
<th>Some validation</th>
<th>Emerging</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oliver (1999)</td>
<td>5963</td>
<td>Well validated</td>
<td>Dominating</td>
<td></td>
</tr>
<tr>
<td>Chaudhuri &amp; Holbrook (2001)</td>
<td>2998</td>
<td>Well validated</td>
<td>Dominating</td>
<td></td>
</tr>
<tr>
<td>Day (1969)</td>
<td>1338</td>
<td>Well validated</td>
<td>Dominating</td>
<td></td>
</tr>
<tr>
<td>Dick &amp; Basu (1994)</td>
<td>4970</td>
<td>Well validated</td>
<td>Dominating</td>
<td></td>
</tr>
<tr>
<td>Jackoby &amp; Kyner (1973)</td>
<td>1290</td>
<td>Well validated</td>
<td>Dominating</td>
<td></td>
</tr>
<tr>
<td>Jones &amp; Sasser (1995)</td>
<td>42</td>
<td>Limited validation</td>
<td>Proposal</td>
<td></td>
</tr>
<tr>
<td>Morgan (1999)</td>
<td>144</td>
<td>Some validation</td>
<td>Proposal</td>
<td></td>
</tr>
<tr>
<td>Worthington et al. (2010)</td>
<td>29</td>
<td>Limited validity</td>
<td>Proposal</td>
<td></td>
</tr>
<tr>
<td>Khan (2008)</td>
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<td>Limited validity</td>
<td>Proposal</td>
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</table>

<table>
<thead>
<tr>
<th>The role of loyalty programmes in creating customer loyalty</th>
<th>Dowling &amp; Uncles (1997)</th>
<th>1171</th>
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<th>Dominating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sharp &amp; Sharp (1997)</td>
<td>676</td>
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<tr>
<td>Uncles et al. (2003)</td>
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<tr>
<td>Mägi (2003)</td>
<td>387</td>
<td>Some validation</td>
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<td>Lewis (2004)</td>
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<td>Some validation</td>
<td>Emerging</td>
<td></td>
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<td>Liu (2007)</td>
<td>287</td>
<td>Some validation</td>
<td>Emerging</td>
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<td>Mauri (2003)</td>
<td>283</td>
<td>Some validation</td>
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<td>O’Malley (1998)</td>
<td>234</td>
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<td>Emerging</td>
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<td>Leenheer et al. (2007)</td>
<td>221</td>
<td>Some validation</td>
<td>Emerging</td>
<td></td>
</tr>
<tr>
<td>Wright &amp; Sparks (1999)</td>
<td>128</td>
<td>Some validation</td>
<td>Proposal</td>
<td></td>
</tr>
</tbody>
</table>
**How can loyalty programmes improve brand loyalty?**

<table>
<thead>
<tr>
<th>Factors affecting brand loyalty</th>
<th>Researchers</th>
<th>Validation</th>
<th>Dominating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gustafsson et al. (2005)</td>
<td>835</td>
<td>Well validated</td>
<td>Dominating</td>
</tr>
<tr>
<td>Kuusik (2007)</td>
<td>55</td>
<td>Limited validation</td>
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<tr>
<td>Alhabeeb (2007)</td>
<td>27</td>
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<tr>
<td>Al-Wugayan (2008)</td>
<td>17</td>
<td>Limited validation</td>
<td>Proposal</td>
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</table>

<table>
<thead>
<tr>
<th>Benefits of brand loyalty</th>
<th>Researchers</th>
<th>Validation</th>
<th>Dominating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reichheld &amp; Sasser (1990)</td>
<td>6507</td>
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<td>Dominating</td>
</tr>
<tr>
<td>Fournier (1998)</td>
<td>4533</td>
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<td>Hallowell (1996)</td>
<td>1460</td>
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<td>Bharadwaj et al. (1993)</td>
<td>1212</td>
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<td>Reinartz &amp; Kumar (2002)</td>
<td>853</td>
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</tr>
<tr>
<td>Copeland (1923)</td>
<td>740</td>
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<tr>
<td>Rosenberg &amp; Czepiel (1984)</td>
<td>507</td>
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</tr>
<tr>
<td>Yi &amp; Jeon (2003)</td>
<td>505</td>
<td>Some validation</td>
<td>Emerging</td>
</tr>
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</table>

<table>
<thead>
<tr>
<th>Brand loyalty in different sectors</th>
<th>Researchers</th>
<th>Validation</th>
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</tr>
</thead>
<tbody>
<tr>
<td>Mascarenhas et al. (2006)</td>
<td>195</td>
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<td>Farley (1964)</td>
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<tr>
<td>Jang &amp; Mattila (2005)</td>
<td>81</td>
<td>Limited validation</td>
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<tr>
<td>Berman (2006)</td>
<td>134</td>
<td>Some validation</td>
<td>Proposal</td>
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</table>
How can loyalty programmes improve brand loyalty?

<table>
<thead>
<tr>
<th>Loyalty programme typology</th>
<th>Liu &amp; Yang (2009)</th>
<th>113</th>
<th>Limited validation</th>
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</thead>
<tbody>
<tr>
<td>Brand Loyalty indicators and measurement</td>
<td>Zeithaml et al. (1996)</td>
<td>7456</td>
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<tr>
<td></td>
<td>Aaker (1996)</td>
<td>2262</td>
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<td>Reichheld (2003)</td>
<td>1274</td>
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<td></td>
<td>Kahn et al. (1986).</td>
<td>364</td>
<td>Some validation</td>
<td>Emerging</td>
</tr>
<tr>
<td></td>
<td>Odin et al. (2001)</td>
<td>332</td>
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<tr>
<td></td>
<td>Rundle-Thiele &amp; Bennett (2001)</td>
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<td>Selin et al. (1988)</td>
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<td>Mellens et al. (1996)</td>
<td>3</td>
<td>Limited validation</td>
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</tr>
<tr>
<td></td>
<td>Lacey et al. (2007)</td>
<td>108</td>
<td>Limited validation</td>
<td>Proposal</td>
</tr>
</tbody>
</table>

Source: own.

Reflection over theories presented

The literature review and stat-of-the-art demonstrates that brand loyalty is a phenomenon that caught researchers’ attention for long time. Authors have defined it in different ways. The literature also shows the evolution from one-dimensional construct to a multidimensional representation of brand loyalty. However, the studies on brand loyalty focused on two main streams. The first set of studies dealt with frameworks and conceptualisations to define brand loyalty while the others explored different methods of measurement. Common frameworks and definitions are not established yet.
As Morgan (1999) puts it, the debate surrounding brand loyalty is between two groups. The first group defines and describes brand loyalty as what customers do or how they behave i.e. do they make repeated purchases? On the other side of the isle, there are scholars who characterise brand loyalty as what customers feel i.e. a reflection of what the customers perceive toward a specific brand or firm. The earliest studies argued that it is only the behaviour of customers that is relevant and indicators of customers’ loyalty. The measurement of loyalty, therefore, was through relatively easy quantitative measure of purchases made through time. On the other hand, one can see from studies that both the behavioural and the attitudinal (emotional) attachment of customers to a brand is important. However, despite the dominating two-dimensional loyalty model, which underscores the importance of customers’ attitudes and behaviour, attitudinal component of loyalty has presented a measurement challenge.

The literature review shows that loyalty programmes have become one of the important tools used to build brand loyalty. Even though studies have shown conflicting results on how/if these programmes can help firms to maintain their customers loyal, majority of studies indicate that there is a positive relationship between these programmes and brand loyalty. However, factors such as, brand strength, word-of-mouth, trust, and importance of relationships between the customers and the firm have implications on success of loyalty programmes. The different conceptualisations of brand loyalty present different methods that can be used to categorise customers according to different levels of loyalty. This categorisation can in turn be used to design efficient loyalty programmes with corresponding reward systems that can build and reinforce loyalty towards a brand.

2.5 Theoretical framework

The literature review and the state-of-the-art show that the two-dimensional customer loyalty dominates the theories on brand loyalty and loyalty programmes. Authors have acknowledged the importance of loyalty programmes in creating and improving brand loyalty, independently or in association with other marketing activities (Berman, 2006; Gable et al., 2008; Kumar & Shah, 2004; Leenheer et al., 2007; Liu, 2007; Liu & Yang, 2009; Mauri, 2003). However, according to Berman (2006), and Kumar & Shah (2004) the reward scheme firms use to
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Improve brand loyalty needs to be differentiated according to levels of loyalty. The following model is designed to depict the theoretical framework of the study.

Figure 6. Conceptualisation, determining customer loyalty levels and using different reward from loyalty programmes (LP) to create and maintain "True brand loyalty".

The model (see figure 6) illustrates how both behavioural and attitudinal indicators (Reichheld (2003) can be used to categorise customers based on their levels of loyalty using Dick & Basu’s (1994) two-dimensional loyalty model. Customers at each level of loyalty will be rewarded accordingly to move them to move to the desired level of loyalty – true loyalty (Berman, 2006; Kumar & Shah, 2004).

*Not covered in this study*

Source: own.
Even though loyalty programmes should possess the appropriate reward types, other marketing tools should also be used. For instance, marketing tools that help in creating awareness is necessary for those who fall under the category of not loyals, spurious loyals and latent loyals (Dick & Basu, 1994; Kumar & Shah, 2004; Worthington et al., 2010). After the categorisation of these customers according to their level of loyalty, it is up to the firms to make assessment and attempt to find out why the three groups of customers (those other than true loyals). Before rewards are designed and offered, measures should be taken using marketing tools other than loyalty programmes. These marketing tools (depicted with broken lines in the model) will not be covered in this study.
3 Methodology

This chapter covers the research methodology, which is presented with the available alternatives and the choices that has been made for this study. In terms of choice, the research design, data collection and analysis methods, are presented with their merits and shortcomings. The motivations for the chosen methods are then followed by discussions on how these methods are applied in the study. The operationalisation of the survey questions, which is used to collect the main data of the study, is also presented in this chapter. Finally, the quality criteria that the research will be judged against are discussed in detail.

3.1 Research Design

Several authors argue about the importance of purpose and research questions determining data and research method that is best suited for a study (Denscombe, 2010:4; Bryman & Bell, 2013:263). The choice of method is also indicative for which places the researchers choose for conducting the data, the analysis of the data, relevant theory and presentation of results and conclusion (Bryman & Bell, 2013:263).

Combination of quantitative and qualitative, also referred as mixed method, approach was chosen for this study. This approach enables the qualitative method to support the quantitative data and analysis in research (Bryman & Bell, 2013:635). The qualitative pre-study therefore worked as a support for the survey formation. A qualitative study is subjective and is concerned with understanding behaviour and processes (Blaxter, Hughes & Tight, 2010:66). Qualitative research is characterised by its exploratory nature, with rich and deep analysis of data (Blaxter et al., 2010:66). A quantitative study, on the other hand, seeks facts/causes of a social phenomenon with hard and replicable data in a form of numbers (ibid.).

Authors have raised questions on the merits of a mixed method approach (Blaxter et al., 2005:65; Teddlie & Tashakkori, 2009). However, the mixed method approach enriches the study by the correspondence of the results from the two different methods used combined (Greene, Caracelli & Graham, 1989). For the study this method enables the researchers to extend the breadth and range for different values and purposes examined (ibid). Since the purpose of the study was both aiming to understand customers’ behaviour and seek the causes
of this behaviour, a mixed approach was used. A mixed research approach was used in order to enable the evaluation of customers based on loyalty, compare alternative perspectives and reasons to what encourages customers to reach desirable loyalty levels, and subsequently combine strategies for this objective (Denscombe, 2010:6).

According to Creswell (2003), a sequential exploratory design is useful when a pilot study is made in order to provide important qualitative feedback for the quantitative study. The sequential exploratory design therefore enhances generalisability (Harwell, 2011). Using a sequential exploratory design means that the data is not combined, but integrated separately after the findings are interpreted (ibid). The phases of design, data collection, and reporting, are done separately and this is considered strength due to its easy implementation. However, researchers argue that one weakness of this method is the time and resources to separate data and do two studies in one research (Creswell, 2013; Harwell, 2011). Furthermore, a mixed-method research focuses on discovering and understanding perspectives, which can enhance the quantitative data collection and provide the study with rigour (Harwell, 2011). Accordingly, in the earlier stages of this study, three qualitative interviews were carried out to provide the future studies with basis and support (Bryman & Bell, 2013:635).

Pilot study was made to identify how the retailing company worked with categorising loyalty and their loyalty programme. These interviews could therefore enhance the process of developing the interview guide to conduct a second pilot study with 20 interviews with customers to provide more basis and support to the final survey, which was the main study in the paper (ibid). For the main study, a closed survey was carried out to examine the drivers of loyalty.

A mixed method approach includes both open and closed end questions and provides the researchers with multiple forms of data that could support both statistical and text analysis (Creswell, 2013). This study is characterised by pragmatism, trying to identify “what” makes customers loyal and “how” customers can reach a higher, more desirable level of satisfaction (ibid). The purpose of mixing both qualitative and quantitative data is therefore to reach a deeper and broader understanding of drivers in loyalty programmes that enhances customer loyalty. Pragmatists often use a mixed-method approach, due to how they view the world, not
as an absolute unity, but with different worldviews, assumptions, and different forms of data collection and analysis. A mixed-method pragmatist therefore base knowledge on pragmatic grounds that is consequence-oriented, problem-centred and pluralistic (ibid).

3.2 Data Collection
This study was carried out in collaboration with IvyWear, one of the leading fashion chains in Europe. Data was collected in two stages. First, two pre-studies were conducted to understand the company, their view on brand loyalty, their loyalty programme and the various activities and benefits designed to reward of the loyalty programme. The pre-studies were also done in order to generate ideas to develop the study’s aim: how to create emotional loyalty in the context of loyalty programmes.

Pre study 1 – information about the company and their view on brand loyalty
The first pre-study was made with a CRM executive at IvyWear to collect information about the company and gain knowledge about the loyalty programme, which was instrumental in formulation of the second pre-study interview and the survey questions. The main purpose of this pre-study was to collect different viewpoints to increase the validity of the study. Three telephone interviews were carried out with the IvyWear executive during the course of the pre-study. The interviewers did not follow formal interview guide and therefore were considered to be non-structured interviews (Bryman & Bell, 2013:475).

The authors covered different themes (Bryman & Bell, 2013: 475) during the interview: the company’s history, the company’s mission, the company’s marketing activities in general and the company’s loyalty programme. Thus, according to the authors, the structured interview was conducted as a casual conversation about the company rather than a structured interview. After the first two interviews, the authors made an additional interview to collect information about IvyWear’s view on brand loyalty where the researchers followed a semi-structured interview guide to keep the interview’s specific focus (ibid).

Pre-study 2 – Interviews with customers
In order to customise and formulate appropriate and applicable survey questions for the study, second pre-study using qualitative interview was carried out with selected customers.
Benchmarked selection was to sample the interviewees that could contribute the most information to the study (Bryman & Bell, 2013:451), based on membership in the loyalty programme and consumer behaviour. The interviewees were categorised based on demographic factors (age, gender, and city they lived and purchased IvyWear products from). In line with the objective of the study, three different target groups of IvyWear buying: children clothes, ladies clothes and lingerie were selected. 10 of the respondents were mostly purchasing ladies clothing at IvyWear, six were mostly purchasing children clothing while rest of the respondents purchased mostly lingerie. Eleven of the respondents lived in larger cities (more than 70,000 inhabitants) with a broad variety of stores and nine of the respondents in smaller cities where the available clothing store brands are limited.

The age of respondents was also taken into consideration when choosing the interviewees for the study (Bryman & Bell, 2013:453). The respondents were between the ages of 21 to 63. The reason for age as a demographic factor was due to IvyWear’s target group which consists of a broad age variety which the researchers wanted to be reflected in the sample to increase the reliability of the study (ibid). Taking these factors into consideration a benchmarked selection was deemed appropriate choice for the qualitative data collection in the pre-study.

**The survey (Main study)**

The main data for this study was collected from IvyWear customers which are members in the loyalty programme using survey questions made available online.

**Sampling:** The authors had to weigh the advantages and disadvantages of having a homogeneous sampling where small homogeneous group of subjects are studied versus an investigation of large sample of the population for the study. Cohen (1988:6) states that reliability and precision of a study is always dependent upon the size of the sample rather than other factors such as the population distribution and units of measurement. Brown (2007) also state that “as the sample size increases so does the statistical precision”.

Collaboration with IvyWear has presented an opportunity for large sample, which in turn increases the precision of the study (Bryman & Bell, 2013:209; Israel, 1992). Therefore, homogeneous sampling was not applied in the study. The IvyWear customer database with
around 2.04 million members was available for the study from which 3500 respondents were selected randomly. Random sampling is considered to result in sample, which is representative of the population of the study (Bryman & Bell, 2013: 170-181; Malhotra, 2007).

Even though the sampling was random, the authors have followed three steps to select the final sample. First, the population was defined, 2.04 million members. Second, 1.7 million members of the IvyWear loyalty programme who have made purchases in the last twelve months (only the four product categories — children’s clothes, women clothes, cosmetics, and lingerie) were selected. This was done to make sure that customers in the sample represent active members. Demography of customers was also taken into consideration to make sure only women are selected according to the focus the study. Finally, 3500 of the 500000 members who provided their email addresses were randomly selected from the company’s CRM system within the frame of the chosen population (Bryman & Bell, 2013: 193). Since emails were used to distribute the survey, it is worth mentioning that members who have only registered their mobile numbers for identification are not included in the survey.

**Survey Distribution:** The survey was distributed from one of the researcher’s University email account. The email contained a consent form and instruction. Respondents were informed on what the survey is about, how long it takes to complete the survey, and the respondents right to withdraw from participating anytime in the process should they choose to do so. The accompanying email, which contained the link to the online survey, also informs respondents that they will be offered a 50 SEK voucher when they complete the survey. The voucher was a code that the respondents could use at IvyWear online shop and was active during the time period 150420-150503. The vouchers were distributed in order to enhance the respondents of participating in the survey (Bryman & Bell, 2013: 250) and to thank them for their participation. Contact information of the authors of the study was also made available in the email for those who want to raise questions regarding the survey or the study. The survey was active for 7 days and attracted 309 responses (i.e. 9% response rate).

Denscombe (2010:19) argues that there are several factors for lower response rate when Internet surveys are used to collect data. For instance, men are more likely to use the Internet than women and are more likely to respond to online surveys. According to the author, prior personal

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contact with potential respondents where they are addressed individually will also improve response rate. This was not done for this study.

**Choice of scale and survey-formulation:** Both ordinal- and nominal scales were used in the survey in order to collect appropriate data for the phenomena studied (Schwarz, 1999). According to the authors, nominal scales are suited for questions constructed without dichotomised variables. In the study, nominal scale was used sparingly since most of the questions asked respondents to assess their attitudes and behaviour, which was done by the use of ordinal scale. According to Schwarz (1999), not only the type of scale but also the choice of scale affects how the respondents answer. For instance, using a scale between 1-10 where 1 represents “not at all” and 10 “extremely” or a scale between 1-5 where 1 represents “not at all” and 5 “extremely”, 34% endorsed the scale between 1-5 in comparison with the latter, 1-10, which was endorsed by 13% (Schwarz, 1999). The ordinal-scales were therefore formulated between 1-5 where 1 represented “least favourable” and 5 “most favourable” and was used consistently (Malhotra, 2010). Accordingly, the number one was placed to the left, and number five to the right in the survey. The ordinal-scale chosen for the survey was a scale-formation of the Likert’s-scale (Likert, 1931).

To find the drivers of highest level of customer loyalty, questions were formulated to assess both attitudinal and behavioural components (Schwarz, 1999). The questions in the survey were consistently closed throughout the whole survey to get more respondents to participate and finish the survey (Bryman & Bell, 2003:250). The formation of the closed survey also enhanced the coding of the answers (Malhotra & Peterson, 2001). The order of survey questions was structured to start with questions measuring customers’ attitude and behaviour. The background questions, which are designed to assess motives of customers’ attitude and behaviour was listed at the end of the survey, which is the most common approach when forming a survey (Dillman, 2007). Due to the chosen sampling method, the demographic question ”gender” and the question “are you a member of IvyWear club?” was not included in the final survey.

In order for the survey to be completed within the given time frame of 3-5 minutes, the total number of questions in the survey was limited to 22. The survey was tested by 10 randomly chosen respondents, in order to find out if the respondents would understand the questions. The
test was also aimed at assessing if the survey can be completed within the time frame indicated. As the result of the test survey, two questions were modified and the result of the test was not included in the analysed data. Each question in the survey represented a specific value, which was operationalised from the theory (see chapter two.). These values were then coded to variables when processing the data. The data was processed in the software IBM SPSS. The answers to questions where nominal scale was used were manually coded to enable correlation analysis.

3.3 Operationalisation

In order to make sure the formulation of the survey questions is consistent with what is being investigated, the following operationalisation (table 6) is constructed. The survey questions are listed along with the relevant theories, and the references used in the literature review. The specific phenomenon and how it is related to the theory is also presented in the table.

Table 6. Operationalisation.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Relevant Theory</th>
<th>References</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>How old are you?</td>
<td></td>
<td></td>
<td>Demographic variable</td>
</tr>
<tr>
<td>How often do you buy at IvyWear?</td>
<td>Behavioural loyalty</td>
<td>Day (1969); Cunningham (1956); Jones &amp; Saser (1995); Kahn et al. (1986); Morgan (1999)</td>
<td></td>
</tr>
<tr>
<td>How often do you buy at other clothing stores?</td>
<td>Behavioural loyalty</td>
<td>Brown (1953, after Reichheld, 2003)</td>
<td>Purchasing pattern</td>
</tr>
<tr>
<td>Which category of products do you buy at IvyWear?</td>
<td></td>
<td></td>
<td>Identifying customer segment</td>
</tr>
<tr>
<td>Question</td>
<td>Loyalty</td>
<td>Attitudinal loyalty</td>
<td>Reference</td>
</tr>
<tr>
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<td>-------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>How reasonable are IvyWear prices?</td>
<td>Day (1969); Fournier (1998); Jacoby &amp; Kyner (1973); Mascarenhas et al. (2006); Oliver (1999); Worthington et al. (2010).</td>
<td>Purchase decisions and price sensitivity (rational assessment)</td>
<td></td>
</tr>
<tr>
<td>How do you rate product assortments at IvyWear?</td>
<td>Kuusik (2007); Gustafsson et al. (2005); Odin et al. (2001); Morgan (1999)</td>
<td>Purchase decisions, motives for loyalty</td>
<td></td>
</tr>
<tr>
<td>How do you compare product assortment in comparison with other clothing stores?</td>
<td>Kuusik (2007); Gustafsson et al. (2005); Odin et al. (2003), Oliver (1999); Morgan (1999)</td>
<td>Purchase decisions, motives for loyalty</td>
<td></td>
</tr>
<tr>
<td>How important is product assortment for you?</td>
<td>Day (1969); Fournier (1998); Jacoby &amp; Kyner (1973); Mascarenhas et al. (2006); Oliver (1999); Worthington et al. (2010).</td>
<td>Motives for loyalty</td>
<td></td>
</tr>
<tr>
<td>Do you plan to make future purchases at IvyWear?</td>
<td>Chaudhuri &amp; Holbrook (2001); Gable et al. (2008); O’Malley (1998)</td>
<td>Future purchase intentions</td>
<td></td>
</tr>
<tr>
<td>Question</td>
<td>Loyalty Type</td>
<td>References</td>
<td>Notes</td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
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<td>--------------------------------------------</td>
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<tr>
<td>Do you tell friends and acquaintances about the purchases you made at</td>
<td>Attitudinal loyalty, brand image</td>
<td>Alhabeeb (2007); Fournier (1998); Kuusik (2007); Morgan (1999); Reichheld (2003); Zithaml et al. (1996)</td>
<td>Word-of-mouth and identifying with the brand</td>
</tr>
<tr>
<td>IvyWear?</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Do you go shopping at IvyWear with your friends?</td>
<td>Brand image</td>
<td>Fournier (1998); Kuusik (2007)</td>
<td>Social identity influence by other customers</td>
</tr>
<tr>
<td>Do you consider yourself as loyal customer to IvyWear?</td>
<td>Attitudinal loyalty, Trust, satisfaction, importance of relationship</td>
<td>Chauduri &amp; Holbrook (2001); Dick &amp; Basu (1994); Kuusik (2007); Liu (2007)</td>
<td>Identifying with brand</td>
</tr>
<tr>
<td>What is the reason for you to become member in IvyWear loyalty programme?</td>
<td>Attitudinal loyalty</td>
<td>Dick &amp; Basu (1994); Kuusik (2007); Liu (2007); Reichheld (2003)</td>
<td>measuring rational thinking as a motive for loyalty</td>
</tr>
<tr>
<td>What encouraged you to become member in IvyWear loyalty programme?</td>
<td>Attitudinal loyalty</td>
<td>Alhabeeb (2007); Fournier (1998); Kuusik (2007);</td>
<td>Word-of-mouth, satisfaction, commitment,</td>
</tr>
<tr>
<td>IvyWear loyalty programme?</td>
<td>behavioural loyalty</td>
<td>Morgan (1999); Reichheld (2003); Zithaml et al. (1996)</td>
<td>importance of relationship</td>
</tr>
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<td>----------------------------</td>
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<tr>
<td>How important is for you to be member of IvyWear’s loyalty programmes?</td>
<td>Levels of loyalty, attitudinal loyalty</td>
<td>Dick &amp; Basu (1994); Fournier (1998); Kuusik (2007)</td>
<td>Motivation for loyalty (rational thinking, inertia)</td>
</tr>
<tr>
<td>How important is for you to be member of loyalty programmes in other clothing store?</td>
<td>Levels of loyalty, attitudinal loyalty</td>
<td>Dick &amp; Basu (1994); Fournier (1998); Kuusik (2007)</td>
<td>Motivation for loyalty (rational thinking, inertia)</td>
</tr>
<tr>
<td>How important are bonuses and points for you?</td>
<td>Levels of loyalty, reward scheme</td>
<td>Dick &amp; Basu (1994); Berman (2006); Kumar &amp; Shah (2004)</td>
<td>Motive for loyalty, how to reward</td>
</tr>
<tr>
<td>How important is invitation to VIP events organised by IvyWear?</td>
<td>Levels of loyalty, Reward scheme</td>
<td>Dick &amp; Basu (1994); Berman (2006); Kumar &amp; Shah (2004)</td>
<td>Motive for loyalty, how to improve loyalty of customers</td>
</tr>
<tr>
<td>How important is priority to purchase newly designed products at IvyWear?</td>
<td>Levels of Loyalty, Reward scheme</td>
<td>Dick &amp; Basu (1994); Berman (2006); Kumar &amp; Shah (2004)</td>
<td>Motive for loyalty, how to improve loyalty of customers</td>
</tr>
<tr>
<td>How important is for you to get priority to discounted products?</td>
<td>Levels of loyalty, reward scheme</td>
<td>Dick &amp; Basu (1994); Berman (2006); Kumar &amp; Shah (2004)</td>
<td>Motive for loyalty, how to improve loyalty of customers</td>
</tr>
</tbody>
</table>
3.4 Analysis method

The data was presented and analysed with descriptive statistics, which is one of the most commonly used methods for the description of quantitative data (Bryman & Bell, 2013:350). When using ordinal and nominal variables, bar graphs and pie charts are suitable for presenting the data, for easier interpretation and understanding for the reader (Blaxter et al., 2010:239; Bryman & Bell, 2013:350). The use of descriptive statistics is suitable for studies where the answers are aimed to present different categories’ relative size (Bryman & Bell, 2013:350). Due to the aim of categorising the customers and examine the drivers of loyalty for each category descriptive statistics was therefore used in this study. Descriptive statistics were also suitable to easily present the different reward methods in the loyalty programme and show how were by customers, categorised according to their level of loyalty, valued the reward alternatives. SPSS software was used to group and categorise customers according to different levels of loyalty based on the responses to the survey questions.

3.5 Quality measures

Demonstrating credibility of research findings is among the most invaluable responsibilities of those involved in scientific work (Denscombe, 2010:297). According to the author, a researcher is considered to have demonstrated credibility of a study when the findings are believable or credible to those who were not involved in the process. Campbell (1996) also argue that findings of a study will only be accepted by others when authors can show that they have quality criteria set and followed during the course of a study. Researchers use different criteria to test the credibility of their findings (Denscombe, 2010:297). Validity, reliability, and generalisability
How can loyalty programmes improve brand loyalty?

are commonly used criteria (Campbell, 1996; Denscombe, 2010). Description of each of these concepts and how they are applicable in the study is presented in the next paragraphs.

Validity: The validity assesses if the study in fact measures the concepts it purports to examine (Bryman & Bell, 2013:175). According to Cohen, Manion & Morrison (2007), validity is an important requirement for both qualitative and quantitative studies. Researchers take different measures to improve the validity of their studies depending on the research approach and methods used. For instance, in qualitative studies, validity measures the “honesty, depth, richness and scope of data achieved”, or how the data is “objectively” interpreted and presented (Cohen et al., 2007:133). Even though the study was conducted with IvyWear, it was the authors who have set the aim and the scope of the study, collected and analysed the data. The pre-study interview questions with customers and the company executive along with the survey questions are all included in this report. By doing so, the authors of the study argue that readers can make their own judgements on the honesty, objectivity and the depth of the findings.

In quantitative research, validity can be improved by thorough designing and implementing appropriate sampling and statistical data analysis methods (Winter, 2000). The study aims to examine the factors influencing a customer to reach a higher level of loyalty, which explains the study’s focus of studying causality between loyalty and activities in the loyalty programme (Bryman & Bell, 2013:176; Cassell & Symon, 2004:353). Causality is an important criterion for quantitative studies which by nature are exploratory (Blaxter, Hughes & Tight, 2010:66) and explains why and how the independent- and dependant variables are affected (Bryman & Bell, 2013:176-177).

To meet the criteria of validity, Bryman & Bell (2013:175) and Cassell & Symon (2004) argue that researchers can ask persons within the field of expertise if the measurement captures the concept. Three measures were taken to make sure the quantitative data collected and analysed truly measures what was intended. First, the questions for the first pilot study – the interview guide – and the survey questions were discussed with the IvyWear’s CRM executive and the supervisor of the study. Second, the operationalisation (table 6) is constructed to make sure the
survey questions are relevant to the purpose and scope of the study. Third, the pilot survey was run to make sure the respondents would understand the questions as intended by the authors.

**Reliability**: One important criterion of research is reliability, referring to the extent the results of a study are consistent over time (Bryman & Bell, 2013:170). Findings are considered to be reliable if the results can be replicated, using the same methodology (Densombe, 2010:298). According to Joppe (2000), the selection of appropriate methods that can help to ensure accurate representation of the overall population and implementation of these methods improve the reliability of a study. Denscombe (2010:300) argue that explicitly stating the methods, analysis, and choices made during the course of a study help those who might be interested to replicate the study and find out whether it leads to similar findings. The authors of the study have stated the method of data collection and analysis. Reasons were given, with explanations on the merits and benefits to justify the chosen methods.

**Generalisability**: Generalisability, also commonly referred as external validity, refers to a quality measure indicating if findings of a study can be generalised further than the immediate sample and setting (Bryman & Bell, 2013:177; Cassell & Symon, 2004:57; Blaxter et al., 2010:245). Denscombe (2010:300) argues that generalisability of studies on a small scale, such as case studies, is limited.

Even though the phenomena – brand loyalty and loyalty programmes – are relevant across industries, the literature review has established that loyalty programmes differ in the context of each industry (Jang & Mattila, 2005; Rundle-Thiele & Bennett, 2001; Sharp & Sharp, 1997). This study focus customers’ loyalty and loyalty programmes in garment retailing. Since garment retailing might differ from one country to the other, the findings of the study can only be generalised to garment retailing in Sweden.
4 Empirical Results

In this chapter, the empirical results of the study are presented. First, a brief introduction of the company is presented and its view on brand loyalty is discussed. Data gathered from an interview with one of the company’s executives, is followed by brief description of the loyalty programme, the profile of its members, and the reward scheme. However, the lion share of the empirical data is gathered from the online survey, which is presented in figures and charts. Starting from the profile of respondents, this chapter presents data used to indicate levels of loyalty among customers, and how customers favoured the reward schemes.

4.1 Company profile and view on brand loyalty

The study was conducted in collaboration with IvyWear, one of the recognised clothing brand in Europe. IvyWear has over 500 stores in major markets in Europe. The studied loyalty programme follows guidelines similar to IvyWear’ other brands. However, the subsidiary in each market has the flexibility of making some changes in the loyalty programme, to fit its market and customer groups.

The first pre-study data collection, which was aimed at gathering relevant information about the loyalty programme and its members, showed that IvyWear has 2.024 million customers registered to take part in their loyalty programme throughout Sweden. 1.7 million of these customers are considered to be active members, who made purchases in the past 12 months. 500,000 customers have provided their email addresses upon registration and to collect points, while 1.7 million of the members use their mobile phone numbers for registration, collecting points and redeeming vouchers. Even though IvyWear also has children and men’s clothes in their assortment, 98% members in the company’s loyalty programme are women.

According to the manager, the company considers customer loyalty to be significant to the continued success of the company. Data analysis on the shopping frequency and pattern of shopping by members of the loyalty programme is done several times a year. This data will then be used to categorise customers and reward them accordingly. Member’s information is also used to customise marketing activities. The manager claims that the sales analysis has
shown that the fluctuation of sales during different times of the year is one of the issues to be addressed. The number of customers, who registered to be member of the loyalty programme, has reached all-time high. This is why, according to the manager, IvyWear is not actively seeking to increase the number of members in its loyalty programme. However, the company is looking for different strategies that can enhance the level of loyalty among the customers it already has. In 2013, the loyalty programme at IvyWear was updated with the addition of “IvyWear club” and the system was digitalised.

Currently, the form of membership in the IvyWear loyalty programme may either be “basic” or “IvyWear club”. Customers who choose to be “basic members” may either provide their email address or telephone number. These members can only receive points for purchases they make, but are not entitled to bonus checks, or take part in events and competitions. “IvyWear club” members provide IvyWear with more personal information, including social security number, and home address. These customers receive points, bonus checks and invitations to take part in activities that differ, according to the points they collect based on the frequency and shopping pattern.

IvyWear’ view on customer loyalty is based on two forms of loyalty. The manager explains that behavioural loyalty is considered to be a trait possessed by those who are interested to buy clothes when they perceive the value they get at IvyWear is better than other offerings from competitors. The second group of customers are “emotionally loyal” customers who buy IvyWear’s products regardless of price and other circumstances (such as availability of other brands, location of stores, etc.). Using the analysis of data on shopping frequency and patterns, IvyWear rewards behavioural loyal customers with bonus checks and discounts. Emotional loyal customers, on the other hand, are offered opportunities to take part in activities and events, which the company believes can enhance emotional attachment to IvyWear.

4.2 Survey results

Respondents’ profile: The results from the survey demonstrated that IvyWear’s customer –
profile based on age (see fig. 7) is dominated by those between the ages of 25 and 54. Those between ages of 35 and 44 are represented with 36.4% of all responses collected.

*Figure 7. Respondents’ age profile*

![Bar chart showing age profile of respondents](image)

*Source: own.*

According to the survey, Cosmetics is the product category least purchased by the customers who responded to the survey (see fig. 8). In line with the information provided by the CRM executive at IvyWear, the company’s major category of clothes (women’s and children’s clothes) are bought by more than 85 % of the customers, while 14 % of respondents said that they have purchased lingerie at IvyWear.

*Figure 8. Category of products purchased by respondents.*

![Pie chart showing product categories purchased by respondents](image)

*Source: Own*
The survey indicates that more than half of the respondents (45%) have been members of IvyWear’s loyalty programme more than 4 years (see fig. 9).

**Figure 9. Length of membership to IvyWear club.**

![Graph showing distribution of membership length](image)

*Source: Own*

**Brand loyalty indicators**

The purchases made by IvyWear loyalty programme members, varies from less than once per year, to more than 6 times per year. A comparison between the numbers of purchases at IvyWear and other competitors by these members of the IvyWear loyalty programme shows-

**Figure 10. Number of purchases at IvyWear and competitors (per year).**

![Graph showing purchases per year](image)

*Source: Own.*
that almost all of respondents shop at clothing stores other than IvyWear (see fig. 10).

More than 60% of the respondents state that IvyWear prices are competitive, and the assortments of clothes scored favourably in comparison with competitors. When customers were asked about their view on the importance of membership to loyalty programmes of clothing brands other than IvyWear, more than 80% of respondents said that membership to loyalty programmes of multiple brands is important for them. The figure is not different when respondents were asked how important their membership to IvyWear club (see fig. 11) is.

*Figure 11. Importance of membership to loyalty programme at IvyWear and competitors.*

On the other hand, most of these customers, even though they say membership to competitor brands’ loyalty programme is important, the number of respondents who put more importance to membership to IvyWear club is higher at points of 4 and 5 in the 5 scale measurement of importance. The empirical finding also indicate that more than 60% of the respondents say they are truly loyal to IvyWear.
When customers were asked why they chose to be members of the IvyWear loyalty programme, most respondents state that offers and discounts are their main reasons. Only 11% of those who replied to the survey stated that gaining information on the company and being close to the brand is why they became members. In regard to the question on what influenced their decision to register for membership, only 3.9% of the respondents stated that their decision was influenced by their friends, who recommended the loyalty programme, while 24% said that IvyWear employees asked them, when they made purchases.

The survey result demonstrate that close to 80% of the respondents have intention of making future purchases at IvyWear, while 4% do not want to make more purchases (see figure 12). Almost all of the respondents, however, will recommend the brand to friends and acquaintances, while only 2% will not do so. 14% of those who responded are not sure if they will recommend IvyWear’s loyalty programme to their friends or if they wouldn’t, but the remaining 86% would.

When customers were asked if they would go shopping with their friends, half of the respondents said that they do so very seldom. On the other hand, more than half of customers indicate that they would tell their friends and acquaintances about the clothes they purchased at IvyWear.

Figure 12. Selected brand loyalty indicators.

Source: own
How can loyalty programmes improve brand loyalty?

According to the survey, bonuses and points are the preferred reward method among customers. Respondents also say that priority to discounts and new designed products are the next favoured rewards. However, invitation to VIP events arranged by IvyWear is the least appreciated reward method among IvyWear’s loyalty members.

Figure 13. Preference of reward among IvyWear customers

Source: Own.
5 Analysis

This chapter compares and contrasts the empirical findings and the literature review with the lens of the theoretical framework. The analysis is presented in two sections corresponding to the research questions. The first part discusses the empirical results in light of the theoretical framework and categorises customers into four levels of loyalty. The second section discusses how reward and loyalty programmes can effectively be used to improve levels of loyalty among customers.

5.1 Levels of loyalty among members of IvyWear’s loyalty programme

The first process in organisations’ endeavour to creating customer loyalty, according to Kumar & Shah (2004) is to identify practices that can help firms to focus on building both attitudinal and behavioural loyalty. Identification of different indicators of customers’ behaviour and attitude based on analysis of their attitudinal- and behavioural measures is also imperative. For instance, IvyWear has adopted the practice of analysing sales data to study purchasing patterns and frequency, which will present invaluable behavioural loyalty measure. According to Dick & Basu (1994) and Morgan (1999), both behavioural and attitudinal dimensions of loyalty are reliable indicators of strength of customer loyalty. The following paragraphs analyse different indicators measured in the survey with the help of theory from the second chapter.

Analysis of the empirical results of this study demonstrates that the loyalty levels of IvyWear customers differ significantly as measured by both behavioural and attitudinal measures. For instance, as measured in the survey, customers have indicated that the difference between the numbers of purchases made at IvyWear and at competitor brands is relatively similar when small purchases are compared. However, IvyWear is the preferred choice of brand among those who make frequent purchases of more than 6 times per year (see fig. 10). This puts the company in favourable position in terms of behavioural loyalty. Authors argue that the behavioural component of loyalty is the degree to which a participant purchases a service or a program repeatedly (Day, 1969; Jones & Sasser, 1995; Park & Kim, 2000) and is expressed and measured through purchase of a product or usage of a service (Kahn, Kalwani & Morrison, 1986; Mascarenhas, Kesavan & Bernacchi, 2006).
In order to start to improve brand loyalty, Worthington et al. (2010) argue that conducting what is referred as “brand loyalty audit” should be performed to measure the current levels of emotional, cognitive and behavioural loyalty for a brand. Dick & Basu (1994) also state that customers have to be identified in each segment. Using Dick & Basu’s (1994) two-dimensional brand loyalty model and according to the empirical result of the survey, IvyWear’s customers can be grouped into four different groups of loyalty.

**True loyals:** Authors argue that the ultimate goal of every organisation is to increase the number of customers who are truly loyal to their brand. These customers not only purchase more, which increases the flow of revenue to the brand, but also help to attract new customers by spreading positive word-of-mouth (O’Malley, 1998). The result of the survey indicates that IvyWear has customers who value the brand and also participate in spreading positive word of mouth. For instance, more than 68% of those who was asked said that they make purchases more than 6 times a year, when the figure for competitive brands is around 25%. The true loyalty segment consists of consumers who score high in all dimensions of loyalty, as measured by several indicators. According to Dick & Basu (1994), true loyals have evaluated the brand positively and buy the brand regularly. When consumers were asked how they would rate IvyWear’s products based on prices and assortment, the brand stands out in comparison with other competitors.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answers</th>
<th>Frequency</th>
<th>True loyals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommend the brand to friends?</td>
<td>yes</td>
<td>282</td>
<td>78</td>
</tr>
<tr>
<td>Do you plan future purchase at IvyWear?</td>
<td>yes</td>
<td>242</td>
<td></td>
</tr>
<tr>
<td>Do you consider yourself loyal to IvyWear?</td>
<td>4-5</td>
<td>191</td>
<td></td>
</tr>
<tr>
<td>Purchases per year at IvyWear</td>
<td>More than 6 times per year</td>
<td>153</td>
<td></td>
</tr>
<tr>
<td>Purchases per year at competitors</td>
<td>Less than 3 times per year</td>
<td>78</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Own.*
Latent loyals: According to Kuusik (2007), there are many customers who value a brand, but fail to make repeat purchases. The survey has shown that some respondents, even though they have high regard for IvyWear as a brand, said that they are not frequent buyers. This could be noted from the responses for questions asking customers if they tell their friends about the clothes they bought at IvyWear. These customers indicate that they buy clothes at IvyWear, recommend the brand, and engage in positive word-of-mouth, but answered “no” to the question “do you plan to make purchases in the future?” This group of customers, also referred as latent loyalists (Dick & Basu, 1994), have also indicated that they make few purchases per year (see fig. 10). The analysis of the data has also shown that there are customers who exhibit the characteristics of latent loyalists. For instance even though they recommend the brand to others, these customers fail to make purchases.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answers</th>
<th>Frequency</th>
<th>Latent Loyalists</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recommend the brand to friends?</td>
<td>yes</td>
<td>282</td>
<td>27</td>
</tr>
<tr>
<td>Shop with friends at IvyWear?</td>
<td>4-5</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td>Do you tell about purchases at IvyWear?</td>
<td>4-5</td>
<td>84</td>
<td></td>
</tr>
<tr>
<td>Do you plan future purchase at IvyWear?</td>
<td>yes</td>
<td>77</td>
<td></td>
</tr>
<tr>
<td>Purchases per year at IvyWear</td>
<td>Less than three times per year</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Purchases per year at competitors</td>
<td>More than 3 times per year</td>
<td>27</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own.

Spurious loyals: According to Dick & Basu (1994) and Worthington et al. (2010), spurious loyal customers are characterised by the rational assessments they make before they make purchases. According to the authors, these customers explore their options and compare the available brands before they buy products and services. The analysis of the survey showed that there are customers who have said that they don’t associate price and assortment to a brand, but make up their mind only when they want to buy a product. These groups of customers have also indicated that number of purchases between different brands is a reflection of competitive
offerings between IvyWear and its competitors. For these reasons, spurious loyals see little difference between the loyalty programmes offered by competing brands.

Table 9. Categorisation of spurious loyals according to Dick & Basu (1994) two-dimensional model.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answers</th>
<th>Frequency</th>
<th>Spurious loyals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Why do you become member in IvyWear’s loyalty programme?</td>
<td>Discounts and offers</td>
<td>272</td>
<td>10</td>
</tr>
<tr>
<td>How do you compare IvyWear assortment with competitors?</td>
<td>3</td>
<td>99</td>
<td></td>
</tr>
<tr>
<td>How do you compare IvyWear prices with competitors?</td>
<td>3</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Do you consider yourself loyal to IvyWear?</td>
<td>3</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Importance to loyalty programmes at competitors the same as at IvyWear</td>
<td>1, 2, 3, 4, 5</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own.

Not loyals: The analysis of the survey has also demonstrated that IvyWear has customers who have shown little behavioural and attitudinal loyalty. According Dick & Basu (1994), these customers who score low in both repeat purchase and relative attitude are considered to be not loyal to a brand. For IvyWear customers who are categorised under not loyal customers indicated that they make less than 3 purchases per year while they shop at competitor brands more. The data analysis has indicated that IvyWear has customers who do not exhibit characteristics of the three loyalty levels described earlier. For instance, these customers have indicated that they have answered no to the question “do you recommend IvyWear to your friends?” The number of purchases per year made at IvyWear, are either higher or equal at the competitors.
How can loyalty programmes improve brand loyalty?

Table 10. Categorisation of not-loyals according to Dick & Basu (1994) two-dimensional model.

<table>
<thead>
<tr>
<th>Questions</th>
<th>Answers</th>
<th>Frequency</th>
<th>Not-loyals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Do you consider yourself loyal to IvyWear</td>
<td>1,2,3</td>
<td>120</td>
<td>9</td>
</tr>
<tr>
<td>Do you recommend IvyWear?</td>
<td>3</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Purchases per year at IvyWear</td>
<td>Less than three times per year</td>
<td>15</td>
<td></td>
</tr>
<tr>
<td>Purchases per year at competitors</td>
<td>Equal or less than at IvyWear</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Importance to loyalty programmes at competitors the same as at IvyWear</td>
<td>1, 2, 3, 4, 5</td>
<td>9</td>
<td></td>
</tr>
</tbody>
</table>

Source: Own.

5.2 Improving brand loyalty among members of the IvyWear’s loyalty programme

According to Mellens et al. (1996), the creation of brand loyalty among customers is a challenging task for organisations since factors affecting brand loyalty are complex to measure. However, Kumar & Shah (2004) argue that identifying and categorising customers according to their level of loyalty and appropriately rewarding them is important. The behavioural and attitudinal indicators discussed above along with the type of loyalty programme and reward schemes can facilitate the improvement of loyalty among customers. According to Berman’s (2006) typology of loyalty programmes, IvyWear’s loyalty programme exhibit characteristics of those programmes he referred to as type 3 and type 4 loyalty programmes. According to the author, these types of programmes are designed to encourage customers to accumulate enough points to get rebates and members are also segmented in different groups and get targeted offers.

Which of the loyalty programme work for IvyWears customers?

True loyals: A combination between Berman’s (2006) model of categories of loyalty programmes could be implemented for the group “true loyals”. For instance, type three could be used to give members points based on cumulative purchases. Type four could be used to divide customers into segments based on purchase history to prioritise these customers (Berman, 2006). Furthermore, for the true loyals the loyalty programme individualised communication could be used (Berman, 2006). For instance the true loyal customers were found
that they value reward schemes such as bonuses and rebates. One strategy could therefore be to select and individualise the communication and bonuses to this category of customers. Therefore, this type of loyalty programmes also stimulates frequency purchasing (Berman, 2006). However, the customers categorised as true loyals had overall higher responses on all activities within the programme. The loyal customers could therefore be concluded to have a positive brand image and make purchase decisions based on their conscious or unconscious preferences to represent their own image (Kuusik, 2007). There is also a strong trust and commitment to the brand (Chauduri & Holbrook, 2001; Kuusik, 2007; Morgan, 1999) which can explain the higher level of respective activity favoured by the loyal customers in the loyalty programme.

**Spurious loyals:** The spurious loyals could, as for the true loyals, be adapted to type three or four of Berman’s (2006) categorisation of loyalty programmes. The spurious loyals had high response levels on how they differentiate IvyWear assortment in comparison to competitors. The spurious loyals had overall, compared to the latent and not-loyals, higher response levels of the various activities in the programme and the importance for them. Thus, bonuses and rebates had the highest level of responses. However, they had low consideration of loyalty towards the brand, which can be explained by a loyalty to the programme and not to the brand. The company could therefore spend resources to increase this category of loyalty by creating targeted offerings and mailings (Berman, 2006) to reward the customers that show and remain loyal to the brand (Dowling & Uncles, 1997; O’Malley 1998; Reinartz & Kumar, 2002).

**Latent loyals:** Studies have shown that repeat purchase does not necessarily indicate customer loyalty (Kuusik, 2007). It is therefore important for organisations to examine the customers’ reason for the brand choice. This study has shown that 27 of IvyWear’ customers have high regard for the brand, but exhibit a relatively low frequency of purchases. A combination of type two and three loyalty programmes and reward schemes (Berman, 2006) would be suitable for the latent loyal customers. Type two allows all customers to be members and the program and its activities can work as an encouragement for purchasing (Berman, 2006). For example bonus checks and rebates could be sent to the customers if type three is applied and the customers can
receive one free when they purchase n units if type two is applied. By applying both strategies for the loyalty programme the company can use the database to link purchases to specific customers and at the same time encourage their purchasing behaviour in various ways. The latent loyals did not have as high response levels on the activities within the programme as the true loyals or spurious loyals. Thus, the majority would recommend the brand to a friend, which is an indicator of trust, commitment and customer loyalty to the brand (Chauduri & Holbrook, 2001; Kuusik, 2007; Morgan, 1999). However, regarding the activities within the programme most of the latent loyals favoured bonuses and rebates which is an indicator that type two and three (Berman, 2006) are suitable for these customers.

**Not-loyals:** Type one would be suitable for the not-loyals (Berman, 2006). The not-loyals did have less regard for VIP events than other rewards in the loyalty programme. Type three and four of the loyalty programmes that involve customer database, purchasing history, and targeted offerings and mailings, are more expensive than type one and two. This will make type one of the loyalty programmes suitable for this category of customers (Dowling & Uncles, 1997; O’Malley, 1998; Reinartz & Kumar, 2002). Type one loyalty programme is open to all customers and each member receives the same discount regardless of purchase history. Furthermore, the firm have no information about purchase history or targeted communication directed at the members (Berman, 2006). However, in type one the members receive additional discounts, when they sign up for membership in a loyalty programme. This type of reward, associated with registration, has the purpose of introducing customers to the loyalty programme (Berman, 2006).

The result of the survey have shown that there are customers who have joined IvyWear’s loyalty programme just because they were asked to become members. Authors argue that loyalty programmes can encourage customers to improve their frequency of purchase (Gómez et al., 2006; Lewis, 2004) and with time become a loyal customer to the brand (Wright & Sparks, 1999). By encouraging purchasing behaviour, the not-loyals can with time change category and therefore need different strategies in the programme. It is therefore possible to create a competitive advantage with time (Yi & Jeon, 2003; O’Malley, 1998; Uncles et al., 2003), even
with this group of customers, by increasing the perceived value through various activities (e.g. customised offerings, such as a combination of differentiated products favoured by each customer, and bonus checks) IvyWear can turn these not loyal customers in to true loyals.

**Which of the rewards are favoured by IvyWear customers?**

The survey results demonstrate that not all of the rewards associated with IvyWear’s loyalty programme are seen favourably among customers. Thus these rewards, which were not favourably regarded by customers, will not improve the level of loyalty of the customers. For instance, the association between the numbers of respondents who valued invitation and participation in VIP events organised by IvyWear is relatively weak (see fig. 13). However, this is one of the reward schemes considered to be important by IvyWear as it is viewed to result in the highest form of brand loyalty. As the interview with the CRM executive, IvyWear designed these form of reward because it was thought to bring about emotional attachment to the brand. However, the empirical findings demonstrate that events and activities are not improving the levels of loyalty among IvyWear’s customers.

*Figure 14. Preferred reward among IvyWear’s customers (grouped by level of loyalty).*

*Source: Own.*
How can loyalty programmes improve brand loyalty?

The IvyWear loyalty programme does not fall distinctively into only one of the types of loyalty programmes presented by Berman (2006). The interview with the company indicated that IvyWear has adopted components from different types of loyalty programmes and reward systems to improve level of loyalty. The main purpose of introducing the different reward schemes, according to the CRM executive, is to not only to reward, but also to encourage loyalty behaviour. As presented in the empirical chapter, IvyWear views true loyalty as an emotional attachment a customer form to its brand, which should be rewarded by special treatment. According to Berman (2006), Kumar & Shah (2004), and Reinartz & Kumar (2002, loyalty programmes help firms to create a situation where customers feel special and appreciated for their loyalty. For this reason, IvyWear have been arranging VIP events for those the company believes have demonstrated the highest level of loyalty. However, the responses from the survey indicate that their customers prefer bonuses and points, and priority to discounts to priority to discounts and invitation to VIP events (see figure 15). The analysis shows that the type of rewards preferred is the same across the four categories of customers (see figure 14). However, not loyals have shown that they are not interested in bonuses and points, and invitation to VIP events.

Figure 15. Preferred rewards among all IvyWear customers.

Source: Own.
6 Conclusions

This chapter presents answers to the research questions based on the analysis presented in the previous chapter. Limitation of the study will also be discussed, along with suggestion for further studies to remedy the obstacles encountered during the course of this study. The chapter also briefly presents reflections concerning the whole study. The literature review, empirical findings, and the analysis are used to give insight for managers and business owners. Theoretical implication of the findings will also be discussed.

6.1 How can customers be grouped according to their level of loyalty?

As presented in the literature review and the empirical study, organisations are striving to keep the number of loyal customers high and take the advantages loyalty brings. Both behavioural and attitudinal measurements can be used to assess the customers if their loyalty is strong to the brand or not.

The analysis of the empirical study has provided that distinct levels of loyalty could be derived from the attitudinal and behavioural indicators. For instance, customers view on loyalty programmes of competitor brands and the number of purchases made at different brands may indicate the level of loyalty. According to the results of the study, the proportion of respondents who valued their loyalty to IvyWear is significantly different. Other form of measures indicating the level of engagement of customers in positive word-of-mouth and their future intention to make purchases could also help to identify customer segments. However, the literature review has also indicated that the lack of common framework to measure loyalty among customers is a hurdle for practitioners. Even though the available methods and the theoretical framework constructed have helped to get customers groped so that reward schemes can be designed, not all customers could be grouped into the four categories.

6.2 How can an organisation improve brand loyalty through loyalty programme?

Brand loyalty is a complex issue, which is the function of different factors (See chapter 2). Organisations have different models and theories at their disposal in order to make
determination on how loyal their customers are. Dick & Basu’s (1994) model and the tri-dimensional loyalty audit (Worthington et al. 2010) are instrumental in indicating the level of loyalty. The survey results indicate that the loyalty programme at IvyWear could be used to improve the level of loyalty among different segments of customers.

As O’Malley (1998) stated, loyalty programmes are intended to improve loyalty to a brand. Even though the effectiveness of loyalty programmes in the creation of brand loyalty among customers is still disputed, most of the articles have highlighted the role loyalty programmes play. Customers who participated in the survey have shown that they are active participant in the loyalty programmes. Majority of the respondents have also indicated that they have not only been member of the programme for many years, but they have also said that they would recommend the programme. However, the preferred reward provided to loyal customers is not in line with what majority of the members’ interest.

The interview with the CRM manager has indicated that invitation to VIP events arranged by IvyWear is intended to create emotional attachment to the brand. Kumar & Shah (2004) and Worthington et al (2010) agree that organisations have to design their loyalty programmes according to their products, level of involvement and future intentions. The analysis of the results indicate that IvyWear have to improve the use of reward schemes that are seen favourably by their customers such as points and bonuses based on purchase history and associated behaviour (positive word-of-mouth and referrals).

The literature review and the analysis show that making assessments to categorise different groups of customers according to their level- of attachment, commitment and engagement in a brand is necessary for organisations. It is also of vital importance to make adjustments in terms of rewards accordingly so that the best possible form of loyalty is achieved and maintained. This will also contribute to creating positive attitudes, as these loyal customers will eventually feel appreciated and special (Reinartz & Kumar, 2002). However, it is also important to ask customers how they want to be rewarded. The responses from the study shows that, even though
firms go a very long way to create emotional attachment to their brand, it does little if these schemes are not appreciated by the customers.

**Which type of loyalty programme should firms choose?**

To meet the objectives of loyalty programmes, firms should use type three and four of the loyalty programmes (Berman, 2006) to their largest segment of customers. In the study, true loyals and latent loyals are the highest groups. To build true loyalty, companies should also focus on the spurious loyals to affect both behavioural and attitudinal loyalty to the brand complementing with other marketing tools (Dick & Basu, 1994; Sharp & Sharp, 1997; O’Malley, 1998).

The study has found that the attitudinal and behavioural loyalty among latent loyals and the true loyals were consistent with the theories in the literature review. The challenge for companies like IvyWear is how to increase efficiency profits (Meyer-Waaden, 2007) among latent loyals and spurious loyals by encouraging the purchasing behaviour of these customers. Using type three and four loyalty programmes (Berman, 2006) and customise offers and rebates, which the data analysis showed to be valued most by these customers, is beneficial for firms. Another challenge for all the four categories is the effectiveness for profits – having the necessary skill to use customer information that can be used to identify patterns beneficial for firm’s advantage. One such skill is to identify which type of loyalty programme that is most suitable for their customers.

The majority of respondents were found to be best suited for the type three and four loyalty programmes, which is therefore considered to be the overall types of strategy that the company should use. However, IvyWear has also adopted the type one loyalty programme, which is considered to be disadvantageous. Even though such a programme is less costly and suitable for those who want to provide as little information as possible, it doesn’t help firms in their quest to understand the buying behaviour of their customers. The company must therefore
design marketing activities and communication that target customers and realise long-term profitability (Meyer-Waarden, 2007; Reinartz & Kumar, 2002).

The challenge of creating brand loyalty and keeping customers loyal has been discussed in marketing literature (Dowling & Uncle, 1997; O’Malley, 1998; Reinartz & Kumar, 2002). Many authors argue that rewarding customers according to their expressed loyalty behaviour can address this challenge. However, the discussion on loyalty programmes and rewards to encourage loyalty is dominated by how organisations should identify customers who are loyal, and give them incentives to remain loyal. Even though the effectiveness of loyalty programmes (along with associated rewards) is disputed, the findings of this study shows that loyalty programmes can improve levels of loyalty. However, loyalty programmes (and rewards associated with them) alone could not create sustainable true customer loyalty. The proposed model (figure 16) incorporates the customers’ preference of rewards and other marketing tools to be implemented to get improved levels of loyalty.

The findings of the study also indicate that firms can improve customer loyalty in three steps. First, organisations should strive to categorise their customers based on their attitudinal and behavioural loyalty. Second, customers belonging to three categories of loyalty (latent loyal, spurious loyal and not loyal), as indicated in the model, should be subjected to other marketing activities than loyalty programmes. For instance, spurious loyal should be informed about the differences between the brand and other alternatives in the market. The reason for the low frequency of purchases among latent loyal should be identified and addressed, before any rewards are given to these customers.

In the third step, organisations should make assessments of their loyalty programmes and how they should reward their customers. Even though rewards have to be designed to encourage customers to make future purchases, the incentives have to be designed so that they meet customers’ expectation and preferences. As demonstrated in this study, the choices of rewards have little relation to the levels of loyalty among customers. This indicates that firms should
How can loyalty programmes improve brand loyalty?

strive to find what is interesting for their customers and reward them accordingly. One proposition could be to use the categorisation of customers to decide what kind of intervention is necessary to instil loyalty.

Figure 16. Proposed model to improve level of loyalty among customers.

6.3 Theoretical and managerial implications

**Theoretical implication:** Brand image and the enhancing of customer loyalty have been researched and examined within the field of marketing. However, there are few studies that
have addressed the issue of categorising customers and the drivers of loyalty for each customer in a loyalty programme. This study has therefore contributed to the state-of-the-art, by examining various rewarding strategies suitable for each loyalty category in loyalty programmes.

The proposed model, which has theoretical implications, is an addition to the literature. The findings have shown that organisations should attempt improve loyalty programmes by following three steps. The findings also confirm that the different types of loyalty programmes (Berman, 2006) could be applied to different groups of customers in the same programme. Furthermore, the study contributes to theory by presenting strategies containing various activities and how they are suitable for different customer groups in a loyalty programme.

Managerial implications: Loyalty programmes, among other marketing tools, have been implemented by many organisations to create brand loyalty. Different reward schemes have been developed to encourage customers to spend more and participate in referrals and positive word-of-mouth. However, the debate surrounding the effect of loyalty programmes have contributed to the scrutiny of these programmes and the associated expenses. It is important to design the right reward method to make loyal customers feel appreciated and rewarded for their loyalty, without compromising profitability of firms. This study has shown how different behavioural and attitudinal measures could be used to categorise customers according to their loyalty. Managers have to decide how these customers are rewarded according to their loyalty, so that they can be moved to the highest form of loyalty, characterised by emotional attachment to the brand. However, the findings have also indicated that reward schemes (e.g. IvyWear’s VIP events), considered to bring emotional attachment to the brand, have little effect if not appreciated by the customers.

6.4 Reflection, Limitations and future research

Reflections: The value of brand loyalty in an organisation’s success has been debated in marketing literature. However, studies have indicated that it is in the firms’ interest to create brand loyalty. The literature reviewed for this study have shown that there are many advantages of creating brand loyalty, which affects not only profitability but also revenue sustainability in
the long run. Different marketing strategies have been implemented to attract and keep loyal customers. However, the challenges of creating loyalty among customers remains and have been discussed in academic literature. As the state-of-the-art shows, several factors have been identified, which can influence the loyalty of customers. Among the marketing tools organisations have at their disposal, loyalty programmes are commonly introduced across industries. One of the challenges, however, is to find out if these programmes are efficient in creating and customer loyalty. Different models and theories have also attempted to present different reward schemes to make loyalty programmes effective.

**Limitations:** The data for the study was gathered from a garment retailing company in Sweden, which is different from other forms of product and service providers in the country or abroad. The findings, therefore, might not be applicable to other industries. The fact that the survey was distributed only to a sample of members of IvyWear’s loyalty programme, through email addresses provided by the company is also a limitation. Even though the company has around 2 million members in its loyalty programme, only 500 000 email addresses in its database were available for the study. This means that more than 75 per cent of the members of IvyWear’s loyalty programme were unreachable. Readers of this study are thus advised to consider the representativeness of the sample.

In order to make the behavioural and attitudinal analysis of the customers, used to categorise customers, the study has relied on the responses collected at one point in time. A long-term study could have identified the effects of different reward strategies. This could also have provided information if the changes in reward schemes truly makes a difference on the levels of customer loyalty. The other related limitation of the study comes from the formulation of the survey questions. In order to improve the response rate and protect the privacy of respondents, respondents were not asked how much they spent per purchase. Behavioural loyalty was assessed by responses for questions asking only about the frequency of purchases. However, previous studies (Liu & Yang, 2009; Mägi, 2003; Meyer-Waarden, 2007) have argued that “share of wallet” could have provided a better picture of customers’ true behavioural loyalty.
**Future research:** Only respondents who are members of the loyalty programme and provided their contact details were targeted for the investigation of whether the loyalty programme affect their level of loyalty. However, a comprehensive study including non-members of the loyalty programme and members with no registered contact information could shed light on the effectiveness of the loyalty programme’s effectiveness in creating customer loyalty. Further studies, based on the findings of this study, investigating the effectiveness of categorising customers on their preferences of rewards, would be beneficial for both practitioners and researchers. Longitudinal studies investigating the effects of the rewards of different loyalty programmes and complementary marketing activity would complement the findings of this study.
Appendices

Appendix 1. Consent form
You received this email because you are member of IvyWear’s loyalty programme. If you are not member of IvyWear club or choose not to participate in the survey, you may withdraw any time before you submit the answers.

The result of the survey will be used towards a thesis for the degree of Master of Science in business administration. The area of research of this study is investigation of customer’s level of loyalty and how customers can be rewarded for their loyalty. IvyWear might also use the result of the survey for marketing purposes.

The survey consists of 21 multiple choice questions which will approximately take between 3-5 minutes. To thank respondents who participate in the survey, 50 SEK voucher code will be displayed at the time of submission of the complete survey. The voucher code, valid until the 3rd of May 2015, can be used towards payment when making purchases online. The following link containing the survey questions and will be active for seven days from the time this email was sent.

https://docs.google.com/forms/d/1QG6DGMeANcs43Ec92iH4Utf9PQvSs3XCD1GdHjm9t

If you have questions regarding the study in general and survey questions in particular, you may reach the students conducting the study using either of the following email addresses:

Gideon Mekonnen Jonathan: eaa14gjn@student.hig.se
Anna Kapetanakis: eep10aki@student.hig.se

Thank you for your cooperation!
Gideon and Anna
Appendix 2. Survey questions

Undersökning om IvyWears kundklubb

Du får den här enkäten eftersom du är medlem i IvyWears kundklubb och dina svar är viktiga för vårt arbete med en uppsats på Högskolan i Cawle och för IvyWear som kommer ta del av resultatet på övergripande nivå. Dina svar är anonyma och resultatet redovisas sammantaget för alla som svarar.

Det går att avsluta enkäten när som helst efter att den är påbörjad. Enkäten beräknas ta mellan 3-5 minuter att besvara och kommer vara aktiv i 7 dagar.

Tack för din medverkan!

Ålder
- 18-24
- 25-34
- 35-44
- 45-54
- 55-64
- 65-74
- 75 eller äldre

Hur ofta handlar du hos IvyWear?
- Mindre än en gång per år
- En gång per år eller mer
- Tre gånger per år eller mer
- Fyra gånger per år eller mer
- Fem gånger per år eller mer
- Sex gånger per år eller mer

Hur ofta handlar du hos liknande varumärken?
- Mindre än en gång per år
- En gång per år eller mer
- Tre gånger per år eller mer
- Fyra gånger per år eller mer
- Fem gånger per år eller mer
- Sex gånger per år eller mer

Kryssa i den kategori du handlar mest av hos IvyWear
- Damkläder
- Barnkläder
- Underkläder
- Kosmetik
- Övrigt
How can loyalty programmes improve brand loyalty?

Vad tycker du om designen på IvyWears sortiment?

1 2 3 4 5

Inte bra ○ ○ ○ ○ Mycket bra

Hur rimliga är IvyWears priser?

1 2 3 4 5

Inte rimliga ○ ○ ○ ○ Mycket rimliga

Vilket av nedanstående sortiment föredrar du när du handlar hos IvyWear?

○ Damkläder
○ Designnumrarbete
○ Deras hållbara kollektion
○ IvyWear generous
○ Barkläder
○ Kosmetik
○ Övrigt

Hur värderar du IvyWears sortiment jämfört med andra varumärken?

1 2 3 4 5

Mycket sämre ○ ○ ○ ○ Mycket bättre

Har du tänkt göra ett kommande köp hos IvyWear?

○ Ja
○ Nej
○ Vet ej

Skulle du rekommendera IvyWear till en vän?

○ Ja
○ Nej
○ Vet ej

Berättar du för dina vänner om vad du köpt hos IvyWear?

1 2 3 4 5

Mycket sällan ○ ○ ○ ○ Mycket ofta
How can loyalty programmes improve brand loyalty?

Handlar du hos IvyWear med dina vänner?

1 2 3 4 5
Mycket sällan ○ ○ ○ ○ Mycket ofta

Anser du dig själv som en trogen kund till IvyWear?

1 2 3 4 5
Inte trogen ○ ○ ○ ○ Mycket trogen

Hur länge har du varit medlem i IvyWears kundklubb?

○ 1-3 år
○ 4-9 år
○ 9 år eller mer
○ Vet ej

Varför blev du medlem i IvyWears kundklubb?

○ För att få erbjudanden och rabatter
○ För att få information
○ För att vara en del av Lindex
○ För att delta på olika evenemang
○ Vet ej

Hur viktigt är ett medlemskap i IvyWears more för dig?

1 2 3 4 5
Inte allt viktigt ○ ○ ○ ○ Mycket viktigt

Vad påverkade dig att bli medlem i IvyWears kundklubb?

○ Mina vänner
○ Bra erbjudanden och formåner
○ Bra sortiment
○ Prisvårt modu
○ Jag blev tillräcktad
○ Tillfälighet

Hur viktigt är ett medlemskap i en kundklubb hos övriga varumärken för dig?

1 2 3 4 5
Inte alls viktigt ○ ○ ○ ○ Mycket viktigt
Hur viktigt är följande saker för dig?

Bonus och poäng

1 2 3 4 5

*Inte alls viktigt* ○ ○ ○ ○ ○ *Mycket viktigt*

*Inbjudan till VIP event*

1 2 3 4 5

*Inte alls viktigt* ○ ○ ○ ○ ○ *Mycket viktigt*

*Förtur till att handla när IvyWear har designsamarbeten*

1 2 3 4 5

*Inte alls viktigt* ○ ○ ○ ○ ○ *Mycket viktigt*

*Förtur till rea*

1 2 3 4 5

*Inte alls viktigt* ○ ○ ○ ○ ○ *Mycket viktigt*

*Bra erbjudanden och förmåner*

1 2 3 4 5

*Inte alls viktigt* ○ ○ ○ ○ ○ *Mycket viktigt*

*Bra sortiment och priser*

1 2 3 4 5

*Inte alls viktigt* ○ ○ ○ ○ ○ *Mycket viktigt*

Skulle du rekommendera en vän att ansluta sig till IvyWears kundklubb?

○ Nej, inte alls
○ Ja, absolut
○ Vet ej
Appendix 3. Interview Questions (IvyWear CRM executive)

1. What is your name?
2. Could you state your position at IvyWear?
3. What is the company's view on loyalty?
4. Have they analysed their data to see shopping pattern among their members?
5. Do you have loyalty programme?
6. When was the programme launched?
7. What is the purpose of the loyalty programme?
8. Did they see increase in sales per member?
9. How is the fluctuation of sales during different times?
10. Did they do analysis to see if the increase in sales is by number of members that is growing or by volume of sale per member?
11. What do the customers get to be loyal to IvyWear?
12. Do you have partnership with others?
13. What do you do to make customers feel special?
14. What do customers want from the loyalty programme?
15. What do customers appreciate?
Appendix 4. Interview questions (IvyWear Customers)

1. Ålder
2. Kön
3. Är du en IvyWear club medlem?
4. Vad fick dig att bli medlem i IvyWear?
5. Hur ofta handlar du hos IvyWear?
6. Vad är det som gör att du handlar hos IvyWear?
7. Vad handlar du mest hos IvyWear? (damkläder, underkläder, barnkläder)
8. Vet du vilka förmåner IvyWear?
9. Vilka förmåner uppskattar du mest som kund?
10. Hur ofta använder du dina förmåner?
11. Påverkar förmånerna med IvyWear hur ofta du handlar hos Lindex?
12. Shoppar du rea-varor hos IvyWear?
13. Ungefär hur stor del av din shopping är rabatterade varor?
14. Finns det något du saknar hos IvyWear?
15. Hur uppfattar du varumärket?
16. Skulle du rekommendera IvyWear till en vän?
17. Vilka aktiviteter i Lindex more gör dig engagerad?
18. Och slutligen,.Skulle du rekommendera IvyWear till en vän?
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References


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