

THE IMPACT OF CUSTOMER LOYALTY PROGRAMS AND MEDIATING
FACTORS ON STORE LOYALTY IN THE SUPERMARKET INDUSTRY

A Dissertation by

LEONG Kuan Wei

MBus

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ABSTRACT

Supermarkets are a low margin high volume business with low entry barriers and switching costs. When markets become saturated and customer retention is more important than ever, many supermarkets launch their own customer loyalty programs aimed at increasing customer loyalty to the store. The rewards and services that come with loyalty programs bring a significant cost to supermarkets. However, a small increase in customer loyalty can generate significant increases in sales turnover that helps to recoup loyalty program investment.

From the literature review, it is posited that customer loyalty programs have a positive and linear effect on customer satisfaction with the store, and on store loyalty. Furthermore, there is strong empirical evidence that store satisfaction is antecedent to store loyalty. This study examines the stance that store satisfaction mediates the relationship between customer loyalty programs and store loyalty. This study adopts the Bridson, Evans and Hickman (2008) framework from the literature to investigate the relationship between customer loyalty programs, customer satisfaction and customer loyalty.

The online questionnaire administration collected 205 responses from individuals aged at least 18 years and living in Hong Kong. The relationship between different constructs are analysed with SPSS software. The findings reveal that customer loyalty programs indeed have a positive and linear effect on store satisfaction and store loyalty. Store satisfaction is also found to mediate the relationship between customer loyalty programs and customers' store loyalty. More importantly, this study discovers that there is no difference in store loyalty between loyalty program members and those who are not loyalty program members. In addition, this study found that the role of location was a strong predictor of store satisfaction and price image. The study reveals that customer service and price image are the two most

important factors influencing store loyalty. Thus, practitioners and owners of supermarkets should consider adjusting their loyalty program designs based on these findings as they strive to obtain optimum results for their supermarkets.