

**Gordon Institute  
of Business Science**  
University of Pretoria

**The impact of new partners entering partnership loyalty  
programmes on customer acquisition and retention**

Justin Anniroot

14392616

A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

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## **Abstract**

The aim of the research is to determine how the entry of a partner into a partnership loyalty programme affects customer acquisition and retention for the new partner and existing partners. This research addresses the gap in academic research pertaining to customer acquisition and retention. This study aimed to provide business practitioners with insight when deciding whether to start a standalone single vendor programme or to join an existing partnership programme.

This research was a descriptive longitudinal study of a partnership loyalty programme that operated in the financial services sector. The study aimed at producing an accurate representation of the impact of an event and the subsequent changes over time. In this case the event was a new partner joining the programme and the constructs that were analysed over time included customer acquisition and retention. Since the data obtained was in the form of a time series, the appropriate analysis approach to use was to perform a quantitative time series analysis to assess the impact of vendor entry on acquisition and retention using the customer purchase data. This approach allowed for the examination of trends and identification of recurring patterns in the time series.

The results showed that a new vendor joining a partnership loyalty programme would experience either constant or gradually increasing customer acquisition as well as customer retention after joining the programme. There was no evidence from the data that a new vendor joining a loyalty programme would have any impact on the customer acquisition or customer retention of the existing vendors within the programme.

## **Keywords**

Partnership Loyalty Programme, Customer Acquisition, Customer Retention, Time Series Analysis

## Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Name: Justin Anniroot

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Signature:

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Date: 9 November 2015

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## Chapter 1: Introduction to Research Problem

### 1.1 Introduction

Research surrounding loyalty programmes, such as the use of smart mobile devices, has gained a lot of traction in recent years, today there are a vast number of trends and developments in this area (Hassan, 2013). Several researchers have identified missing gaps in existing literature and in particular, three pertinent areas require further exploration, namely loyalty programme design, performance assessment and impact of new technologies (Breugelmans et al., 2014). Under the loyalty programme design area, one of the topics that the authors highlighted for further research was how the entry of a partner into a partnership portfolio affected the performance of the partners. The rationale for this topic was that strategic alliance literature shows that a customer's perceived value of a partnership programme is based on the customer's interpretation of the value added by each partner, yet little is known about optimal portfolio management (Bourdeau, Cronin Jr, & Voorhees, 2007; Breugelmans et al., 2014). In addition it is widely recognised that collaboration of vendors to form partnership loyalty programmes is becoming an increasingly attractive option (Dorotic, Fok, Verhoef, & Bijmolt, 2011).

Since 1896 when Sperry & Hutchinson established the green stamp loyalty programme which allowed customers to trade these stamps for products, researchers (Duncan, 1916; Peters, Verhoef, & Krafft, 2015) have questioned and debated the practicality and effectiveness of implementing loyalty programmes. Allaway, Huddleston, Whipple, and Ellinger (2011); Cant and du Toit (2012) and Sharp (2010) reported that loyalty programmes were a fruitless marketing ploy due to the poor performance resulting from competition and minimal value created for vendors e.g. in industries such as gambling, loyalty programmes could have a negative public perception due to customers being prone to addiction (Prentice & Wong, 2015). Dorotic, Bijmolt, and Verhoef (2012) as well as Kopalle, Sun, Neslin, Sun, and Swaminathan (2012) recognised the benefit that loyalty programmes could bring to a vendor through the gaining of customer insights. Thus these contradicting views are indicative of a lack of coherent understanding.

Section 1.2 provides the motivation for this research study. The research scope is addressed in Section 1.3 and the ethical considerations are discussed in Section 1.4.

## 1.2 Research Motivation

The academic aim of this research was to provide insight and explore the impact that the entry of a new vendor into a partnership loyalty programme had on performance, which was an area of research requiring further exploration as outlined by Breugelmans et al. (2014). While there are numerous ways to measure loyalty programme performance, for example attitudinal measures (Cheng, 2011) and reward redemption (Daryanto, de Ruyter, Wetzels, & Patterson, 2010), for the purposes of this study customer acquisition (Leenheer, van Heerde, Bijmolt, & Smidts, 2007) and customer retention (Alazzam & Bach, 2014) were used because there are currently gaps in academic literature pertaining to these measures (Breugelmans et al., 2014; Dorotic et al., 2012). The performance will be measured in terms of customer acquisition and retention for the new vendor entrant as well as for the existing vendor partners. One of the primary strategic objectives of the partnership loyalty programme that was analysed in this study was to be a cross-sell vehicle for the rewards programme partners. This further motivated the reason that these two performance measures were appropriate.

One of the most important decisions in a business is whether to invest more into customer acquisition or customer retention (Hassan, 2013). Following Pareto's rule, 80% of revenue is sourced from 20% of customers (M. Jones, 2010). Vendors therefore must understand what constitutes profitable customers and strive to retain them. A loyal customer is a competitive asset which provides a competitive advantage and needs to be nurtured and protected by providing benefits that are difficult to duplicate (Agarwal, Chaurasia, & Negi, 2012; Alazzam & Bach, 2014). A loyalty programme assists businesses with both customer acquisition and customer retention.

In practice, partnership loyalty programmes are becoming increasingly popular amongst consumers. As of 2011, 650 million consumers were members of at least one partnership loyalty programme, which accounted for 14.4% of the world's adult population (Finaccord, 2011). According to the COLLOQUY loyalty census conducted in 2015, there were 3.3 billion members of loyalty programmes across various industries in the United States alone (Berry, 2015). Even though loyalty programmes have been implemented on a large scale across industries, business practitioners need insight when deciding whether to start a standalone single vendor programme or to join an existing partnership programme.

As vendors are faced with growing competition and lack of brand differentiation, it is becoming increasingly important for vendors to establish alternative ways to create customer loyalty other than price reduction and discounts (Cant & du Toit, 2012). Unfortunately, the current ambiguous academic research provides limited general conclusions surrounding loyalty programmes and appears to confuse business practitioners rather than guide their decisions (McCall & Voorhees, 2010). This research seeks to close this gap, by providing partnership loyalty programme managers with greater insight into how additions to the partnership portfolio impacts performance of the new and existing vendor partners.

### 1.3 Research Scope

The scope of the research is limited to the definitions of the following relevant terms:

**Partnership loyalty programme:** A partnership loyalty programme refers to a loyalty programme where multiple non-competing vendors jointly participate in one programme and customers can earn and/or redeem rewards from participating vendors (Dorotic et al., 2011).

**Customer acquisition:** Customer acquisition occurs when a member (or lapsed member) of the loyalty programme buys from the vendor for the first time (again) due to the potential for loyalty rewards.

**Customer retention:** The explicit attempt to encourage repeat buying frequency and larger purchase volumes through the provision of incentives thereby improving retention rates.

### 1.4 Research Ethics

The researcher partnered with a loyalty programme company in order to source data for the study. In order to maintain the confidentiality of the data it was agreed that customer information, vendor names and the programme name would be masked in this study. The company provided formal written permission to conduct the research using their data and the Gordon Institute of Business Science (GIBS) also granted ethical clearance to proceed with the study.

## 1.5 Conclusion

This chapter introduced the research problem of the study. The rationale was discussed in Section 1.2 and motivated the need for this research. The scope of the study was identified and discussed in Section 1.3. Finally, the ethical considerations adhered to during this study were explained in Section 1.4. The next chapter, Chapter 2, provides a well-demarcated discussion of the academic literature related to loyalty programmes.

## Chapter 2: Literature Review

### 2.1 Introduction

The purpose of this chapter is to review and interrogate the literature pertaining to the research objectives. The academic literature addresses each of the key areas surrounding this topic and provided insight and contextualising support for the study. The literature review also sought to demonstrate how the study integrated into the larger body of academic knowledge.

Loyalty programmes are becoming popular in a wide range of industries and have been adopted by millions of customers across the globe (Berry, 2015). Yet the effects of these programmes on customer behaviour remain open to interpretation. A review of the two most recent and comprehensive studies by Breugelmans et al. (2014) and Dorotic et al. (2012) indicated that further research was required to bridge the gap that existed in the academic material pertaining to partnership loyalty programmes. Furthermore, the ambiguity of empirical evidence and limited general conclusions on customer acquisition and customer retention surrounding loyalty programmes also justified the need for this research (McCall & Voorhees, 2010).

The primary goal of any loyalty programmes is to nurture and reward customer loyalty (Bijmolt, Dorotic, & Verhoef, 2010), for this reason it is prudent to define customer loyalty before proceeding with the study of a loyalty programme. Customer loyalty refers to the strength of the relationship that a firm has with its customers. Customers will remain loyal to an organisation as long as they feel that the organisation provides superior products or services than its competitors (Bose & Rao, 2011).

Loyalty programmes offer benefits to customers who can receive rewards and/or reach a higher tier. Additionally they offer benefits to vendors that could potentially attract more repeat business and gather detailed customer insights that allow them to deliver targeted marketing activities (Ailawadi et al., 2010). The programme allows the firm to monitor and ultimately influence the choices that the customers make. This potentially creates a group of advocates that voluntarily market the vendor to other prospective customers (McCall & Voorhees, 2010).

The literature review begins by exploring the key concepts of customer loyalty in Section 2.2. A loyalty programme is defined in Section 2.3 and the components of

loyalty programme design are outlined in Section 2.4. The academic debate both supporting and opposing loyalty programmes was outlined in Section 2.5 to highlight the need for this research. The link between systems theory and loyalty programmes is explained in Section 2.6. Loyalty programme performance measures for the study were identified in Section 2.7. The selected performance measures for the study, customer acquisition and customer retention, are further discussed in Section 2.8 and Section 2.9. The influence of festive seasons on these measures is touched on in Section 2.10 as a build up to the research questions in Chapter 3.

## **2.2 Definition of Customer Loyalty**

Customer loyalty can be categorised in two ways, namely behavioural loyalty and attitudinal loyalty (Kumar, Pozza, & Ganesh, 2013). Behavioural loyalty refers to the customer's observable buying pattern to repeatedly purchase the same brands or from the same stores, increasing the scale or scope of the relationship over a period of time (Cheng, 2011). However, customers may display behavioural loyalty because of a lack of alternatives, therefore displaying behavioural loyalty does not mean that customers have true loyalty (Hikkerova, 2011).

Attitudinal loyalty is the level of commitment, corporate image attachment and level of satisfaction that a customer has for the vendor (Hansen, Deitz, & Morgan, 2010). Customers with attitudinal loyalty are more likely to be brand ambassadors and give word of mouth recommendations for the vendor (Agarwal et al., 2012). Vendors seek to reinforce attitudinal loyalty through the implementation of loyalty programmes (Hafeez & Muhammad, 2012). A loyal customer is a competitive asset which provides a competitive advantage and needs to be nurtured and protected by providing benefits that are difficult to duplicate (Agarwal et al., 2012; Alazzam & Bach, 2014).

For the purposes of this research study the definition of customer loyalty developed by Cant and du Toit (2012) was adopted. It became clear to these authors that a thorough definition must encompass internal factors pertaining to the customer such as feelings and attitude as well as external factors such as corporate image and word-of-mouth recommendations. Cant and du Toit (2012, p. 1224) indicated that "customer loyalty towards an organisation can be seen as a situation that exists when a customer consciously elects to repurchase from a particular organisation repeatedly over time, even when other options exist; contributing to the ongoing success and profitability of

the organisation and recommending the organisation to their colleagues and peers where this decision is based on an emotional attachment to the organisation”.

The ultimate goal of any loyalty programme is to nurture true attitudinal loyalty rather than superficial behavioural loyalty. With this understanding of the types of loyalty, the next section, Section 2.3, moves on to define loyalty programmes.

### **2.3 Definition of Loyalty Programmes**

The American Marketing Association (2015, Page F) uses the term “Frequent shopper programme” to refer to a loyalty programme in their online dictionary and defines a loyalty programme as “a continuity incentive programme offered by a retailer to reward customers and encourage repeat business. The reward is usually based on either purchase volume or number of store visits”.

The American Marketing Association’s definition limits the definition of a loyalty programme to encompass only retailers; however wholesalers, manufacturers and even suppliers implement loyalty programmes (Bijmolt et al., 2010). The vast array of marketing initiatives such as sales promotions and discount vouchers make it difficult to establish a single definition for loyalty programmes. Both the definitions above do not provide a comprehensive set of criteria to distinguish loyalty programmes from other shorter-term marketing campaigns.

For the purposes of this research study the definition of a loyalty programme developed by Dorotic et al. (2012) was adopted. They define a loyalty programme as a member-based integrated system of marketing actions that fosters customer loyalty over the long term by rewarding customers through ongoing marketing. The five characteristics encompassing loyalty programmes are depicted in Figure 2-1 and discussed below.



Figure 2-1: The five criteria that define a loyalty programme (Dorotic et al., 2012)



1. **Fosters Loyalty:** Encourage and reward members' behavioural and attitudinal loyalty thereby improving customer retention. Loyalty programmes should successfully build relationships with customers to promote increases in purchase frequency, purchase amounts and share of wallet. Customers are more likely to participate in the loyalty programme if the programme aligns to the customer's needs.
2. **Member-Based:** There must be a formal membership-based structure governed by a set of rules for customers to enrol as members of the loyalty programme in order to receive benefits. This would enable the loyalty programme provider to easily identify its members and obtain customer information through the programme.
3. **Long Term:** A loyalty programme is expected to operate indefinitely or for as long as the vendor remains operational. Hence, sales promotions and competitions which span a short period of time are not considered to be loyalty programmes.
4. **Rewarding:** Reward members for demonstrating loyalty usually through a form of loyalty points/currency which entitle members to gifts, personalised offers, preferential treatment or discounts on goods and/or services.

- 5. Ongoing Marketing Efforts:** Continuous marketing effort that is targeted specifically to suit the members or segments in order to maintain a competitive advantage. Loyalty programme benefits do not strongly influence customers that have been members for a long period of time hence ongoing marketing is required to maintain a relationship with customers.

Within the domain of loyalty programmes there are several types of loyalty programmes such as frequency reward and customer tier programmes (Kopalle et al., 2012). These variances in loyalty programme occur because of the multitude of permutations of loyalty programme design components, which will be expanded on further below. The above definition however refers broadly to loyalty programmes in general and does not focus on a particular type of loyalty programme. With this in mind, the aim of this research is to provide insight into partnership loyalty programmes. It is therefore prudent to define a partnership loyalty programmes, outside of the generic definition of loyalty programmes.

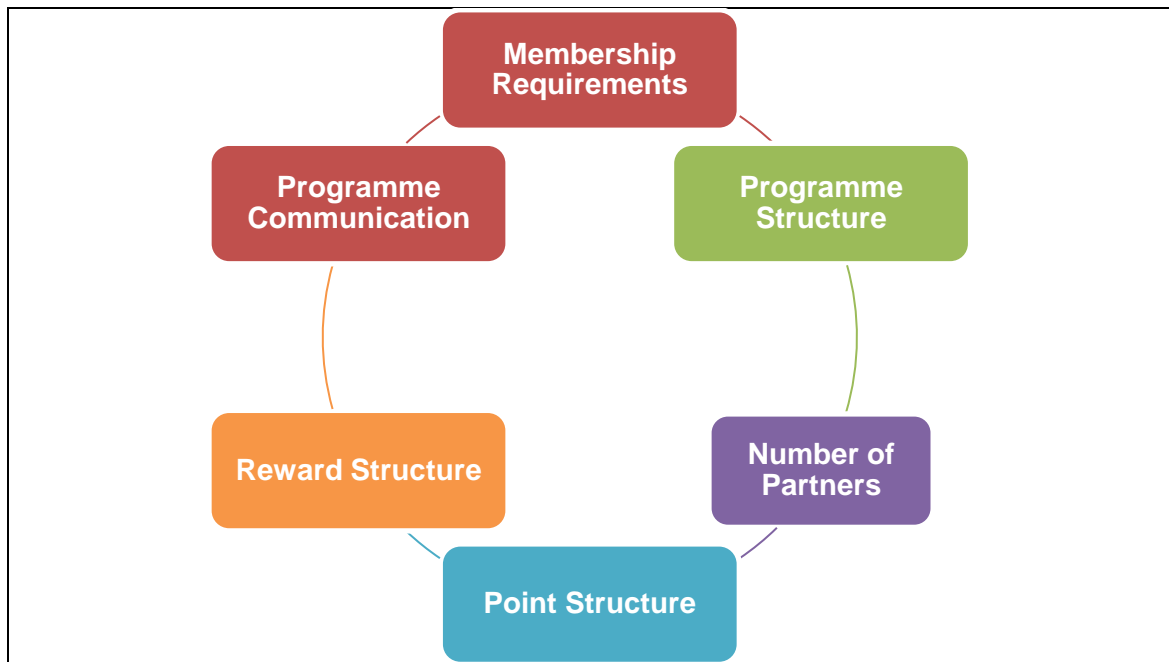
A partnership loyalty programme is formed when several vendors that are usually non-competing form a single loyalty programme as a coalition (Dorotic et al., 2011). Members of the partnership loyalty programme would have the benefit and convenience of being able to earn and/or redeem points at any of the participating vendors (Villace-Moliner, Reinares-Lara, & Ponzoa-Casado, 2013).

## **2.4 Loyalty Programme Design**

The design components of a loyalty programme are characteristics of the programme that essentially determine how the programme will work. Therefore, grasping these design concepts is a prerequisite to engaging in the academic argument. Programme managers can use these components to differentiate their loyalty programmes from others thereby allowing the programme brand to be positioned with customers.

Bijmolt et al. (2010) and Liu and Yang (2009) identified six key design components for loyalty programmes. The design of a loyalty programme drastically influences member enrolment and usage, which inherently will have an impact on customer acquisition and retention. For this reason the loyalty programme design must align to the vendor's overarching strategy while still appealing to the needs of the customer. Figure 2-2 draws attention to the six key design components of loyalty programmes and will be expounded further.

**Figure 2-2: The six key design components of loyalty programmes (Bijmolt et al., 2010; Liu & Yang, 2009)**



1. **Membership Requirements:** Refers to the qualifying criteria, effort, convenience and cost linked with becoming a member of a loyalty programme (Tanford, Raab, & Kim, 2010).
2. **Programme Structure:** The appropriate type of loyalty programme to use is dependent on the type of industry. According to Kopalle et al. (2012), there are two dominant loyalty programme structures.
  - a. **Frequency reward programmes (FRPs):** Customers make purchases to accumulate points and get rewarded.
  - b. **Customer tier programmes (CTPs):** Customers make purchases to accumulate points and qualify for a certain tier of the programme. Tiers create a sense of exclusivity and make customers feel that they have earned the reward. It also provides the vendor with the ability to segment customers and provide different rewards for each tier.
3. **Number of Partners:** Single vendor programmes have been the dominant programme type historically; partnership programmes are becoming more popular in recent years (Dorotic et al., 2012). The two common types of partnership loyalty programmes are:

- a. **Dominant Firm:** A single vendor creates a loyalty programme and later partners with complementary vendors. The dominant firm manages the loyalty programme.
  - b. **Coalition:** A group of vendors create a loyalty programme as equal-level partners and appoint an external specialised operator to manage the loyalty programme.
4. **Point Structure:** The rate at which points are issued for FRPs or the number of tiers in CTP programmes (Kopalle et al., 2012).
5. **Reward Structure:** Refers to the type or form of reward offered to members, e.g. receiving discounts, gifts or preferential treatment (McCall & Voorhees, 2010; Melancon, Noble, & Noble, 2011).
  - a. **Reward Type:** Direct rewards relate to the vendor's core business e.g. fly ten times to get a free flight. Indirect rewards are not related to the vendor's core business e.g. fly ten times to get a free massage.
  - b. **Reward Magnitude:** Customers expect the magnitude of the reward to be proportional to the effort they have to put into the loyalty programme.
  - c. **Reward Frequency:** Customers with low loyalty programme involvement levels prefer immediate and small magnitude rewards. Highly involved customers prefer delayed and high magnitude rewards (Park, Chung, & Woo, 2013).
6. **Programme Communication:** Refers to the creation of awareness and positioning of the rewards and the loyalty programme via marketing communications through various mediums and frequencies of customer contact i.e. letters, email, website and social media. Vendors have the option to customise the messaging to highlight the special status of loyalty programme members and acknowledge the importance of the relationship (Newell, Belonax, McCardle, & Plank, 2011). Direct marketing is required to influence the members' attitude and feelings to remind the customer of the relationship that has been established, ultimately affecting his or her behaviour (Steyn, Pitt, Strasheim, Boshoff, & Abratt, 2010).

This research paper focussed on the composition of partners within a partnership loyalty programme, which would fall under the 'Number of Partners' design component above. Vendors would typically opt to join an existing partnership loyalty programme instead of starting their own loyalty programme due to the benefits of lower start-up and marketing cost, access to a wider customer base, higher customer participation and the potential for cross-selling effects across the various partners (Breugelmans et al., 2014). Partnership loyalty programmes enable companies to expand their markets thereby growing profitability, especially if the various partners offer complementary goods and services such as airlines, car rental firms and hotels (van Riel et al., 2013) as well as banking and insurance products (Mäenpää & Voutilainen, 2011).

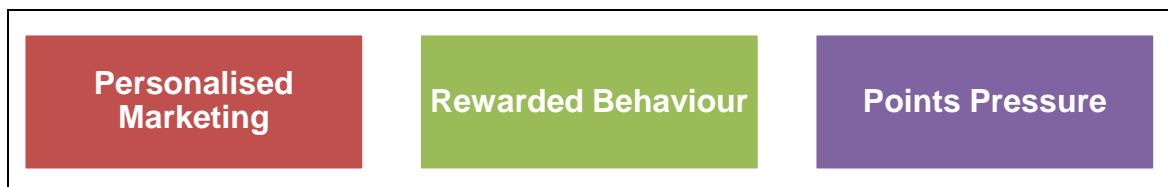
## **2.5 Academic Debate Surrounding Loyalty Programmes**

While a plethora of research (Curran & Healy, 2014; Khan, 2014; Schumann, Wunderlich, & Evanschitzky, 2014) exists on loyalty programmes, findings were inconsistent regarding whether loyalty programmes are effective in providing benefit to customers and if vendors achieved sustainably higher profitability, customer acquisition and customer retention after the costs of the programme were considered (Bijmolt et al., 2010). Some researchers considered loyalty programmes to be a fruitless marketing ploy (Allaway et al., 2011; Sharp, 2010) while others recognised the benefit that they could bring to a vendor (Dorotic et al., 2012; McCall & Voorhees, 2010).

Allaway et al. (2011) argue that loyalty programmes are only one of the tools that can be used to drive customer loyalty. The other tools are superior service, superior products, price, store layout, store location and community involvement. The researchers emphasised that certain drivers, such as creating formal loyalty programmes could involve significant expense as opposed to more economical options such as improving service levels through employee training. Many vendors disregarded basic service elements such as easy availability of help in stores and staff friendliness, which results in customers feeling neglected (Cant & du Toit, 2012; Vesel & Zabkar, 2010). An analysis of the telecommunication sector revealed that vendors should improve the quality of service delivery in order to improve customer loyalty and satisfaction (Srivastava & Rai, 2013). From these studies it was concluded that a high quality of product and service delivery are prerequisites for a loyalty programme to be successful. The arguments above highlight various alternate ways to stimulate customer loyalty but none of these tools calculate the break-even point for the cost of providing a superior customer experience versus the actual income gained from

customers. The benefit with loyalty programmes is that the customer purchases can be tracked to calculate how profitable or valuable each customer is. Blattberg, Kim, and Neslin (2008) found that loyalty programmes had three mechanisms that increased customer lifetime value (CLV) and help vendors to gain repeat customer purchases. Blattberg et al. (2008, p. 106) defines CLV as the “net present value of the profits linked to a specific customer once the customer has been acquired, after subtracting incremental costs associated with marketing, selling, production and servicing over the customer’s lifetime.” CLV shows the vendor the maximum that should be spent on acquiring a new customer. Hence, the three mechanisms defined by Blattberg et al. (2008) also lead to increased customer retention, as presented in Figure 2-3 below.

**Figure 2-3: The three mechanisms that increase CLV (Blattberg et al., 2008)**



1. **Points-pressure mechanism:** As customers get closer to obtaining a reward, they increase their purchasing frequency and amounts in order to get the reward faster.
2. **Rewarded behaviour mechanism:** Customers increase their purchase frequency after receiving a reward due to an increased sense of attachment to the vendor.
3. **Personalised marketing mechanism:** Gather data on customer purchases to deliver targeted marketing through customised offers and influence customer choices.

Haisley and Loewenstein (2011) argue that the loyalty programme market is saturated due to the increasing number of programmes in existence. The high level of competition amongst these loyalty programmes thereby diminished the performance of each individual programme (Berry, 2015; Hikkerova, 2011). In addition to the competition amongst loyalty programmes, Murthi, Steffes, and Rasheed (2011) found evidence that customers were so savvy that they extracted much more financial benefit from the programme than the vendor intended thereby reducing the profitability of having these customers. In contrast, according to Steyn et al. (2010), loyalty programmes have matured in developed regions such as Europe whereas developing regions such as Asia Pacific and Africa were experiencing a new wave of loyalty programme growth.

The growing middle class in these developing regions provided an opportunity to double consumer purchases with the aid of loyalty programmes in a relatively short period (Olivier, 2007). Minkov and Hofstede (2011) suggest that developing countries are culturally different to developed countries. Bose and Rao (2011) went further in applying Hofstede's work on cultural dimensions to loyalty programmes and suggested that loyalty programmes were considered a luxury and a symbol of status in developing economies, thus explaining their rapid growth in these economies.

Ramaswami, Srivastava, and Bhargava (2009) argue that larger vendors benefit significantly more than smaller vendors should they introduce a standalone loyalty programme or join a partnership programme because they have more control over their environment, product development, potential market share, marketing capabilities and bargaining power. In contrast, Mimouni-Chaabane and Volle (2010) argue that should vendors with small market share introduce loyalty programmes it would create an economic and psychological switching barrier that would stimulate customer retention and prolong the relationship. Economic barriers are the benefits, such as gifts and rewards, which the member has to abandon by switching to another vendor. Psychological barriers refer to the reluctance to break the loyalty and commitment that the customer has formed for the vendor due to reward and recognition. Customer relationship can be regarded as a form of social capital that influences customer loyalty (T. Jones & Taylor, 2012).

'Membership requirements' is one of the fundamental design components of loyalty programmes, hence customers are required to meet some form of qualifying criteria to enrol into the programme. However, customers that have a low shopping frequency at a particular vendor often do not join that vendors loyalty programme because of the effort and potential cost of enrolling (Ashley, Noble, Donthu, & Lemon, 2011). As a counter measure, vendors reduce the perceived costs of participating in the loyalty programme in order to increase membership, for example reducing or eliminating membership fees or reducing the minimum compulsory monthly purchase amount required to remain a member (Demoulin & Zidda, 2009). However, if competitors follow suit and also reduce perceived costs it may encourage customers to concurrently join several loyalty programmes and divide their purchases across these competing loyalty programmes (Berry, 2015). Vinod (2011) is of the view that having an operational loyalty programme provides valuable customer data, which can be used for the purposes of personalised marketing and gaining customer insights. The use of internet technology, mobile devices and social media platforms present opportunities for

interactive two-way communication with customers before and during purchases (Goldman, 2010). Hassan (2013) as well as Okazaki, Navarro, and Campo (2013) further elaborated on the potential benefits of technologies and mobile devices, such as card-less loyalty programmes, scannable barcodes on devices, quick response (QR) codes and sharing locations with friends by checking-in via social media.

According to Bijmolt et al. (2010), vendors can get trapped in a prisoner's dilemma-type equilibrium regarding loyalty programmes. A vendor may introduce a loyalty programme purely to mimic the actions of competitors but due to a lack of knowledge, underestimating the capital cost and the strategic planning involved the new loyalty programme becomes a financial burden to the vendor (Hikkerova, 2011). However, the vendor is forced to keep the loyalty programme operational because terminating the programme would result in unwanted negative publicity. In contrast, one of the most significant findings from the extensive research that Dorotic et al. (2012) conducted of 131 academic papers spanning the last 15 years was that vendor participation in a loyalty programme had a small positive effect upon customer behaviour and fostered customer loyalty regardless of percentage of market share that the vendor had. These positive effects were visible through changes in aggregated performance measures such as average purchase frequency and penetration levels.

The arguments above indicate that the conflicting academic views justify the need for this research, especially around customer acquisition and customer retention. The adoption of loyalty programmes has increased by 26% from 2012 to 2014 (Berry, 2015). With this growth comes increased competition amongst these programmes. Business practitioners are in need of analysis of this subject to maintain and grow their competitive advantage.

## **2.6 The Loyalty Programme as a System**

One of the emerging themes in modern organisational systems theory is the importance of strategic partnerships and alliances. In terms of vendors within a partnership loyalty programme, Schumann et al. (2014) further describe the concept of spill-over effects across vendor partners. The customer's purchase experience at one vendor partner impacts the customer's evaluation of the other partners in the loyalty programme. The authors' research results suggest that spill-over effects can either lead to beneficial gain for partners if the customer experience is excellent or it can



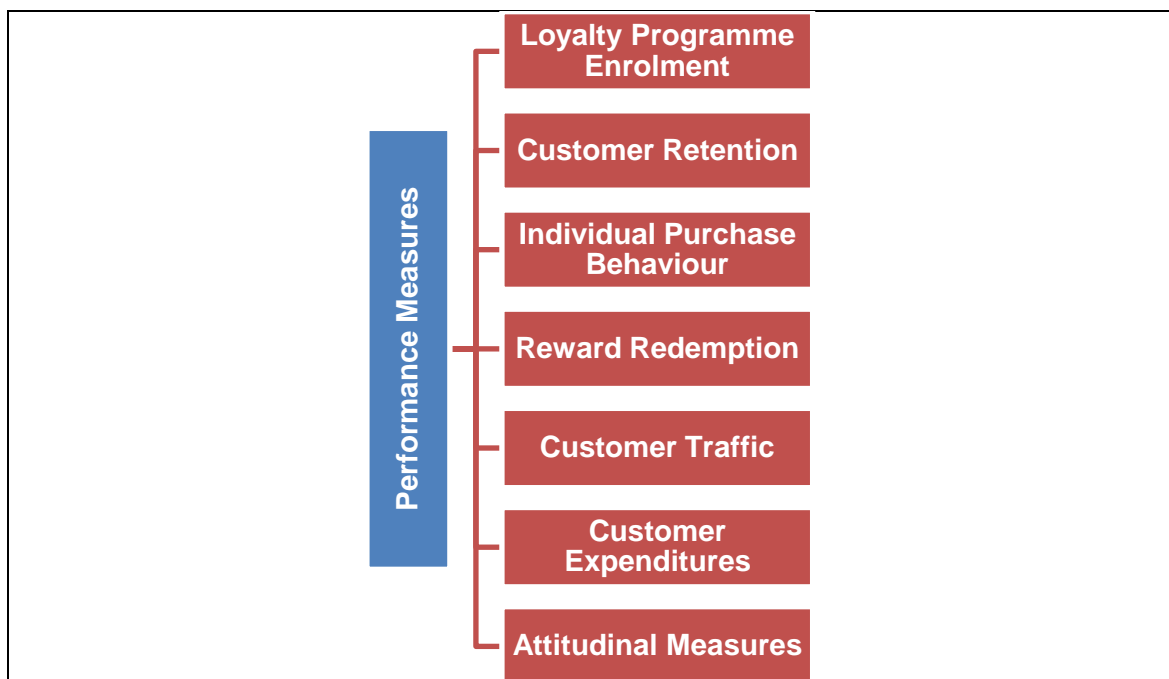
produce detrimental consequences if one of the partners provides a substandard customer experience.

Bourdeau et al. (2007) analysed the process that customers used to evaluate partnerships between vendors. The authors found that the vendors within a partnership programme can be considered to be a business system in which all the vendors are intrinsically linked. It is natural to think of a partner joining as a bump or shock to the system from operating at equilibrium to a state of disequilibrium (Ewing, Liang, & Cui, 2014). In the context of systems theory, the goal of this research paper was to ascertain the impact on performance in the system over time. With this in mind, performance measures are discussed on in the section, Section 2.7, below.

## 2.7 Loyalty Programme Performance Measures

Dorotic et al. (2012) highlighted that one of the major reasons that current academic research surrounding loyalty programmes appears to be ambiguous is because different performance metrics and methodologies were used in each study, thereby making it difficult to make comparisons and identify trends across studies. Breugelmans et al. (2014) summarise several of the measurement criteria that have been used in academic research in the last two decades and are depicted in Figure 2-4.

**Figure 2-4: Loyalty programme performance measures (Breugelmans et al., 2014)**



1. **Loyalty Programme Enrolment:** Leenheer et al. (2007) argue that customers identify themselves as being loyal to a vendor by opting to enrol in the vendors loyalty programme. Hence, enrolment is a key measure.
2. **Customer Retention:** Alazzam and Bach (2014) argue that the customer retention rate is an important measure for a vendor's customer relationship management (CRM) strategy. In terms of loyalty programmes, customer retention is the measure of customers that repeatedly purchase from the vendor that is running the programme due to the relationship with the vendor.
3. **Individual Purchase Behaviour:** Zhang and Breugelmans (2012) measure a loyalty programme by observing the number of times a customer purchases from a vendor (purchase frequency) and the amount of money (purchase amount) that the customer purchases for at the vendor.
4. **Reward Redemption:** Daryanto et al. (2010) and Dorotic, Verhoef, Fok, and Bijmolt (2014) argue that the purpose of a loyalty programme is to deliver value and satisfaction to the customers and hence they measure a loyalty programme by the alignment of rewards to customers' needs and objectives.
5. **Customer Traffic:** Drèze and Hoch (1998) measure the success of a loyalty programme by the foot count that the programme brings into a store.
6. **Customer Expenditures:** Leenheer et al. (2007) measure the success of a loyalty programme by the growth in sales for the specific category of products that are promoted by the loyalty programme e.g. baby products.
7. **Attitudinal Measures:** Drèze and Nunes (2009) and Hansen et al. (2010) measure a loyalty programme by the number of tiers that it has and the number of customers in each tier.

While there are numerous ways listed above to measure loyalty programme performance for the purposes of this study customer acquisition and customer retention were chosen because there are currently gaps in academic literature pertaining to these measures (Breugelmans et al., 2014; Dorotic et al., 2012). In addition, one of the primary strategic objectives of the partnership loyalty programme that was analysed in this study was to be a cross-sell vehicle for the rewards programme partners. This

further motivated the reason that these two performance measures were appropriate. These two performance measures are discussed in further detail in the Section 2.8 and Section 2.9 below.

## **2.8 Customer Acquisition for a Loyalty Programme**

There are instances where research had analysed multiple competing vendors that operate under a single partnership programme to assess if customers were loyal to the individual company brands or the loyalty programme itself (Evanschitzky et al., 2012). In terms of company brand image, customer acquisition is the mixture of marketing tasks that convince the customer to switch from purchasing other brands to purchasing the brand being marketed (Tsao, 2013).

From a standalone vendors perspective, Peters et al. (2015, p. 229) define customer acquisition as follows: “Customer acquisition is about acquiring new customers, that is, prospects (or lapsed customers) that buy for the first time (again). New customers are generally persons (in B2C settings) or firms (in B2B settings) that did not buy from the focal firm before.”

In academic literature customer acquisition for a loyalty programme was generally referred to as ‘enrolment’ of the customer. Bijmolt et al. (2010) stated that customer acquisition for a loyalty programme occurs when a customer evaluates the perceived benefits of joining the programme relative to the cost, risks as well as effort and decides to enrol as a member.

While customer enrolment is important because it enables vendors to monitor customer purchase history and offer personalised marketing (Vinod, 2011), there are counter arguments (Liu & Yang, 2009; Steffes, Murthi, & Rao, 2008) that enrolment alone is not sufficient to define customer acquisition. Steffes et al. (2008) point out that some loyalty programmes practice automatic enrolment and thereby enrol customers that do not necessarily intend to use the loyalty programme. Another argument is that due to the high number of loyalty programmes in the market, customers tend to be enrolled for multiple loyalty programmes simultaneously (Haisley & Loewenstein, 2011; Hikkerova, 2011), resulting in low or possibly no usage of some loyalty programmes. Customers only actively utilise half of the loyalty programmes for which they are enrolled (Berry, 2015). Taking this into account, for the purposes of this research, the definition of

customer acquisition for loyalty programmes needed to include both enrolment and active purchasing (buying).

However, when enrolling to a partnership loyalty programme, the customer chooses to establish a relationship with the coalition of participating vendors and not necessarily with a particular vendor (Dorotic et al., 2011). Customer acquisition for a vendor within a partnership loyalty programme can be defined by modifying the definition by Peters et al. (2015, p. 229) to be specific to partnership programmes i.e. customer acquisition occurs when a member (or lapsed member) of the loyalty programme buys from the vendor for the first time (again) due to the potential for loyalty rewards. This definition caters specifically for members of partnership loyalty programmes and allows for the tracing of member acquisition or re-acquisition at each of the vendor partners. As a result the customer acquisition per vendor resulting from the partnership programme can be measured.

## **2.9 Customer Retention for a Loyalty Programme**

The primary goal of a loyalty programme is to reward customers for repeat purchase behaviour thereby building the level of customer loyalty by providing customers with targets to reach in order to derive benefit (Bose & Rao, 2011). Bijmolt et al. (2010) and Alazzam and Bach (2014) reported that participation in a loyalty programme had a positive influence on customer retention over time but the magnitude of the impact differs across customer segments, loyalty programme designs and industries. Mimouni-Chaabane and Volle (2010) also argue that loyalty programmes improve attitudinal loyalty through the provision of a sense of belonging, reciprocity and perceived recognition. Acquiring new customers costs eight times as much as retaining existing ones (Alazzam & Bach, 2014). Loyalty programmes are typically designed to gather customer information to assist the vendor in retaining their best customers, optimise customer value and maximise profitability (Ashley et al., 2011). In terms of company brand image, customer retention is the mixture of marketing tasks that convince the customer to repurchase the brand being marketed on the next purchase occasion (Tsao, 2013).

Lewis (2004) defined customer retention as the explicit attempt to encourage repeat buying frequency and larger purchase volumes through the provision of incentives thereby improving retention rates. This definition is generic enough to be used for all types of loyalty programmes; however it is difficult to apply in practice because it does

not define the time period for customer retention. This was addressed in Chapter 4 below, which elaborates on how to measure customer retention. A study by Ramsey and Bapna (2014) showed that customer usage levels of a loyalty programme, in other words customer purchase histories, can be used to successfully predict customer retention.

## **2.10 Customer Acquisition and Retention during Festive Seasons**

Teik, Hao, Juniaty, and Lirn (2015) found that shopping malls adjust the environmental factors (i.e. interior settings, music and employee engagement) within the mall in order to stimulate consumer behaviour during festive seasons, such as Christmas. The authors confirmed that this had psychological effects on consumers that led to increased purchase intentions during festive periods. Such peaks in customer spending during the festive seasons would result in peaks in customer acquisition and retention.

## **2.11 Conclusion**

Cant and du Toit (2012, p. 1224) indicated that “customer loyalty towards an organisation can be seen as a situation that exists when a customer consciously elects to repurchase from a particular organisation repeatedly over time, even when other options exist, contributing to the ongoing success and profitability of the organisation and recommending the organisation to their colleagues and peers where this decision is based on an emotional attachment to the organisation”. The ultimate goal of any loyalty programme is to nurture true attitudinal loyalty rather than superficial behavioural loyalty.

If a vendor wishes to launch a new loyalty programme, the vendor has the options of starting their own single vendor programme or joining an existing partnership programme. However, current academic literature does not provide sufficient guidance on the performance of the new and existing vendor partners after a new vendor joins the partnership loyalty programme (Breugelmans et al., 2014; McCall & Voorhees, 2010).

Due to the design components of loyalty programmes, these programmes could have several unique permutations of these components e.g. different membership requirements or forms of reward. For this reason, there is still no research that outlines a standard set of performance metrics that can be used to measure loyalty programme

performance across all the possible combinations of design components that make up a loyalty programme. Khan (2014) argues that vendors could have different strategic goals for their loyalty programmes, for example retaining customers, gathering customer data or increasing foot count, hence each programme will inevitably have its own unique performance measures. For this reason, Leenheer et al. (2007) argues that each researcher has to choose the performance measure that makes logical sense for the objective of their study.

This chapter discussed academic literature that highlights the debate surrounding loyalty programmes and outlines gaps in the current knowledge. The objective of this study was to understand customer acquisition and customer retention in more detail as outlined by the research by Breugelmans et al. (2014). Hence, the key performance measure criteria that were used were customer acquisition and customer retention derived from customer purchase behaviour. One of the primary strategic objectives of the partnership loyalty programme that was analysed in this study was to be a cross-sell vehicle for the rewards programme partners. This further motivated the reason that these two performance measures were appropriate. The next chapter, Chapter 3, will address the research questions of this research study.

## **Chapter 3: Research Questions**

### **3.1 Introduction**

In light of the literature review in Chapter 2, this chapter formulates the research questions, in Section 3.2, that needed to be answered in order to achieve the goals set out by this study. The two most recent and comprehensive studies of loyalty programmes by Breugelmans et al. (2014) and Dorotic et al. (2012) indicated that further research was required, particularly focusing on performance in partnership loyalty programmes. This research sought to close this gap by providing a greater understanding into the impact that the entry of a new vendor into a partnership loyalty programme has on customer acquisition (Leenheer et al., 2007) and customer retention (Alazzam & Bach, 2014).

Partnership loyalty programmes align to the emerging theme of strategic alliances in modern organisational systems theory (Schumann et al., 2014). The vendors within a partnership programme can be considered to be a business system in which all the vendors are intrinsically linked and the entry of a new partner can be viewed as a shock to the system (Ewing et al., 2014). By analysing the customer purchase behaviour (Zhang & Breugelmans, 2012), performance and spill-over effects were measured in terms of customer acquisition and retention for the new vendor entrant as well as for the existing vendor partners (Zhang & Breugelmans, 2012).

This study aimed to provide business practitioners with insight when deciding whether to start a standalone single vendor programme or to join an existing partnership programme. The overarching research question is: How does the entry of a partner into a partnership loyalty programme affect customer acquisition and retention for the new partner and existing partners? In order to answer the overarching research question this chapter addresses the proposed sub-questions.

### **3.2 Research Questions**

#### **3.2.1 Question 1**

How does the entry of a partner into a partnership loyalty programme affect customer acquisition for the new partner?

### 3.2.2 Question 2

How does the entry of a partner into a partnership loyalty programme affect customer acquisition for its existing partners?

### 3.2.3 Question 3

How does the entry of a partner into a partnership loyalty programme affect customer retention for the new partner?

### 3.2.4 Question 4

How does the entry of a partner into a partnership loyalty programme affect customer retention for its existing partners?

### 3.3 Conclusion

The two-by-two matrix in Figure 3-1 below illustrates how the four sub-questions each answer a different component of the overarching research question. The next chapter, Chapter 4, provides a discussion of the research methodology and design of this study.

**Figure 3-1: Two-by-two matrix of the research sub-questions**

	New Partner	Existing Partner
Acquisition	<p><b>Question 1</b></p> <p>How does the entry of a partner into a partnership loyalty programme affect customer acquisition for the new partner?</p>	<p><b>Question 2</b></p> <p>How does the entry of a partner into a partnership loyalty programme affect customer acquisition for its existing partners?</p>
Retention	<p><b>Question 3</b></p> <p>How does the entry of a partner into a partnership loyalty programme affect customer retention for the new partner?</p>	<p><b>Question 4</b></p> <p>How does the entry of a partner into a partnership loyalty programme affect customer retention for its existing partners?</p>



## Chapter 4: Research Methodology

### 4.1 Introduction

The purpose of this chapter is to explain the methodology and analysis approach that was used to gain insight into the four research sub-questions that were defined in Chapter 3 above. The researcher partnered with a loyalty programme company in order to source data for this study. Secondary data from the partnership loyalty programme company was sourced from their customer database and provided for use in this study. The advantage of using the company's secondary data was that it granted access to high quality information that the researcher otherwise could not have obtained. Written permission from the company and ethical clearance from the university were both obtained prior to commencing this study.

The data provided was in the form of monthly customer purchases at the various vendor partners over a period of 60 months. Since the data provided was in a longitudinal format, it followed that a time series analysis would be the most appropriate method to analyse the data. This method of analysing time series data was consistent with the methodology used for other similar academic studies (Di, Nielsen, & Nielsen, 2011; Ghosh, 2012; Islam, Shahbaz, Ahmed, & Alam, 2013; Vasilev, 2014).

An observation that emerged whilst compiling the literature review is that the majority of academic research in the last five years pertaining to loyalty programmes was survey based. There were very few longitudinal studies that analysed consumer purchase behaviour over a period of time, especially for partnership loyalty programmes.

With the growing adoption of the internet, secondary survey data is now relatively easy to access (e.g. the AMPS database) but customer transactional information can only be accessed if an organisation agrees to provide this confidential information, which is a plausible reason why there are so few longitudinal studies. This research aimed to close this gap by contributing to the time based analysis of partnership loyalty programmes.

The choice of methodology is explained in Section 4.2. The population for this study is described in Section 4.3 and the unit of analysis is defined in Section 4.4. The sampling method and sample size is elaborated upon in Section 4.5. The process of engaging

with stakeholders in order to gather the data required for this study is documented in Section 4.6. The techniques that were used in the data analysis performed in Chapter 5 are discussed in Section 4.7. Finally, the limitations constricting this study were outlined in Section 4.8.

## **4.2 Choice of Methodology**

The research aimed to understand if the entry of a vendor into a partnership loyalty programme had an impact on customer acquisition and retention for the new and existing partners. Since continuous numerical time series data was obtained from the partnership loyalty programme, it followed that a quantitative methodology would be most suitable in drawing inferences from this data. Quantitative research is “one in which the investigator primarily uses post-positivist claims for developing knowledge (i.e., cause and effect thinking, reduction to specific variables and hypotheses and questions, use of measurement and observation, and the test of theories), employs strategies of inquiry such as experiments and surveys, and collects data on predetermined instruments that yield statistical data” (Creswell, 2013, p. 18). This research was a descriptive longitudinal study of a partnership loyalty programme that operated in the financial services sector (Saunders & Lewis, 2012). The research aimed at producing an accurate representation of the impact of an event and the subsequent changes over time. In this case the event was a new partner joining the programme and the constructs being analysed over time were customer acquisition and retention.

The programme comprised of vendor partners from various sectors (e.g. Wholesale, Supermarket and Pharmacy), however this study was performed in the context of the dominant partner that created the loyalty programme, which resides in the financial services sector. Verhoef (2003) conducted research in the financial services sector due to the importance of the segment and found that using secondary data was appropriate because financial institutions are required to keep comprehensive customer data thereby making it easy to mine for the data relevant to the study. This confirmed that using secondary data was a suitable method for conducting this study.

The advantage of using secondary data was that it granted access to high quality data that the researcher otherwise could not have obtained within the time and budget available for this study. This mechanism for data collection was unobtrusive on customers in the sense that customers did not need to provide consent for use of their

data because they remained anonymous to the researcher. It also has advantages over using surveys in terms of the risk of having ambiguous questions and low response rates due to the time required to complete the survey (Saunders & Lewis, 2012). Another advantage of time series data is that it can be easily combined with other time base data sources e.g. comparing customer purchase patterns to the Consumer Price Index (CPI).

While there is vast potential in using secondary data for research, it also has its pitfalls. The data was primarily used for the daily operations of the loyalty programme and may only partially meet the needs of the research study. For example, the customer database only had data for purchases made after a vendor joined the programme and nothing prior to this date. Due to the loyalty programme design components discussed in Chapter 2, it was found that the programme administrators typically use terminology that is very specific to their loyalty programme setup and information technology (IT) systems e.g. UCN (Unique customer number). For this reason, the researcher needed to become familiar with these business terms in order to convey which data fields would be required for the study. There may be data missing or erroneous entries in the database hence the integrity of their database was vital to the study. The data extraction process required a developer to create a database script to extract the data and aggregate it to the level of detail required for the study. Creation of these scripts can be time consuming because the resource has to perform this task over and above his or her normal duties. It was essential that the researcher allocated sufficient time between requesting the data and actually receiving it in order to create reasonable expectations for the parties involved.

### **4.3 Population**

The universe or population consisted of all customers that were registered as members of the partnership loyalty programme. At the time of this study, the partnership loyalty programme had just over 900,000 active members.

### **4.4 Unit of Analysis**

The individual customer transaction data was aggregated to monthly purchase figures in order to determine any impact on customer acquisition and customer retention at a vendor partner level. Hence, the unit of analysis was the partner vendors participating in the programme.

#### 4.5 Sampling Method and Size

The sample period chosen for this study was January 2010 to December 2014 which equated to 60 periods/months. The starting month of January 2010 was chosen in order to avoid potential skewing of the low customer purchase patterns that may have occurred in the 2008 global economic recession (Daghestani, Payne, & Castater, 2013; Katkov, 2012; Parker, Souleles, Johnson, & McClelland, 2013). In addition, financial services companies usually destroy or permanently archive data that is older than five years due to regulatory requirements for protection of private information. There was a risk that data requested for any period before 2010 would be difficult or impossible to retrieve.

The loyalty programme administrator advised that the number of customers deregistering from the loyalty programme was negligible due to the programme design and fee structure. Typically, there were five deregistration requests per month either because the customer was deceased or was immigrating. Hence, member deregistration was not deemed as a significant factor to consider when extracting the data.

The loyalty programme was comprised of 35 vendors at the time of this study. The programme design was such that the vendors could be reward point earn partners (customers could only earn points but could not redeem them at this vendor), reward point redemption partners (customers could only redeem points but could not earn them at this vendor) or a combination where customer could both earn and redeem points at this vendor. The literature review concluded that the customer purchase data is the factor that can be used to quantify customer acquisition and retention. Hence, for the purpose of this study the vendor sample size was narrowed to the 20 reward point earn partners at which customers could earn points for purchases. Of these 20 earn partners only 11 of them were members of the loyalty programme in the 2010 to 2014 period; hence the final list of vendor partners in the sample was further narrowed to these 11 vendors.

A simple or systematic random sampling technique (Saunders & Lewis, 2012) was used to select customers with active programme membership. The scope of the sample was limited to private individuals therefore business and other juristic entities were excluded from this study. The customers' monthly purchase and demographical

data for 10% (Levin & Zahavi, 1996) of the active customer base was requested, which amounted to a sample size of 91,632 customers.

#### **4.6 Data Gathering Process**

The study utilised the customer related secondary data within the loyalty programme databases. For the purposes of this study, customer demographic data and purchase history data were sufficient to answer the research questions. There was no need for interviews or questionnaires since the loyalty programme managers already had the data required for analysis.

The executive team of the loyalty programme was approached in order to get buy-in to provide data for this research. The executives raised concerns pertaining to the confidentiality of the data. This was addressed in the ethical clearance process whereby it was agreed that customer information, vendor names and the programme name would be masked in the study.

The programme managers agreed to provide the data within 10 working days of it being formally requested. It was noted that the staff that would extract the data for the study were actively involved in reporting activities required for the daily operations of the business and therefore did not have capacity to perform multiple data extracts. It was essential that the researcher provided guidelines that clearly outlined the exact data that would be required for the study.

In order to facilitate the data gathering process the researcher setup a workshop with the executive from the MI (Management Information) area and the executive sponsor that supported the study. In preparation for the workshop, a Microsoft Excel template was constructed by the researcher that laid out the format and content of the information that was required. The workshop created a dialogue which allowed the researcher to convey the goal of the study as well as for the executives to propose the data fields and extracts that would provide a sample that best represented the population.

#### **4.7 Analysis Approach**

The data provided the customers purchase history at the vendor partners over a period of 60 months as opposed to a static set of data that is gathered at a single point in

time. A review of the methodology used in recent academic studies (Baumann, Elliott, & Hamin, 2011; Blattberg et al., 2008; Evanschitzky et al., 2012) showed that the convention used in the financial services sector was to consider a customer to be retained, if the customer purchases within a six-month rolling period. If the customer does not purchase for a period of six-months that customer is considered to be churned or lost. Should the churned customer start purchasing again from the vendor, this customer is considered to be re-acquired in that month and retained if purchases are maintained over six-month rolling periods. This methodology provided a means of utilising customer purchase data to derive the number of customers that were acquired and retained monthly per vendor. It also aligned to the definitions of customer acquisition and retention defined in Chapter 2 above.

Since the data obtained was in the form of a time series, the appropriate analysis approach was to perform a quantitative time series analysis to assess the impact of vendors joining on acquisition and retention using the customer purchase data. Other recent studies of time series within the financial sector also found the time series analysis approach to be suitable (Di et al., 2011; Ghosh, 2012; Islam et al., 2013; Vasilev, 2014). This approach allowed for the examination of trends and identification of recurring patterns in the time series (Wegner, 2010). The intention was to observe the long term effects on the vendors.

**Time series analysis (The moving average method):** Using this method, the long term trend was isolated from the data by removing short and medium term fluctuations from the series (Shumway & Stoffer, 2010). This was achieved by taking successive averages of groups of observations which resulted in a smoothing of the series. A six-month moving average period was used for these centred moving averages. The period of six-months was chosen because the retention period for a customer was defined as six months. The disadvantage of using this method is that the first three months and last three months of the data were lost due to the centring process that was used (Wegner, 2010). However, this will not be a significant drawback in this study because 60 months of data was provided, which is above the minimum of 50 time periods that is normally recommended for using this technique (Wegner, 2010). A Log10 scale was used on the vertical axis of most graphs in order to eliminate the vastly different purchase, acquisition and retention magnitudes across the vendors.

**Seasonal analysis (The ratio-to-moving-average method):** In the raw customer purchase data provided it was observed that customer purchases were seasonal

whereby purchases peaked at festive periods such as Christmas and New Year. This method produced an index number that was used to remove the influence of seasonal forces from the time series (Albright, Winston, & Zappe, 2010). This provided a clearer view of the long term trend and business cycle movements by smoothing the time series. The seasonal influences are removed by dividing the raw data by the corresponding seasonal index. A seasonal index less than 100 shows that seasonal influence dampened or reduced the level of activity whereas a seasonal index greater than 100 shows that seasonal influence increased or raised the level of activity (Wegner, 2010). This can be observed in the results in Chapter 5 below. The disadvantage of using this method was that it required at least 24 time periods of raw data to work. Vendor05, Vendor09 and Vendor10 joined within the last two years of the time series and therefore had to be excluded from these calculations due to insufficient data points. A Log10 scale was used on the vertical axis of most graphs in order to eliminate the vastly different purchase, acquisition and retention magnitudes across the vendors.

#### **4.8 Limitations**

The loyalty programme administrators did not have the customer purchase data for the periods before the vendors joined the programme. As a result this study cannot compare consumer purchases at a vendor before and after the vendor joined the loyalty programme. This would potentially skew the customer acquisition and retention figures for a vendor joining the programme because there was no data to correctly ascertain if the customer was being acquired or retained. To resolve this issue, the first three of customer purchase data for new vendors was discarded in the acquisition and retention calculations. The three month period was chosen because academic literature identifies this as the normal period for short term business fluctuations (Bijmolt et al., 2010; Liu, 2007).

The researcher did not have any technical knowledge of the database schema that was used by the loyalty programme and therefore could not select the fields and variables that would best answer the research questions. This was mitigated by holding a workshop with the senior executives of the loyalty programme and conveying to them in-depth the purpose of the research and the type of information required. The executives assessed the data requirements and thereafter selected the database fields to extract. The researcher also relied on the developer to create a database script that randomly sampled customers from the population. The researcher did not have the

technical knowledge or programming expertise to validate the fields chosen or the script that was created.

When a vendor joined the loyalty programme, both the loyalty programme administrators and the vendor could embark on advertising campaigns. The detail of how much advertising was done when each vendor joined was not available. Additionally, there was no fixed method that the programme administrators followed to determine the budget to advertise for new vendor partners. It depended on the agreement made between the loyalty programme managers and the vendor. This is a limitation for the study because it could lead to type 1 error which is the incorrect rejection of a true null hypothesis (a "false positive"). In terms of a type 1 error, there is a risk that there is a relationship between a new vendor joining and customer acquisition and retention; however the customer purchase data may not accurately reflect this relationship across all vendors because of inconsistent advertising methods used and this study may incorrectly conclude that no relationship exists.

The study did not consider any external influences that may have swayed customer purchase patterns. For example, the vendor may have coincidentally merged with another business in the same month that they joined the partnership loyalty programme. This could skew the results of the analysis leading to a type 2 error which is the failure to reject a false null hypothesis (a "false negative"). In this study, a type 2 error would occur if data incorrectly reveals a relationship between joining the loyalty programme and customer behaviour due to external factors that coincidentally influenced the data. For the purposes of this study it is assumed that the market forces within the vendor's industry are consistent for the time that the vendor joined the loyalty programme. Therefore the entry into the loyalty programme will be the only significant change in the new vendors industry.

In general, partnership programmes are complex whereby there are multiple partners to analyse. This is challenging because data across multiple vendors is required to conduct research and the calculations can be complex. It was difficult to compare the effects that the loyalty programme had across the individual vendor partners because of the variety of industries that the partners were from. For example, there were partners from the pharmaceutical, wholesale and supermarket industries. This study was performed in the context of the dominant partner that created the loyalty programme, which resided in the financial services sector.



## 4.9 Conclusion

This chapter provided an outline of the research methodology that was employed to assess the raw data in order to draw statistical inferences pertaining to the research objectives. The research population and the sampling method were defined. The process of gathering the data from the company was discussed. The reasons that the statistical tools were chosen were highlighted as well as the limitations and benefits that are associated with these tools. The overall limitations on the study have been noted as well as the implications of these limitations on the results of the data analysis. The next chapter, Chapter 5, presents the results of the data analysis.

## Chapter 5: Results

### 5.1 Introduction

This chapter presents the main findings of the data analysis from applying the methods described in Chapter 4 above. The research questions being investigated were:

1. How does the entry of a partner into a partnership loyalty programme affect customer acquisition for the new partner?
2. How does the entry of a partner into a partnership loyalty programme affect customer acquisition for its existing partners?
3. How does the entry of a partner into a partnership loyalty programme affect customer retention for the new partner?
4. How does the entry of a partner into a partnership loyalty programme affect customer retention for its existing partners?

This chapter encompasses a detailed analysis of the data, starting with sample size, demographic data descriptions. The data transformation for deriving customer acquisition and retention from the customer purchase data were discussed. Thereafter moving average and deseasonalising time series methods were applied to the data. The time series analysis revealed any trends/lack of trends in consumer behaviour which provided a level of understanding of the customer acquisition and customer retention constructs at a vendor level. The results in this chapter were not laid out according to the four research questions listed above. The results are presented in the format of the raw data and the process that was followed to analyse the constructs:

1. Data Results for Customer Purchases
2. Data Results for Customer Acquisition
3. Data Results for Customer Retention

Section 5.2 provides a description of the sample data. The reliability and validity of the data is interrogated in Section 5.3. The analysis results for the customer purchase data are laid out in Section 5.5. Finally, the customer acquisition and customer retention analysis results are presented in Sections 5.6 and 5.7 respectively.

## 5.2 Description of the Sample Data

### 5.2.1 Sample Size

A simple or systematic random sampling technique was used to select customers with active programme membership. The scope of the sample was limited to private individuals therefore business and other juristic entities were excluded from this study. The customers' demographical data and monthly purchase for 11 vendor partners for 10% (Levin & Zahavi, 1996) of the active customer base was requested, which amounted to a sample size of 91,632 customers.

### 5.2.2 Description of Demographic Data

The customer demographic data in Figure 5-1 below is provided at the points in time when new vendors joined the loyalty programme. It shows how the customer sample changed over a period of time.

**Table 5-1: Descriptive statistics for demographic data**

Vendor	02	03	08	11	05	09	10
Date Joined	Jul-11	Nov-11	Mar-12	Jul-12	Mar-13	Aug-13	Dec-13
Number of Members	63392	66763	70563	74318	82150	85907	88227
Number of Males	34280	36060	38055	39978	43940	45827	46988
Number of Females	29091	30678	32480	34310	38176	40045	41202
Mean Member Income	R 546k	R 540k	R 533k	R 528k	R 619k	R 609k	R 604k
Median Member Income	R 347k	R 343k	R 341k	R 338k	R 330k	R 326k	R 324k

## 5.3 Reliability and Validity of the Data

For 38 customers the gender data was marked as unknown and of these 38 customers the date of births for 11 customers was also empty. The documentation for these customers' was most likely not complete or it is possible that the software used by the loyalty programme does not cater for more than two genders. This is a general issue in the financial services industry, with some of the older software systems not catering for transgender individuals. These missing values were not essential for this study and therefore did not negatively impact the results. Besides the gender and date of birth fields, all other data was complete and all cells had valid entries in them.

## 5.4 Data Transformations

Using the rolling six-month retention period defined in Chapter 4, the customer purchase data was transformed into a table that showed each individual customers monthly acquisition/retention/churn status per vendor and for the loyalty programme as a whole. The first five months of data were used as a basis to start the calculations from June 2010 onwards.

As noted in the Chapter 4, for new vendors joining the programme the first three months of customer acquisition and retention data were not used due to the limitation of not having customer data prior to the vendor joining the loyalty programme. The transformed data was used to determine the total number of customers that were acquired and retained per month for each vendor, as represented in Table 5-2 and Table 5-3 respectively.

**Table 5-2: Total number of customers acquired per month by each vendor**

Vendor	Jun-10	Jul-10	Aug-10	...	Oct-14	Nov-14	Dec-14
Vendor01	312	648	589	...	1025	1041	1091
Vendor02				...	1603	1664	1634
Vendor03				...	755	703	575
Vendor04	741	575	719	...	972	874	770
Vendor05				...	133	144	122
Vendor06	333	300	377	...	1673	1541	3034
Vendor07	47	0	60	...	311	342	318
Vendor08				...	238	247	250
Vendor09				...	365	395	630
Vendor10				...	75	123	273
Vendor11				...	31	43	13
All Vendors	1129	1125	1325	...	2886	2866	3295

**Table 5-3: Total number of customers retained per month by each vendor**

Vendor	Jun-10	Jul-10	Aug-10	...	Oct-14	Nov-14	Dec-14
Vendor01	3752	2811	2938	...	8529	8395	8196
Vendor02				...	35292	35612	35826
Vendor03				...	4147	4213	4156
Vendor04	5343	4845	4640	...	7238	6875	6553
Vendor05				...	844	855	825
Vendor06	2947	3023	3135	...	17532	17916	18278
Vendor07	375	304	230	...	2119	2109	2092
Vendor08				...	1450	1438	1442

Vendor	Jun-10	Jul-10	Aug-10	...	Oct-14	Nov-14	Dec-14
Vendor09				...	1965	2205	2410
Vendor10				...	462	441	501
Vendor11				...	274	282	287
All Vendors	10901	9891	9798	...	53163	53465	53658

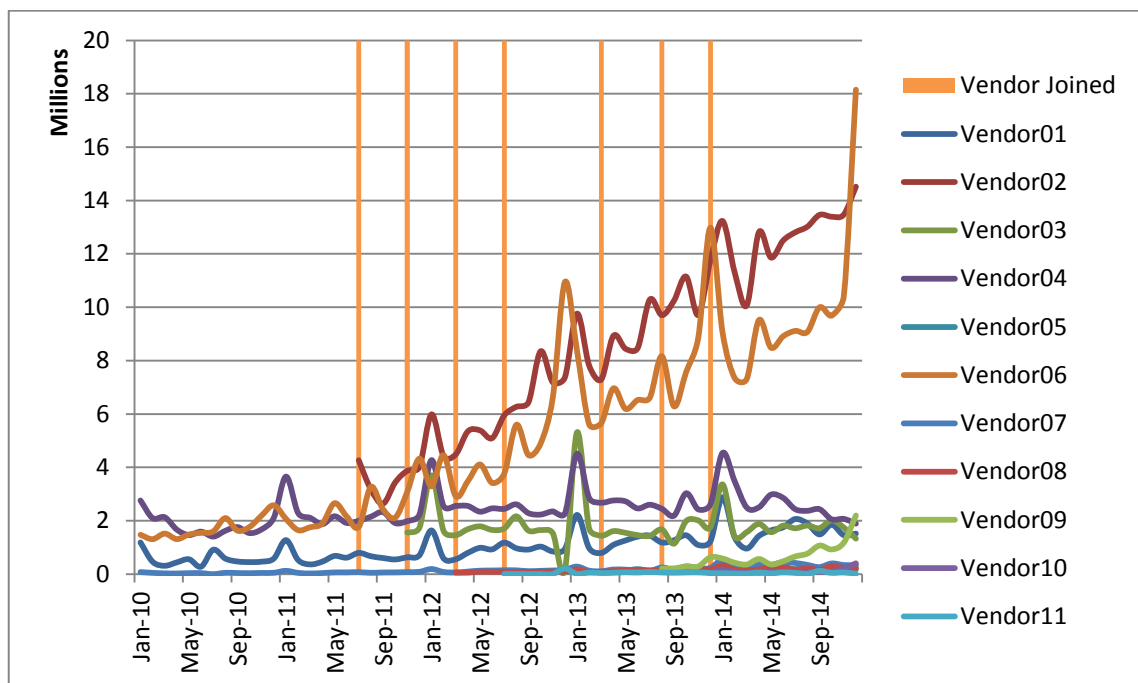
## 5.5 Data Results for Customer Purchases

The analysis results for customer purchases were used to answer all four research questions in Chapter 6 below.

### 5.5.1 Total Monthly Customer Purchases

During the five year period that was analysed, seven vendors joined the loyalty programme and 4 vendors were partners from the start of the period. The curves on Figure 5-1 below depict the monthly customer purchases at each of the 11 vendors and the vertical bars show the months in which the new vendors joined the loyalty programme.

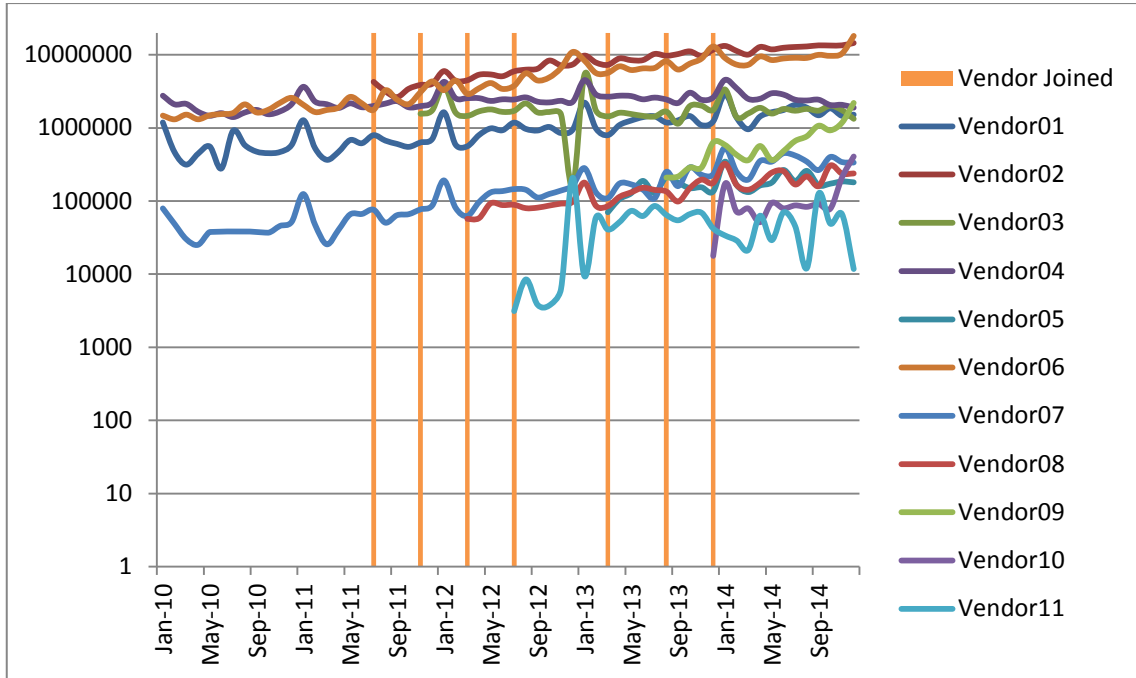
**Figure 5-1: Total monthly customer purchases per vendor**



In Figure 5-1 above it can be seen that the sheer size of customer purchases at some of the vendors (e.g. Vendor02 and Vendor06) is masking the customer purchase curves of the other vendors. In Figure 5-2 below, a Log10 scale was used on the

vertical axis in order to eliminate the vastly different customer purchase magnitudes from the diagram.

**Figure 5-2: Total monthly customer purchases per vendor (Log10 scale)**



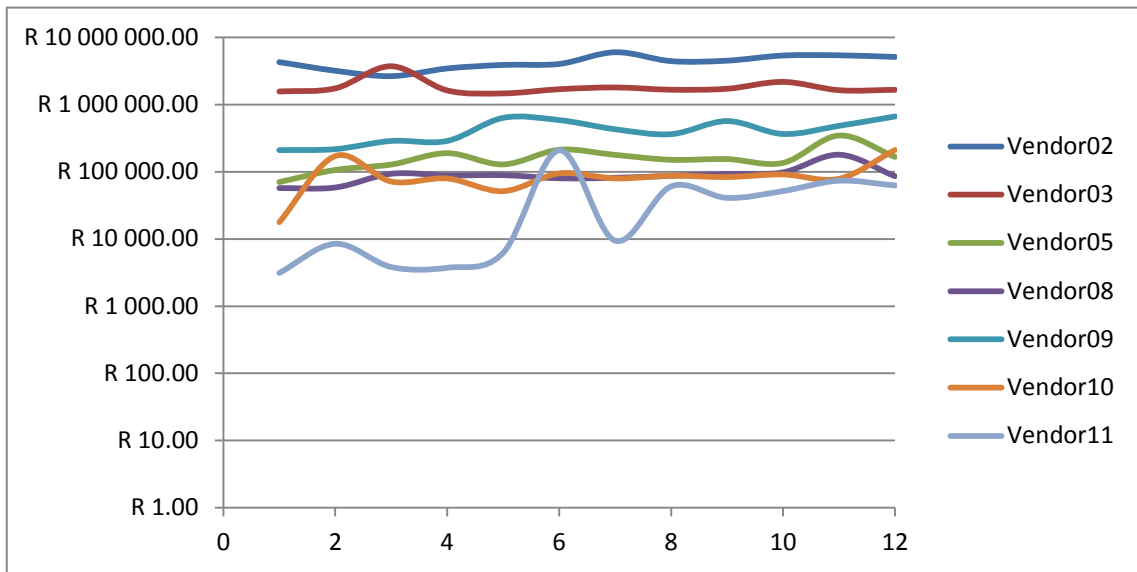
### 5.5.2 Customer Purchases at New Partners

In Figure 5-2 above, it can be seen that the new vendors all join the loyalty programme at different times. In order to better compare the customer purchase patterns at the new vendors after these vendors joined the loyalty programme, the first 12 months of the customer purchase history was plotted with a common starting point in Figure 5-3 below. Table 5-4 shows the average monthly sales for the new vendors during the first year of joining the partnership loyalty programme. This provides a sense of the size of revenue at each of the new vendors.

**Table 5-4: Average monthly sales for new vendors during the first year**

Vendor	Average monthly sale in first year
Vendor02	R 4 343 203.33
Vendor03	R 1 865 014.17
Vendor05	R 163 535.33
Vendor08	R 90 639.17
Vendor09	R 423 642.08
Vendor10	R 92 907.50
Vendor11	R 44 283.96

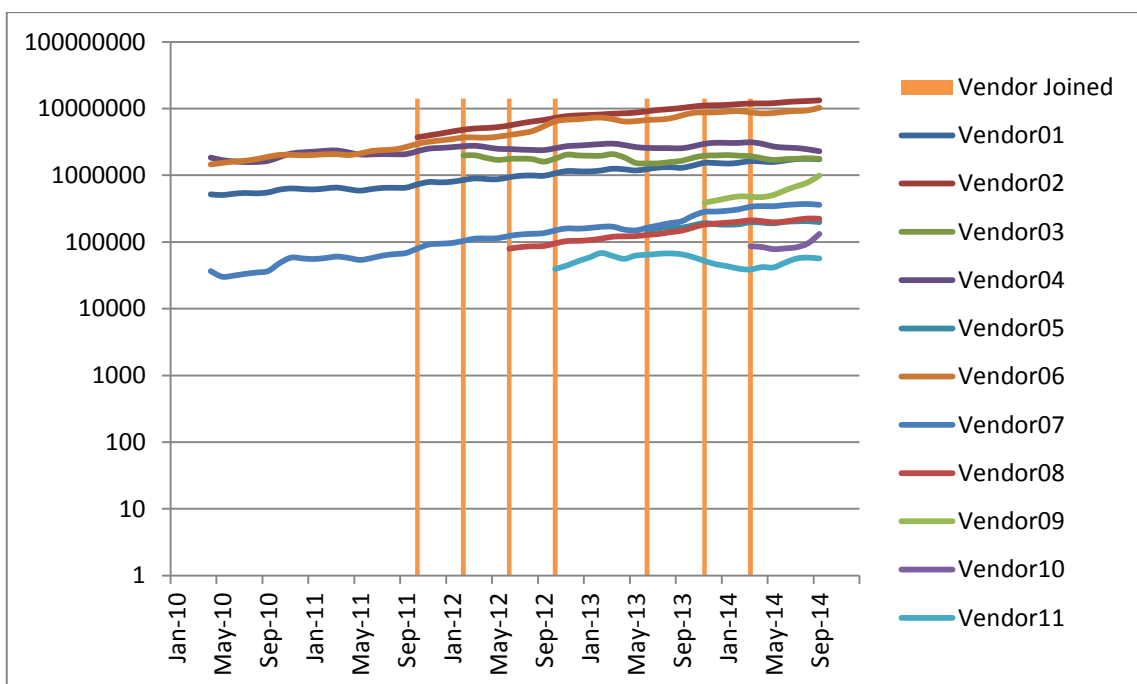
**Figure 5-3: Monthly customer purchases at new vendors with common starting point (Log10 scale)**



### 5.5.3 Monthly Customer Purchases - Six-Month Moving Average

The customer purchase curves in Figure 5-2 above were smoothed using a six-month moving average method in Figure 5-4 below.

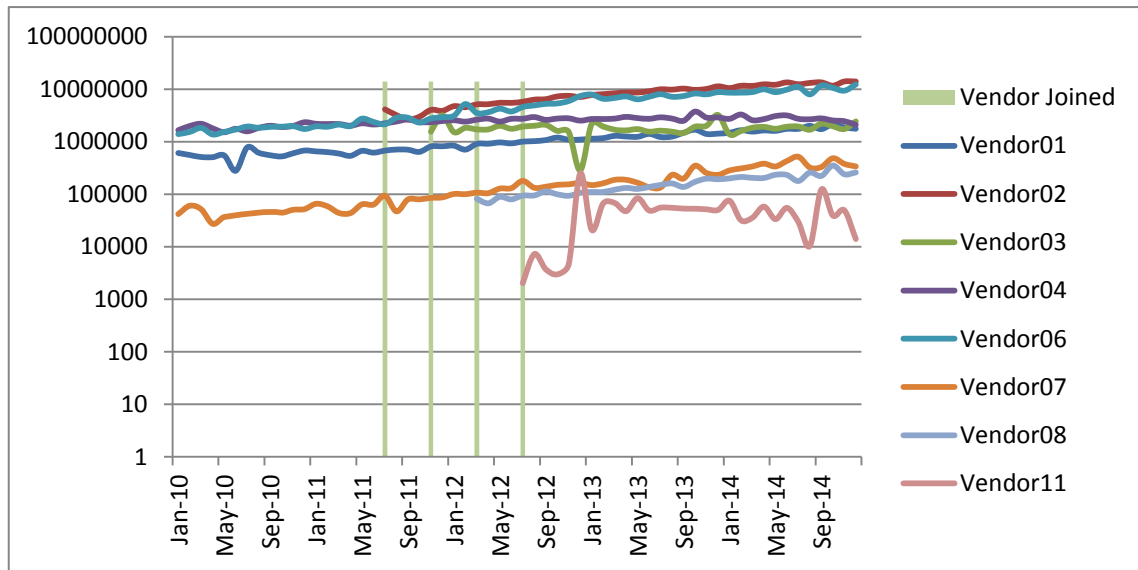
**Figure 5-4: Monthly customer purchases - Six-month moving average (Log10 scale)**



### 5.5.4 Monthly Customer Purchases - Deseasonalised

The customer purchase curves in Figure 5-2 above were deseasonalised using the ratio-to-moving-average method. As discussed in Chapter 4 above, only eight of the vendors had joined the loyalty programme early enough to perform the deseasonalising calculations. These vendors are shown in Figure 5-5 below.

**Figure 5-5: Monthly customer purchases - Deseasonalised (Log10 Scale)**



The seasonal indices that were used to deseasonalise the customer purchase data are shown in Table 5-5 below.

**Table 5-5: Adjusted seasonal indices for customer purchases**

Month	Vendor 01	Vendor 02	Vendor 03	Vendor 04	Vendor 06	Vendor 07	Vendor 08	Vendor 11
Jan	195.29	126.30	244.17	167.01	105.90	189.71	162.21	44.94
Feb	83.61	97.45	88.18	105.78	85.71	80.70	77.77	90.63
Mar	61.69	87.43	85.45	97.44	83.19	58.32	69.80	59.89
Apr	87.41	103.68	98.43	93.06	95.89	92.35	86.86	108.45
May	102.02	97.87	89.37	97.01	96.79	102.44	104.37	87.01
Jun	99.94	92.93	94.29	90.50	91.12	105.02	110.36	127.33
Jul	117.80	103.53	88.40	89.44	82.40	81.18	94.45	154.37
Aug	94.77	99.21	108.06	88.92	114.28	107.37	84.32	116.84
Sep	85.97	100.05	77.98	87.77	85.11	80.56	71.79	102.53
Oct	86.19	115.11	102.88	81.13	91.72	82.89	87.07	125.20
Nov	77.96	96.27	100.47	84.44	111.40	90.29	99.10	134.38
Dec	86.26	103.92	54.68	90.29	148.10	99.59	91.86	84.01



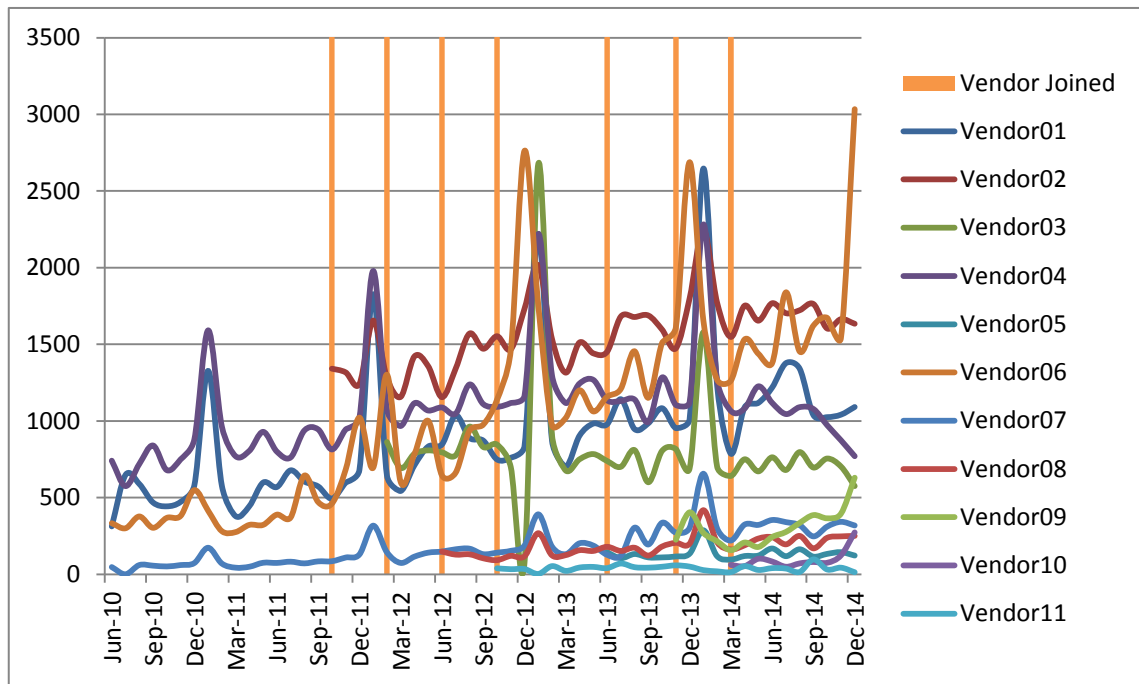
## 5.6 Data Results for Customer Acquisition

The analysis results for customer acquisition were used to answer research questions one and two in Chapter 6 below.

### 5.6.1 Monthly Customer Acquisition

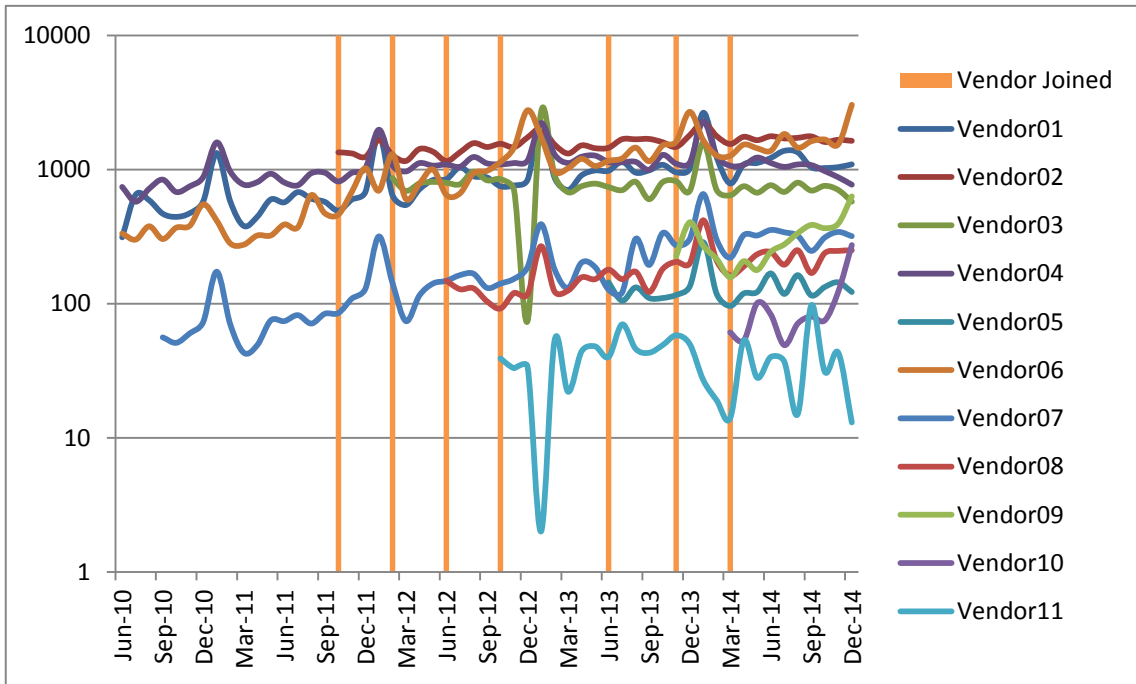
The data from Table 5-2 was used to create Figure 5-6 below. The curves on the graph depict the total number of customers that each of the 11 vendors acquired per month and the vertical bars show the months in which the new vendors joined the loyalty programme.

**Figure 5-6: Total monthly customer acquisition per vendor**



In Figure 5-7 below, a Log10 scale was used on the vertical axis in order to eliminate the vast difference of acquisition magnitude among the vendors.

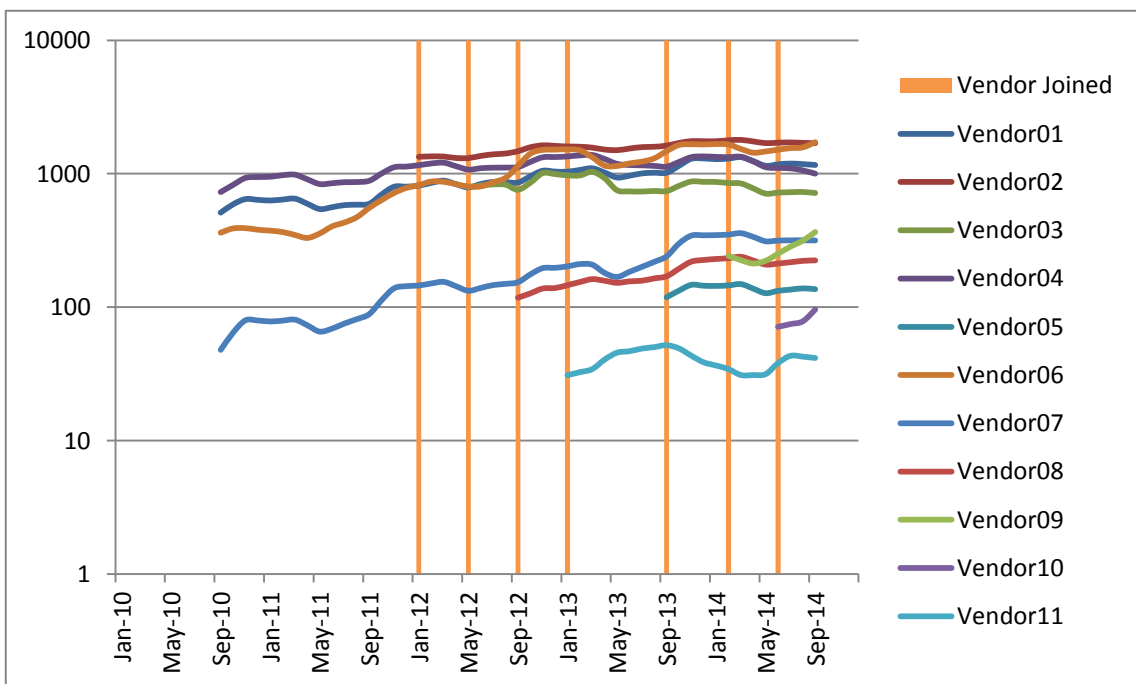
**Figure 5-7: Total monthly customer acquisition per vendor (Log10 scale)**



**5.6.2 Monthly Customer Acquisition - Six-Month Moving Average**

The customer acquisition curves in Figure 5-7 above were smoothed using a six-month moving average method to produce Figure 5-8 below.

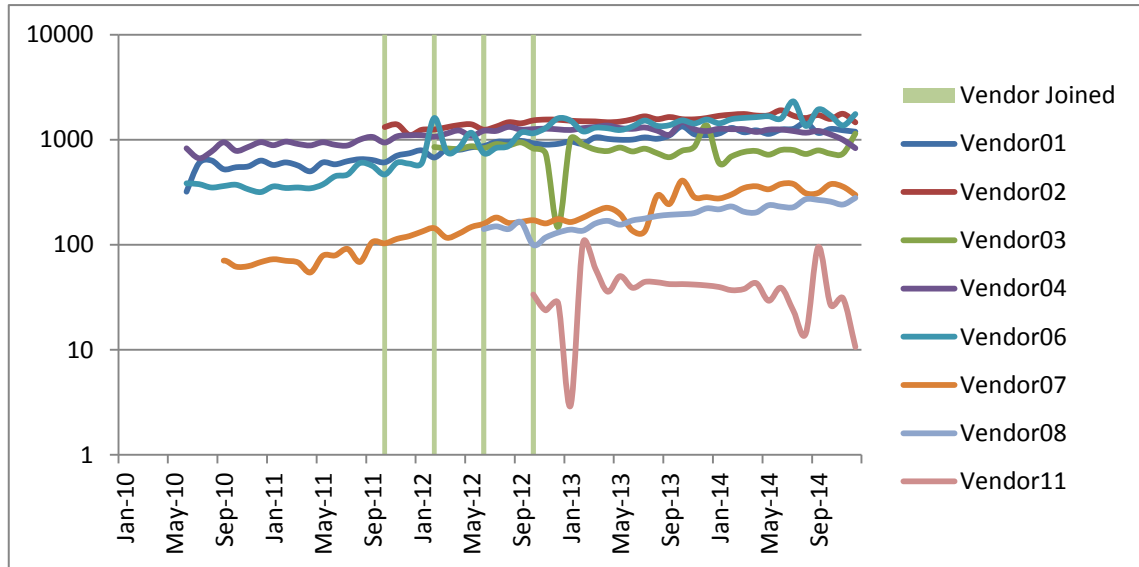
**Figure 5-8: Monthly customer acquisition - Six-month moving average (Log10 scale)**



### 5.6.3 Monthly Customer Acquisition - Deseasonalised

The customer acquisition curves in Figure 5-7 above were deseasonalised using the ratio-to-moving-average method. As discussed in Chapter 4 above, only eight of the vendors had joined the loyalty programme early enough to perform the deseasonalising calculations. These vendors are shown in Figure 5-9 below.

**Figure 5-9: Monthly customer acquisition - Deseasonalised (Log10 scale)**



The seasonal indices that were used to deseasonalise the customer acquisition data are shown in Table 5-6 below.

**Table 5-6: Adjusted seasonal indices for customer acquisition**

Month	Vendor 01	Vendor 02	Vendor 03	Vendor 04	Vendor 06	Vendor 07	Vendor 08	Vendor 11
Jan	231.13	133.15	264.11	179.59	115.61	237.77	192.35	68.21
Feb	95.12	102.42	101.30	100.64	81.02	99.46	90.36	51.42
Mar	66.83	88.18	83.92	84.60	78.41	63.43	78.55	36.94
Apr	88.78	103.21	96.18	91.29	93.44	89.96	93.01	123.04
May	98.49	96.98	93.25	98.33	85.99	95.50	97.95	95.50
Jun	97.61	92.84	95.68	89.55	86.70	93.43	105.09	102.70
Jul	108.64	100.78	85.46	86.47	79.47	89.86	85.55	158.08
Aug	92.84	107.13	109.06	93.60	107.53	103.54	92.22	104.76
Sep	89.46	102.79	88.04	88.96	83.72	79.33	63.29	101.94
Oct	81.03	101.80	102.69	86.69	98.89	82.45	92.50	116.05
Nov	84.72	94.39	95.36	87.70	112.87	95.83	102.28	138.86
Dec	91.60	111.90	50.36	92.83	172.99	106.67	89.57	122.12

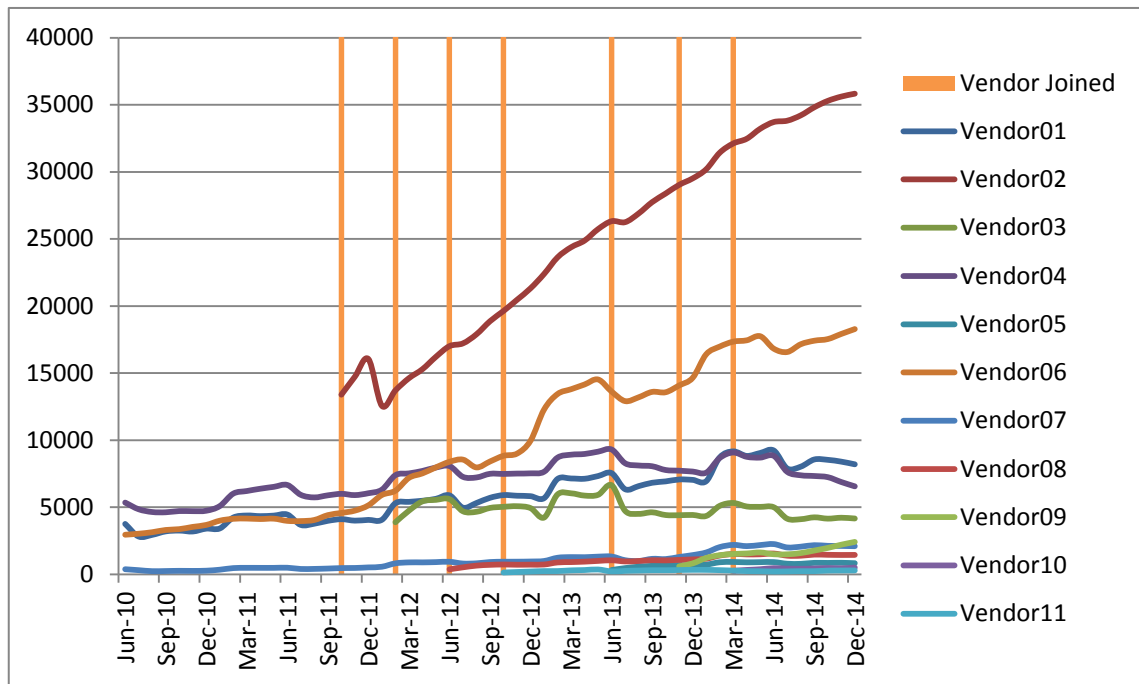
## 5.7 Data Results for Customer Retention

The analysis results for customer retention were used to answer research questions three and four in Chapter 6 below.

### 5.7.1 Monthly Customer Retention

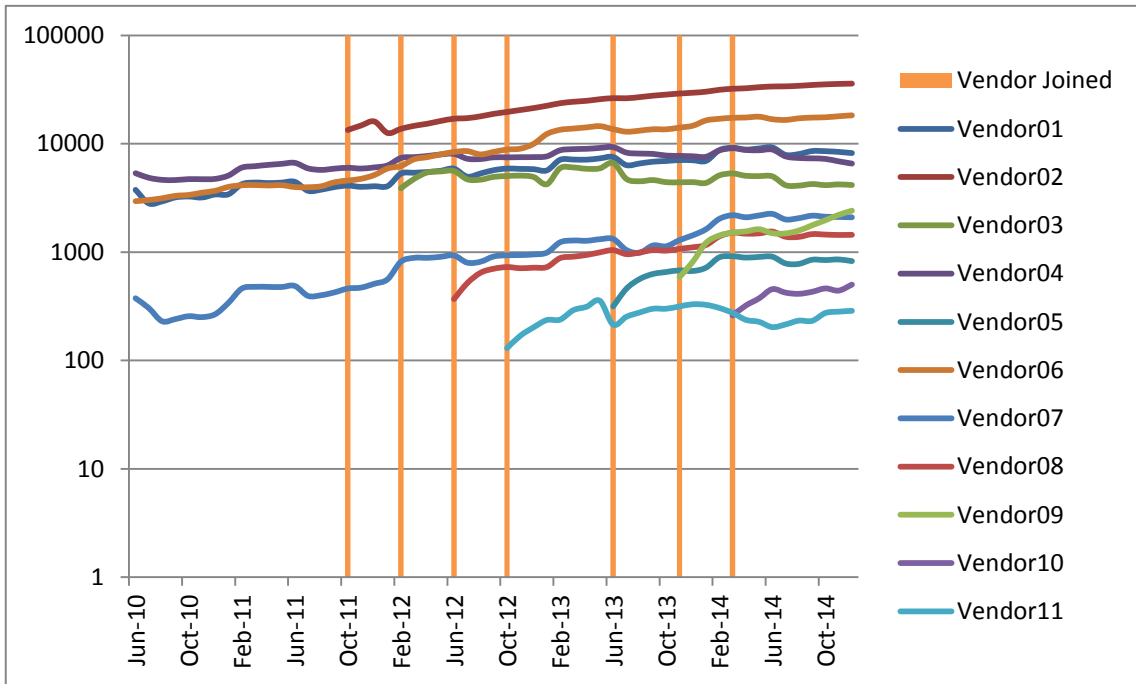
The data from Table 5-3 was used to create Figure 5-10 below. The curves on the graph depict the total number of customers that each of the 11 vendors retained per month and the vertical bars show the months in which the new vendors joined the loyalty programme.

**Figure 5-10: Total monthly customer retention per vendor**



In Figure 5-11 below, a Log10 scale was used on the vertical axis in order to eliminate the vast difference of acquisition magnitude among the vendors.

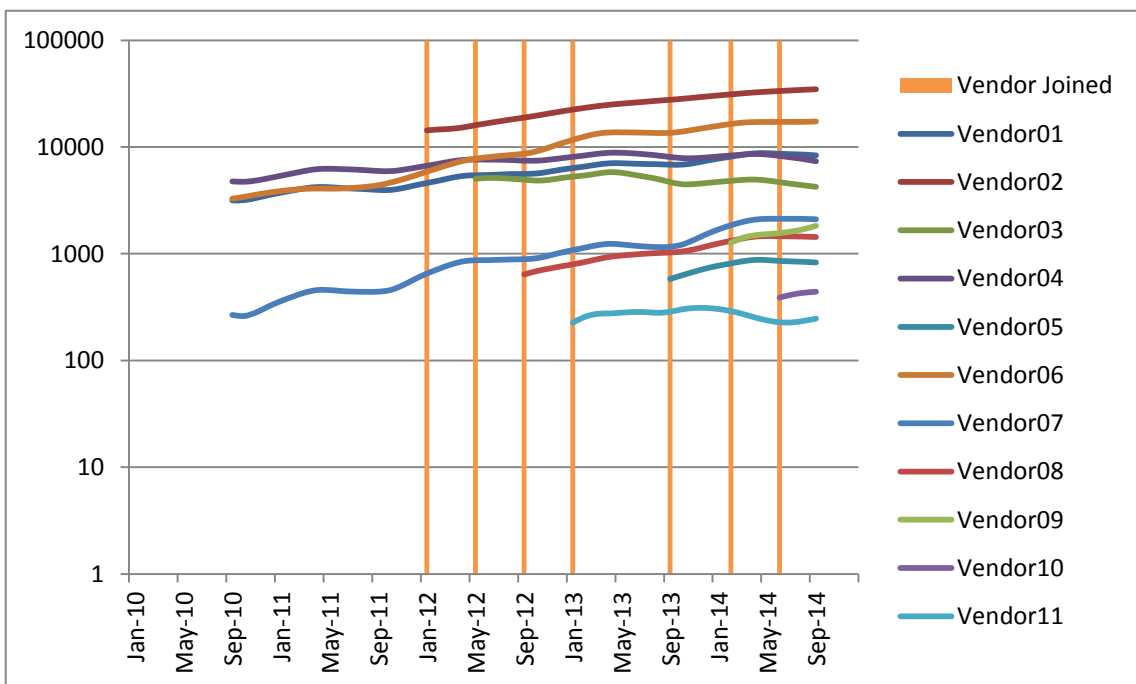
**Figure 5-11: Total monthly customer retention per vendor (Log10 scale)**



**5.7.2 Monthly Customer Retention - Six-Month Moving Average**

The customer retention curves in Figure 5-11 above were smoothed using a six-month moving average method to produce Figure 5-12 below.

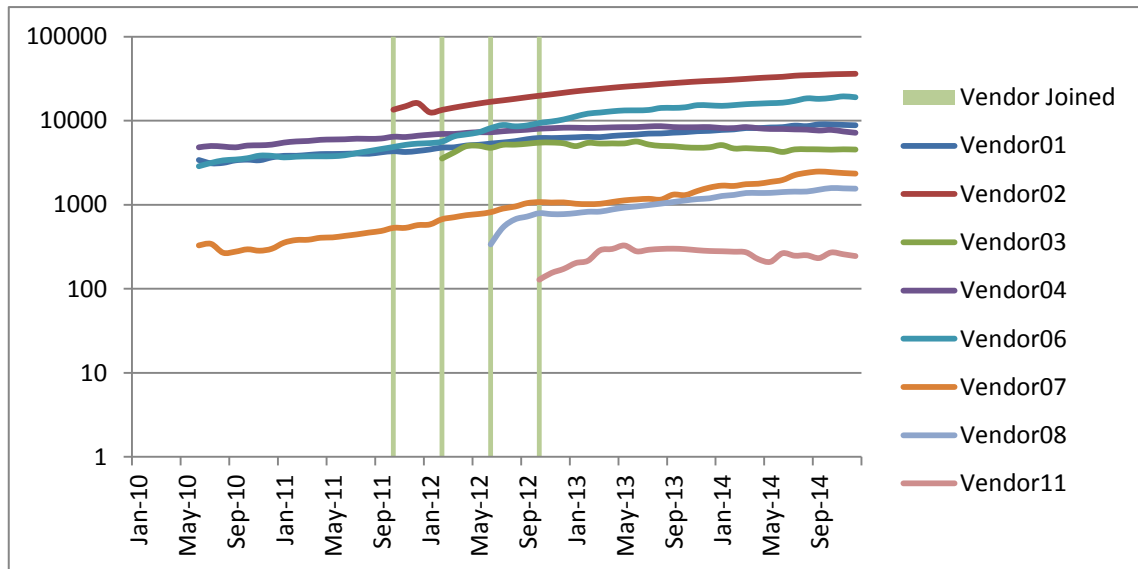
**Figure 5-12: Monthly customer retention - Six-month moving average (Log10 scale)**



### 5.7.3 Monthly Customer Retention - Deseasonalised

The customer retention curves in Figure 5-11 above were deseasonalised using the ratio-to-moving-average method. As discussed in Chapter 4 above, only eight of the vendors had joined the loyalty programme early enough to perform the deseasonalising calculations. These vendors are shown in Figure 5-13 below.

**Figure 5-13: Monthly customer retention - Deseasonalised (Log10 scale)**



The seasonal indices that were used to deseasonalise the customer retention data are shown in Table 5-7 below.

**Table 5-7: Adjusted seasonal indices for customer retention**

Month	Vendor 01	Vendor 02	Vendor 03	Vendor 04	Vendor 06	Vendor 07	Vendor 08	Vendor 11
Jan	89.41	100.04	84.87	92.70	109.27	96.29	91.53	116.65
Feb	110.67	102.09	109.31	106.22	110.81	121.04	106.73	110.49
Mar	112.06	102.20	112.96	108.19	110.41	124.71	109.50	101.35
Apr	108.24	100.96	109.31	107.77	109.39	117.88	107.23	105.18
May	109.00	101.51	110.35	109.15	109.78	116.57	107.56	108.48
Jun	110.24	101.37	117.70	110.87	102.77	114.34	109.22	76.74
Jul	90.33	98.73	90.94	96.96	96.30	88.85	96.61	86.92
Aug	93.27	98.38	89.86	94.33	93.08	85.72	96.21	93.06
Sep	94.80	99.20	93.07	95.97	95.82	87.24	97.07	100.07
Oct	94.81	99.13	91.75	93.14	94.07	86.93	91.82	101.37
Nov	94.30	99.29	92.38	92.34	92.05	88.51	91.88	109.61
Dec	92.96	99.24	91.69	91.29	96.33	89.25	92.89	117.21

## 5.8 Conclusion

The results obtained in this chapter through the analysis of the raw data provided valuable insight which will be further elaborated on in Chapter 6 below.

## **Chapter 6: Discussion of Results**

### **6.1 Introduction**

In this chapter, the results presented in Chapter 5 above from the 91,632 customer records provided were discussed in relation to the research questions and the literature review. The findings and conclusions in this chapter provided insight into the customer acquisition and customer retention in a partnership loyalty programme when a new vendor joins. There were also observation made that could assist business practitioners with strategic decisions. The discussion focuses on the observations that were derived from the time series analysis as well as drawing parallels with the results of past studies. The research questions being investigated were:

1. How does the entry of a partner into a partnership loyalty programme affect customer acquisition for the new partner?
2. How does the entry of a partner into a partnership loyalty programme affect customer acquisition for its existing partners?
3. How does the entry of a partner into a partnership loyalty programme affect customer retention for the new partner?
4. How does the entry of a partner into a partnership loyalty programme affect customer retention for its existing partners?

The findings for each of the research sub-questions, as outlined in Chapter 3, are presented in Sections 6.2 to 6.5 below. Any concerns that arose from the formulation of the findings are discussed in Section 6.6.

### **6.2 Conclusions for Question 1: Customer Acquisition for the New Partner**

Question 1 is restated below:

**How does the entry of a partner into a partnership loyalty programme affect customer acquisition for the new partner?**

#### **6.2.1 Results: Customer Purchases at New Partners**

By focusing on the customer purchases for the new vendors in Figure 5-3 above, the three-month period (Bijmolt et al., 2010; Liu, 2007) after the vendor joined the loyalty



programme was compared to the remainder of the year. It was observed that only the two vendors with the lowest monthly sales in their first month after joining (Vendor 10 and Vendor 11) experience a peak in customer purchases after joining the loyalty programme whereas the sales for the other vendors do not increase. From these observations, it would appear that the vendors that start off with a lower customer purchase base benefit more in the three-month period after joining a loyalty programme than vendors with a high customer base. The results from the data align with the findings of Haisley and Loewenstein (2011) whereby it appeared that the market for the larger vendors were already at a saturation point in terms of catchment customers due to competition amongst vendors. However, there may be some evidence from the data that marketing of the new smaller partners joining the loyalty programme may have some impact on those partners that have not reached this saturation. It was observed that customer purchases peaked for a new vendor joining the programme when the vendor had an initially low sales base. Ramaswami et al. (2009) argued that larger vendors benefit more than smaller vendors should they introduce a loyalty programme because they have more control over their environment, product development potential, market share, marketing capabilities and bargaining power. The result of this paper builds on the findings of Ramaswami et al. (2009) in that smaller vendors experience immediate benefits in the three-months following the implementation of a loyalty programme. However after this three-month period, these smaller vendors experience the slow, steady growth associated with the larger vendors.

From the timelines plotted in Figure 5-1 and Figure 5-2 it was observed that the new vendors usually experience a peak in customer purchases in the festive period after joining the programme i.e. Christmas and New Year (Teik et al., 2015). Evidence from the data of the increased customer purchases during festive periods can be observed in Table 5-5 in which the seasonal indices for ten of the eleven vendors are above 100 in January. As discussed in Chapter 4, a seasonal index greater than 100 shows that seasonal influence increased or raised the level of purchase activity during this period (Wegner, 2010). It was noted that Vendor02 was the largest vendor to join during the non-festive period and its sales initially dropped until Christmas. This implies that the time of year that the vendor chooses to launch a loyalty programme could be a contributing factor to its adoption and that it is potentially better to launch the programme before a seasonal spike in consumer spending. To remove the effects of seasonality from the customer purchase time series, they were deseasonalised in Figure 5-5 using the ratio-to-moving-average method discussed in Chapter 4. From Figure 5-5 above, it can be seen that Vendor03 and Vendor11 experience customer

purchase peaks from joining the loyalty programme that are not due to the festive seasons. Vendor02 and Vendor08 did not experience such a peak in purchases. From this observation it would appear that vendors do not consistently experience short-term peaks in customer sales after joining a loyalty programme.

From these customer purchase results, there is no evidence from the data that joining a loyalty programme consistently results in customers' purchasing more at the vendor post-joining the programme.

### **6.2.2 Results: Customer Acquisition at New Partners**

As can be seen in Figure 5-6 and Figure 5-7 above, the customer acquisition per vendor is highly influenced by seasonal factors. To remove the effects of seasonality from the customer acquisition curves, they were deseasonalised in Figure 5-9 using the ratio-to-moving-average method discussed in Chapter 4. Focusing on the new vendors in Figure 5-9 above, it can be seen that Vendor02 and Vendor03 have relatively constant customer acquisition. Vendor08 shows an upward trend. Customer acquisition for Vendor11 still fluctuates, which is indicative that it is impacted more to business cycles within the system (Bourdeau et al., 2007) due to its smaller size, however in the long term the curve to relatively flat. From the customer acquisition results, it can be concluded that the deseasonalised customer acquisition of new partners is relatively constant over time for larger vendor partners but tends to fluctuate for smaller vendor partners. This result shows that the new vendors joining a loyalty programme experience a constant or gradually increasing rate of customer acquisition after joining. Although the customer acquisition for the vendors pre-joining the loyalty programme is unknown, the vendors that joined the programme now have the benefit of tracking customer acquisition, whereas they previously could not (Vinod, 2011).

### **6.3 Conclusions for Question 2: Customer Acquisition for Existing Partners**

Question 2 is restated below:

**How does the entry of a partner into a partnership loyalty programme affect customer acquisition for its existing partners?**

### **6.3.1 Results: Customer Purchases at Existing Partners**

From the timelines plotted in Figure 5-1 and Figure 5-2 it was observed that all the vendors usually experience a peak in customer purchases in the festive period i.e. Christmas and New Year (Teik et al., 2015). To remove the effects of seasonality from the customer purchase curves, they were deseasonalised in Figure 5-5 using the ratio-to-moving-average method discussed in Chapter 4. From Figure 5-5 above, it can be seen that a new vendor joining the programme (depicted by the vertical bars on the graph) has no observed influence on the customer purchase trends for the other vendors that existed at that time. From these customer purchase results, there is no evidence from the data that a new vendor joining the loyalty programme will impact customer purchases at existing vendors.

### **6.3.2 Results: Customer Acquisition at Existing Partners**

As can be seen in Figure 5-6 and Figure 5-7 above, the customer acquisition per vendor is highly influenced by seasonal factors. The moving average method discussed in Chapter 4 was applied to the customer acquisition data in order to smooth short term fluctuations within the time series allowing for the identification of long term trends. In Figure 5-8, it can be seen that customer acquisition for existing vendors does follow a long term trend and there is still a component of festive seasonality that can be observed in the graph. However, a new vendor joining the programme (depicted by the vertical bars on the graph) has no observed influence on long term customer acquisition trends for the other vendors that existed at that time. From the customer acquisition results, there is no evidence from the data that a new vendor joining the loyalty programme impacted customer acquisition trends for existing vendors. This contradicts the findings by Schumann et al. (2014) that the partners within a loyalty programme would experience spill-over effects. The entry of a new vendor into a loyalty programme system (Bourdeau et al., 2007) yielded no evidence from the data of customer acquisition spill-over into the existing vendors.

## **6.4 Conclusions for Question 3: Customer Retention for the New Partner**

Question 3 is restated below:

**How does the entry of a partner into a partnership loyalty programme affect customer retention for the new partner?**

#### 6.4.1 Results: Customer Purchases at New Partners

Focusing on the new vendors in Figure 5-2 above it can be seen that there is a long term trend that the customer purchases gradually follow over time. The moving average method discussed in Chapter 4 was applied to the customer purchase data in order to smooth short term fluctuations within the time series allowing for the identification of long term trends. The customer purchase trends observed in Figure 5-4 for the new vendors are tabulated in Table 6-1.

**Table 6-1: Customer purchase trends for new vendors**

Vendor	Trend
Vendor02	Upward Trend
Vendor03	Flat Trend
Vendor05	Flat Trend
Vendor08	Upward Trend
Vendor09	Upward Trend
Vendor10	Upward Trend
Vendor11	Flat Trend

From these customer purchase results, there is evidence from the data that vendors joining this loyalty programme have upward or flat customer purchase trends meaning that the vendor is either maintaining or growing sales revenue. There is no evidence from the data of customer purchases declining in the long term. These results align to the findings by Mimouni-Chaabane and Volle (2010) that should vendors with small market share introduce loyalty programmes it would create an economic and psychological switching barrier that would stimulate customer retention and prolong the relationship.

#### 6.4.2 Results: Customer Retention at New Partners

As can be seen in Figure 5-10 and Figure 5-11 above, the customer retention per vendor is fairly linear with slight influence from seasonal factors. To remove the effects of seasonality from the customer retention curves, they were deseasonalised in Figure 5-13 using the ratio-to-moving-average method discussed in Chapter 4. Focusing on the new vendors in Figure 5-13 above, it can be seen that the customer retention for Vendor02 and Vendor08 show an upward trend. The customer retention for Vendor03 and Vendor 11 remain relatively flat. From the customer retention results, it can be concluded that the deseasonalised customer retention of new partners remains either flat or have an upward trend. There is no evidence from the data of customer retention declining in the long term. Although the customer retention for the vendors pre-joining

the loyalty programme is unknown, the vendors that joined the programme now have the benefit of tracking customer retention, whereas they previously could not (Vinod, 2011). These vendors are now in a position to gather detailed customer insights that allow them to deliver targeted marketing activities, potentially creating a group of advocates that voluntarily market the vendor to other prospective customers (Ailawadi et al., 2010; McCall & Voorhees, 2010). The fact that customers are being retained at a steady or increasing rate showed that the loyalty programme was assisting the vendor to nurture true attitudinal loyalty rather than superficial behavioural loyalty (Hafeez & Muhammad, 2012). This result only partially aligns to the findings by Dorotic et al. (2012) that vendor participation in a loyalty programme has small positive effects by fostering customer loyalty because the data showed flat and positive effects.

## **6.5 Conclusions for Question 4: Customer Retention for Existing Partners**

Question 4 is restated below:

**How does the entry of a partner into a partnership loyalty programme affect customer retention for its existing partners?**

### **6.5.1 Results: Customer Purchases at Existing Partners**

Focusing on the existing vendors in Figure 5-2 above it can be seen that there is a long term trend that the customer purchases gradually follow over time. The moving average method discussed in Chapter 4 was applied to the customer purchase data in order to smooth short term fluctuations within the time series allowing for the identification of long term trends. In Figure 5-4 it can be seen that customer purchases for existing vendors does follow a long term trend. However, a new vendor joining the programme (depicted by the vertical bars on the graph) has no observed influence on long term customer purchase trends for the other vendors that existed at that time. From these customer purchase results, there is no evidence from the data that a new vendor joining the loyalty programme will impact customer purchase trends at existing vendors.

### **6.5.2 Results: Customer Retention at existing partners**

As can be seen in Figure 5-10 and Figure 5-11 above, the customer retention per vendor is fairly linear with slight influence from seasonal factors. The moving average method discussed in Chapter 4 was applied to the customer retention data in order to

smooth short term fluctuations within the time series allowing for the identification of long term trends. In Figure 5-12, it can be seen that customer retention for existing vendors does follow a long term trend. However, a new vendor joining the programme (depicted by the vertical bars on the graph) has no observed influence on long term customer retention trends for the other vendors that existed at that time. From the customer retention results, there is no evidence from the data that a new vendor joining the loyalty programme impacted customer retention trends for existing vendors. Existing vendors did not experience any customer retention spill-over effects Schumann et al. (2014) that result from the entry of new vendors and therefore should focus on improving the quality of service delivery in order to improve customer loyalty and satisfaction (Srivastava & Rai, 2013).

## **6.6 Concerns**

The trends for the new vendors may have already existed before they joined the loyalty programme but this could not be confirmed due to pre-joining data being unavailable. This study took the approach of analysing the data that was available post the vendors joining for long term trends.

The moving average and ratio-to-moving-average methods were used to perform the time series analysis. This resulted in graphs depicting smoother time series which show the long term trends. These methods do not produce a clear black and white statistical answer (e.g. p value) that can be used to reject or accept a null hypothesis. The curves on the graphs are still subject to the interpretation of the researcher. There is a risk that different people would interpret these graphs differently.

## **6.7 Conclusion**

The discussion of the results of the data analysis provided in-depth insight into the loyalty programme that was studied. Drawing parallels between the data results and the results of previous academic studies showed that the data supported, contradicted or added to these studies. Conclusions for each of the research questions were drawn based on the data and previous academic studies. The findings of Chapter 6 will be summarised and presented in Chapter 7 below.

## **Chapter 7: Conclusion**

### **7.1 Introduction**

This chapter summarises the main findings from Chapter 6 and outlines the managerial implications thereof. It also touches on the limitations of the study and concludes with recommendations for future academic research.

Researchers (Duncan, 1916; Peters et al., 2015) have questioned and debated the practicality and effectiveness of implementing loyalty programmes since 1896 when Sperry & Hutchinson established the green post stamp loyalty programme. This study was conducted in response to the need for further academic research pertaining to partnership loyalty programmes as highlighted by Breugelmans et al. (2014) and Dorotic et al. (2012).

This research contributed to academic literature and provided greater understanding of the impact that the entry of a new vendor into a partnership loyalty programme had on customer acquisition and customer retention. This chapter summarises the main findings of the study and highlights the managerial implications thereof. The limitations are also discussed as well as recommendations for future research.

The principal academic findings are presented in Section 7.2. Practical findings for managers and business practitioners are elaborated upon in Section 7.3. The limitations constricting this study are reiterated in Section 7.4. The study concludes with recommendations for future research explained in Section 7.5.

### **7.2 Principal Findings**

From the results in Chapter 6, it was found that a new vendor joining a partnership loyalty programme would experience constant or gradually increasing customer acquisition rates after joining the programme. The findings from the data were that customer acquisition for the new smaller sized vendors fluctuated more than larger vendors due to the business cycles within the loyalty programme system (Bourdeau et al., 2007), however in the long term the small vendors had a similar long term trend to larger vendors.

There was no evidence from the data that a new vendor joining a loyalty programme would have any impact on the customer acquisition of the existing vendors within the programme. This was also verified by analysing customer purchase behaviour. This contradicts the findings by Schumann et al. (2014) that the partners within a loyalty programme would experience customer acquisition spill-over effects. The entry of a new vendor into a loyalty programme system (Bourdeau et al., 2007) yielded no evidence from the data of customer acquisition spill-over into the existing vendors.

It was found that a new vendor joining a partnership loyalty programme would experience either a flat or gradually increasing customer retention rate after joining the programme. The fact that customers are being retained at a steady or increasing rate showed that the loyalty programme was assisting the vendor to nurture true attitudinal loyalty rather than superficial behavioural loyalty (Hafeez & Muhammad, 2012). There was no evidence from the data of customer retention declining in the long term. This result only partially aligns to the findings by Dorotic et al. (2012) that vendor participation in a loyalty programme has small, positive effects by fostering customer loyalty because the data showed flat and positive effects.

There was no evidence from the data that a new vendor joining a loyalty programme would have any impact on the customer retention of the existing vendors within the programme. This was also verified by analysing customer purchase behaviour. Existing vendors did not experience any customer retention spill-over effects Schumann et al. (2014) that result from the entry of new vendors. Therefore existing vendors should focus on improving the quality of service delivery in order to improve customer loyalty and satisfaction (Srivastava & Rai, 2013).



Figure 7-1 shows the research questions proposed in Chapter 3 and the corresponding findings from Chapter 6.

**Figure 7-1: Two-by-two matrix of the research sub-questions and findings**

	New Partner	Existing Partner
Acquisition	<p><b>Question 1</b> How does the entry of a partner into a partnership loyalty programme affect customer acquisition for the new partner?</p> <p><b>Finding</b> A new vendor joining a partnership loyalty programme would experience constant or gradually increasing customer acquisition rates after joining the programme</p>	<p><b>Question 2</b> How does the entry of a partner into a partnership loyalty programme affect customer acquisition for its existing partners?</p> <p><b>Finding</b> There was no evidence from the data that a new vendor joining a loyalty programme would have any impact on the customer acquisition of the existing vendors within the programme.</p>
Retention	<p><b>Question 3</b> How does the entry of a partner into a partnership loyalty programme affect customer retention for the new partner?</p> <p><b>Finding</b> A new vendor joining a partnership loyalty programme would experience either a flat or gradually increasing customer retention rate after joining the programme.</p>	<p><b>Question 4</b> How does the entry of a partner into a partnership loyalty programme affect customer retention for its existing partners?</p> <p><b>Finding</b> There was no evidence from the data that a new vendor joining a loyalty programme would have any impact on the customer retention of the existing vendors within the programme.</p>

### 7.3 Implications for Management

As vendors are faced with growing competition and lack of brand differentiation, it is becoming increasingly important for vendors to establish alternative ways to create customer loyalty other than price reduction and discounts (Cant & du Toit, 2012). However vendors must be careful not to get trapped in a prisoner's dilemma-type equilibrium regarding loyalty programmes (Bijmolt et al., 2010) whereby a vendor may introduce a loyalty programme purely to mimic the actions of competitors but due to a lack of knowledge, underestimating the capital cost and the strategic planning involved, the new loyalty programme becomes a financial burden to the vendor (Hikkerova, 2011). The results of this study show that there is either constant or a gradual increase over time in customer acquisition and retention for new vendors that join a partnership loyalty programme hence this option is a viable alternative to starting a standalone single vendor programme.

Vendors did not have a way of measuring customer constructs related to customer loyalty until they join a loyalty programme. This was experienced in the data collection phase. There was no customer related or CRM type of data available for a vendor until there is some mechanism to capture this information e.g. a loyalty programme.

With regards to the loyalty programme that was analysed in this study the vendors were non-competing. There is academic debate as to whether a loyalty programme should comprise of competing vendors from the same sector e.g. having two pharmaceutical vendors in the same loyalty programme (Evanschitzky et al., 2012). This study confirms the research (Dorotic et al., 2011) that maintaining the vendor portfolio of a loyalty programme such that the vendors are in different industries, sector and customer segments ensures the mutual benefit for all vendors in the loyalty programme.

It was observed from the raw customer purchase data, before deseasonalising, that customer adoption of the loyalty programme took longer if a vendor joined during a non-festive period. It takes a little more time to create the upward trend (momentum in the system) before it is seen. Vendors that joined the loyalty programme just before the Christmas and New Year festive period piggybacked off the increased customer purchases to catapult the initial customer uptake of the programme. Managers need to consider that the timing at which a vendor joins the programme plays a role in the initial loyalty programme uptake at that vendor.

#### **7.4 Limitations of the Research**

The loyalty programme administrators did not have the customer purchase data for the periods before the vendors joined the programme. As a result this study cannot compare consumer purchases at a vendor before and after the vendor joined the loyalty programme. This would potentially skew the customer acquisition and retention figures for a vendor joining the programme because there was no data to correctly ascertain if the customer was being acquired or retained. To resolve this issue, the first three of customer purchase data for new vendors was discarded in the acquisition and retention calculations. The three month period was chosen because academic literature identifies this as the normal period for short term business fluctuations (Bijmolt et al., 2010; Liu, 2007).

The researcher did not have any technical knowledge of the database schema that was used by the loyalty programme and therefore could not select the fields and variables that would best answer the research questions. This was mitigated by holding a workshop with the senior executives for the loyalty programme and conveying to them in-depth the purpose of the research and the type of information required. The executives assessed the data requirements and thereafter selected the database fields to extract. The researcher also relied on the developer to create a database script that randomly sampled customers from the population. The researcher did not have the technical knowledge or programming expertise to validate the fields chosen or the script that was created.

When a vendor joined the loyalty programme, both the loyalty programme administrators and the vendor could embark on advertising campaigns. The detail of how much advertising was done when each vendor joined was not available. Additionally, there was no fixed method that the programme administrators followed to determine the budget to advertise for new vendor partners. It depended on the agreement made between the loyalty programme managers and the vendor. This is a limitation for the study because it could lead to type 1 error which is the incorrect rejection of a true null hypothesis (a "false positive"). In terms of a type 1 error, there is a risk that there is a relationship between a new vendor joining and customer acquisition and retention; however the customer purchase data may not accurately reflect this relationship across all vendors because of inconsistent advertising methods used and this study may incorrectly conclude that no relationship exists.

The study did not consider any external influences that may have swayed customer purchase patterns. For example, the vendor may have coincidentally merged with another business in the same month that they joined the partnership loyalty programme. This could skew the results of the analysis leading to a type 2 error which is the failure to reject a false null hypothesis (a "false negative"). In this study, a type 2 error would occur if data incorrectly reveals a relationship between joining the loyalty programme and customer behaviour due to external factors that coincidentally influenced the data. For the purposes of this study it is assumed that the market forces within the vendor's industry are consistent for the time that the vendor joined the loyalty programme. Therefore the entry into the loyalty programme will be the only significant change in the new vendors industry.

In general, partnership programmes are complex whereby there are multiple partners to analyse. This is challenging because data across multiple vendors is required to conduct research and the calculations can be complex. It was difficult to compare the effects that the loyalty programme had across the individual vendor partners because of the variety of industries that the partners were from. For example, there were partners from the pharmaceutical, wholesale and supermarket industries. This study was performed in the context of the dominant partner that created the loyalty programme, which resided in the financial services sector.

## **7.5 Suggestions for Future Research**

One of the major limitations of this study was that customer data prior to a vendor joining the programme was not available. Should other researchers be able to obtain the pre-joining customer purchase data for all vendors in a partnership loyalty programmes, the recommendation is to run statistical tests to check for differences in consumer purchases before and after a vendor joined the programme.

The focus of this study was on customer acquisition and customer retention. During the literature review the concept of customer churn (i.e. the loss of customers) was briefly touched on. It may be useful for further academic research on the affects that a loyalty programme has on customer churn management over a period of time.

Vendors would typically opt to join an existing partnership loyalty programme instead of starting their own loyalty programme due to the benefits of lower start-up and marketing cost, accessing a wider customer base, higher customer participation and the potential for spill-over effects across the various partners. A potential further area of investigation would be to analyse the financial statements of the vendor partners within a partnership loyalty programme to ascertain if the loyalty programme is indeed making a net positive contribution to the income statement.

This study was limited to a scope of research for private individuals. There may be value in exploring the effects of joining a partnership loyalty programme on a vendor's business and juristic entity customer types.

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## Appendices

### Appendix 1: Ethical Clearance Letter

**Gordon Institute  
of Business Science**  
University of Pretoria

Dear Justin Annirroot

Protocol Number: **Temp2015-01176**

Title: **The impact of partnership loyalty programmes on customer acquisition and retention**

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker