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Assessing the Impact of Loyalty Program on Consumer Purchasing Behavior in Fine-Dining Restaurant

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Abstract

This study explores the influence of loyalty program on customer purchasing behavior in fine-dining restaurant. It examines the factors that motivate customers to enroll on the program and loyalty rewards customers' prefer. Questionnaires were administered to 172 guests to solicit views on how loyalty programs impact on their purchasing behavior. The respondents were selected at random upon request to answer the questionnaires. Data was analyzed using SPSS version 16. The findings revealed that members of the loyalty programs showed positive attitude towards patronizing other restaurant products thereby increasing sales margin of the restaurants. Majority of the customers expressed the desire for immediate rewards such as discount. Food quality emerged as the major motivational factor to enroll on loyalty programs followed by environment and brand. The study concludes that, loyalty programs that are designed to match the target groups influence consumer-purchasing decision. The implication is that restaurant managers should continue to seek customers' views on loyalty rewards as customers' expectations change overtime. Furthermore, food quality should not be overlooked as customers begin to consider it as a motivational factor to enroll on loyalty programs in fine-dining restaurants.

Keywords: Loyalty programs, Consumer Behavior, Fine-Dining Restaurant

1. Introduction

Loyalty programs are gaining popularity in the restaurant business due to its ability to provide customers with loyalty incentives such as point redeemable for prize or discount (Jang & Mattila, 2005). As more restaurants are springing up it is evident that customers have more chances to choose where to dine. With high customer acquisition cost restaurants are compelled to re-orient their marketing strategies to keep existing customers while attracting new ones. Kotler & Armstrong (2001) assert that, it costs as much more to conduct business with new customers than existing ones. Doing business with existing customers reduces marketing costs, decreases price sensitivity and strengthens partnership activities. Loyal customers are less likely to switch and make more purchases than unfaithful ones. Many service organizations specifically restaurants have come to realized that, to lose a customer means losing the entire stream of purchases that the customer would have made over his lifetime (Reichheld, 2001; Kotler, 2002). A well-designed program serves as a competitive advantage for a firm, which assists companies to achieve sales target. It can be argued that loyalty program is a valuable technique in saturated and competitive markets and it is a determinant of customer retention and higher purchase (O'Malley, 1998; Yi & Jeon, 2003). Information technology has boosted customer awareness and created a situation where business success is no longer attained through only product price and quality (Lewis, 2004). Rather, companies build their success on long-term customer relationship, which forms the basis of loyalty programs (Ou *et al.*, 2011).

Empirical investigation suggests that the implementation of loyalty programs to promote the firm reduces marketing expenditure as compared to advertisement, which involves lump sum of money (Reichheld, 2001). With the loyalty programs, firms have an instant result that is having direct contact with the customers. Due to the good relationship built between the restaurant and customers through the program it provides a platform for the customers to refer others through a word of mouth (Divert, Crittenden & Henderson, 2003). Thus designing attractive and valuable programs together with distinctive core products of restaurants can influence customer-buying behavior. Loyal customers are less likely to switch and make more purchases than unfaithful ones. For instance, Subway's Electronic Sub Club Card program shows that, the average reward member spends \$7.85 per visit compared to the average non-member, who spends \$5.25 per visit, almost 50 percent more per transaction (Frequency Marketing Inc., 2003). Another study carried out by Vener (2007) reported that, spending increased in Fifth Group Restaurants of Atlanta and Spectrum Food Table One in San Francisco by 17% and 10% respectively after customers began to participate in their loyalty programs. This particular study is concerned with the impact of loyalty programs on consumer purchasing behavior in fine-dining restaurants. Therefore the specific objectives are: 1) to determine whether loyalty programs influence consumers' purchasing decision; 2) to explore factors that motivates customers to enrol on loyalty programs; 3) to ascertain loyalty rewards customers prefer.

2. Literature Review

2.1 Consumer Purchasing Behavior

Consumer purchasing behavior is integral to all marketing activities that are carried out to develop a product and

service delivery (Swarbrooke & Horner 2007). Schiffman, Kanuk & Hansen (2008:3) describe consumer behavior as the “behavior that consumers display in searching for, purchasing, using, evaluating and disposing of products and services that they expect will satisfy their needs. Consumer behavior has conventionally been thought of as a study of why people buy and use products, how they react to prices, adverts and other promotional tools. The premise is that, it becomes easier to develop strategies to influence consumers (Griffin, 2000). Kotler (2000) proposes that studying consumer behavior provides evidence of developing products, product features, prices; channels messages and other marketing mix elements. Customers are influenced by many factors related to their behavior. For instance, social influences like family, reference group and social classes. Since the understanding of consumer behavior underpins any successful marketing strategies, it is essential that restaurants study the trends of their consumers’ purchasing behaviors using customer portfolio analysis to design appropriate customer loyalty programs. As stated by Lewis (2004), loyalty program that is design on point cumulative are clear attempt to promote repeat business. It motivates customers to purchase more frequently and in larger volumes. In other words, the characteristics of loyalty programs and their attractiveness can change a customer's buying decisions, encouraging him to shift from a single to multiple-period decision making. The behavioral assumption is that reward programs can motivate customers to base their purchasing decisions on long-term goal of achieving a reward (Brown, 2000). Lewis (2004) in his recent study revealed that, the major factors that customers consider when evaluating programs are the relative value of rewards and the probability of achieving a reward (Lewis, 2004). This reminds organizations to develop loyalty programs suitable to customers that patronized their products and services. Sharp & Sharp (1997) suggest that, loyalty program members show changes in repeat- purchase, which is not evident among non-program members.

2.2 Loyalty Programs

In more matured and competitive markets, winning customers as the main aim of marketing is too limited. Loyalty programs are among the most popular retention strategies used by hotels to maintain customer relationship (McCall & Voorhees, 2010; Xie & Chen, 2014) and most attractive marketing tool for a large number of restaurants (Keh & Lee, 2006). Loyalty program can be define as a program that attract consumers to accumulate free rewards when they make repeat purchase with a firm and thereafter maintain relationship and generate return business (Jang & Mattila, 2005; Ou *et al.*, 2011; Jain & Singhal, 2012; Xie & Chen, 2014). Companies have come to realize that, the cost of attracting new customers are rising (Kotler *et al.*, 2005; Ehrenberg & Goodhardt, 2000) and it can costs as much as three to five times to attract a new customer than to keep existing customer satisfied. Although, searching for new customers remains essential, the emphasis is now on building a lasting relationship with customers. This within other factors required companies to search for more attractive approaches to retain profitable customers (Graham & Nicholson, 2008). More over, loyalty programs are becoming very important part of building relationship with customers (Horner, 2003). Several retailers, such as departmental stores and grocery stores, have implemented customer loyalty programs as valuable strategic tool to retain customers (Magi, 2003). This profitability seems to be generated by lower servicing costs, less price sensitivity, increased spending, and favorable recommendations passed on to other potential customers by loyal buyers (Reichheld & Sasser, 1996). However, many of such organizations initiated loyalty programs to stand competition in the business environment (O’Malley, 1998; Wei-Ming *et al.*, 2011). Loyalty programs are developed not only to guarantee customer retention but also to enhance dynamic purchases. Similarly, Lewis (2004) contended that a loyalty program should be structured such that it motivates customers to repurchase and accumulate rewards. Customers are inspired to progress in their status to redeem points for rewards (McCall & Voorhees, 2010).

Well-designed loyalty programs enhance the relationship between existing customers, increase customer life cycles, increase the share of customer expenditure, and finally strengthen customer loyalty (Ou *et al.*, 2011). A study conducted by Magi (2003) in a retail shop finds that loyalty programs have a large influence on customers’ share-of-purchase and share-of-visits. Likewise Ou *et al.* (2011) in their study found, the design of Membership Card Rebate and Lottery Draw had a significant positive impact on customer loyalty in departmental store. Again loyalty scheme members have high purchase intensities and patronize the company’s products frequently (Lewis 2004). Nunes & Drèze (2006) point out that loyalty programs present barriers to exit for customers if they are well vested in the program. Also, getting more of a customer's spending is a big issue for loyalty programs as they are able to win greater share from the customers (Magi, 2003). The key issue is to give the customer reasons to patronize your products rather than your counterparts. For example, Starwood hotel allows its customers to redeem accumulated points at any airline of their choice (Intel, 2006). A traveler who might otherwise alternate among hotels now has a reason to favor Starwood. Again Reeves in 2009 confirmed that loyalty programs create incentive for additional purchases, which are generally more profitable features of successful business. This is essential in the case of loyalty programs with different levels of the program. That is, customers who are in a lower status level or on the border of attaining the next level will often spend more to secure the higher status level. Similarly, loyalty programs can assist firms to gather customer behavior information (Horner, 2003), which is one of the most valuable soft benefits that a customer loyalty program can give to a firm. Though there are no real tangible revenue

benefits to this part of the program, the information can prove valuable. Customer behavior information means companies can track loyal customers' propensities and habits to discover customers' wants and needs.

2.3 Hospitality Industry and Loyalty Program

For many years, hospitality firms believed that the goal of marketing is to create as many new customers as possible. The increase in competition and the growing customer acquisition cost and customer expectations can no longer favor those marketing activities. Instead, companies need to practice retention marketing (Shoemaker & Lewis, 1999) specifically those in the hospitality industry. The airline frequent fliers (e.g. AAdvantage) were amongst the first in this new wave of very large-scale consumer oriented programs introduced by the American Airlines (Mintel, 2006). The hospitality industry has come to embrace loyalty programs for diverse reasons including rewarding customers, manipulating consumer behavior, generating customer information, and increasing their market share (Xie & Chen, (2014). The early decision on hotels to introduce loyalty programs can be found in (Reichheld & Sasser, 1990; Bowen & Shoemaker, 1998). The first hotel chains to introduce loyalty programs are Holiday Inn, InterContinental and Marriott (Mintel, 2006). According to Haley (2006), hospitality loyalty programs tend to fall into two broad categories: 'Points-based frequency' and 'Recognition programs'. The former is where the guests earn points based on spends or stays which can be exchanged for rooms or other benefits and the later is where guests' preferences are captured, retained and communicated throughout the brand and utilized to enhance future visits.

As stated by Tepeci (1999), hospitality companies can increase their market share and growth rates by increasing their brand loyal customers. Besides, it is more profitable approach than other marketing activities, such as price cuts or promotional programs. Similarly, customer loyalty programs reduce dissatisfaction and reinforce satisfaction (Shoemaker and Lewis, 1999; Ou *et al.*, 2011). The work of Wijaya (2005) explains that, it is crucial for the hospitality industries to build loyal customers because repeat business constitutes a large percentage of room and food sales. Furthermore, brand loyal customers resist competitors' price cuts and help hospitality firms maintain high occupancy rates. For that matter, managers must tailor their loyalty programs to the particular segment of customers they intend to serve so that customers become loyal to the company rather than the program. Although, frequent-guest program (FGP) may cost hotel companies a substantial amount of money, they do work. Hilton confers this when it questioned its HHonour members and found out that 19 percent of them would not stay at a Hilton without such membership. Marriott also reported similar case; its FGP members spend two-and a-half times more at Marriott than they did before joining the program (Mintel, 2006). Likewise, Jang and Mattila's (2005) findings indicate that there is strong potential for developing loyalty reward programs in the restaurant industry.

2.4 Types of loyalty reward

Marketers differentiate between the types of loyalty rewards on offer as 'hard and soft' benefits (Balow, 1995; Capizzi & Ferguson, 2005). Hard rewards include tangible elements such as; discounts, collateral products, points, miles and gifts. These rewards provide something free that would otherwise cost the customer money (Kraus, 2003). Hard benefits alone are often not enough to create emotional attachment to the product. More over, the success of any loyalty program depends on the quality of the benefits it offers. Thus, the benefits must have a high-perceived value from the customer's perspective. Soft rewards include special communications, preferential treatment, recognition and tailored messages. Normally, soft rewards provide additional benefits for customers such as value added services and make them feel more exciting and special among others. It builds personal relationship between customers and organizations. This is crucial in the restaurant industry where the level of staff-customer interaction is relatively demanding (Wijaya, 2005). The above rewards work well if they are design to achieve the target group perceives value.

For such reasons companies must study the life-style of their customers to determine rewards that will create total satisfaction (Harris, 2000). Research reveals that the value of loyalty rewards to customers defer at any point in time. For instance, Jang & Mattila (2005) studies pointed out that customer's preferred monetary reward over more hedonic rewards (a bottle of wine). On contrary Kivetz & Simonson (2002) and Keh & Lee (2006) had it differently, they reported that customers prefer luxury rewards when the effort required to reach a reward is high. This is an eye opener for organizations to design loyalty programs that are in line with each customer segment. In view of Park, Chung & Woo (2013) customers show loyalty to restaurants that provide immediate rewards. Furthermore the authors stated that monetary rewards enhance loyalty to restaurants more than non-monetary rewards. Other studies indicate that immediate rewards are effective to switch customers from competitors; (Kivetz & Simonson, 2003; Jang and Mattila, 2005), cumulated rewards are effective to maintain existing customers (Zhang, Krishina & Dhar, 2000). However they believed that customer responses better to rewards that are provided instantly than those provided in the future. Even though loyalty programs are aimed at maintaining long-term relationships with customers for profit, customers think otherwise. That is customers are not willing to maintain relationship with companies. Studies show that company's ability to establish long-term relationship with customers lead to an increase in revenues and decrease in costs, and eventually improve profit (Ganesh, Arnold &

Reynolds, 2000).

2.5 Benefits of Loyalty Program

The benefits of customer loyalty have been well established as enhancing profitability and business sustenance (Reichheld & Teal, 1996; Zeithaml, 2000; Zeithaml, Rust & Lemon, 2001; DeWulf, Schoroder & Locobucci, 2001; Shankar, Smith, & Rangaswamy, 2003). An outgrowth of this acceptance of loyalty has been the extensive focus on organizational efforts to maintain customer loyalty and stimulate repeat purchase (Rozencher & Fergenson, 2008). Loyalty programs are normally used to encourage customers' repeat patronage by offering value to reward (Lewis, 2004; Hoffman & Lowitt, 2008). Customers are value-driven, and their perception on value is connected to their purchase decision (Sweeney & Soutar, 2001). If the customer examines a particular loyalty reward program to be more useful than competing programs, it sounds reasonable to assume that he or she is more likely to participate in that program even if he is already a member of several other loyalty programs (Wirtz, Mattila & Oa Lwin, 2007; Xie & Chen, 2014). McCall & Voorhees (2010) observed, customers hold different perceptions toward different loyalty programs characteristics. During the economic downturn hotels' occupancy rate dropped by 3% in 2008 (Barsky, 2008) this made hotels to develop their loyalty programs more attractively to capture more profitable customers (Ludwig, 2009). It also allows loyalty travelers to receive the best incentives than ever before. For example, Marriott, Hilton and Starwood Hotels have eliminated blackout dates for hotel reward redemption. Starwood allow members to redeem points for airline tickets on any flight they want as long as seats are available (Mintel, 2006). A \$300 plane ticket can be redeemed for 25,000 points (Barsky, 2008).

3. Research Method

In order to achieve the objectives of this studies a perfect representative sample of 5 restaurants were chosen at random from the list of Sheffield (City Centre) Fine-Dining restaurant Directory at the time the research was conducted. This formed 50% of the fine-dining restaurants. 200 (two hundred) self-questionnaires were administered to customers in the selected restaurants to solicit their views on the impact of loyalty programs on consumer purchase behavior in fine-dining restaurants. The respondents were selected at random upon request to answer the questionnaires. The purpose of laying emphasis on random sampling was to lessen bias and ensure accurate representative (Veal, 2006). Out of the 200 questionnaires administered 172 were retrieved. The data was analyzed using Statistical Package for Social Sciences (SPSS). The analysis was presented in descriptive analysis and exploratory analysis using a Chi square test to determine if there exist relationship between the demographic characteristics of the respondents and loyalty programs.

4. Results and Findings

4.1 Demographic characteristics of respondents

The result indicated that, female participation was 52%, which is equivalent to 90 respondents in comparison to male, which was 48%, representing 82 respondents. This is evident that both sexes enrolled on loyalty programs in the restaurants and majority were female at the time the survey was conducted. Furthermore, majority of the respondents (64%) were employed meaning they were capable of affording the services delivered by the restaurants.

Table 1: Motivating Factors to enroll on loyalty program

Response	Frequency	Percent
Brand name	25	14.5
Food Quality	72	41.9
Service quality	13	7.6
Reward & value	23	13.4
Environment	28	16.3
Employees' Attitude	11	6.4
Total	172	100.0

Several motivational factors have been identified in the literature as reward value (Brown, 2000; Lewis, 2004), brand name (Kandampully & Suhartanto, 2000; Nguyen, 2006) and trustworthy (Chauduri & Holbrook, 2001; Kuusik, 2003). Considering the results from the survey, it could be argued that variety of factors motivated customers to enroll on the programs. Nevertheless, the inability of the organizations to identify the right factors for their target markets could hinder the success in retaining customers. Factors identified in the empirical research are; brand name, food quality, service quality, reward value, environment and employees' attitude. Food quality emerged as the major motivational factor forming 41.9% of the total responses (see Table 1), followed by the environment as the next factor, which gave 16.3% responses. The third and fourth places given to brand name (14.5%) and reward value (13.4%) whilst service quality and employees' attitude were 7.6% and 6.4% responses respectively. Enrolling profitable customers on the loyalty program underpin the success of the program. However, it is the effort of organizations to explore the factors that motivate customers to willingly enroll on the program.

This could be done through focus group discussion to evaluate customers' ideas more regularly as customer's behavior changes (Blythe, 2008). Surprisingly, reward value took the third position this signs a warning to organizations that customers are motivated by other factors (Mattila, 2001) apart from the reward value. It is contended that since restaurant's main product is food, customers look up to its quality than the value of the reward. This calls for restaurant managers to continually seek their customers' views on loyalty rewards as perceptions on motivation continuous to change.

Table 2: Respondents attitude towards loyalty program in restaurants

Response	Frequency	Percent
Extremely Positive	43	25.0
Positive	117	68.0
Negative	12	7.0
Total	172	100.0

The findings reported in the study described the attitudes and behaviors of members on the program as uncommon among non-members; members patronized more of the restaurant products than non-members. This positive attitude towards loyalty programs is demonstrated by (68 %) of the customers (see Table 2).

This gives credit to academics argument that loyalty members show changes in re-peat business (Sharp & Sharp, 1997). This raises more concern on the viability of loyalty programs in business.

Table 3: Influences of loyalty program in restaurants

Response	Frequency	Percent
Very Much	45	26.2
Much	104	60.5
Very Little	14	8.1
Not at all	9	5.2
Total	172	100.0

Again findings from the survey shown that 60.5% of the customers agreed that their purchasing decision is much influence by loyalty programs in the restaurant. This is an indication that successful reward programs can influence customer's purchasing decisions where the customer buys a particular product repeatedly.

Table 4: Respondents willingness to Switch Restaurants

Response	Frequency	Percent
Yes	69	40.1
No	99	57.6
Yet to decide	4	2.3
Total	172	100

Furthermore Table 4 indicated that majority of the customers are not willing to switch restaurant to one with better loyalty programs if the price and quality are similar. This implies that, although customer-purchasing decision is influenced by loyalty programs in the restaurant, customers are committed to the one offered by their choice of restaurant if price and food quality are similar (Reichheld, 2001).

Table 5: Respondents Preferred Reward Systems in Restaurants

Rewards	Frequency	Percent
Immediate Reward	108	63
Point system reward	64	37
Total	172	100

According to Blythe (2008) coming closer to consumers through communication can alert companies to determine customers' preference and also assist in designing attractive rewards that worth the value of consumer expenditure. The study indicated that, (63 %) customers prefer immediate rewards (see Table 5). This confirms a study conducted by Jang and Mattila (2005) in a casual restaurant where customers prefer immediate reward system to cumulative system. It was argued that cumulative rewards promotes repeat buying and thus allow customers to purchase more frequently (Lewis, 2004). On the other hand, the author opined most of the customers prefer monetary rewards (discounts) which could be immediate. The least preferred reward in the study is the non-monetary rewards. Previous studies have reported the acceptance of immediate rewards by customers (Kim, Shi & Srinivasan, 2001; Jang & Mattila, 2005). Offering immediate reward may actually promote customers to use competitors' services while not promoting repeat patronage. Also discounting may lead to a vicious cycle of cost as it affects profit. Point cumulative rewards are clear attempt to enhance retention; they encourage repeat buying and in large quantities in an attempt to reach point redeemable stage (Reichheld, 2001).

Table 6: Analysis of Variables Influence on Loyalty Programs in Restaurants

Variables		Chi Square Test of Independence		
Demographics	Loyalty programs	Value	df	Asymp. Sig.
Gender	Influence of loyalty programs on buying decision in restaurants	1.902	2	0.386
Gender	Monetary reward (discount)	3.931	1	0.047
Employment status	Monetary reward (discount)	0.414	2	0.813
Employment status	System of reward	1.246	2	0.536
Age	System of reward	13.837	4	0.008
Alpha value				0.05

The study continues to find relationship between the variables and the demographic status of the respondents. To achieve these, a Chi square test for independence or cross tabulation was conducted on the variables (loyalty rewards). The P-value of 0.386 as reported from the analysis if gender is a factor that influences the buying decision or it is the loyalty programs in restaurant is insignificant at the alpha level of 0.05 thus loyalty programs influence customers buying decision generally irrespective of gender hence the two attributes are independent. Again the P-value 0.047 from the test indicates that gender influences the type of loyalty reward customers prefer most thus monetary reward (discount) that is there is strong evidence that these two attributes are dependent. This means that monetary reward is influence by gender. However, this studies shown that males opted for monetary rewards more than the females. It could be that males wanted part of the money spent back into their pockets to spend on other things but in a nutshell they all prefer monetary rewards (discount).

The test further indicated that employment status of customers and the type of loyalty reward they prefer (monetary reward) are independent. The result revealed that there is no relationship between the two attributes since the P-value $0.813 > 0.05$. Even though majority of the respondents are employed, they rated monetary rewards as what they prefer most. Again there is no relationship between employment status and system of reward customers prefer most since the P-value $0.536 > 0.05$ although majority are employed they prefer immediate reward system. However, there is a very strong evidence of relationship between the Age of customers and system of reward preferred most since the P-value $0.008 < 0.05$. The age group (26-35) mostly prefers immediate rewards and they were more influenced by the monetary rewards (discount) offered by restaurants although they are employed. This group belongs to the youth who are in school or just begun work and would like to enjoy such benefits to save more money to build their future.

5. Conclusion

In conclusion, our findings indicate that there is strong potential for developing loyalty programs in the restaurant industry. Additionally, the study reveals majority of the respondents (68%) shown positive attitude towards loyalty programs in the restaurants. The results revealed much influence of loyalty programs on consumer purchasing decision. That is buying more of the restaurant products and advertising the restaurants through the word-of-mouth. In other instances about 60% of the respondents are not willing to switch restaurant to the one with better programs if the prices and food quality are similar. This is in consistence with previous works (Reichheld, 2001). The study revealed that, though consumers purchasing decision is influenced by loyalty programs in the restaurants, consumers are committed to the loyalty programs offered by their choice of restaurant. Irrespective of the employment status of consumers, they preferred immediate system of loyalty rewards especially monetary reward (discount) than any other form of reward. Customers prefer immediate reward system to cummulative system since cumulative rewards promotes repeat buying. In addition, majority of respondents expressed satisfaction on loyalty programs. Further test indicates that, there is a relationship between monetary reward and gender. Male respondents opted for monetary rewards more than the females. It could be that males wanted part of the money spent back into their pockets to spend on other things but in a nutshell they all prefer monetary rewards (discount). Also, youth who belong to the age group 20-35 mostly prefer immediate rewards offered by the restaurants even though they were working. This could be that they would like to enjoy such benefits to build up their future. The findings suggest that restaurants should revisit the implementation of the program continuously and have a clear understanding of what their customer want in return as customers' expectations change overtime. Beside, the loyalty program must have a structure that motivates customers to view purchases as a sequence of related decisions rather than as independent transactions.

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