The Truth About Loyalty Cards – An Explorative Study Conducted In South Africa

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Abstract— The purpose of this paper was to investigate the hidden truths about loyalty cards. Specific attention was given to the impact of polygamous loyalty on purchase behaviour, as well as looking at why customers may not be interested in pertaining a loyalty card. The survey was conducted among 300 South African customers of two pharmaceutical outlets. The results of the study indicated that a relationship does exist between the possession of multiple loyalty cards and shopping habits at the specific retail outlet where the consumer holds a loyalty card. The results also indicated a number of reasons customers may not be interested in having a loyalty card in their possession. This paper provides marketing managers with some insights into South African pharmaceutical retailing, loyalty cards and consumers’ behaviour around these programmes.

Keywords— Loyalty cards, polygamous loyalty, South Africa

I. INTRODUCTION

CUSTOMER loyalty programmes have been developed across a variety of industries, including hotels, credit card issuers, retailers, airlines, car rental companies and entertainment firms [1]. The growth and expansion of loyalty cards during the 1990s and early 2000s has been researched extensively in both trade and academic journals, and loyalty cards are considered one of the most successful marketing tools [2]. The motivation behind launching and upholding loyalty programmes is based on the belief that current customers are more profitable than new customers [3].

Although loyalty cards can be used as a successful marketing tool by retailers to stimulate customer retention and consumer buying behaviour [4] many studies indicate the hidden side of loyalty cards. Some criticism on loyalty cards includes customer privacy concerns, reduced profits and decreased brand value [5].

The purpose of this paper was to investigate the negative effects of loyalty cards on consumer purchasing habits. Firstly, attention will be given to the impact of polygamous loyalty on consumer purchasing behaviour, and secondly, reasons customers do not want loyalty cards will be measured.
B. Polygamous Loyalty

Memberships to customer loyalty initiatives provide customers with rewards and additional value, making it popular among consumers. This has led to a progressively more competitive landscape with different companies within the same retail industry competing with one another to persuade the same set of customers [11]. As a consequence, loyalty programmes have become almost common property in several industries in the past decade and consumers are member of different loyalty programmes simultaneously [12]. This has led to polygamous loyal customers – where customers can receive the benefits of multi-store rewards.

Previous studies have shown that consumers with multiple loyalty cards are less loyal to a specific retail outlet and that the effectiveness of a specific loyalty card is therefore much smaller [13]. Saturation may decrease the efficacy of loyalty initiatives with customers losing interest, or manipulating the system by holding multiple loyalty cards so that advantages can be gained wherever a customer chooses to shop [8]. This paper aims to empirically prove that there is a negative relationship between polygamous loyalty and purchase frequency at the specific retail outlet where the consumer holds a loyalty card.

C. Reasons Consumers Do Not Want Loyalty Cards

A study based in Australia investigating the hidden side of loyalty programmes [14] explored the reasons why customers do not possess loyalty cards. The respondents who reported not having loyalty cards indicated that they were not interested in pertaining a loyalty card (38.1%) , that they wouldn’t get enough in return for using cards (29.8%) and 14.3% indicated that they never got around to join a loyalty card scheme. Surprisingly, only 3% indicated that they had privacy concerns.

Based on the study from Worthington & Fear [14] and Maharaj [15], the respondents from this study had to answer weather they agreed or disagreed with the following statements:

- I do not have a Retailer A loyalty card because I have too many cards in my purse/wallet
- I am not interested in having a Retailer A loyalty card.
- There is a ‘scam’ or ‘catch’ behind the Retailer A loyalty card
- I have never been presented with an opportunity to become a Retailer A loyalty card holder
- I plan to become a member of Retailer A’s loyalty card programme in the future.

III. METHODOLOGY

The research was conducted in Tswane, South Africa. Tshwane has a heterogeneous population and it was reported in 2008 that there was approximately 2 200 000 people living within the borders of Tswahne; 72.65% black, 23.84% white, 1.99% coloured and 1.52% Indian or Asian [16].

In order to achieve the objectives of this study, a self-administered survey, in the form of a mall intercept was conducted among 300 South African consumers.

The units of analysis for the study were individuals (over 18 years old) who purchase goods from the pharmaceutical retail chains of Retailer A and/or at Retailer B (as described above). The pharmacy-retailing sector was selected to examine the research hypotheses, restricting the sampling frame to a single industry, which minimises extraneous sources of variation.

Non-probability sampling was used, which was supported by a similar study done by Turner and Wilson [17] in their study of Tesco consumers, which also used non-probability sampling as their units of analysis belonged to particular group or population, in their case, customers of Tesco.

The researchers employed convenience sampling in this study and in order to eliminate researcher bias, the survey was conducted at varying times on different days of the week during a two-week period.

IV. RESULTS

The final sample included 300 usable surveys. The sample was dominated by female respondents (72%), and 36.5% of the respondents fell in the 19–25 years age group. Of the total number of respondents, 56.7% who were asked to complete the survey at Retailer A and had Retailer A loyalty cards in their possession, while 24.6% had both a Retailer A and B loyalty card (Retailer B being a direct competitor of Retailer A).

In order to identify whether there is a negative relationship between polygamous loyalty and shopping frequency at the specific retail outlet of which the consumer has a loyalty card, the researchers grouped the survey respondents into four loyalty type categories: polygamous loyal consumers, Retailer A loyal consumers, Retailer B loyal consumers and consumers who are not loyal to either.

The relationship between polygamous loyalty and shopping frequency was explored through a cross-tabulation. It was observed that 78% of polygamous loyalty consumers purchase at Retailer A 1–3 times a month. A Pearson’s chi-square was calculated to understand whether there is a significant relationship between these two variables. The result of the chi-square indicates that there is a statically significant relationship between polygamous loyalty and shopping frequency. The one-tailed p-value is smaller than the significant level of 0.05, therefore it can be concluded that polygamous loyalty has a negative impact on purchase frequency.

As indicated in Fig 1 below, of the polygamous loyal consumers, 78.4% of polygamous respondents agreed with the statement that consumers should get the highest possible reward from whichever programme they join.
Fig. 1: Polygamous loyal respondent’s responses to statement: “You should get the most rewards out of whichever programme you can get”

Of the total number of respondents, 24.3% indicated that they do not possess any form of loyalty cards. The results discussed below are based on the respondents that do not possess any loyalty cards.

An interesting result that emerged from the paper is that almost 60% of white respondents disagreed with the statement that they plan to become a card holder for Retailer A in the future. This result is supported by the findings that 55% of whites were not interested in becoming a Retailer A card holder.

Contrast to this is the number of black respondents who asserted that they were not interested in a Retailer A loyalty card (26%) and 44% of blacks agreed that they plan to become a card holder for Retailer A. Furthermore, 60% of blacks agreed that they have never been approached to apply for a Retailer A card. These results provide tremendous opportunities for retailers in South Africa as these retailers can stimulate a need for loyalty cards.

Fig. 2: Planning to become a card holder of Retailer A according to race

V. DISCUSSION

The results indicated that polygamous loyalty has a negative effect on consumers’ shopping frequency at a specific pharmaceutical retail outlet. Of polygamous loyal consumers, 74.32% were Caucasian or Indian, in comparison to only 25.67% who were black or coloured. Reasons for this result may be that Retailer A is targeting Caucasian and Indian consumers more than black and coloured consumers in their advertising strategies. Another possible reason for Caucasian and Indian consumers being more polygamous loyal than black and coloured consumers may be the location of the Retailer A stores (predominantly in Caucasian suburbs) and the affordability of the products that Retailer A offers.

According to our research study, reasons given for not having a loyalty card member included that customers have too many cards in their wallet/purse (20.6%), that there is a “scam” behind the card (13.8%), that they have never been presented with an opportunity to become a card holder (45.4%) or that they plan to become a loyalty card holder in the future (25.4%).

Another interesting result that emerged from the study is the substantial percentage of consumers who are not interested in having a loyalty card (36.9%). Future research could investigate possible reasons for this and bring significant insight to loyalty card research.

VI. LIMITATIONS OF THE STUDY AND MANAGERIAL IMPLICATIONS

Particular limitations of this research paper should be noted. Firstly, the focus was only on behavioural loyalty (shopping frequency) and not on attitudinal loyalty (emotional state of customers towards loyalty cards). Prior research largely neglected the simultaneous impact of loyalty programmes and customer attitude and behaviour [18]. Future research could investigate how attitudinal loyalty measurements can provide more insight about the possible reasons why a customer demonstrates behavioural loyalty [19].

An interesting result that emerged was the significant difference between loyalty type and ethnicity. Future research could focus on cross-cultural studies of the perceived benefits of a retailer loyalty scheme in South Africa. The impact of culture on loyalty programmes can be significant as consumers rely on cultural norms in their decision-making [20]. The importance of individual differences and cultural norms (e.g. demographics, need for achievement and sensitivity to social comparisons) in the selection of types of reward benefits [20] may differ enormously in a multi-cultural country such as South Africa.

According to the above findings, polygamous loyalty has a negative effect on shopping frequency at one specific retailer. Marketing managers would therefore do well to constantly be aware of competitors’ loyalty program and how this could possibly water down the effect of their own program. Retailers could possible offer single card holding customers extra discounts and special offers to reward their loyalty in order to...
deter customers from being part of competing loyalty programs.

VII. CONCLUSION

This paper examined the impact of polygamous loyalty on consumer purchasing habits in a South African pharmaceutical context. The findings indicated that polygamous loyalty was found to have a negative effect on shopping frequency at one specific retailer which might serve as a motivation to marketing managers to be fully aware of the offerings of their competitors.

Reasons why customers are not interested in pertaining loyalty cards were also explored. Of the customers who do not possess loyalty cards, 37.8 % indicated that they were simply not interested. Future research could investigate possible reasons for this and bring significant insight to loyalty card research.

This paper thus provides marketing managers with some insights into South African pharmaceutical retailer loyalty cards and consumers’ behaviour around these programs.

REFERENCES
