LOYALTY PROGRAMS IN GROCERY RETAILING: DO CUSTOMERS PROVOKE A TIERED REWARDING SYSTEM?

Dario Dunković [1] & *Goran Petković* [2]

Summary

The concept of customer loyalty is inherently attractive to retail business. Stores are implementing and adopting loyalty programs to gain interest of the customers in maintaining relationship with the store. However, differentiation among programs of different retailers is poor. For this reason, an adequate conceptual model supporting different advantages in relation to established schemes, particularly in terms of profitability, is formed and tested. The aim of the paper is to determine the participation of "two-tiered rewards" in customer relationship management, where customers who buy less and buy cheaper are discriminated against in relation to others. Programs should play the key role in creating a unique store image. However, to what extent can introduction of different schemes and technologies into the program create positive effects on the image? This is a sensitive issue for retail management as aspiration to increase profitability at the same time creates different perceptions among customers. To explore the conceptual model, a survey was carried out in six retail chains. There were 286 cardholders who participated in the survey whose perceptions and attitudes were ranked and they were divided into three age groups. The results show a propensity of customers toward a two-tiered reward scheme. However, other relevant contradictory tendencies were present. The managerial implication of the paper is to improve the understanding of the effects of multi-tiered rewards, thus helping the retailers who operatively use the programs to make a decision about how to best allocate marketing resources.

Key words: *customer loyalty program, retailing, store image, propensity, two-tiered rewards.*

---

[1] Dario Dunković, Ph.D., Assistant Professor, Faculty of Economics and Business, University of Zagreb, E-mail: ddunkovic@efzg.hr

[2] Goran Petković, Ph.D., Full Professor, Faculty of Economics, University of Belgrade, E-mail: goranp@ekof.bg.ac.rs

1. INTRODUCTION

Many retailers employ some form of frequency reward programs (loyalty programs) striving to find ways in which to attract and retain their customers. It is typically expected from these programs that a rewarded customer will repeat his or her purchase. Although many retailers have introduced these programs, we do not have sufficient information about how these different ways of rewarding influence consumer behavior. As Reinartz (2010) found out, customers who received a discount or a gift as a result of purchases i.e. by collecting points (hard type reward), behaved more loyally than those who were just thanked for the purchase (soft type reward). This finding points to the differential impact of various types of rewards. Kumar & Shah (2004) established a framework for building and sustaining profitable customers in which they emphasize the need for further research into enhancing behavioural and attitudinal loyalty using a customer selection process via customer relationship management (CRM). Their research points to the need for better utilisation of frequency reward programs in the way that in addition to the usual Tier 1 rewarding intended for all cardholders, an additional Tier 2 is introduced, in which the reward objective and type are determined by customer profitability which was therefore a motivation and theoretical background for establishing the conceptual framework in Fig. 2.

On the Croatian market several loyalty programs are operational. The MultiPlus Card[3] reward program has issued reward points worth over HRK 210 million so far, according to the scheme: 25 Kuna = 1 point, with 150 point threshold. In Mana club[4] customers get a point for each Kuna they spend. There are also thresholds, and, in some limited periods, the aggregated points can be used as discounts. Bipo club[5], in which only pregnant women and parents of small children are entitled to be cardholders, offers promotional prices and discounts on baby products both in stores and on-line, and members can share their shopping experience with other members on the web site. Billa supermarkets offer points to Billa Club[6] cardholders according to a scale: for HRK 25 – 49.99 you get 1 point, for HRK 50 – 74.99 you get 2 points, etc. In addition, Billa offers some products to its members at a special discount. Typically, loyalty programs offer delayed, accumulated economic benefits to consumers based on repeated purchase (Dowling & Uncles, 1997; Kumar & Reinartz, 2012). Usually, this takes the form of points that can be exchanged for gifts or vouchers. Discount value of points generally ranges between 1% and 4% of sales (Zentes, et al. 2011).

Many retailers are aware that the little things that make a big difference in customer satisfaction and loyalty determine their growth and profitability. For example, sending catalogues with promotional offers to customers' home address; introducing an additional cash register in the store intended for cardholders only; organizing award winning contests, etc. Customer loyalty programs are manifestations of customer rela-

---

[3]   http://www.multipluscard.hr [accessed in April 2015].
[4]   http://www.mana.hr [accessed in April 2015].
[5]   http://www.bipoclub.hr [accessed in April 2015].
[6]   http://www.billa.hr [accessed in April 2015].

tionship management. Some retailers also use loyalty programs for price differentiation, so those customers who reach a particular value can get better prices.

Data-driven retailing to improve profitability is one of the important fields of retail research where a purchase rewarding system is a practical concept for implementing theoretical achievements (Kumar & Shah, 2004; Verhoef, et al., 2009). Loyalty programs represent an important tool that can identify, reward and successfully retain profitable customers (Kumar & Reinartz, 2012). Loyalty may not necessarily translate into profitability, but it helps in achieving profitability. A profitable customer is one that generates revenues to a retailer in the way that his frequent purchases exceed the costs arising from attracting, selling to, and servicing that customer. Customer loyalty holds no significance for a company if it does not result in profitability (Reinartz & Kumar, 2000). A regular customer whose basket typically contains promotionally priced items will hardly be profitable for a retailer.

In some cases, loyalty programs are simply called "clubs". The focus of customer clubs is more on the emotional bond between the customer and the retailer. With club memberships, preferred service, newsletters, online forums, telephone help-lines and other measures, a two-way communication is established so that customers can interact with the retailer and get to know it better. According to research results of loyalty programs implemented in commercial chains in Poland, Sztangret & Bilińska-Reformat (2014) concluded that the importance of loyalty programs has increased and their effective and real impact on sale constitute an element of market research.

Loyalty programs are introduced to encourage customers to visit the store and make a purchase decision (Demoulin & Zidda, 2008). Recognizability of the program depends on the perception that a cardholder has about the program (Oliver, 1999). Loyalty programs comprise integrated systems of marketing actions and communications that aim to increase loyalty, repeat buying, and switching costs by providing economical, hedonist, informational, functional, and sociological rewards (Meyer-Waarden, et al., 2013). It would be wrong to understand loyalty programs as solutions to the problem of building loyalty and achieving profitability, as some research shows that connection between loyalty and profitability is very poor (Reinartz & Kumar, 2002). The effectiveness of a broader coalition of loyalty programs and special treatment benefits is more likely to produce a spoiled customer who requires higher value in exchange for his or her loyalty (Schuman, et al., 2014). Loyalty programs may also create a downward spiral if perceived and invoked loyalty benefits are not elevated as expected (Wieseke, et al., 2014).

Retailers do not consider all customers equal, so it is of strategic importance for them to have the greatest possible number of customers, on the condition that these are profitable. Attractiveness of the store influences consumer behavior, his or her experience, and his or her perception of the store image. Loyalty programs aim to influence consumer behavior and purchase decisions through various forms of rewarding in order to attract customers, encourage them to buy and to retain them. Most retail chains use and develop these programs in an attempt to offer different schemes than their competitors. The set conceptual framework will be explored, indicating ways through which retailers can improve loyalty schemes. There are many similar schemes in the market

that are not sufficiently recognizable and cannot create the expected unique effect on customer perception and experience. The key role in the decision whether to accept the model fully or partially belongs to attitudes and perceptions of club members, which need to be examined.

2. CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

Loyalty programs are used by retailers in order to create the best possible perception of the store among customers, with the purpose, of course, of gaining economic benefits (i.e. increasing turnover in the long term, providing better offer, reducing communication costs). Joining a club creates new shopping circumstances for a member, and the sales management, aiming to create a better experience in the store for the customer and building loyalty, controls these. Loyalty building management may lead to perceived benefits among customers. On the other hand, the cost of transaction may outweigh the benefits, which creates a negative experience and deteriorates the store image (Fig. 1). How efficient the loyalty building process will be depends on the store image, which prompts customers to visit it, on the types of products bought there and the amounts spent, as well as on how customers register into the program and collect points. As the operational result of a loyalty scheme, the reward should create a positive experience for the customer by providing the expected benefit for his/her loyal behavior.

Figure 1: Economic aspect of retailer loyalty program concept and customer's response
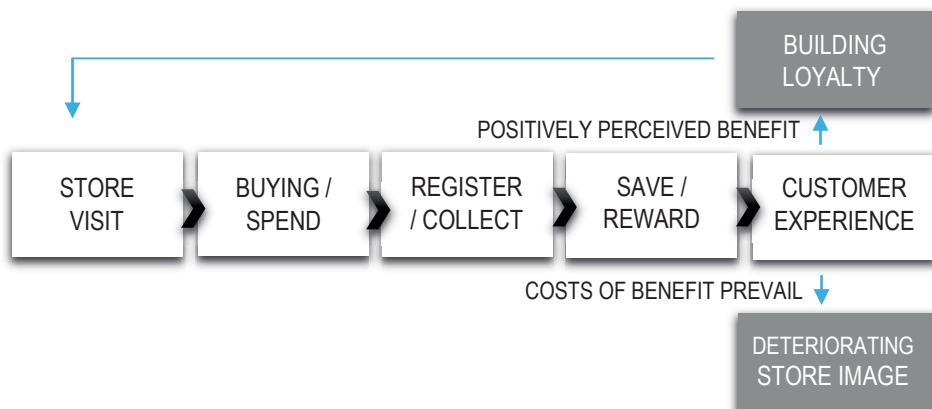
Source: Authors.

Better customer experience should result in repeated purchase behavior (Demoulin & Zidda, 2008). Sustainable or true loyalty only exists when consumers repeat purchases or visit the same store very frequently and when they have a favorable attitude or a

high preference for the store. Because of its ease of measurement, behavioral approach is mostly used in marketing research contexts to evaluate the impact of loyalty cards on store loyalty (Bridson et al, 2008; Yuping 2007). This is done by ranking customer's perception and satisfaction level with regard to specific dimensions of store image.

Loyalty programs increase the efficiency of customer relationship management systems as they directly connect the basket to the customer, which can be used by retailers to precisely follow the demand dynamics through frequency of visits and customer profitability (Kumar & Shah, 2004). Customers have different perceptions about program rewards, which shape their attitude toward the retailer and their behavior as a response to the reward. Customers are also aware of the position they build over time and they tend to require from the retailer certain counter values (for example price discounts).

The perceived benefit created by loyalty program rewards is the relationship between the consumer's perceived benefits in relation to the perceived costs of receiving these benefits, and represents a positive emotional response such as a subjective experience of satisfaction and happiness (Bridson, et al., 2008). Customer experience includes every point of contact at which the customer interacts with the business, goods or service. It means creating the best possible promotion experience, pricing experience, merchandise and brand experience, location experience, loyalty experience, etc., with the aim of influencing emotional and physical responses of the customer (Grewal, et al., 2009; Verhoef, et al., 2009). Experience may depend on factors that can be controlled by the retailer (atmosphere, prices, the level of service), but also on those outside of the retailer's control (influence of other people, purpose of shopping). The same retail environment and retail activities may produce very different outcomes and feelings, depending on the consumer's goals. A crowded store may seem exciting for customers seeking entertainment but create a perception of poor service and frustration for a consumer who wants to purchase a specific product. Satisfaction with loyalty programs may be described in a similar way. Programs whose reward scheme includes some unknown elements or change often may lead to the situation that customers' expectations exceed the reward, which affects his or her store image.

Figure 2 shows the conceptual framework of the research. The model shows both conventional and alternative experimental flow of loyalty incentive between retailer transaction system and consumer behavior. The model can be used to explore attitudes and perceptions of cardholders according to a Tier-2 rewarding scheme with simultaneous support to the initiative through mobile smartphone technology. The model takes into account the influence of attitudes and perceptions on behavioral and attitudinal loyalty. Retailers offering more attractive loyalty programs than their competition offer different schemes and technologies to customers, thus having a stronger influence on consumer behavior, their experience of shopping and loyalty building (Yuping, 2007). By introducing reward schemes that would depend on the gross margin value, a direct connection would be created between rewarding and profitability. Higher achieved basket margin means better financial abilities of the retailer with the rewarded loyal customer. This leads to achieving improved profitability control. Four research hypotheses have been set to explore the model's functionality.

Figure 2: Conceptual framework of retailer loyalty incentive in customer context
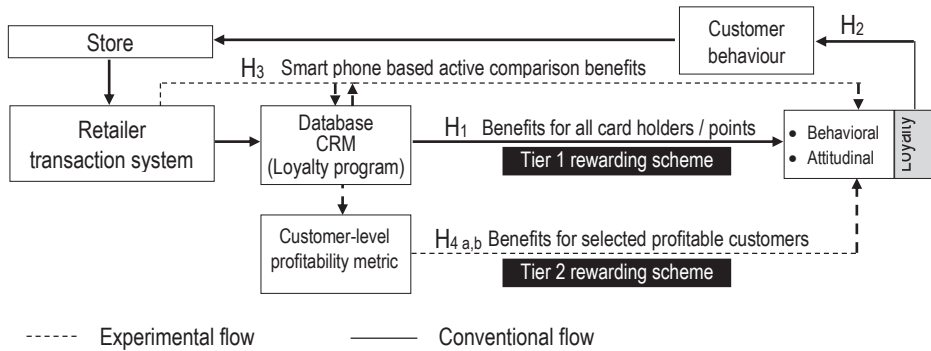
Source: Authors.

If among customers there is a weak perception of differences in marketing activities because the schemes are copied and therefore their influence on attitudinal behavior of customer is negligible, the efficiency of the program and justification of the incurred marketing cost is questionable (Reinartz, 2010; Meyer-Waarden, et al., 2013). The H_1 hypothesis states that among customers there is indifference toward schemes due to their uniform and similar rewarding through collection of points:

H_1: Club members do not perceive differences among loyalty program schemes of different retailers ($\mu_{H1} >= 4$).

Demoulin & Zidda (2008) investigated the link between customers' loyalty and their satisfaction with the rewards provided by retailer loyalty cards in 17 grocery retail chains. Their results show that customers who are satisfied with rewards show greater loyalty to the store, i.e. they allocate a higher proportion of their budget and patronage frequency to the store than dissatisfied customers. According to these results, by measuring the attitude of customers toward their experience with rewarding, the significance of the program for store image can be determined, resulting in the following hypothesis:

H_2: The loyalty scheme affects the store selection ($\mu_{H2} >= 4$) regardless of the age of the club member.

Top retailer in the world - Wal-Mart Corporation, operates successfully without any conventional customer loyalty program – which makes it different from the competition. They implement their loyalty program by means of a simple *Savings Catcher* mobile application which, if a product is more expensive in a Wal-Mart store than in any other nearby store, adds the determined difference in the price of the product to the customer's eGift Card[7]. In this way, they are trying to attract and build customer loyalty as they offer the lowest price guarantee. This is only one of the innovative forms

---

[7]   https://savingscatcher.walmart.com/

of using mobile technology to build loyalty and it is primarily intended for discounters. Advanced mobile technology is widely spread and it offers much greater possibilities than magnet cards. However, its applicability depends on the propensity of a particular generation of customers and therefore we hypothesize that:

H_3: Club members are prone to using mobile smartphone technology as an interface in loyalty programs ($\mu_{H3} >= 4$); however, this greatly varies among different age groups.

Loyalty schemes seem to be fully profitable only when applied to a small number of customers; many existing grocery loyalty programs therefore fail because they lack precise customer segmentation and targeting (Meyer-Waarden, et al., 2013). There are two key functions of reward accumulation, the usual non-tier or Tier-1 and the other, tiered or Tier-2. If the relative rewards remain constant even though cumulative spending increases (e.g. one point per HRK spent as in most programs), this function might lead a consumer to distribute his or her spending between different retailers (without any loss for the customer). Only if the relative rewards increase with cumulative spending (e.g. one point per HRK when spending is below 100 HRK, three points per HRK when spending is above 100 HRK) does the program become more attractive for customers who spend more with one retailer. This gives customers a real reward to concentrate their spending at one retailer. This supports a company's tiered rewards strategy which aims to focus retention efforts on a small group of high value customers (Reinartz 2010). Sometimes, such a measure is implemented with different types of loyalty cards, such as normal cards, gold cards or platinum cards. Switching costs for customers are thereby increased since accumulated assets can be seen as customer investment in the relationship with the retailer, which should in turn enhance loyalty. In addition to retaining customers, it is important for retailers to use the scheme to control profitability. Accumulation of points that is determined by the profitability rate directly links the marketing effect with profitability (for example, buying goods at promotional prices may be discriminated in terms of points obtained when purchasing other goods). This is a sensitive question, because such a scheme may have a negative effect on the store image and be counterproductive if a significant number of customers visit the store because of the promotional offer, but these are mostly non-profitable customers. From the management point of view, more than 75% of customers who are positive about the concept can represent the reason for its implementation. Therefore, we hypothesize:

H_{4a}: Members are positive about loyalty program discrimination of those buyers who contribute to retailer's turnover to a lower extent - Tier 2 propensity (share >75%, $\mu_{H2} >= 4$).

H_{4b}: The loyalty reward scheme that takes into account the effect of the basket on the retailer's profitability is an attractive model for club members ($\mu_{H2} >= 4$).

3. DATA COLLECTION AND METHODOLOGY

In order to collect empirical information, a survey was conducted during March 2015 to examine specific individual perceptions and attitudes of club members. Mem-

bership in at least two loyalty programs was the precondition to participate in the survey. Customers were surveyed in seven grocery retail chains situated on 11 locations in wider Zagreb area. Club members were surveyed in the store after the purchase when they experienced aggregation or redemption of points. They were asked to indicate the degree of agreement and disagreement on 17 individual statements where answers were evaluated according to a 5-level ranking scale. The aim of the questionnaire was to gather more detailed information about:

- Members' perception of the differentiated benefits offered by loyalty clubs,

- Propensity to select the store depending on the rewarding scheme from the loyalty program,

- Propensity to use mobile smartphone technology in loyalty programs,

- Attitude about an experimental scheme where cherry pickers are discriminated in loyalty programs in relation to others.

Cherry picking can be defined as taking the promotional priced goods and leaving the rest and therefore term cherry picking is used to portray customers' behavior in retailing (Ailawadi, et al., 2009).

In the questionnaire, respondents could select a range of answers between strongly agree and strongly disagree (Appendix 1). The answers coded with numbers "4" and "5" supported the set hypotheses. The statistics of the sample is shown in Table 1. The sample was discretely stratified into three groups according to age: younger than 30, between 30 and 50 years old and those over 50, with each group equally represented. Surveys were implemented on locations on three typical days of the week (Tuesday as a regular working day, Friday as the last working day in the working week, Saturday as a shopping day). The survey included 286 respondents.

Table 1: Frequencies and proportions of club members' sampling and survey timing

Segments of respondents according to age structure	Tuesday	Friday	Saturday	Subtotal	%
less than 30 years old (<30)	28	14	52	94	33%
between 30 - 50 yo (30-50)	30	22	45	97	34%
more than 50 yo (>50)	26	20	49	95	33%
Subtotal	84	56	146	$\sum$ N=286	
%	29%	20%	51%		100%

In the planning phase, each hypothesis was matched to a certain number of statements (i.e. S1, S2…S17), resulting in four groups of statements. Reliability analysis employing covariance among the items was implemented first. Cronbach's Alpha was used for testing internal consistency within groups of questions. Table 2 shows an acceptable level of internal consistency (Alpha>0.7), within groups of questions referring

to H_1, H_2 and H_4, whereas for the group of questions referring to H_3, an acceptable level was determined only after deleting S12.

Table 2: Reliability testing of grouped statements

Hyp.	Group of survey statements	Alpha	N of Items
H1	S1, S2, S3, S4, S5	.747	5
H2	S6, S7, S8	.858	3
H3	S9, S10, S11 *	.715	3
H4	S13, S14, S15, S16, S17	.799	5

*S12 is deleted to reach unidimensionality

To reduce the dimensionality of the dataset we have used principal component analysis (PCA) as a factor extraction method of exploratory factor analysis (EFA), which is a widely utilized and broadly applied statistical technique. Methodology used in this paper is similar to Anić, et al. (2010) who dealt with consumer perception research based on data gathered by means of a questionnaire. Table 3 indicates a matrix in which five components were extracted from the dataset, accounting for 61.2% of total variance.

Table 3: Dataset dimensionality reduction matrix

Survey statements/ questions	Components				
	1	2	3	4	5
	Preference to mobile smartphone as an interface in loyalty programs	Multi-tiered (2-Tier) loyalty scheme propensity	Loyalty scheme affects store selection	Perception of undifferentiation among loyalty programs	Propensity to loyalty treatment on gross margin value basis
S1	-,02	-,15	,16	,56	,14
S2	-,03	-,34	-,26	,48	,06
S3	,02	-,04	,33	,57	,22
S4	-,02	,06	-,03	,95	-,07
S5	-,06	,15	-,13	,65	-,21
S6	,00	,10	,86	-,08	,31
S7	,00	,05	,94	,02	-,01
S8	-,01	,18	-,64	-,10	,17
S9	,78	,06	-,02	-,05	,06
S10	,83	,01	-,02	,02	,04
S11	,85	,08	-,04	,02	-,11
S14	,00	,86	,10	-,08	,31
S15	,15	,48	,06	-,18	-,07
S17	,04	,67	-,10	,00	-,11
S16	,05	-,03	-,01	,08	,83

Extraction Method: Principal Component Analysis. Rotation Method: Varimax with Kaiser Normalization converged in 6 iterations.
S12 and S13 were removed from dataset, the former due to low Alpha and the latter due to low factor loadings.

Each factor (component) is defined as a set of loadings, each measuring the correlation between individual indicators and the latent factor. For example, component '2' dimensions the statements under numbers 14, 15 and 17 that support the 'Multi-tiered (2-Tier) loyalty scheme propensity'. The components are congruent to the hypotheses.

Further analysis of the data set refers to determining the share of participants who, with regard to perceptions and attitudes expressed, support the set hypothesis. In the course of this analysis, also Chi-square (χ^2) goodness-of-fit test was implemented to determine the significance of differences between categories (segments). Tukey's honest significant difference (HSD) test was additionally used to identify the significance of homogeneity between segments of customers considering congruent responses means. The final result of the empirical research consists of determining the arithmetic mean of each set of congruent statements and determining the statistical significance between segments mean using one-way ANOVA.

4. RESEARCH RESULTS

As the value matched to the answer increasingly approaches the value '5', the attitudes of respondents increasingly tend to accept the set hypotheses, and the value '4' was taken as a threshold value. In Table 4 we emphasized the percentage share of respondents whose mean value of congruent answers was at least '4.0' (so called 'positive answers').

Table 4: Shares of 'positive attitudes' and Goodness-of-Fit test

Surveyed attitudes of club members (component)	Share in total sample (%) [1]	Share per segment (%) [1]			Chi-square Goodness-of-Fit[2]
		< 30 yo	30 - 50 yo	> 50 yo	
Perception of undifferentiation among retailers' loyalty programs (4)	21.3	25.6	23.0	15.2	0.046
Loyalty scheme affects store selection (3)	64.7	78.4	60.3	55.5	0.105
Preference to mobile smartphone as an interface in retailer's loyalty programs (1)	51.0	82.7	54.3	15.9	0.001
Multi Tiered (2-Tier) loyalty scheme propensity (2)	89.2	93.3	85.1	89.5	0.828
Propensity to loyalty treatment on gross margin value basis (5)	12.6	13.2	5.60	19.3	0.024

[1] percentage of respondents with mean rank per response >= 4
[2] α=0,05

It can be noted that as many as 89.2% of respondents were interested in participating in schemes that would enable them to influence the reward size with their behavior. Transmitting positive impressions about the store to other customers by word-of-mouth principle reduces marketing costs, thus creating new opportunities for rewarding and acquiring new customers (Kumar, et al., 2007). Fluctuations in the customer frequency

in the store depending on the day of the week or time of the day creates organizational pressure which can be mitigated through schemes where more valuable points are gathered when buying products outside of the store peak times (Yuping, 2007). Some retailers offer lower prices for customers after 6 p.m. to make it easier to sell fresh products and to reduce shrinkage, but also to influence the frequency of visits. Loyalty schemes can be used to change consumer behavior, but they do not need to be aimed only at long-term customer retention. Development of schemes can also change the effectiveness of some management decisions in the store. To provide stronger influence of schemes on utilization of store resources, these schemes have to be more complex, which means that in addition to the usual scheme acceptable to customers they should offer another level of rewards, depending on the needs and priorities of retailers. Customers are interested in participating proactively in increasing the retailer's turnover and, consequently, being rewarded better than others, but they are aware that they will also be discriminated in rewards in relation to those who are more successful than they are. Therefore, according to the results in Table 5 we can confirm the hypothesis H_{4a} (share=0.892>0,75; μ_{H4a}=4.08>4). However, club members do not accept (87.4%) the tiered rewards scheme that is based on basket profitability as they have quite a negative attitude that it should be based on the criteria of representation of goods at promotional prices and goods at regular prices in the basket. This is an attractive method for retailers, as member rewarding would maintain the achieved profitability. However, it is not transparent for customers in general as they do not have insight into the margin and cannot control the aggregation of points. Thereby, H_{4b} is clearly rejected for all segments (μ_{H4b}=1.91<4, p> 0.05).

Table 5: Result of comparing multiple means and analysis of variance (ANOVA)

Hyp.	Surveyed attitudes of club members	Mean response	SD	Segments' mean[1]			p^*
				< 30 yo	30-50 yo	> 50 yo	
H_1	Perception of undifferentiation among retailers' loyalty programs	2.52	1.29	2.43	2.59	2.55	0.821
H_2	Loyalty scheme affects store selection	3.32	1.49	3.60	3.22	3.15	0.574
H_3	Preference to mobile smartphone as an interface in retailer loyalty programs	2.98	1.28	4.02	3.10	1.82	0.043
H_{4a}	Multi Tiered (2-Tier) loyalty scheme propensity	4.08	1.06	4.32	3.92	3.99	0.771
H_{4b}	Propensity to loyalty treatment on gross margin value basis	1.91	1.04	1.75	1.56	2.43	0.133

[1] Tukey HSD test of segments mean homogenity p=.748, α=0,05

* α=0,05

If loyalty programs were more adjusted to buyer propensity, it would lead to a higher attractiveness of stores, because 64.7% cardholders included reward program experience as one of the criteria for store selection. However, in spite of such a large proportion of respondents, the H_2 hypothesis is dismissed (μ_{H2}= 3.32<4) because there is a strong influence of conflicting attitudes, particularly in the segment of older population.

This means that loyalty programs have an impact on the majority of respondents, but this impact is not as strong as the impact of some other factors determining the store selection, such as price, location, product range, etc.

The conceptual framework employs smartphone technology as an interface in loyalty programs. It can be seen from Table 4 that cardholders are divided (51%) in terms of the tendency to use this technology for the purpose of operative use of loyalty programs, but results also show that there is a significant difference ($p<0.05$) in attitudes among segments. A similar situation is found with the means in Table 5, which leads to the conclusion that only younger club members prefer that technology ($\mu>=4$) in programs while other two segments do not. It is not considered a low efficiency interface but it uses innovative technology which is not considered friendly for those two segments.

Chi-squre method was used to determine a statistically significant difference between segments. It can be concluded from Table 4 that there is a significant difference in attitudes among segments in terms of differentiating loyalty programs, with a significantly larger number of older people recognizing the differences, compared to other two age groups, and then in application of smartphone technology in loyalty programs. Attitudes are also significantly different among segments in terms of introduction of such a loyalty program in which a rewarding scheme would be based on retailer's profitability, which is a financially justified rewarding scheme for the retailer management.

5. DISCUSSION AND CONCLUSION

5.1. Empirical findings

Performance of marketing programs is determined by their influence on store image i.e. how they cultivate customer's attitudinal and long-term behavioral loyalty and their effect on retailer's profitability. Rewarding systems used by retailers in Croatia, the backbone of loyalty programs, seem to be very similar in the way how customers gather points and they lack differentiation. Such a market situation motivated us to establish a conceptual framework with key elements to explore attitudes of customers about attractiveness of a Tier-2 rewarding scheme. For that purpose, 286 buyers from micro areas were asked to fill out a questionnaire in order to collect data that will be used to test the four set hypotheses. Previous research proved positive implications of the loyalty programs on profitability and consumer behavior (Kumar & Shah, 2004; Yuping, 2007; Bridson, et al., 2008; Meyer-Waarden, et al., 2013). However, variability of rewarding depends on the preferences and abilities of consumers, the competitiveness level and many other features in a particular area, which requires a segmented approach. The loyalty scheme architecture should contribute to a better customer experience, having a strong impact on the store image (Verhoef, et al., 2009). It has been shown that club members are sensitive to loyalty programs, which are an important factor in choosing the store for most of the members. Retailers who monitor club members' preferences and accordingly offer novelties will be more successful in attracting customers. Likewise, a misjudgment can cause a negative effect and jeopardize the program appeal (Schuman, et al., 2014). Research results provide and example of this - introducing smartphone technolo-

gy to program functions before the market is ready. If sending a positive notification to a friend or a relative through word-of-mouth becomes a part of the reward scheme, this can be an effective tool in loyalty building (Kumar, et al., 2007). Our research has shown that customers are more likely to join the schemes in which they would be rewarded for some other activities as well (Tier 2 rewarding system), rather than getting points only based on the value of their basket (Tier 1 system).

By confirming only some of the set hypotheses, it can be concluded that the conceptual framework is partially supported and that the research provides guidelines for further improvement. Consumers in all age groups perceive the differentiation of loyalty programs, although it is very weak. However, this should not be neglected, meaning that the development direction of new programs has to be more sophisticated than it has been envisaged with the model. The loyalty schemes that cardholders face are for most of them one of the factors for store selection, which additionally proves that differentiation really exists, because if it did not exist, it would not be recognized as a factor in store selection. The remaining hypotheses refer to propensity to Multi-Tier forms or rather a Tier-2 rewarding scheme which would, in addition to collecting points based on the amount spent, also reward some other non-financial forms of behavior, including acceptability of smartphone technology that could support the functioning of the system. With regard to empirical findings, it is important to emphasize that consumers also have a positive attitude about being discriminated against in relation to others if the others can create more benefits for consumers. However, these benefits are not directly related to achieving a higher turnover or being measured by purchase power and value of goods bought at regular vs. promotional prices.

5.2. Managerial implications

When a marketing strategy of a retailer proves successful in the market for attracting customers better than others, it becomes a target for competitors who will attempt to obtain resources and know-how to be able to copy it as soon as possible. Loyalty programs are a very sensitive matter for retail management, as they can be used to build stronger loyalty (Bridson, et al., 2008; Kumar & Shah, 2004), but they can also make business operations more difficult if they are not related to profitability. They can diminish the store image if they are not sufficiently attractive in relation to other schemes. Although customers, in spite of being saturated with various programs, have a positive perception and differentiate among program features, such a perception can be quickly changed because of strong competition. It is realistic to expect investments in mobile technology partnerships, which provide a platform for introducing mobile technologies for communication between retailers and customers and a stronger presence through loyalty programs (for example, Multiplus mobile is a platform where mobile smartphone technology is integrated with loyalty programs). The research provides recommendations for the introduction of two-tier reward schemes that will, in addition to the amount paid for the purchased goods, also evaluate some other aspects of consumer behavior. This may include additional points rewarded for referrals frequency, the time of shopping, channel of purchase, type of format where purchase is done etc. Such a

concept requires additional resources. However it has a positive impact on the store image of cardholders. It is important to adjust the attractive features of a customer according to age structure, because younger customers may behave more proactively and they desire innovation more than older customers do. According to the research, Tier-1 or Tier-2 rewarding systems may create a negative perception among customers if the reward context implies retailer's margin or profitability.

In addition to loyalty programs, we should also take into account the significance of providing a special customer service for loyal customers, which is also one of the forms of emotional rewarding (Kumar & Reinartz, 2012). Such necessary resources may be less imitable than loyalty programs so they can offer the retailer a long-term competitive advantage. Such a strategy can be useful for small players (Yuping & Rong, 2009) who do not have complementary resources available to benefit truly from a loyalty program.

5.3. Limitations and implications for further research

This paper has several limitations that need to be addressed. The study examined only loyalty club members' attitudes and perceptions without including consumers who do not belong to the clubs. This results in a possibility that this group of customers, without any experience with programs, represents different attitudes and has different perceptions, which might affect the research results. The aim of loyalty clubs is not only to retain the existing customers, but also to attract new members. The entire research of this aspect of the frequency reward system in the Croatian market should be completed with data from at least two or more groups of respondents also from other geographical areas. The area in which this research was carried out is highly saturated with stores and the standard of living exceeds the standard in other areas. In their research, Yuping & Rong (2009) emphasize that competitive relationships among marketing programs of retailers also depend on market saturity, and Garnfeld et al. (2013) think that perception of the program also depends on the income of participating customers. However, those effects were not taken into account in this research. Another limitation involves the procedures of sample formation and segmentation according to the age of cardholders. It was not possible to take into account the objective ratio of those segments in total membership population structure. In this case the weight of a particular group in the total population could be determined in the entire member population, which would be relevant for the result.

In addition to the results obtained, it would also be useful to further explore the effectiveness of loyalty program practices in order to determine the extent to which particular schemes affect profitability of retailers, and how much they are effective in customer retention. Also, it is important to explore in more detail the way in which redemption choices influence program competitiveness and store image. Integration of smartphone technology in marketing programs in developed markets is growing stronger and it increases the level of interest and convenience of shopping, facilitates payments (such as ApplePay, Zaba m-kupi, etc.) and creates more opportunities for loyalty building. Introduction and potential effects of increasingly present mobile technol-

ogy in marketing and transactions (such as the Konzum's Multiplus mobile) are also under-researched, which slows down the integration of such solutions into marketing programs.

REFERENCES:

1. Ailawadi, K. L. et al., 2009. Communication and Promotion Decisions in Retailing: A Review and Directions for Future Research. *Journal of Retailing,* 85(1), pp. 42-55.

2. Anić, D., Rajh, E. & Piri Rajh, S., 2010. Razlike u stilovima odlučivanja potrošača s obzirom na spol ispitanika. *Tržište,* XXII(1), pp. 29-42.

3. Bridson, K., Evans, J. & Hickman, M., 2008. Assessing the relationship between loyalty program attributes, store satisfaction and store loyalty. *Journal of Retailing & Consumer Services,* 15(5), pp. 364-74.

4. Demoulin, N. & Zidda, P., 2008. On the impact of loyalty cards on store loyalty: Does the customers' satisfaction with the reward scheme matter?. *Journal of Retailing & Consumer Services,* 15(5), pp. 386-398.

5. Dowling, G. R. & Uncles, M., 1997. Do Customer Loyalty Programs Really Work?. *Sloan Management Review,* 38(4), pp. 71-82.

6. Garnfeld, I., Eggert, A., Helm, S. & Tax, S., 2013. Growing Existing Customers' Revenue Streams Through Customer Referral Programs. *Journal of Marketing,* 77(4), pp. 17-32.

7. Grewal, D., Levy, M. & Kumar, V., 2009. Customer Experience Management in Retailing: An Organizing Framework. *Journal of Retailing,* 85(1), pp. 1-14.

8. Kumar, V., Petersen, J. & Leone, R., 2007. How Valuable Is Word of Mouth. *Harvard Business Review,* 85(10), pp. 139-46.

9. Kumar, V. & Reinartz, W. J., 2012. *Customer Relationship Management: Concept, Strategy, and Tools.* 2nd ur. Berlin: Springer-Verlag.

10. Kumar, V. & Shah, D., 2004. Building and sustaining profitable customer loyalty for the 21st century. *Journal of Retailing,* 80(4), pp. 317-330.

11. Meyer-Waarden, L., 2007. The effects of loyalty programs on customer lifetime duration and share of wallet. *Journal of Retailing,* 83(2), pp. 223-236.

12. Meyer-Waarden, L., Benavent, C. & Casteran, H., 2013. The effects of purchase orientations on perceived loyalty programmes' benefits and loyalty. *International Journal of Retail & Distribution Management,* 41(3), pp. 201-225.

13. Oliver, R. L., 1999. Whence Consumer Loyalty. *Journal of Marketing,* 63(Special Issue 1999), pp. 33-44.

14. Reinartz, W. J., 2010. Understanding Customer Loyalty Programs. U: M. Krafft & M. K. Mantrala, ur. *Retailing in the 21st Century.* 2nd ur. Berlin: Springer, pp. 409-427.

15. Reinartz, W. J. & Kumar, V., 2000. On the Profitability of Long-Life Customers in a Noncontractual Setting: An Empirical Investigation and Implications for Marketing. *Journal of Marketing,* 64(4), pp. 17-33.

16. Reinartz, W. & Kumar, V., 2002. The Mismanagement of Customer Loyalty. *Harvard Business Review,* 80(July), pp. 90-95.

17. Schuman, J. H., Wunderlich, N. V. & Evanschitzky, H., 2014. Spillover Effects of Service Failures in Coalition Loyalty Programs: The Buffering Effect of Special Treatment Benefits. *Journal of Retailing,* 90(1), pp. 111-118.

18. Sztangret, I. & Bilińska-Reformat, K., 2014. Application of new technologies in shaping the strategies of influencing customers of commercial chains. U: N. Knego, S. Renko & B. Knezevic, ur. *Trade Perspectives 2014: People, technology, knowledge.* Zagreb: University of Zagreb, Faculty of Economics & Business, pp. 265-280.

19. Verhoef, P., Lemon, K. N., Parasuraman, A. & Roggeveen, A., 2009. Customer Experience Creation: Determinants, Dynamics and Management Strategies. *Journal of Retailing,* 85(1), pp. 31-41.

20. Wieseke, J., Alavi, S. & Habel, J., 2014. Willing to Pay More, Eager to Pay Less: The Role of Customer Loyalty in Price Negotiations. *Journal of Marketing,* 78(6), pp. 17-37.

21. Yuping, L., 2007. The Long-Term Impact of Loyalty Programs on Consumer Purchase Behaviour and Loyalty. *Journal of Marketing,* 71(4), pp. 19-35.

22. Yuping, L. & Rong, Y., 2009. Competing Loyalty Programs: Impact of Market Saturation, Market Share, and Category Expandability. *Journal of Marketing,* 73(1), pp. 109-121.

23. Zentes, J., Morschett, D. & Schramm-Klein, H., 2011. *Strategic Retail Management.* 2nd ur. Wiesbaden: Gabler Verlag Springer.

ACKNOWLEDGEMENTS

Appendix 1: Survey questionnaire structure and coding mechanism (codes were not displayed).

Uputstvo: Molimo odgovorite tako da u odgovarajući kružić upišete (X) ovisno u kojoj mjeri se slažete sa tvrdnjom

	Slažem se u potpunosti	Djelomično se slažem	Ne znam	Djelomično se ne slažem	Uopće se ne slažem
1. Uključujem se u klub lojalnosti jer od njega imam posebna očekivanja	1	2	3	4	5
2. Poznate su mi bodovne stope za sve klubove lojalnosti kojima sam pristupio/la	1	2	3	4	5
3. Mogu izdvojiti klub lojalnosti koji mi je najbolji	1	2	3	4	5
4. Svi trgovci nude gotovo isto vrijedne pogodnosti članovima kluba lojalnosti	5	4	3	2	1
5. Više sam sklon/a prikupljanju bodova samo kod jednog trgovca nego kod ostalih	1	2	3	4	5
6. Kad odaberem prodavaonicu za kupovinu u prvom planu mi je članstvo u klubu	5	4	3	2	1
7. Izbjegavam prodavaonice gdje sam imao/la loše iskustvo sa obračunom bodova i ostvarivanjem pogodnosti	5	4	3	2	1
8. U pravilu odlazim u prodavaonicu gdje imam dobra iskustva s programom lojalnosti	5	4	3	2	1
9. Praktičnije bi bilo sudjelovati u klubu lojalnosti preko mobilnih telefona umjesto plastičnih kartica	5	4	3	2	1
10. Praktično mi je rukovanje mobilnim telefonima u svrhu kupovine i plaćanja	5	4	3	2	1
11. Aplikacije u mobilnim telefonima namijenjene programima lojalnosti imaju naprednije mogućnosti i lakše bi dolazili do pogodnosti	5	4	3	2	1
12. U mobilnom telefonu sve mi je integrirano i nalazi se ono što na praktičan način olakšava svakodnevni život	5	4	3	2	1
13. Trgovac bi trebao dijeliti svoje kupce na: zlatne, srebrne i željezne, ovisno o tome koliko zaradi od njihove košarice	5	4	3	2	1
14. Ako kupujem većinom proizvode po redovnoj cijeni želim da me se zbog toga i bolje nagradi od onih koji kupuju većinom po promotivnim cijenama	5	4	3	2	1
15. Preporuke i dovođenje novih kupaca u klub lojalnosti također treba nagraditi	5	4	3	2	1
16. Trgovci trebaju jednako cijeniti vjernost svih svojih kupaca bez obzira da li oni kupuju skuplje ili one jeftinije proizvode	1	2	3	4	5
17. Bio bi mi privlačniji klub lojalnosti čije pogodnosti ne ovise samo o potrošenom iznosu, nego i o tome što se kupuje, gdje i kada se kupuje	5	4	3	2	1

PROGRAMI LOJALNOSTI U MALOPRODAJI: TRAŽE LI KUPCI SLOJEVITI SUSTAV NAGRAĐIVANJA?

Dario Dunković [8] & *Goran Petković* [9]

Sažetak

Koncept lojalnosti kupaca svojstven je maloprodajnom poslovanju. Prodavaonice uvode i prilagođavaju marketinške programe lojalnosti kako bi privukli kupce i održali s njima trajni odnos. Međutim, vlada slaba diferenciranost programa među maloprodavačima što je razlog za oblikovanje i testiranje odgovarajućeg konceptualnog modela koji zagovara drugačije prednosti od ustaljenih shema posebno kad se misli na profitabilnost. U radu je cilj odrediti mogućnost uvođenja "dvoslojnog nagrađivanja" u upravljanju odnosa s kupcima kod kojeg dolazi do diskriminiranja kupaca koji kupuju manje i jeftinije u odnosu na one druge. Programi trebaju imati ključnu ulogu u stvaranju jedinstvenog imidža prodavaonice. Međutim, koliko uvođenje drugačije sheme i tehnologije u program može stvoriti pozitivne učinke na imidž? To je osjetljivo pitanje za maloprodajni menadžment jer težnja za jačanjem profitabilnosti istovremeno stvara i drugačiju percepciju kod kupaca. U svrhu istraživanja konceptualnog modela provedena je anketa u šest maloprodajnih lanaca u kojoj je sudjelovalo 286 članova različitih klubova lojalnosti podijeljenih u tri dobne skupine* čije *se stavove rangiralo. Rezultati pokazuju sklonost kupaca prema dvoslojnoj shemi nagrađivanja, međutim, postoje i relevantne oprečne sklonosti. Implikacije rada na menadžment odnose se na postizanje boljeg razumijevanja* učinaka višeslojnog nagrađivanja čime se može *olakšati donošenje menadžerskih odluka kod maloprodavača koji operativno koriste programe u kojem smjeru bolje alocirati marketinške resurse.*

Ključne riječi: program lojalnosti kupaca, maloprodaja, imidž prodavaonice, sklonost, dvoslojno nagrađivanje.

JEL klasifikacija: M31, L81

---

[8]   Dr. sc. Dario Dunković, docent, Ekonomski fakultet, Sveučilište u Zagrebu, E-mail: ddunkovic@efzg.hr

[9]   Dr. sc. Goran Petković, redoviti profesor, Ekonomski fakultet, Univerzitet u Beogradu, E-mail: goranp@ekof.bg.ac.rs