



Effect of loyalty programs on customer loyalty: insights from experts literature and findings

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Abstract

Due to the complexity that has been experienced in customer retention organizations have been forced to craft strategies that can be employed to keep the customers longer. A number of papers relating to relationship marketing in service and retail industry were identified from journal databases pertaining to relationship marketing and a bit of customer relationship management with bias to bonding. These papers were identified by examining the table of contents of the leading journals followed by a scrutiny of the key words used in each paper in the journal. The literature search included journals published by numerous publishers, for the period 2013–2019. These papers were filtered on the basis of their focus and the dates of publication. After this process, there were approximately 18 papers whose copies were collected and formed a basis of this review. A number of outcomes were identified. The results revealed that loyalty programs had significant effect on Customer loyalty. The relationship between loyalty programs and customer loyalty developed in this paper is expected to contribute to the existing body of social bonding strategies and management literature in terms of exploring the nature of relationships. The management will use the findings of this study to guide them in understanding customer behaviour. Furthermore, the findings of this research will be source of reference for the academicians who intend to carry out studies in relation to the subject of social bonds and customer loyalty in retail firms and related organizations. The study recommends that supermarket management should put more emphasis on loyalty programs strategies since they influence Customer loyalty.

Keywords: customer loyalty, loyalty programs

Introduction

Customer loyalty is an important aspect of marketing in the 21st century (Duffy, 2005) ^[11]. Abubakar, Mokhtar, & Abdullatf, (2014) ^[11] in their study defined customer loyalty as the commitment to a product or certain brand that makes the customer to continuously buy that product without having an intention of switching to any other products that can serve the same purpose. According to Stone, Woodcock, & Machtynger, (2000) ^[39] customer loyalty is a physical and emotional commitment that customers give in exchange for their needs being met. A customer loyalty scheme is a framework that guides an organization in choices that determine the nature and direction of attracting, maintaining and enhancing customer behavior characterized by a positive buying pattern and attitude towards the company, its products or services over time by rewarding loyal customers” (McMullan & Gilmore, 2008) ^[23]. Organizations have developed customer loyalty schemes that guide them in making choices that will influence them on how to retain and influence customer behavior positively towards the company’s products and services through rewarding customers that are loyal (McMullan & Gilmore, 2008) ^[23]. In a business environment that is competitive it becomes important for supermarket operators to sustain customers trust by ensuring that they enhance good practices in their business operations (Levy & Weitz, 2007) ^[18]. According to Kotler and Armstrong (2008) ^[17], building a successful business and retaining

customers in the business world of today can be exceedingly difficult. A successful customer loyalty scheme leads to customer retention. Depending on the industry, an improvement of 5 percent in customer retention leads to an increase of 25 percent to 85 percent in profits (Kerin, Hartley & Rudelius, 2009). Furthermore, firms spend more than five times as much obtaining a new customer than retaining an existing one (Kotler & Armstrong, 2006; Wills, 2009) ^[17, 46]. Satisfied customers are committed to store offering, expressing a positive attitude and eager to provide consistent patronage (Duveen-Apostolou, 2006) ^[12]. This argument further enforced that twenty- first century consumers have evolved into becoming ‘increasingly promotion literate’ (Egan, 2007) ^[13]. The dilemma faced by marketers is to develop a retail mix that not only effectively satisfies its target market, but also builds customer commitment and retention. The concept of loyalty programs has been an issue of great concern to marketers (Ahmed & Gabriella, 2012) ^[2]. This concept has dominated marketing thought, research and practice all over the world. A loyalty program is a marketing tool which is used by organizations to develop customer loyalty, improve customer satisfaction and commitment through a well-established reward scheme (Uncles, Dowling, & Hammond, 2003) ^[43]. Loyalty programs give away benefits as a token of appreciation for their customer loyalty to the organization (Zakaria *et al.*, 2014) ^[48]. The rewards earned can then be redeemed for free (Dreze & Nunes, 2008) ^[10]. The aim

of such a reward scheme is to increase customer retention which is one of the measures of customer loyalty through delivering differential value to those customers (Bolton, Kannan, & Bramlett, 2000) ^[4]. According to Kim, Shi, & Srinivasan, (2001) ^[16], loyalty programs does away with the issue of competing on price that ends up increasing operational profits as it also increases brand loyalty through creating switching costs. Loyalty cards remain the most common used loyalty program that has been introduced by different sectors such as air travel, hotel and industry and even the retail industry. Loyalty programs involve issuance of specially coded cards that allow customers to collect points as they purchase items (Maharaj, 2008) ^[21].

The major aim of this paper was to review literature and try to incorporate the viewpoints of different researchers associated with customer loyalty and the results of surveys conducted among various customers in the retail industry in Kenya and beyond. The following section provided an outline of the research methodology used in this study. This was followed by literature review in Section 3. Section 4 dealt with the discussion which was considered to be the heart of this paper. This was briefly explained with help of a proposition. Section 5 described, in brief, the managerial implications of the paper. The concluding section summarized the present work and highlighted its contribution to growth of marketing literature as an area of specialty and relationship marketing in particular. This part also revealed the limitations of the present work and future research directions.

2. Research Methodology

In the current study, a number of papers relating to customer loyalty in service and retail industry were identified from journal databases pertaining to social bonding and a bit of customer relationship management with bias to bonding. These papers were, first of all, identified like it was done by Ngacho and Das (2015) ^[27], by examining the table of contents of the leading journals followed by a scrutiny of the key words used in each paper in the journal. The literature search included journals published by numerous publishers, for the period 2013-2019. Few specific journals and books were; Banking Journal, International Journal of research, Journal of Consumer Marketing, International Journal of Business and Economics, The International Journal of Management, Accounting and Economics, International Journal of Education and Research; International Journal of Economics, Commerce and Management, Journal of Marketing research, International Conference on E-Business 2016, TEM Journal, British journal of marketing studies, Academy of Marketing Science, Paragraphs of books, Working papers, Book summaries, Theses.

These journals provided over 70 papers with majority being those of international journal of relationship marketing. These papers were filtered on the basis of their focus and the dates of publication. Specifically, those papers which did not address relationship marketing, customer relationship management and bonding were eliminated. After this process, there were approximately 24 papers whose copies were collected and formed a basis of this review. The researcher came across few papers that had various discussions on social bonds more so in banking sector, higher institutions of learning, hotels, travel

agencies, telecommunication and information technology though none has been done in retail sector where there is both service and goods and also having a transactional service setting.

3. Literature review

Literature review was carried out by identifying loyalty programs from various institutions that have been studied by different scholars and how it has influenced customer loyalty. This involved directed search of published and related studies that discusses theories and presents empirical results that are relevant to the study at hand and the analysis of customer loyalty that was narrowly tailored, addressing only the scholarship that is directly related to the research question (Kaifeng and Miller, 2010). This was followed by a brief pilot survey to testify the appropriateness of the identified social bond and how it affects customer loyalty.

Customer Loyalty

Abubakar *et al.*, (2014) ^[1] defined customer loyalty as strongly held commitment to a product or brand in a manner that the customer desires to patronize and buy the product consistently in the future without resort to switching factors and marketing appeals (Oliver 1999) ^[29]. Sarwari and Minar (2014) ^[34] looked at the suggestions that had been put forward by Bove and Johnson (2000) ^[6] that customer loyalty is one outcome of improved relational bonds. Pullman and Gross (2004) maintain that loyal customers are the key to the success of many services, particularly those in the hospitality setting.

Loyalty Programs and Customer Loyalty

A study was done by Bose & Rao, (2011) ^[5] on benefits of customer loyalty programs on members within two Indian cities across different industries. The findings were, unlike the five dimensions put forward by Mimouni-Chaabane & Volle, (2010) ^[24], that is monetary savings, explorations, entertainment, recognition and social, the perceived benefits from loyalty program as per Indian customers were revised to four. This included monetary, exploratory, social and ego benefits. From the findings the researcher throws light into the minds of the Indian customers with respect to perceived benefits from customer loyalty program that they don't engage in the program for entertainment purpose but to save some money and get themselves in a certain social class as they find out what goes on in the whole program.

A study was done by (Omar, Aziz, & Nazri, 2011) ^[30] on the relationships between program satisfaction, program loyalty, store loyalty and loyalty programs among cardholders of who live or work within Klang valley Malaysia. A sample of 400 respondents was obtained through quota sampling technique. The findings were that customers were satisfied with the loyalty program and became more loyal to it. The finding brought into light the operation of the retail loyalty programs, how program loyalty and store loyalty are connected.

Singh & Khan, (2012) ^[36] looked at an approach that could be used to increase customer retention and loyalty in B2C world. They highlighted how short term actions that enabled the customers to save some money earned profits for the firm in the long run and ended up building customer loyalty. The researcher concludes in the article by saying that if you

understand the behavior of the customers and satisfy them it benefits the business in the long run.

Jokinen, (2014) ^[15] did a study on Customer loyalty program where the researcher analyzed current status of loyalty programs by pointing out relevant areas of development. The data was collected by use of Interviews for management and Surveys for Customers using questionnaires and analyzed by use of descriptive statistics. The findings were that there are changing trends and companies need to do a follow up, most Customers buy in one supermarket during the weekdays and hypermarkets during the weekends and that most of the customers changes in supermarkets was because of lack of fresh foods and impolite customer services. This study having been done in Russia, it became evident that Price also plays an important role in the buyers buying behaviors with emphasis being put on quality and little focus on advertisements but on word of mouth. The researcher put across a number of recommendations, first is that there are a number of things that companies can use to ensure loyalty, critical one being to keep in touch with the customers and knowing the trends in the market and secondly most customers are looking for Comfort and convenience.

Stuivenburg (2015) ^[40] did a study on loyalty programs comparing theory and practice by means of systematic literature review (desk research) and literature review are applied in practice (field research). The findings were that loyalty programs are a way to reward repurchasers with discounted or free products and services and some aspects which seemed more important than others were to be addressed more thoroughly in order to apply a loyalty program in its most effective way.

Alejandro, King, Groza, (2015), did a study on the non-financial benefits of a loyalty program on Online young consumers. Through Snow ball convenience sampling in grocery, drugs stores, apparels, travel and entertainment, gas and auto service, dining, electronic shopping and credit cards. Data was collected through questionnaires and analyzed by Partial least squares structural equation modelling. The results were that CCID focused on attributes of focal organizational for identification but not on benefits received by customer and there was need to Investigate market prices and their effect on CCID Marketing programs that customers directly participate in have direct benefit to CCID than firm evaluation. The recommendations were that Managers should acknowledge potential role of customer loyalty programs, Loyalty programmes help firms develop social relationships with customers and lastly Marketers should design proper non-financial benefits in loyalty programs that are socially based.

Magatef and Tomalieh, (2015) did a study on Impact of customer loyalty programs on customer retention with emphasis on Point system, Loyalty Programs, Tier system rewards, Non-Monetary programs and Charges for VIP benefits. The study used Survey Design where 350 respondents were selected using convenience and snowballing sampling. Data was collected using Questionnaires and analyzed through multiple regression, Pearsons correlation, Variance inflation factor and Anova. The findings were that the major effect was for Tier system reward followed by charge Up-front fee for VIP benefits then point system and the weakest effect being Non-monetary programs. The researcher

recommends that organizations should develop different loyalty programs for different demographic situations. Marketers must differentiate their loyalty programs with their focus being on retaining customers and building brand loyalty and equally have transparent feedback to customers regarding loyalty programs.

Chun, Iancu, Trichakis, (2016) ^[7], did a study on Loyalty Programs and Point values. The researcher used Multi period model developed using dynamic programming technique and comparative analysis. The result illustrated that a policy dependent on a mixture of profits and cash flows is structurally identical to a profit-dependent policy. This model can also be leveraged to study how specific behavioral parameters (such as a bias in point value perception) affect the firm's optimal decisions. Recommendations were that, devaluing the loyalty points may alienate customers and, in some industries, significantly hurt the firm's market share, as in the example of Tesco. Modeling all aspects of consumer behavior and understanding their implications would be an interesting direction for future work. Future directions for analytical and empirical research examining how managerial incentives or accounting practices impact the value of points. These considerations warrant several interesting directions for future research, including a more detailed model that captures competition and important third-party interactions.

Wever, (2016) ^[45], looked at the Importance of Customer Loyalty Programs for European Airlines Industry, Importance of Loyalty programs for both airlines and customers and factors essential to win customers. The researcher used desktop analysis. The results developed a model of stages of loyalty called "Cognitive Loyalty where customers believe products to be superior, Affective Loyalty where customers are satisfied with the products, Conative Loyalty which deals with high involvement and strong buying intentions and Action loyalty which leads to action by the customers. The recommendation was that Customer loyalty lead to customer brand acceptance and customer brand buying.

A book written by Wyman, (2016) ^[47] on the future of Customer Loyalty, Building a next-generation reward program, had a number of findings, first, standard customer loyalty programs based on transactional rewards will be recognized for what they really are either undifferentiated, underutilized loss-makers and secondly, reasons for change are new competitors who disrupt the market, customer expectations that are changing, and right technology used in the right way and lastly, change should include, adopt a future flexible approach to technology and adopt a start-up mindset. The author's voice is that today's customer loyalty leaders are moving away from transactional points-based schemes toward more varied, flexible customer engagement systems. Therefore retailers must ensure their programs are structured to support and enable the technological innovations necessary to deliver loyalty programs of the future. In the new world, many retailers will require new Key performance indicators (KPIs) to assess the returns they make in their loyalty programs to make long-term investments possible. For retailers who succeed, an improved loyalty program can deliver significantly better customer engagement and "stickiness". It can also act as a defense against disruptive new entrants trying to get between retailers and their customers.

Wathigo, (2016) ^[44], looked at the effect of loyalty programs on customer patronage of supermarkets in Nairobi County. The researcher used descriptive research design, with a target Population of 985,016 and a sample of 384 determined using Gill's and Johnson's formulae 2010 having employed Stratified sampling technique. Data was collected using questionnaires. The findings were that Customers were likely to shop where they have loyalty cards, Patrons recommendations was by word of mouth to shop at their preferred retailers and the respondents shopping behavior did not change on acquiring the loyalty cards since they didn't believe that loyalty programs benefits were worth it. The researcher recommends that branding has an effect on loyalty programs; the economic benefits of loyalty programs affected customer's loyalty, loyalty programs should give instant gratification. Other researchers should find out if there is instant customer acquisition through loyalty programs and variability of patronage behavior by shoppers' income level.

Kamau, (2017), did a study on effect of Loyalty programs on customer retention, a case of Nakumatt customers in 5 branches with emphasis on establishing the effect of point system on customer retention, effect of smart card on customer retention, determining the effect of gift vouchers on customer retention and lastly establishing the effect of discounts on customer retention. The researcher used descriptive research survey design with Qualitative and Quantitative research methodology. Disproportionate and probabilistic sampling was used to get 385 as the sample size from a population of 4,900 respondents. The data was collected by use of Questionnaires and analysed using SPSS. The findings were that Customers were excited with the points systems and redeemed them for various reasons including discounts, cash and offer products and Points built emotional relationships. The recommendations were that more research on gift vouchers needs to be done but point system worked very well in customer retention.

Steinhoff & Palmatier, (2014) ^[38], did a study on understanding loyalty programs effectiveness across Europe, an empirical analysis with emphasis on Program characteristics, Retail characteristics, Retail environment, Cultural characteristics and how all these factors affect Retail performance. The study was carried out on 350 European retailers in 27 countries. Desktop analysis was used with results being immediate rewards are favored over delayed rewards, Cash rewards are more preferred over service and products rewards and Loyalty programs perform better where there is lower competition. The recommendations leveled include looking at other areas like single vendor and multi-vendor loyalty programs and Value of discount in loyalty programs.

Ranabhat, (2018) ^[33] looked at Customer loyalty in business with emphasis on customer loyalty, factors and determinants that influence customer loyalty and relationship between customers. The study involved Students of the university with a sample of 30 being used. Data was collected using questionnaires since it was quantitative in nature and analyzed using Microsoft excel and descriptive statistics. The findings were that loyalty may be product specific and company specific. When a customer repetitively purchases the same product then such customer is said to be brand loyal and if a

customer purchases different products of the same manufacturer then the loyalty is said to be company specific. The loyal customers always respect their supplier even if he seems to have some problems and they prefer to continue with the same supplier ignoring other options. Loyal customers have that believe that their supplier provides them the best and most beneficial products than others. The researcher recommends that the loyal customers are as a result of building good and strong relationship between the customers and the company and come in handy to help the business gain economic advantages.

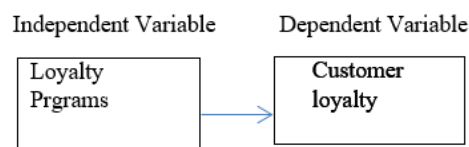
Loyalty programs can be measured in terms of rewards received through use of a loyalty card, rewards card and point's card that may be plastic or paper that can be used to identify the cardholder as a member in a loyalty program that adds points as purchases are made. When an organization comes up with a reward program and adds excellent service that earns easy and quick rewards it makes the consumers' not be keen on the price (Kamau, 2017) and consumers tend to make purchases from a single firm to accumulate rewards rapidly. Therefore this study proposed that:-

H0i): There is no significant relationship between loyalty programs and customer loyalty among selected supermarkets in western region in Kenya.

Pilot Survey

The construct that was derived from the literature review was shared with three experts comprising two academicians and one business consultant in order to get their viewpoints regarding the suitability of the construct that was being used to measure customer loyalty in retail industry in Kenya. Masinde Muliro University of science and Technology in Kakamega Kenya and the other is based at Kibabii University in Bungoma Kenya both are Marketing lectures in their various universities. Experience in their area of specialization played a crucial role in their selection. They had equally played a role in the drafting of county governments strategic plans for Busia, Vihiga and Bungoma and equally participated in training programs for Kenya Commercial Bank. The business consultant has been involved in youth enterprise programs dealing with youth training in entrepreneurship skills and talent development within the country for over a period of eight years.

The literature review along with the feedback received from experts on various loyalty programs and measuring of customer loyalty enabled the researcher to develop a conceptual framework. This framework (Figure 1) demonstrates how loyalty programs influence customer loyalty in terms of three customer loyalty indicators i.e Customer life time value, Retention and Net promoter score. The diagram further reveals how the two factors are interrelated.



The conceptual framework enabled the researcher to design a preliminary questionnaire on the relationship between relational bonds and customer loyalty. The questionnaire was presented to the same experts once again with a view to seeking their expert opinion on the adequate and appropriate coverage of all the items affecting customer loyalty and also the framing of each question. The comments received helped the researcher in refining the questionnaire further.

5. Discussion

The study had proposed the null hypothesis, H_0 : Loyalty programs have no significant effect on customer loyalty.

From the findings Indian customers don't engage in the loyalty programs for entertainment purpose but to save some money (Bose & Rao, 2011) ^[5]. In line with the findings, Bombay, (2017) found out that cash rewards were more preferred over service and products rewards. A study done by (Omar, Aziz, & Nazri, 2011) ^[30] found out that customers were satisfied with the loyalty program and became more loyal to it. Singh and Khan, (2012) ^[36] says that if you understand the behavior of the customers and satisfy them it benefits the business in the long run. Because of the changing trends in the market companies have no option than to follow up on their customers, since some buy in one supermarket during the weekdays and hypermarkets during the weekends and the behavior may be due to impolite customer services they receive (Jokinen, 2014) ^[15]. From this perspective, use of such strategies such as smart cards, gift vouchers, coupons and customer retention are important in assuring customer loyalty in addition to point systems and discounts (Stuivenburg, 2015) ^[40] and patrons could only shop where there were loyalty cards (Wathigo, 2016) ^[44]. This assertion was equally supported by Kamau, (2017) where her findings were that Customers became excited with the points systems and redeemed them for various reasons including discounts, cash and offer products and Points built emotional relationships. However, there is need to take a proactive angle and personalize the strategies by enabling the marketers to customize the loyalty programs in order to reflect the actual need of the customers by assessing their attitudes based on their characteristics such as age, education and sex as well as their environment that will determine their shopping attitudes, this is in line with the findings by Magatef & Tomalieh, (2015). It is clear that this relationship exists because the supermarkets have been able to implement strategies such as; customers accumulate points through repeat purchases which can be redeemed hence the customers can have some monetary savings (Mimouni-Chabane & Volle, 2010) ^[24].

Proposition 1: Loyalty programs have an effect on the loyalty of customers in the retail chains.

6. Managerial implications

In the current era of hyper competition, markets appear to focus more and more on customer retention and loyalty. A number of studies have been done and what comes out is that retaining customers offers a more sustainable competitive advantage than acquiring new ones. The conceptual framework shown in Figure 1 provides valuable insight to the managers involved in retail industry with regard to the

interplay of different social factors on customer loyalty. This will enable the retail managers to understand the antecedents and consequents of each social factor and its impact on customer loyalty. Of course, the exact nature of relationship between the antecedents and a factor could only be ascertained after collecting relevant data from the respondents and carrying out appropriate statistical tests. The relative impact of each social factor on the customer loyalty could also be assessed after conducting suitable statistical tests. This will go hand in hand in enhancing the understanding and sensitivity of the retail manager about different dimensions of retail industry environment.

7. Recommendations

1. i) A number of recommendations have been put forward by different researchers
2. ii) Look at other areas like single vendor and multi-vendor loyalty programs and Value of discount in loyalty programs.
3. iii) More research on gift vouchers needs to be done but point system works very well in customer retention.
4. iv) Branding has an effect on loyalty programs; the economic benefits of loyalty programs affects customer's loyalty, loyalty programs should give instant gratification.
5. v) Retailers to ensure their programs are structured to support and enable the technological innovations necessary to deliver loyalty programs of the future. Organizations should develop different loyalty programs for different demographic situations

8. Conclusions

It is concluded that social bonding strategies are concerned about building customer loyalty by providing value to all the parties involved in the relational exchanges (Peng and Wang, 2006), as through customer loyalty the business will continue to enjoy patronage and benefits that come with loyal customers. In conclusion, social bonding strategies practices in today's business, necessitates the understanding of how customer loyalty is built. Therefore, from the findings, social bonding strategies have become an alternative means for organizations to build strong, ongoing associations with their customers.

The study found out that Loyalty programs had a positive effect on customer loyalty with a significant coefficient. Just like other studies which have been carried out trying to link loyalty programs to customer loyalty, customers in this study agreed that repeat purchases enabled them to accumulate points. As much as the use of loyalty programs came with some benefits to the customers, they still compared the prices with competitors.

9 References

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