THE MEDIATING ROLES OF SATISFACTION AND LOYALTY CARD PROGRAM ON THE RELATIONSHIP BETWEEN CUSTOMER PERCEIVED VALUE AND BRAND LOYALTY

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Loyalty card programs have been utilized by marketers to improve the consumers' recurring buying behavior by increasing the company's value proposition. It is essential to observe and examine the customers' perceived value towards brand loyalty and customer profitability. Therefore, this research measured the relationship between customer's perceived value towards satisfaction and loyalty card program and those mediating factors towards brand loyalty and profitability. The structural equation modelling technique (AMOS) was used to evaluate the research model, and the results revealed that loyalty card programs serve as the strongest factor that affects the relationship between customers' perceived value and brand loyalty.
Keywords: customer perceived value, satisfaction, loyalty card program, brand loyalty, customer profitability

Program kartu loyalitas telah digunakan oleh pemasar untuk meningkatkan perilaku pembelian berulang konsumen dengan meningkatkan proposisi nilai perusahaan. Sangat penting untuk mengamati dan menguji nilai yang dirasakan pelanggan terhadap loyalitas merek dan profitabilitas pelanggan. Oleh karena itu, penelitian ini mengukur hubungan antara persepsi nilai pelanggan terhadap program kartu kepuasan dan loyalitas dan faktor-faktor penengah terhadap loyalitas dan profitabilitas merek. Teknik pemodelan persamaan struktural (AMOS) digunakan untuk mengevaluasi model penelitian, dan hasilnya mengungkapkan bahwa program kartu loyalitas berfungsi sebagai faktor terkuat yang mempengaruhi hubungan antara persepsi nilai pelanggan dan loyalitas merek.
Kata Kunci: nilai yang dirasakan pelanggan, kepuasan, program kartu loyalitas, loyalitas merek, profitabilitas pelanggan

INTRODUCTION

Marketers have been using the strategy of using loyalty cards by offering gifts to consumers in return for subscribing to the cards and using them continuously (Mauri, 2003). Loyalty programs improve the consumers' recurring buying behavior by increasing the company's value proposition (Thompson & Chmura, 2015). Loyalty programs provide benefits in terms of brand building and its influence on consumer spending that is greater to the type of consumer who compares prices and has a tendency to switch brands. Conversely, loyalty programs do not have a direct effect on sharing wallets for loyal customers of a brand. Although there is a large investment in the loyalty program, there is still little empirical evidence regarding the effectiveness of the overall loyalty program on consumer spending (Voorhees, White, McCall, & Randhawa, 2015). When using loyalty cards in the retail sector, marketers in many cases fail to offer gifts to add value and increase loyalty (Pandit & Montero, 2016).

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Studies show loyalty programs for high equity brands have higher profits than low equity brands. The industry must also consider consumer characteristics, such as willingness to change brands or the level of loyalty, to ensure marketing programs can provide the best value to consumers rather than only attracting consumers to switch brands (Voorhees et al., 2015). The benefits of using loyalty cards are well known to consumers, but this does not apply to all cardholders. To be an effective instrument for marketers to obtain information about consumers, loyalty cards must have value for their holders. Consumers will use loyalty cards when shopping only if they feel they are eligible to do so. Empirical evidence shows that not all loyal consumers use loyalty cards, which can be seen from their shopping behavior and the use of loyalty cards. Empirical analysis provides the conclusion that promotional offers have more influence on the use of loyalty cards, thus promotional incentives are far more important than gift incentives. Gift giving to consumers by using shopping frequency is more effective to attract consumers when using loyalty cards compared to the total value of consumer spending (Mauri, 2003).

Research reveals that the effect underlying the type of reward on loyalty depends on the level of consumer involvement. For industries with high involvement, the match between store image and intangible gifts can increase loyalty program preferences, whereas the time needed to get a gift directly or delayed has no effect. On the other hand, industries with low involvement, direct and tangible prizes increase preferences for loyalty programs, while conformity with store image has very little impact (Meyer-Waarden, 2015). The study also explored the differences in social and economic rewards from hotel loyalty programs. The findings show that economic rewards encourage a stronger loyalty program than social rewards. But social rewards facilitate relational behavior more than economic rewards because they motivate members through a commitment to support providers of loyalty programs. The results give marketers insight into how to balance social and economic rewards in designing loyalty programs and suggest how hotels strengthen relational value to build sustainable relationships with consumers (Lee, Tsang & Pan, 2015).

Marketers must know the specific design that has a greater impact on the performance of loyalty programs (Meyer-Waarden, 2015). Studies show consumers who pay to participate in loyalty programs have a better attitude in giving evaluations of money value and more positive benefits than non-paying members. Likewise, providing high accumulation of prizes is more beneficial when the program membership costs are high because it shifts the focus of processing from fees to rewards. Conversely, standard prizes may be more profitable when program costs are low (Ashley, Gillespie, & Noble, 2015).

LITERATURE REVIEW

This study identifies the model through 7 stages that describe the factors involved, by exploring the relationship between customer perceived value, satisfaction, loyalty card programs, brand loyalty and profitability (Winer, 2001). In this case, it is important to explain the role and significance of the construct in the practice and progress of marketing management science. Previous studies (Berry, 1983; Berry & Parasuraman, 1991; Gronroos, 1994) have changed the focus of marketing orientation from attracting short-term transactional consumers to maintaining long-term relationships. Roberts, Varki, and Brodie (2003) further suggest that describing marketing relationships as forming "bonds" between companies and consumers. In the late eighties, relationship marketing became the focal point of B2B business (Dwyer, Schurr, & Oh, 1987; Morgan & Hunt, 1994).

Compared to producers, retailers have the advantage of building long-term relationships with consumers because they are in a better position to detect consumer purchasing patterns and implement information in a cost-effective manner (Sweeney, Soutar, & Johnson, 1999). In addition, gathering information from the consumer side of the relationship of retailers and consumers is considered as an important research in the future (Sheth & Parvatiyar, 1995). (Liebermann, 1999) states that loyalty programs are proven to be effective tools in relationship marketing. In addition loyalty programs are used as a means to communicate with consumers and a means to build reciprocal relationships between

consumers and companies (Kumar & Shah, 2004). That is, gifts from the loyalty program can cause feelings to respond from consumers in the form of more purchases and cause more gifts to be offered from companies. Some researchers note that the loyalty program has become an important strategy and mechanism for retailers to increase revenue growth which is a key component of customer relationship management (CRM), has an important role in developing relationships, attracting consumers in the use of products and services and retaining consumers (Kivetz & Simonson, 2003).

This loyalty program has become an effort by retailers to build sales, increase the number of purchases and increase the frequency of purchases which creates deeper relationships with consumers (Allaway, Berkowitz, & D'Souza, 2003). The importance of loyalty programs has been recognized in managerial and economic literature (Kim, Shi & Srinivasm, 2001). Despite the popularity of loyalty programs, little is known about the factors driving consumer behavior related to this type of relationship program. Due to the growing loyalty of the program, it is very important to know the impact of customer perceived value on satisfaction which ultimately affects brand loyalty. Research findings can help managers in formulating effective strategies, especially in loyalty programs so that they can utilize information from consumers that helps companies to improve marketing performance.

Hypothesis Development

The definition of customer perceived value is the exchange between the benefits received by consumers in relation to the total costs that include the price paid plus other costs associated with the purchase (McDougall & Levesque, 2000). In the context of this study, customer perceived value is the overall assessment of consumers of the loyalty program of all relevant benefits and prizes given by retailers. Usually, customer perceived value is positioned to have an important role in the concept of marketing exchange (Eggert & Ulaga, 2012).

The superiority of the value of the product or service is a significant competitive advantage for the company in building consumer satisfaction

(Ulaga & Chacour, 2001). Likewise, (Mauri, 2003) claims that consumers who decide to become a loyalty card holder are first attracted by the absolute value of the target prize. *H1: Customer perceived value significantly and positively influences satisfaction*

Loyalty programs are defined as business processes that identify, maintain and improve customer outcomes through interactive relationships and added value (Capizzi, Ferguson, & Cuthbertson, 2004; Omar, Musa, & Hassan, 2007). Interestingly (Lind & Tyler, 1998) show that loyalty card programs can increase consumers' intrinsic motivation thereby reducing the need for gifts by providing other benefits related to identity such as rating loyalty card members, fostering a sense of togetherness and treating consumers as unique individuals and valuable. The loyalty card program structure must be able to give consumers an incentive to adopt a dynamic perspective. For example, (O'Brien & Jones, 1995) suggest that the main factor consumers consider when evaluating programs is the relative value of rewards and the likelihood of achieving them which is a function of cumulative purchases and time limits will affect the benefits consumers expect from participating in loyalty program card. *H2: Customer perceived value has a significant and positive effect on loyalty card program*

Research reveals that consumers are less likely to switch brands if they better understand the economic value, time and cost savings in relationship marketing (Gwinner, Gremler, & Bitner, 1998). In fact, Harnett (1998) suggests that when retailers have met consumer needs, retailers provide value that can put retailers in a much stronger position in the long run. O'Malley and Tynan (2000) mention that if consumers do not feel value in building relationships with companies, then consumers are only involved in relationships as long as better choices are not available elsewhere. In addition, customer perceived value plays an important role in determining brand loyalty, this will increase the likelihood of consumers to provide recommendations and reduce the tendency to find alternative information (Sirohi, McLaughlin, & Wittink, 1998). *H3: Customer perceived value has a significant and positive effect on brand loyalty.*

Satisfaction is defined as a cumulative evaluation of consumer purchasing and consumption experiences to date (Lervik & Johnson, 2003; Rust, et al 1995). The definition implies satisfaction as an overall evaluation based on total experience of the product or service from time to time. Likewise (Dowling & Uncles, 1997) states that loyalty programs must be able to increase the overall value of a product or service and motivate loyal consumers to make their next purchase. In order to create an effective loyalty program, marketers must have a structure that can motivate consumers to view purchases as part of the order of decisions taken and not as an independent transaction (Lewis, 2004). Thus satisfaction is defined as the affective state of the user loyalty program as a result of a cumulative evaluation of the experience of the loyalty program. (Mcllroy & Barnett, 2000) state that an important concept to consider when developing customer loyalty programs is satisfaction. *H4: Satisfaction has a significant and positive effect on loyalty card program.*

Satisfaction is a measure of how customer expectations are met, while customer loyalty is a measure of how likely consumers are to buy back and engage in relationship marketing. Many studies have shown that knowing where consumers' viewpoints about value are important is for managers, because greater levels of customer satisfaction lead to loyalty levels and can sustain larger customers, provide positive WOM recommendations and have stronger competitive positions and ultimately gain a higher market share (Fornell, 1992; Bearden & Teel, 1983). Previous researchers (e.g., Bolton, 1998) found a relationship between satisfaction and loyalty. The relevance of satisfaction in getting loyal customers and producing positive WOM information (Anderson & Sullivan, 1993; Oliver, 1996). Indeed, some researchers identify that satisfaction is one factor in determining loyalty (Anderson, Fornell and Lehmann 1994). In addition, satisfaction has been recognized as the main driver in conducting positive WOM (File, Cermak, & Prince, 1994). *H5: Satisfaction has a significant and positive effect on brand loyalty.*

At present the use of loyalty programs as a technique for companies to increase consumer loyalty seems to be well known to both consumers and companies (Luxton, 1998). (Howard-Brown, 1998) found that consumers stated that satisfaction and loyalty card programs had an impact on consumers. Retailers often give prizes to consumers for the ongoing use of the loyalty card program. Rewards in the form of promotions or incentives associated with specific desirable behavior where consumers adjust to the program from retailers such as having to buy a certain number, buy certain types of products, buy certain brands, visit a shop with a certain frequency or even at certain hours or days. The more often loyalty card users adjust to the retailer's program, the higher the rewards consumers will receive.

According to Sheth and Parvatiyar (1995), marketers are constantly challenged to increase the value of their products or services by increasing the benefits of the product or service, reducing costs through productivity or a combination of the two. Sharp and Sharp (1997) explain that the effectiveness of relationship marketing must be evaluated in terms of the resulting behavioral changes. (Hennig-Thurau & Klee, 1997; Reichheld, 1994) accept loyalty behavior as the end result of relationship marketing. Some researchers (e.g. Bloemer & Odekerken-Schroder, 2002; Shoemaker & Lewis, 1999) describe loyalty as a strong consumer behavior, where companies can meet their needs that are most appropriate and competition is not included in consumer considerations, because consumers assume the company has an exclusive position.

The loyalty card program is defined as an encouragement from card users to maintain a relationship with the company's loyalty program accompanied by a willingness to make additional efforts. Meanwhile, brand loyalty is defined as the commitment of consumers to repurchase or maintain product or service preferences consistently in the future, regardless of situational influences and marketing efforts that have the potential to cause shifting behavior. Because there is a relationship between the loyalty card program and brand loyalty, it is important to know the mechanism between the two. It is necessary to highlight findings by Mauri (2003) where consumers who are bound by the loyalty card program will have the potential to improve consumer relations with brands. Therefore, if

consumers are loyal to the card loyalty program, they will display brand loyalty. Another survey also mentioned that almost half of the members of the loyalty card program showed that the program had an influence on it also showed that consumers were loyal to the loyalty program they chose to join. There is a lot of literature that states that brand loyalty programs offered to consumers tend to produce benefits to brand loyalty (Lieberman, 1999; Noordhoff, Pauwels, & Odekerken-Schroder, 2004; Yi & Jeon, 2001). A strong loyalty relationship is considered a barrier

mechanism for competitors and can provide a strong competitive advantage for the company. *H6: Loyalty card program significantly and positively influences brand loyalty*

Many loyalty programs focus on consumers to increase satisfaction and brand loyalty which in turn will have a positive influence on long-term financial performance (Anderson & Sullivan, 1994; Reichheld & Sasser, 1990). *H7: Brand loyalty has a significant and positive effect on profitability.*
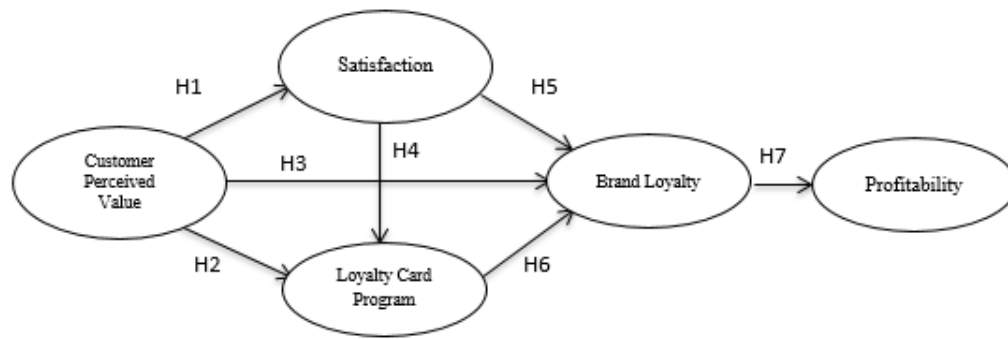

Figure 1. Research Model

METHODOLOGY

To test the hypotheses, the air transportation sector was considered as it was pioneered to operate large scale electronic loyalty program.

The samples of 172 customers with frequent flyer program were asked to fill out the questionnaire (see Table 1). A conceptual model of current study was developed and tested using Structural Equation Modeling with AMOS. The proposed structural model can be seen in Figure 1.

Table 1. Measurement Scales

No	Variable	Scale	Var.	Code
1	**CPV (Customer Perceived Value)**	I compare prices before I buy	CPV1	v26c
		I am very price sensitive and often regard the price well	CPV2	v26d
		I am always looking for product with the best price/quality ratio	CPV3	v26a
		I am willing to pay more for higher quality	CPV4	v26b
2	**SAT (Satisfaction)**	I always buy the same brands	SAT1	v26k
		I never change my product or brand choice decision	SAT2	v26n
3	**LCP**	I like participating in loyalty programs	LP1	v13a

	(Loyalty Card Program)	I have most of the time a clear saving goal in mind when participating in Loyalty program	LP2	v13c
		I participate in Loyalty Program because otherwise I'll miss extras and rewards	LP3	v13d
		Participation in Loyalty Program gives me the feeling that I am special	LP4	v13f
		Possession of Loyalty card gives me a feeling of being a regular customer	LP5	V13e
		I appreciate receiving special discounts (for members only)	LP6	v13k
		I appreciate receiving product information (for members only)	LP7	v13l
		I appreciate being invited for special events (for members only)	LP8	v13m
4	**BL (Brand Loyalty)**	I pay less attention to offers of other stores because of Loyalty Card	BL1	v13j
		Because you participate in the Loyalty Program, is it more or less likely that you remain customer at this company?	BL2	v17
5	**PF (Profitability)**	Did your spending pattern change at the company after enrolling in the Loyalty Program?	PF1	v16
		Did you use a special offer from this Loyalty Program in the past 12 months, and if yes, how often?	PF2	v18
		Did you redeem the saved points from this Loyalty Program in the past 12 months, and if yes, how often?	PF3	v19

Exploratory factor analysis is a useful analysis for identifying factors in an instrument, where items are grouped together by shared variance. In this study, an exploratory factor analysis was carried out to establish the construct validity of the questionnaire to show whether there was a match between the scale developed from the literature and that obtained empirically from this study. Cronbach's alpha coefficient was calculated to see the reliability of the internal consistency of 6 Likert-type scale items in the instruments that were perceived themselves, before analyzing the data. Internal consistency is described as "the extent to which all items in the test measure the same construct concept and hence are connected to the interrelationship of items in the test (Tavakol & Dennick, 2011).

Principal Component Analysis is used to display the factors of action and to provide factor loading for each item in the latent construct. To maximize orthogonality between dimensions (to maximize independence between factors), varimax rotation is applied to all factors. Scales derived from factor analysis are then checked for reliability, determined by Cronbach's Coefficient Alpha (a) calculation. Cronbach's alpha measures the average covariance among items on a scale. From zero to one, Cronbach's alpha can be interpreted as a correlation coefficient, and, for the purposes of this study, an alpha of 0.5 guarantees the reliability of the steps.

RESULTS AND DISCUSSIONS

Reliability is achieved if Cronbach alpha is above 0.70 (Maholtra, 2007), there are 2 variables/constructs that meet the customer perceived value and loyalty card program. According to Fornell and Larcker (1981), convergent validity is achieved if the AVE score is above the threshold of 0.50. The results show that AVE is above 0.50 and the threshold of 0.50 indicates that convergent validity is achieved. Table 2 presents the values of Factor Loading, CR, AVE, and Cronbach's Alpha.

Table 2. Values of Factor Loading, CR, AVE, Cronbach's Alpha

No	Construct	Factor Loading	CR	AVE	Cronbach's Alpha
1	**Customer Perceived Value (CPV)**		0.723	0.6175	0.718
	I compare prices before I buy	0.9			
	I am very price sensitive and often regard the price well	0.75			
	I am always looking for product with the best price/quality ratio	0.58			
	I am willing to pay more for higher quality	0.24			
2	**Satisfaction (SAT)**		0.470	0.485	0.346
	I always buy the same brands	0.34			
	I never change my product or brand choice decision	0.63			
3	**LCP (Loyalty Card Program)**		0.335	0.415	0.731
	I like participating in loyalty programs	0.47			
	I have most of the time a clear saving goal in mind when participating in Loyalty program	0.47			
	I participate in Loyalty Program because otherwise I'll miss extras and rewards	0.28			
	Participation in Loyalty Program gives me the feeling that I am special	0.53			
	I appreciate receiving special discounts (for members only)	0.65			
	I appreciate receiving product information (for members only)	0.68			
	I appreciate being invited for special events (for members only)	0.68			
4	**Brand Loyalty (BL)**		0.589	0.545	0.476
	I pay less attention to offers of other stores because of Loyalty Card	0.25			
	Because you participate in the Loyalty Program, is it more or less likely that you remain customer at this company?	0.84			
5	**Profitability (PF)**		0.539	0.52	0.448
	Did your spending pattern change at the company after enrolling in the Loyalty Program?	0.79			
	Did you use a special offer from this Loyalty Program in the past 12 months, and if yes, how often?	0.25			

Two indicators were then examined to determine the validity of the factor structure derived from the analysis, the Keizer-Meyer-Olkin (KMO) Measure of Adequacy Sampling and Bartlett Roundness Test (see Table 3). KMO provides a measure of the extent to which these items are shared and is suitable for factor analysis. Above 0.5, the researcher may have confidence that the construct is statistically significant. The result of KMO on this item is 0.758, showing the correlation between items. The Bartlett Sphericity Test determines the extent to which the items are independent. The rejection of the hypothesis that the items are independent is an indication that the data is suitable for factor analysis. The results of the Bartlett test (df = 171, $p < 0.000$), indicate that the factors function together. These levels indicate that, given this condition, factor analysis is a logical statistical procedure.

Table 3. KMO & Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.758
Bartlett's Test of Sphericity	Approx. Chi-Square	2257.675
	Df	171
	Sig.	0.000

Principal Component Analysis (PCA) lists factors with strength and measures component variants (eigenvalues). Factor analysis initially identifies factors with eigenvalues of 1.0 or higher and provides a matrix for factor loading values for each. There are 6 factors with eigenvalues greater than or equal to 1.0 which explain up to 20.3% of the cumulative variance. Factor analysis identified 6 main dimensions for 19 items that measured loyalty programs for airmiles respondents. The six dimensions created include the following scale. The first scale explained 20.3% of the variants and included six items. The second scale explains 12.373% and includes three items. The third scale explains 7.924% of the variants and includes two items. The fourth scale explains 6.926% of the variance and includes six items. The fifth scale explains 5.769% of the variants and includes two items. Finally, the six scales explain 5.355% of the variants and include 2 items.

Table 4 lists the six factors as outlined in this study that construct and show the relative importance of each factor in accounting for the variance associated with the set of items. Self perceived competency scale scores produce acceptable internal consistency (Cronbach's alpha 0.965). There are no items that need to be removed from the questionnaire. Exploration factor analysis shows that there is no good match between the core competency model and the data. All items can be assigned to four constructs identified using PCA, but fail to be assigned to seven pre-existing core competency clusters because some items have a loading factor lower than 0.30. However, because the existing factors originated, the existing clusters were carefully chosen in interpreting each core competency.

Table 4. Factor Analysis

| Indicator	Loading Factor	Communality	Eigen value	% of Var.
Loyalty Program			3.861	20.319
I like participating in loyalty programs	0.556	0.356		
I have most of the time a clear saving goal in mind when participating in Loyalty program	0.410	0.436		
I participate in Loyalty Program because otherwise I'll miss extras and rewards	0.276	0.247		
Participation in Loyalty Program gives me the feeling that I am special	0.542	0.680		
Possession of Loyalty card gives me a feeling of being a regular customer	0.767	0.650		
I appreciate being invited for special events (for members only)	0.742	0.667		
Customer Perceived Value			2.351	12.373
I compare prices before I buy	0.859	0.771		
I am very price sensitive and often regard the price well	0.868	0.768		
I am always looking for product with the best price/quality ratio	0.668	0.666		
Profitability			1.501	7.924
Did you use a special offer from this Loyalty Program in the past 12 months, and if yes, how often?	0.463	0.714		
Did you redeem the saved points from this Loyalty Program in the past 12 months, and if yes, how often?	0.463	0.576		
Satisfaction			1.316	6.926
I always buy the same brands	0.754	0.709		
I never change my product or brand choice decision	0.642	0.477		
I pay less attention to offers of other stores because of LC	0.362			
Did your spending pattern change at the company after enrolling in the Loyalty Program?	0.009	0.714		
Perceived of Quality			1.096	5.769
I am willing to pay more for higher quality	0.865	0.787		
Brand Loyalty			1.018	5.355
Did you redeem the saved points from this Loyalty Program in the past 12 months, and if yes, how often?	0.740	0.576		
Because you participate in the Loyalty Program, is it more or less likely that you remain customer at this company?	0.033	0.714		
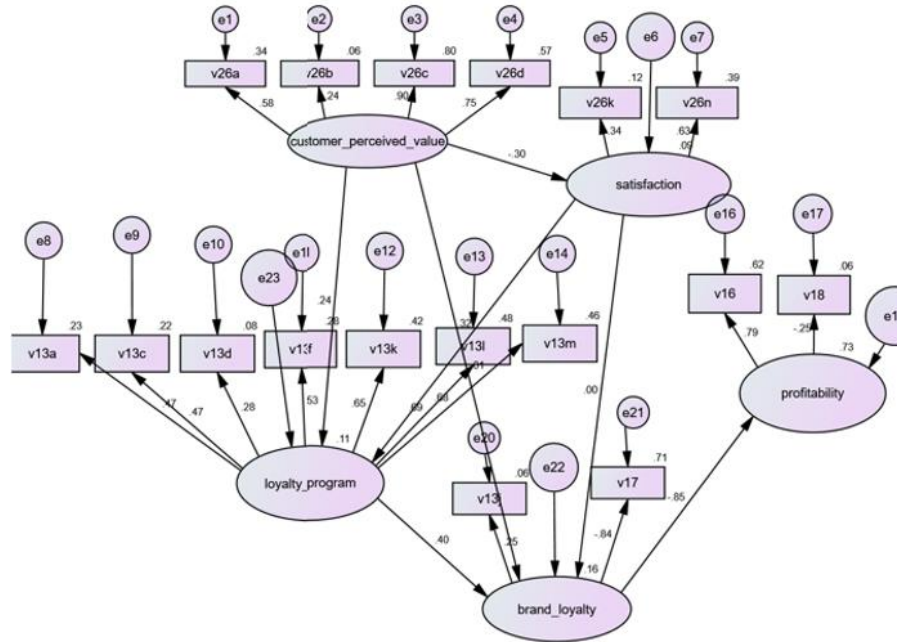
Figure 2. Research model with unstandardized parameter estimates.

CONCLUSION

The results have shown that H2, H3, H4, H6 are proved to be significant. Whereas H1, H5 and H7 are proved insignificant with the following rationale. For hypothesis 1, the superiority of the value of the product or service is a significant competitive advantage for the company in building consumer satisfaction (Ulaga & Chacour, 2001). Likewise, Mauri (2003) claims that consumers who decide to become loyalty card holders are first attracted by the absolute value of the target prize. O'Malley and Tynan (2000) say that if consumers do not feel value in building relationships with companies, then consumers are only involved in relationships as long as better choices are not available elsewhere.

For hypothesis 5, many studies show that knowing where consumers' viewpoints about value are important for managers, because the greater level of customer satisfaction leads to the level of loyalty (Fornell 1992; Bearden & Teel, 1983). The loyalty program market is experiencing a decline, especially in America and Europe, consumers are entering a phase of boredom towards the loyalty program. There are even arguments against the effectiveness of loyalty programs in Europe (Nordhoff et al.,

2004). Nordhoff et al (2004) show that in the Asian market, consumers have not experienced boredom with the loyalty program, besides the economic crisis in Asia has changed Asian consumers to be loyal only to retailers who offer economic rewards, especially in the form of discounts, points and vouchers.

For hypothesis 7, it was found that not all loyalty card users were in fact loyal to the program (Mauri, 2003; Yi & Jeon 2003). The results of the study showed that some members used more than one loyalty program, others did not use the program and most consumers were unaware of the reward scheme mechanism of the loyalty program (Sharp & Sharp, 1997). Therefore, Wright and Sparks (1999) indicate that a number of programs are known not to be used, a number of programs have not been used in the last three months of the period considered and some consumers tend not to use the program when they pay for a small amount of goods or services.

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