

Loyalty/Reward Programmes – Are They The Most Influential
Strategic Solution For Client Retention?

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by

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Abstract

The biggest challenge facing organizations in service industry today is that of customer retention. Loyalty/reward programmes have been promoted as the ultimate strategic solution towards customer retention by some industry experts, while the others question its influential potential as a customer retention strategy.

The primary purpose of this research was to establish whether loyalty/reward programmes, as one of the main contributing Customer Relationship Management (CRM) factors, are either simply a *fad* or actually a *fab* solution!

Subsequently, the research focused on the evaluation of the three most noted and influential CRM components in current literature and concluded that service quality and customer contact rated higher than loyalty/reward programmes with what should be considered the ultimate critic, namely the customer, or rather 60 of them.

Acknowledgements

I would like to thank Professor Crosbie for his professionalism, patience and *more patience* throughout the compilation of the research report.

My gratitude to my parents cannot be expressed in a few words, but I cannot thank them enough for their constant and never-ending love, belief, support and confidence that ultimately allow me, to be me, at all times!

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CHAPTER 1: ORIENTATION

1.1 Introduction

The title of the research report is:

“Loyalty/Reward Programmes – Are they the Most Influential Strategic Solution for Client Retention?”

The researcher wants to establish whether an introduction of loyalty/reward programmes does have the strategic implication towards customer retention and ultimately towards providing the relevant organization, especially within the services industry, with competitive advantage.

The researcher proposes to identify and evaluate whether loyalty/reward programmes are in fact the component of Customer Relationship Management (hereafter referred to as CRM), which is most influential towards customer retention. Subsequently, the research study will focus on the three biggest components of CRM, namely loyalty/reward programmes, customer contact and service quality.

1.2 Purpose / Objectives of the Research

As stipulated above, the researcher proposes to identify and evaluate which of the three biggest components of the CRM, namely service quality, customer contact and loyalty/reward programmes, are most influential towards customer retention. However, the objective of this research study is to ascertain whether loyalty/reward programmes are in fact the most influential towards customer retention.

Duffy's (1998) emphasis lies in the premise that loyalty marketing is a business strategy and not just a programme. The researcher will attempt to assess the influence of loyalty/reward programmes as a strategic solution towards client retention. Ultimately, the researcher's objective is to determine if loyalty/reward programmes, as an entity on their own, can be a source of competitive advantage for organizations within the services industry that are struggling with customer retention problems.

The answer to these issues will be achieved through questionnaires to existing customers within a service environment in order to do what Applebaum (2004) propagates, namely:

"Listen to customers."

1.3 Statement of the Problem and Sub-Problems

Retention is a direct result of customer satisfaction and the latter is an essential ingredient for successful and profitable organizations. Loyalty/reward programmes are on the upswing and more businesses are getting involved in them in order to positively influence customer retention.

Subsequently, the researcher wants to establish whether an introduction of loyalty/reward programmes does have a strategic implication towards customer retention and ultimately towards providing the relevant organization within the services industry with competitive advantage.

Customer retention is the major concern for most organizations within the services industry and therefore a way must be found to retain their customer base and thus manage their churn dynamics.

The services industry in general is very competitive. This leaves very little room to gain and maintain competitive advantage on product alone. There is a definite need for differentiation. The question therefore is,

“Can a loyalty/reward programme do the trick?”

In addition, the next question revolves around aspects that organizations struggling with customer retention should focus on, namely:

- To develop a one-on-one relationship with current customers?
- To develop and launch value-added-services to increase customer loyalty?
- To understand current customers better?

The researcher therefore aims to establish whether loyalty/reward programmes do have the strongest contribution towards customer retention.

Research Problem

The main research problem in this study entails:

“Do loyalty/reward programmes, as an entity on their own, have a positive influence on customer retention?”

The aim is therefore to establish if an introduction or maintenance of a loyalty/reward programme in an organization would be able to encourage customer loyalty and thereby reduce churn. This should ultimately result in an organization being able to obtain competitive advantage and ultimately increase their profit margins.

Many industry experts are divided on whether the large expense of introducing and managing a customer loyalty program is actually worth it. It is the aim of the researcher to collect and interpret data to address this important issue relevant to customer retention.

Research Sub-Problems

The two sub-problems that occur as a result of the primary research problem are:

- *Sub-Problem One*

This revolves around the issue of whether a loyalty/reward programme is the stronger influencing factor with regard to customer retention, than service quality.

- *Sub-Problem Two*

This revolves around the issue of whether a loyalty/reward programme is the stronger influencing factor with regard to customer retention, than customer contact.

1.4 Definitions

CRM is an approach where a service provider fine-tunes the marketing effort with information obtained from a detailed customer data-base.

Customer retention deals with management of customer-to-customer interactions, development of programmes to minimize customer defections and service delivery to ensure that customer defections do not occur.

Customer satisfaction is a business term which is used to capture the idea of measuring how satisfied an enterprise's customers are with the organization's efforts in a marketplace. It is seen as a key performance indicator and is part of the four perspectives of a balanced scorecard.

Customer service refers to the totality of what an organization does for the customer to add value to the customer.

Customer value refers to the difference between the worth of a service and the cost of the service.

Loyalty/reward program refers to a point scoring system whereby existing customers are rewarded for their loyalty to the company.

Loyalty business model is a business model used in strategic management in which company resources are employed in order to increase the loyalty of customers and other stakeholders in the expectation that corporate objectives will be met or surpassed. A typical example of this type of model is: quality of product or service leads to customer satisfaction, which leads to customer loyalty and which ultimately leads to profitability.

Marketing concept reiterates the focus on the customer and the emphasis falls on the customer's wants and needs. It looks at the way that an organization interacts with the customer.

Marketing orientation adopts a marketing concept whereby the organization aims all its efforts at satisfying its customers.

Production orientation occurs when a supplier provides a service or product and then tries to sell it to a customer.

Quality reflects how well the service obtained by the customer and provided by the service provider, conforms to the customer's wants and expectations.

Service quality refers to an organization's ability to deliver a service that is either at the expected- or at a higher level- than the level expected by the customers.

1.5 Stating the Assumptions

The first assumption centers around the importance of loyalty/reward programmes and the positive effect and influence they have on customer retention.

The second assumption relates to the importance of loyalty/reward programmes for the service industry in general.

The third assumption is that the respondents to the questionnaire based in Johannesburg and Pretoria represent customers in totality.

1.6 Delimitation of the Study

The researcher will attempt to collect and analyze information from customers regarding their attitudes on loyalty/reward programmes. This will entail primary data, while secondary data will also be collected from both national and international writings.

At the same time, the researcher will attempt to collect and analyze the information from customers regarding their attitudes on service quality and customer contact. This will assist in answering the research question that ensues:

“How do loyalty/reward programmes, as a component of CRM, compare with service quality and customer contact (two other CRM components), as influencers of customer retention?”

The study does not, however, include business-to-business customers and only focuses on individual customers in their private capacity.

1.7 Importance of the Study

The intention of the researcher is to investigate and evaluate the benefits and influencing capabilities of loyalty/reward programmes on customer retention.

The logic of giving benefits to loyal customers is indisputable and should be of benefit to organizations that are struggling with customer retention.

The majority of organizations within the services industry need to urgently address their customer retention problems and the purpose of this research study is to assist them in coming to a strategic decision:

“Is an investment in a loyalty/reward programme the best way to customer retention?”

As retaining a profitable customer base is a key success factor in any service industry, it is critical that an organization manages its customer retention dynamics effectively.

The intention of the researcher is to provide practical value by ensuring that the research can ultimately provide the answer of whether the loyalty/reward programme, as a component of CRM, is a stronger influencer than service quality and customer contact with regard to customer retention.

The key challenge therefore lies in establishing whether a loyalty/reward programme is instrumental in being a strategic solution to customer retention.

However, to do justice to the research question stipulated below, the researcher must look at CRM in its entirety and this will provide the basis of the literature review that follows.

The research question that was referred to above is:

“How do loyalty/reward programmes, as a component of CRM, compare with service quality and customer contact (two other CRM components), as influencers of customer retention?”

1.8 Outline of the Research Report

The researcher proposes to determine if the loyalty/reward programmes are the most influential CRM component with regard to customer retention. In order to address this research topic in its totality, a theoretical foundation will set the picture for the research study in Chapter 2, while Chapter 3 will provide a detailed literature review of the research topic. The researcher will focus on services marketing and the different current views with regard to customer retention, especially the loyalty/reward programmes.

Research methodology covered in Chapter 4 will look at the research problem and sub-problems, as well as the resultant propositions and hypotheses for the research problem and sub-problems. The information will also include the sample, measuring instruments and data-analysis. This will be followed by the research results in Chapter 5. The research report will ultimately be finalized with a discussion, conclusion and recommendations relevant to the chosen research topic.

CHAPTER 2: FOUNDATION OF THE STUDY

2.1 Theoretical Foundation

In today's marketing environment, customer relationship building and customer loyalty are critical to success, and this is emphasized by both Winstead (2000) and Keegan (2004).

In marketing theory this is referred to as relationship marketing and focuses on customer satisfaction and building of trust, which ultimately assists in customer retention. This approach varies strongly from the transaction focus which has pervaded marketing for decades.

Customer relationship building and management is, according to Perreault and McCarthy (2005), a real strategy with real benefits. Adopting the so-called marketing concept will, according to them, build a customer base, retain a customer base and path the way to profits for companies. Although the above phenomenon seems so obvious, many companies fall into the production-oriented way of thinking.

An essential ingredient for a successful organization is to keep the customers satisfied on a long-term basis. Retention is a direct result of client satisfaction and is primarily influenced by the value of products and services provided to customers.

Earning customer loyalty goes beyond gaining customer satisfaction. A great product or service is the starting point for customer loyalty.

Encouragement of repeat business by rewarding customers for their business via loyalty/reward programmes has become almost a necessity and they are considered innovative ways to create customer loyalty.

Many industry experts are divided on whether the large expense of introducing and managing a customer loyalty program is worth it. Regardless of the type of customer loyalty program, organizations still need to provide a convenient and effective way to communicate with their customers.

The theory relevant to the research topic will be approached in greater detail in the next chapter which encompasses the literature review.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

In mature markets there is little possibility for product differentiation and subsequently, the emphasis for industries in this stage of the life cycle, customer retention becomes significantly important.

This can be achieved through a business strategy which incorporates CRM. However, the selection and management of customers is essential to “optimize long-term value and it also requires a customer-centric business philosophy and culture to support effective marketing, sales and service processes.” (Brink & Berndt, 2000:165)

Meldrum and McDonald (1995:116) show that a typical marketing mix strategy for an organization in the maturity stage of the life cycle encompasses the following:

- Product strategy: Improve quality and consolidate range;
- Price strategy: Stabilize prices;
- Place strategy: Use service for competitive differentiation;
- Promotion strategy: Protect brand and market position.

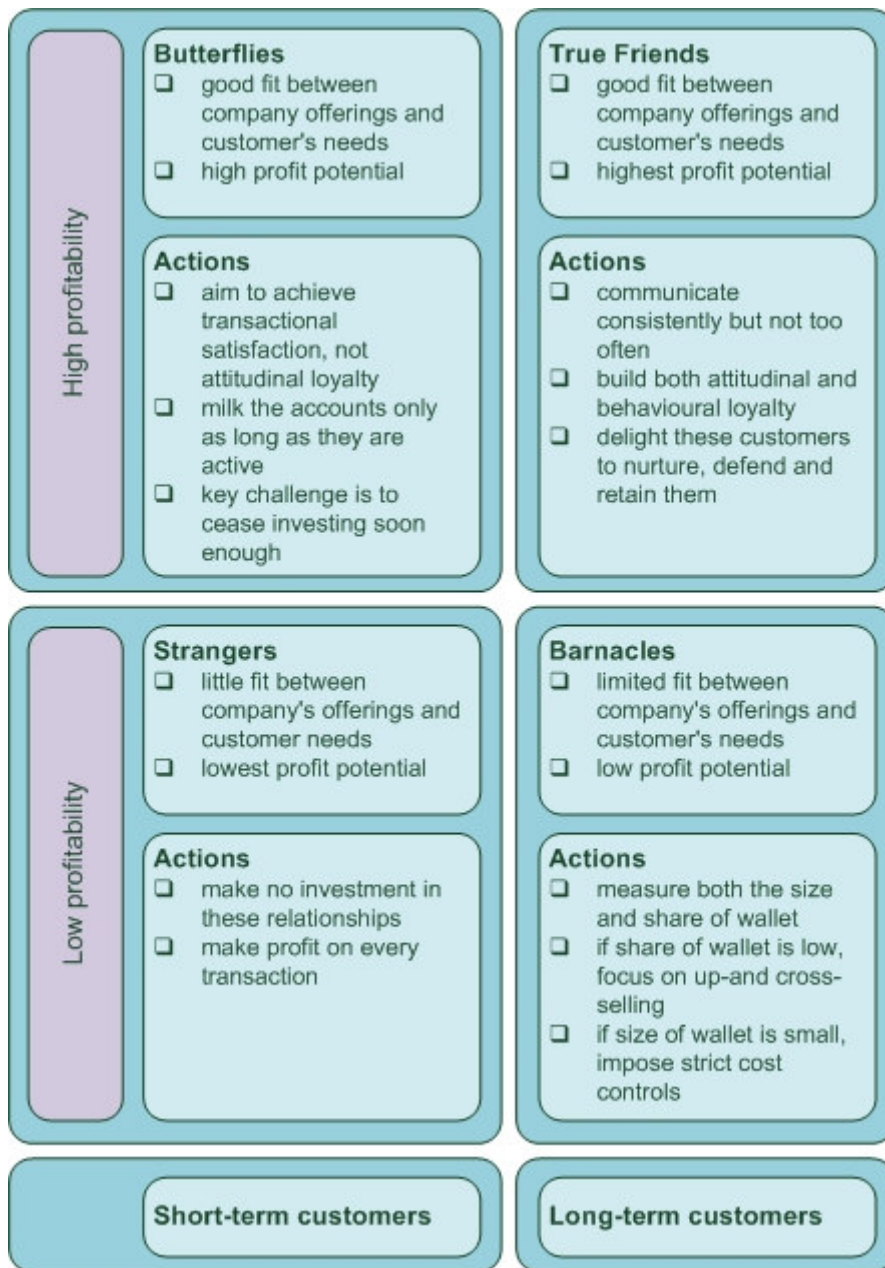


Figure 3.1 - Selecting CRM strategies

Reproduced from Brink, A. & Berndt, A. (2004: pg.171)

Martin (Managing Quality Customer Service, 1989:7) stipulates that:

“Delivering quality customer service requires knowledge, forethought and the devotion of a great deal of concentrated effort to doing the right things.”

3.2 The Customer

Customers are the essence of any business and should subsequently be considered at all times. This implies that customers must be interacted and communicated with at all times. This, however, is not done as most businesses assume that they are aware of what customers want and additionally assume that they satisfy their customers with on-time, quality products and services.

Is this assumption correct? Well, no!!! It is evident that in today's times of higher expectations, jaded and demanding customers want intangible benefits. Some examples are quality service, customer focus and reliability. This research will attempt to establish exactly what customers want, what they really, really want...

How can a company find out what their customers want? What is the secret that will ensure that the customers choose one competitor over another and continue to do so?

“Well, talk to them, ask them!”

3.3 Marketing

This is the heart of the business, as it involves every facet of the business that is the closest to the customer. Branding and brand loyalty are critically important to marketing. The former refers to creating a recognizable image for an organization while the latter reinforces regular, repeat purchase.

3.4 Marketing Concept

The essence of marketing concept focuses on the customer and emphasis falls on understanding the customer's needs and wants. Through this, the organization offers the customer products and services that satisfy the customer's needs and add value, which may then lead to maximization of profit.

Customer service is directly related to the marketing concept and the organizational focus must embrace the issues of customer value, quality, customer service and customer satisfaction. Brink & Berndt (2004:46-48) define these as follows:

- *Customer value* refers to the difference between the worth and the cost of the product or service.

- *Quality* reflects the measurement of how well the product or service conforms to the customer's wants and expectations. It includes dimensions of reliability, responsiveness, assurance, empathy and tangibles such as facilities and equipment. Brink and Berndt (2000) emphasize the linkage between service quality and customer satisfaction and this is reinforced in Figure 3.2 below.

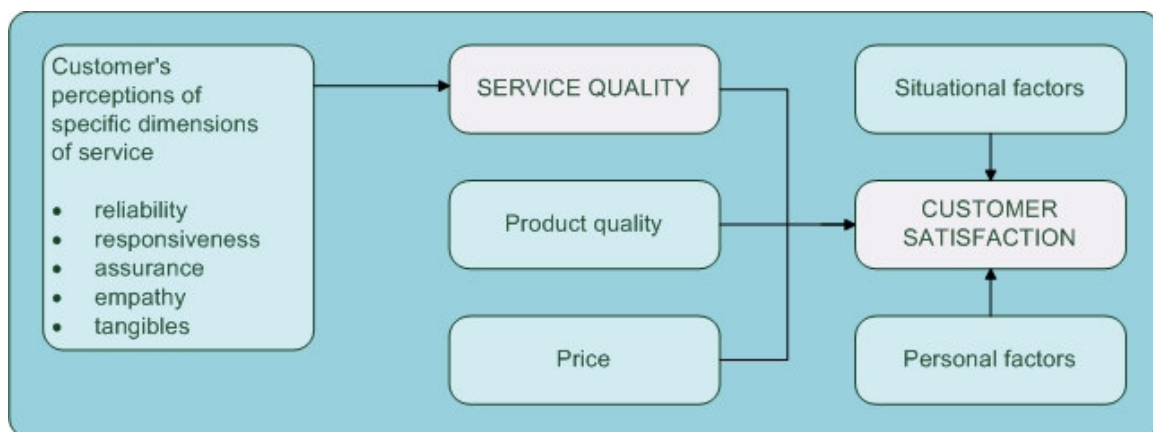


Figure 3.2 - Linkage between service quality and customer satisfaction
 Reproduced from Brink, A. & Berndt, A. (2004: pg.60)

- *Customer service* is described as the totality of what the organization does to add value to its products and services in the eyes of the customer.
- *Customer satisfaction* refers to the degree to which a product or service performance matches up to the expectations of the customer. An organization needs to ensure that customers are satisfied, as it assists in the building of customer long-term relationships which in turn enhances loyalty.

Perreault and McCarthy (2005) agree that customer satisfaction refers to the extent to which an organization fulfils a customer's needs, desires and expectations.

According to Brink and Berndt (2000) the figure below shows how maximum customer satisfaction and loyalty can be attained by an organization.

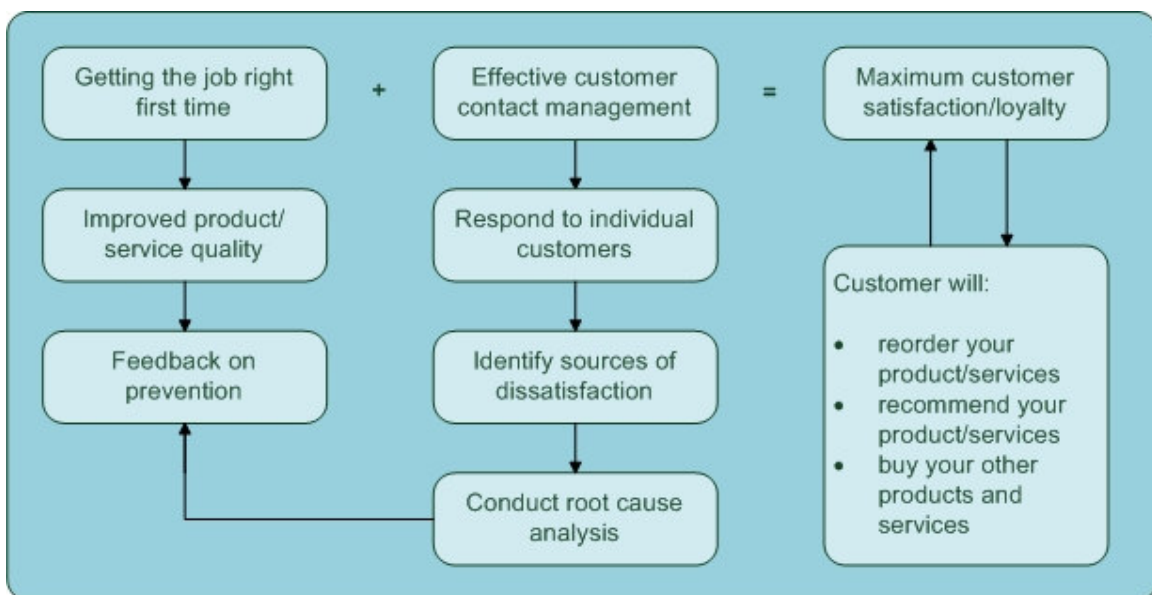


Figure 3.3 - Maximizing customer satisfaction and brand loyalty

Reproduced from Brink, A. & Berndt, A. (2004: pg 49)

Although the literature reflected here is almost 20 years old, Hanan and Karp (1989:25) reiterate the importance of customer satisfaction and emphasize the role of eight factors that play a major role. These factors are known as *The Big Eight* and fall into three categories:

- *Product-related factors*
 - Value-to-price relationship;
 - Product quality;
 - Product benefits and features;
 - Reliability.
- *Service-related factors*
 - Warranty;
 - Response to and remedy of problems.
- *Purchase factors*
 - Sales experience;
 - Convenience of acquisition.

3.5 Transactional Marketing vs Relationship Marketing

In short, transactional marketing focuses on a sale, while in relationship marketing the focus is definitely on the customer.

According to Brink & Berndt (2004:4), “transactional marketing has no ambition to climb the so-called loyalty ladder”, while relationship marketing on the other hand, “focuses on attracting, maintaining and enhancing customer relationships.”

(Brink & Berndt, 2004:6)

This is reinforced by the dimensions of the relationship marketing that the authors refer to (2004:7).

- Relationship marketing seeks to create new value for customers and then share it with these customers;
- Relationship marketing recognizes the key role that individual customers possess;
- Relationship marketing businesses design and align processes, communication, technology and people in support of customer value;
- Relationship marketing represents continuous co-operative effort between buyers and sellers;
- Relationship marketing recognizes the value of customers' purchasing lifetimes (i.e. lifetime value);
- Relationship management seeks to build a chain of relationships within the organization, to create the value customers want;
- Relationship marketing identifies the most profitable customers so that the business can focus on customers appropriate to its strategy.

Furthermore, these dimensions originated out of Grönroos' comprehensive definition of relationship marketing (2000:26) as reflected below:

“The purpose of relationship marketing is to identify and establish, maintain and enhance, and, when necessary terminate relationships with customers (and other parties) so that the

objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfilment of promises.”

Relationship marketing refers to building customer relationships and loyalty in layman’s terms and it is critical to a company’s success.

Relationship marketing’s objective is to build long-term connections between the company and its customers and to develop brand and firm loyalty. Functions of a relationship marketing programme should add value to the service for the customer and include, among others:

- Social reinforcement – customer’s esteem and affiliation needs;
- Reassurance – refers to trustworthiness, reliability, commitment and concern;
- Benefit reinforcement;
- Solving customer problems;
- Providing service customization – to meet customers’ particular needs;
- Service enhancements - VIP cards - customers are given extras to reward them for loyalty.

The relationship marketing philosophy is ingrained in the so-called CRM.

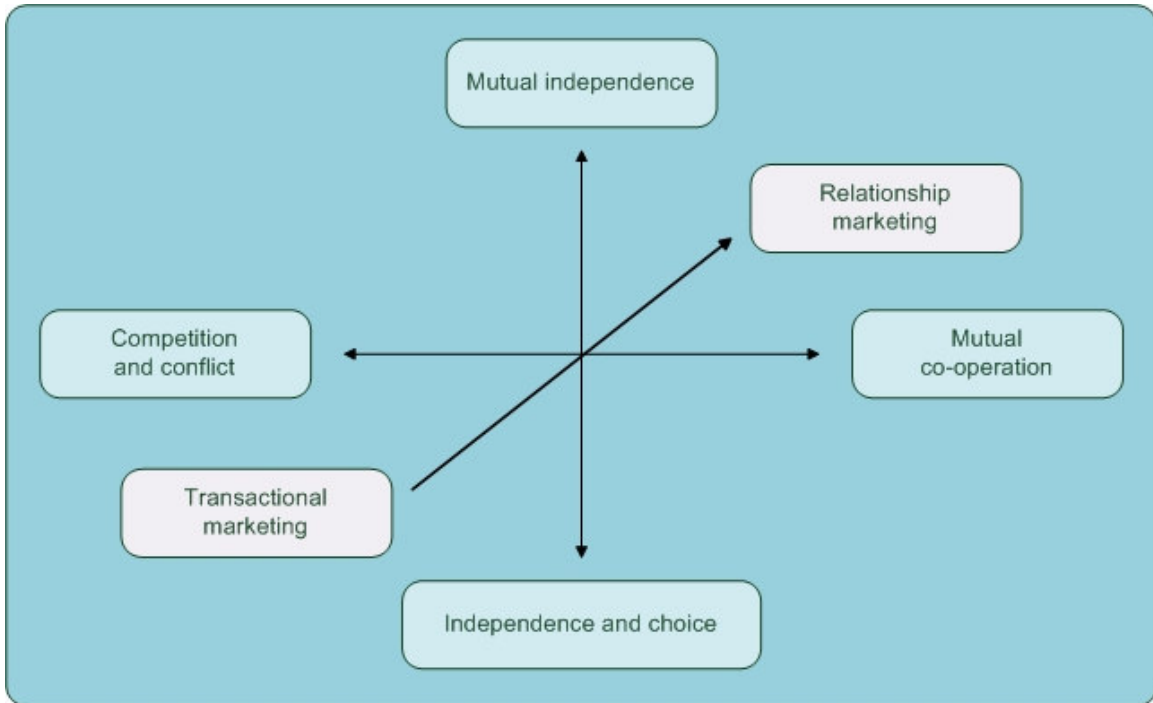


Figure 3.4 - Inherent values in relationship and transaction marketing

Reproduced from Grönroos (2000: pg.25)

Grönroos (2000:25) differentiates between the two as follows:

- *“Relationship marketing is a perspective based on cooperation in order to facilitate a mutual creation of value.”*
- *“Transaction marketing is a perspective based on the exchange of ready-made value for money.”*

A. Swarts (2005) depicts the loyalty-based management as a continuum, where transactional focus and loyalty focus are situated on the two opposing extremes.

This continuum is well depicted below.

Table 3.1- Transactional versus loyalty focus

Reproduced from A. Swarts (2005)

	Transactional focus	Loyalty focus
Customer relations	<ul style="list-style-type: none"> • Short-term focus • Marketing mix • More price sensitive • Market share is the key metric • Technical quality dominates • Optimize each transaction • Ad hoc surveys • Functional management (silos) • “Close the deal” 	<ul style="list-style-type: none"> • Long-term focus • Customer relationships • Less price sensitive • Retention and lifetime value are key metrics • Functional quality dominates • Lasting relationships with key customers • Real-time customer information systems • Integrative approach • Do what is best for the relationship

3.6 Customer Relationship Marketing/ Management (CRM)

According to Brink & Berndt (2004), CRM is all about building long-term relationships with significant and profitable customers, which ultimately leads to customer retention and is essential for the long-term survival of organizations. In order to do this, excellent customer service is a must! Customer-centricity is a culture embedded within the organization.

Stone, Woodcock and Machtynger (2000) list the benefits of CRM as improved customer retention, improved customer loyalty, as well as the resultant higher customer profitability and reduced cost of sales.

Providing customers with a highly interactive customer experience enables companies to establish, nurture and sustain long-term relationships better than ever before. The objective of CRM is to increase repeat purchases and reduce customer acquisition costs. With the assistance of information technology and the World Wide Web, it revolutionized CRM. This, according to Winter (2001:2), has been referred to as the *new mantra of marketing*.

CRM is utilized by companies to respond directly to requests from their customers, to improve their relationships with customers and to ensure that customers receive a highly interactive and customized experience. CRM focuses on individual customers.

What is essential to a successful implementation of CRM is that a CRM strategy must be implemented on all levels, which includes people, business processes, the organizational structure and the technical infrastructure, and must be reinforced by top management support. The capabilities that are required in this holistic approach, which must be reinforced by organizational leadership, strategy and culture, are:

- Support at an executive level;
- Linking and management of all business processes;
- Excellent customer service;
- Technology to gain customer knowledge and insight.

Winter (2001) refers to the study of McKinsey which has shown that repeat customers generate twice as much gross income than new customers and this reduced customer churn may lead to greater profitability. McKinsey's 1999 study shows that the greatest leverage comes from customer retention, as opposed to customer attraction and customer conversion.

This has subsequently had an impact on marketers' change on focus from customer acquisition to customer retention. According to Winter (2001:5), the seven components that managers need to address in order to ensure that they develop a successful CRM are:

1. A database of customer activity;
2. Analyses of the database;
3. Given the analyses, decisions about which customers to target;
4. Tools for targeting the customers;
5. How to build relationships with the targeted customers;
6. Privacy issues;
7. Metrics for measuring the success of the CRM programme.

The area of focus of this research report is on point 5, namely “*How to build relationships with the targeted customers!*” Subsequently, relationship programmes will be discussed.

According to Holloway (The Customer is King, 2005:4), customer intelligence is beyond customer information and can be successful by developing seven habits:

- *Be the customer* means that a company should focus on the customer as their source of revenue and not on their product or service;
- *Don't average* emphasizes that the average customer profile does not assist the company in obtaining the essential, individual characteristics of individual customers;
- *Be a little annoying* by ensuring that the customer profile is updated with every interaction to keep up with their changing habits;
- *Surprise and delight* by simple gestures like thanking the customer;
- *Target the new generation* of customers that currently spend less, but have a similar profile to the current high-value customers;
- *Save to spend* by motivating the customers to use the more cost-effective communication channels;
- *Check any new customer experience out* in a real-life scenario first.

Stone, Woodcock and Machtynger (2000) stipulate the stages in managing customer relationships which include the aspects of targeting, enquiry management, welcoming, getting to know, customer development, managing problems and winback. For further perusal, please see the details in Appendix 2.

According to Brink and Berndt (2000:19)

“CRM solutions have become strategic requirements in a customer focused economy. A company can attract and retain customers by knowing and delivering what they want, how they want it, and making it easy and problem-free for customers to interact with the organization.”

CRM affects all levels of strategic planning. According to Stone, Woodcock and Machtynger (2000), enhanced customer knowledge assists with corporate strategy, while the knowledge of particular markets positively affects the business strategy. Customer service approaches and promotional options affect the functional strategy.

3.7 Services Marketing

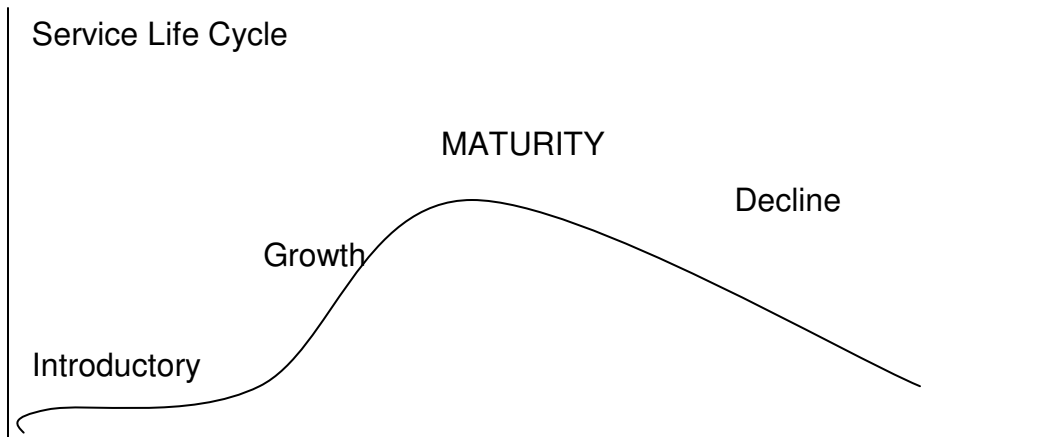
The approach of marketing of services is different to that of marketing the product. The research report will concentrate on the former, as there is a constant increase in the need for services and shift towards the service economy

as result of the many contributing factors that are specified by Kurtz and Clow (1998:6) such as:

- Movement to the information age;
- Shift towards industrialized economy;
- Aging population;
- Longer life expectancies;
- Increased leisure time;
- Higher per capita income;
- Changing social and cultural values;
- Advances in product technologies.

In general, there is consistent concern among people that service levels are declining and this has been due mainly to globalization, short-term goal orientation of service providers and increase in customer demand.

The characteristics and strategies for the maturity stage in the service life cycle are listed below.



Characteristics

1. Leveling of industry sales.
2. Intense competition.
3. Shaking out of weaker firms.
4. Distinct market segments.
5. Brand parity within industry.

Strategies

1. Reduce operating costs.
2. Enhance technical service quality.
3. Enhance functional service quality.
4. Concentrate on specific market segments.
5. Add complementary services.
6. Use persuasive advertising.
7. Match competitors' sales promotions.
8. Develop a competitive advantage.

Figure 3.5 - Characteristics and strategies for the maturity stage

Reproduced from Kurtz, D. & Clow, K. (1998: pg.323)

3.7.1 Characteristics of Services

There are four characteristics unique to services, namely intangibility, perishability, inseparability and variability (Kurtz & Clow, 1998:10-14).

Intangibility refers to the services' inability to be seen, touched, smelled, heard or tasted prior to the purchase. However, for every one of these services there are tangible items which are then utilized to perform the service.

Perishability means that a service cannot be stored or inventoried and subsequently the revenue is lost.

Inseparability refers to the simultaneous production and consumption of services.

Variability refers to the unwanted or random levels of service quality that customers receive on different occasions.

Hoffman and Bateson(1997) also emphasize the differences between goods and services and additionally focus on the implications thereof. This is summarized below.

3.7.2 Classification Levels of Services

There are six levels that can be perused in detail in Appendix 1, and it includes the nature of the organization, the nature of the service, the customer relationship, the nature of demand, the service package and the delivery method. This classification by Kurtz and Clow (1998) assists companies in development of marketing strategies and tactics.

Nature of the organization impacts a service firm's promotional strategies and its strategic approach to business. The nature of service impacts the operations, efficiency, productivity, distribution and personnel. Customer relationships have an impact on operations, efficiency, supply and demand strategies, pricing and personnel. Supply and demand strategies, distribution and efficiency are impacted by the nature of demand. Distribution, capital investment, differentiation strategies, efficiency, productivity, staffing and pricing are impacted by the service package. The delivery method is impacted by facility design and distribution.

3.7.3 Marketing Mix of Services

Kurtz and Clow (1998) identify five variables that can be utilized by companies to gain competitive advantage and they are service outcome, price, distribution,

promotion (advertising, sales promotion and personal selling) and corporate image (customers' opinion). Service outcome consists of:

- *Technical outcome* refers to the end-result of the service (the *what* of service);
- *Functional outcome* refers to the process of receiving the service (the *how* of service).

3.7.4 Purchase Process of Services

Consumption values that impact the customers' purchase decision include:

- *Functional value* or benefits based on attributes of a choice
- *Social value* of association with a reference group
- *Emotional value*
- *Epistemic value* that satisfies one's desire for knowledge, novelty or arousing curiosity
- *Conditional value* which refers to the alternative option chosen as result of temporary situational factor that enhances one of the other consumption values

3.7.5 Purchase Model for Services

The three phases of the purchase process are:

- *Prepurchase phase* where customers make the decision regarding which service to purchase. Figure 6 below outlines the components of this phase.

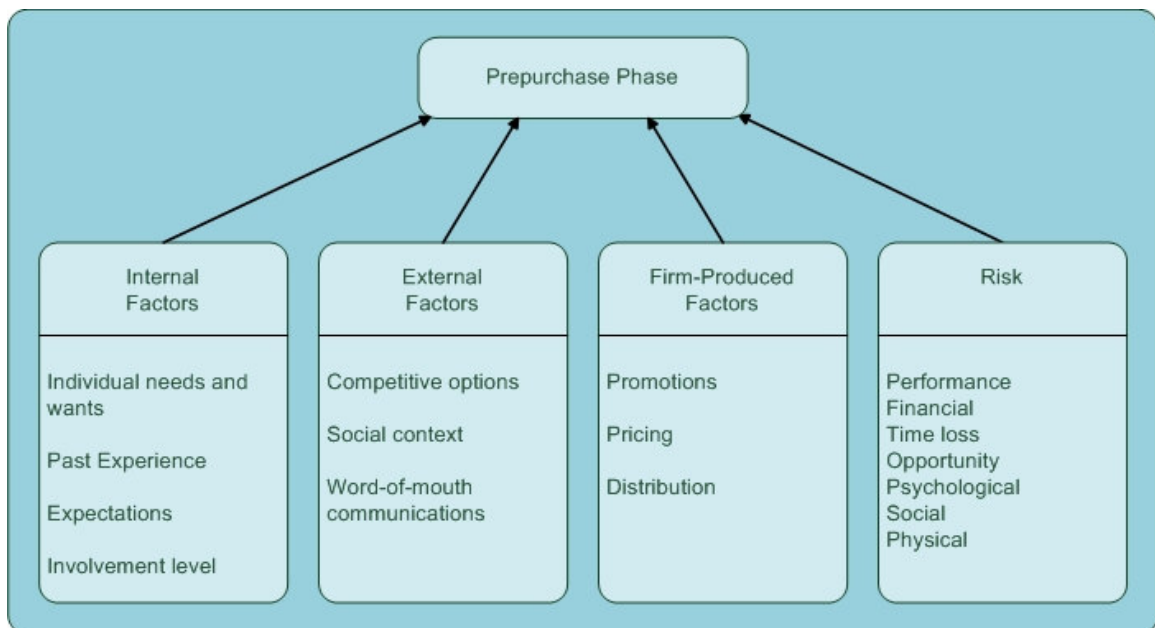


Figure 3.6 - Components of the prepurchase phase
Reproduced from Kurtz, D. & Clow, E. (1998: pg.36)

- *Service encounter* emphasizes the receipt of service and the five factors that influence the service encounter:
 - Role theory-buyers and sellers play certain roles in the transaction process;
 - Script theory-prescribed scripts are expected to be followed by buyers and sellers;
 - Service environment-refers to tangible elements such as the facility itself, the atmosphere and even other customers;
 - Service personnel conduct;
 - Support services-activities and materials needed for proper performance.

- *Postpurchase phase* deals with the customers' evaluations of the service. According to Cronin and Taylor (Kurtz & Clow, 1998) service quality evaluation is an antecedent to customer satisfaction. The service quality evaluation that takes place is detailed below.

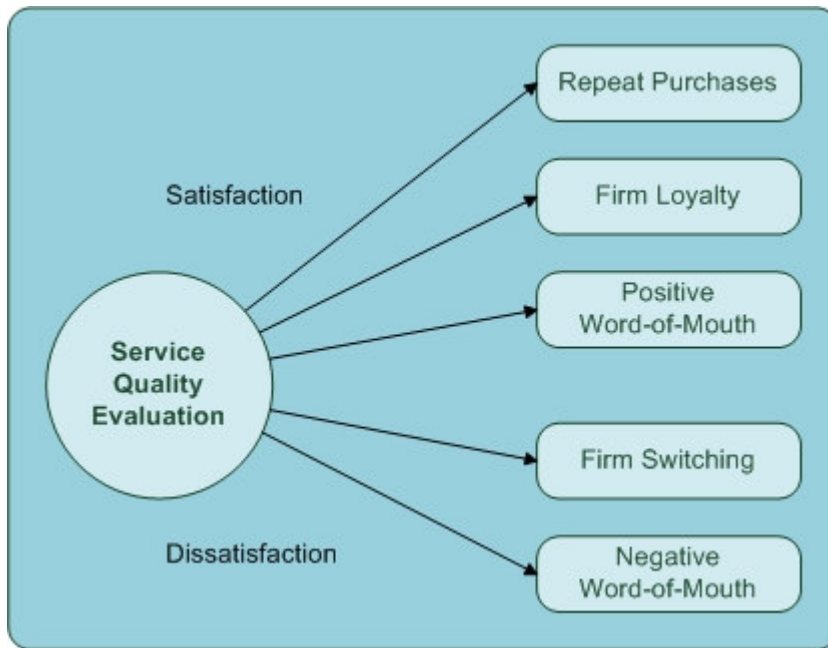


Figure 3.7 - Components of the postpurchase phase

Reproduced from Kurtz, D. & Clow, K. (1998: pg.51)

3.7.6 The Role of Communications in Services

The purpose of the communication is to inform, persuade or influence customer behaviour. The various communication objectives within the three phases of the purchase process are specified below:

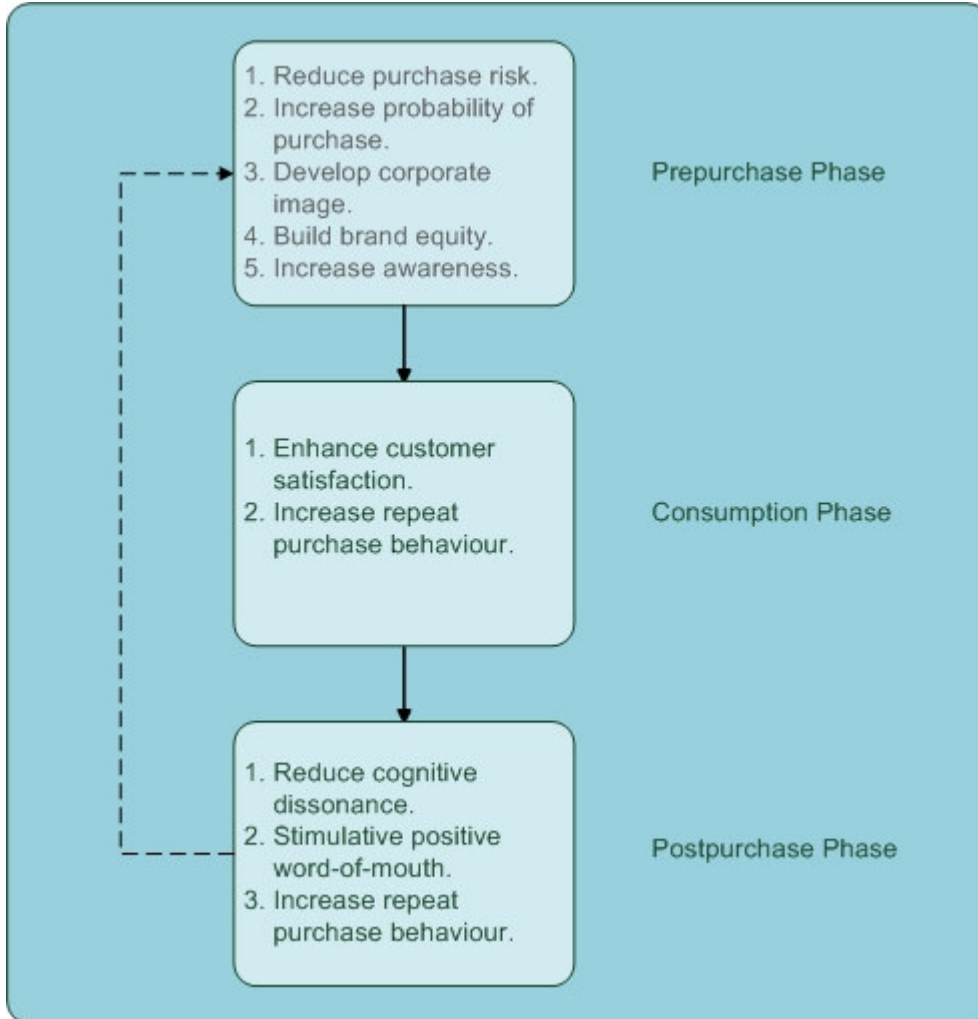


Figure 3.8 - Communication Objectives

Reproduced from Kurtz, D. & Clow, K. (1998: pg. 417)

The most prominent communication options for services are advertising and sales promotions. The former could be informative, persuasive or reminding in nature.

Advertising can play a role in decreasing the intangibility, perishability, inseparability and variability which could benefit the service provider according to Kurtz and Clow (1998) as follows:

- It can increase a customer's purchase probability;
- Customer expectations are more clearly defined and understood;
- Customer satisfaction level increases as they are more knowledgeable about the service experience.

Loyalty/reward programmes are frequency programmes or rather sales promotions aimed at current customers to increase repeat purchase behaviour and brand loyalty by rewarding customers for their patronage, and have the following characteristics:

- Multiple purchases over time are needed;
- Consist of a formal point accumulation method;
- Have a standardized redemption process;
- Rewards may be in the form of extra goods, services, discounts or cash.

3.7.7 Customer Expectations of Services

The customers' expectations, or rather their wants and desires, with respect to service are emphasized throughout. Zeithaml & Bitner (Brink & Berndt, 2004) differentiate between:

- *Desired service level*, which refers to the level of service that the customer hopes to receive;
- *Adequate service* refers to the lowered service expectation that the customer will accept;
- *Zone of tolerance*.

Kurtz and Clow (1998) add the *Ideal Service Level* dimension, which refers to the "wished-for" level of service, as well as the *Predicted Service Level*, which refers to the service level that the customers "expect" from the service provider.

Prepurchase Phase

1. Learn what customers expect.
2. Tell customers what to expect.
3. Consistently provide the service customers expect.

Service Encounter

1. Communicate with customers during the service.
2. If possible, modify service to meet customer's expectations.
3. If not possible to modify the service, explain why.

Postpurchase Phase

1. Communicate to see whether expectations were met.
2. Develop a follow-up program.
3. Develop a procedure for dealing with dissatisfied customers.

Figure 3.9 - Managing Customer Expectations

Reproduced from Kurtz, D. & Clow, K. (1998: pg.86)

3.8 CUSTOMER RETENTION

According to Meldrum and McDonald (1995:199), the profitability gained from customer retention can be quite phenomenal. Subsequently, many organizations have started to focus on retention. When an organization is certain that this is an appropriate strategy, it must determine what type of customers it wants to retain.

Economies of scale must be considered, but the customers most suitable for retention are those that like stable relationships, have reasonable demands and are potentially long-term purchasers.

Managers that deal with customer retention require skills that are different to those that are primarily involved in customer acquisition. Many companies that focus strongly on CRM have as a result thereof split the marketing job into two, one that focuses on client retention and manages customer service operation and the other that focuses on client acquisition.

The approaches that are most suited towards client retention are:

- Direct mail;
- Direct sales;
- Internet-based direct marketing, which includes personalized e-mail which may be in the form of video, audio and web pages.

Lee Fowler (2005) wrote an e-book titled: “Lifelong Customers: How to Attract – And Keep – Loyal Customers for Life.” It is a “how-to” book that focuses on building successful long-term customer relationships.

Fowler, like Holloway (2005) emphasizes the need to delight the customers in order to retain them. He names ten things to do to ensure that a company builds an enduring relationship with its customers:

- Find out what your customers expect from you;
- Find out how they rate you;
- Figure out how much your customer is worth to you over a lifetime;
- How hard do you work at losing customers (unconsciously);
- Keep your customers coming back (It is called customer loyalty, which is different to customer satisfaction);
- Is anyone costing your business a sale;
- Material service and personal service (the latter refers to how the customers feel that the company treats them);
- Responsibility for your product after the sale is made;
- Be grateful when customers complain, as it enables a company to correct the problem before the customer goes to the competitor;
- Service recovery by ensuring there is a plan of action should something go wrong.

Customer satisfaction does not necessarily lead to repeat purchase behaviour. They may purchase from a competing firm as a result of a lower price, superior quality or possibly another reason.

Subsequently, a firm's service must go beyond satisfying customers. They must build relationships with customers that will have the ability to retain customers.

Customer retention deals with the aspects of:

- Management of customer-to-customer interactions;
- Development of programmes to minimize customer defections;
- Service delivery to ensure that customer defections do not occur.

Repeat purchase behaviour refers to subsequent purchases of a particular service, but this does not automatically imply brand loyalty. Customers who are brand loyal only buy the preferred brand.

What customers do go through according to Kurtz and Clow (1998) are various states of satisfaction, namely angry, dissatisfied, irritated, OK, pleased and excited.

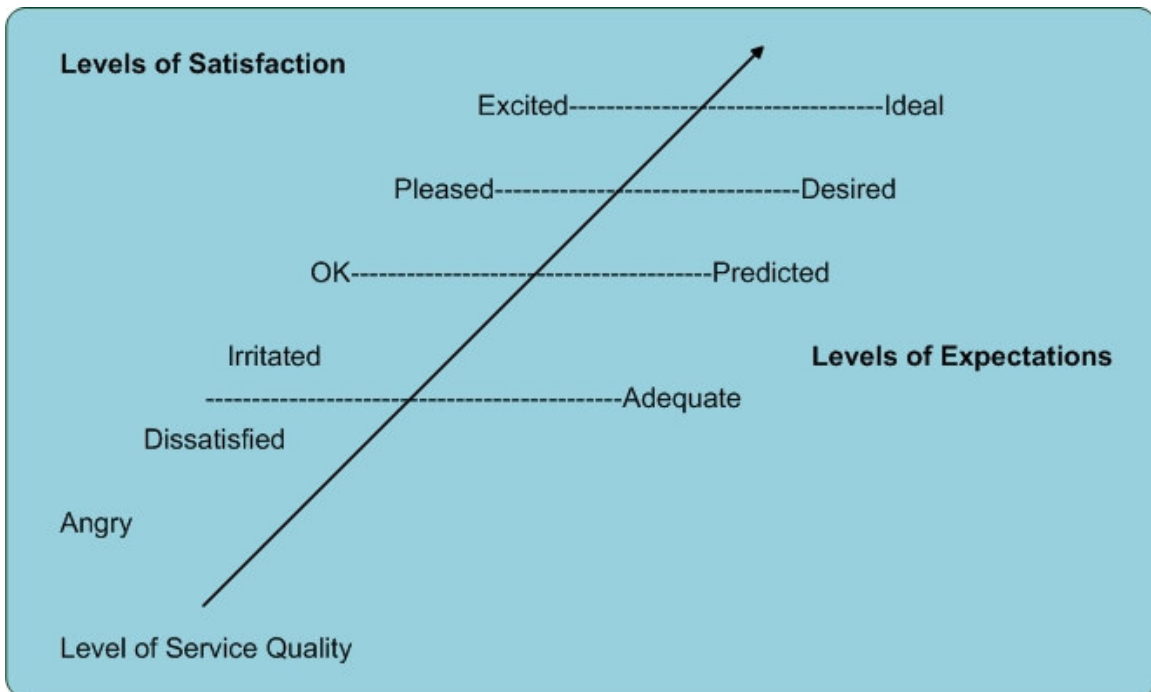


Figure 3.10 - The Satisfaction States in Relation to Levels of Consumer Expectations

Reproduced from Kurtz, D. & Clow, K. (1998: pg. 382)

3.8.1 Managing Customer Value Package

According to Fredericks and Salter (Kurtz & Clow, 1998:385), “The customer value package is the perceived combination of factors that in the consumer’s mind creates a superior value for them.”

The four factors that make up the customer value package are price, technical service quality, functional service quality and company image.

The customer value package therefore refers to the combination of factors mentioned above through which customers perceive superior value. The organization therefore has to understand how customers' view value in order to address retention issues.

The operational position of an organization determines whether brand loyalty or repeat purchase behaviour should be encouraged. Kurtz and Clow (1998) differentiate between the two by stating that brand loyalty should be encouraged by firms focusing on service quality and customization, while firms that operate in the cost-efficiency position should induce repeat purchase behaviour.

They furthermore identify different methods for the two. This is reflected in Figure 3.11, below.

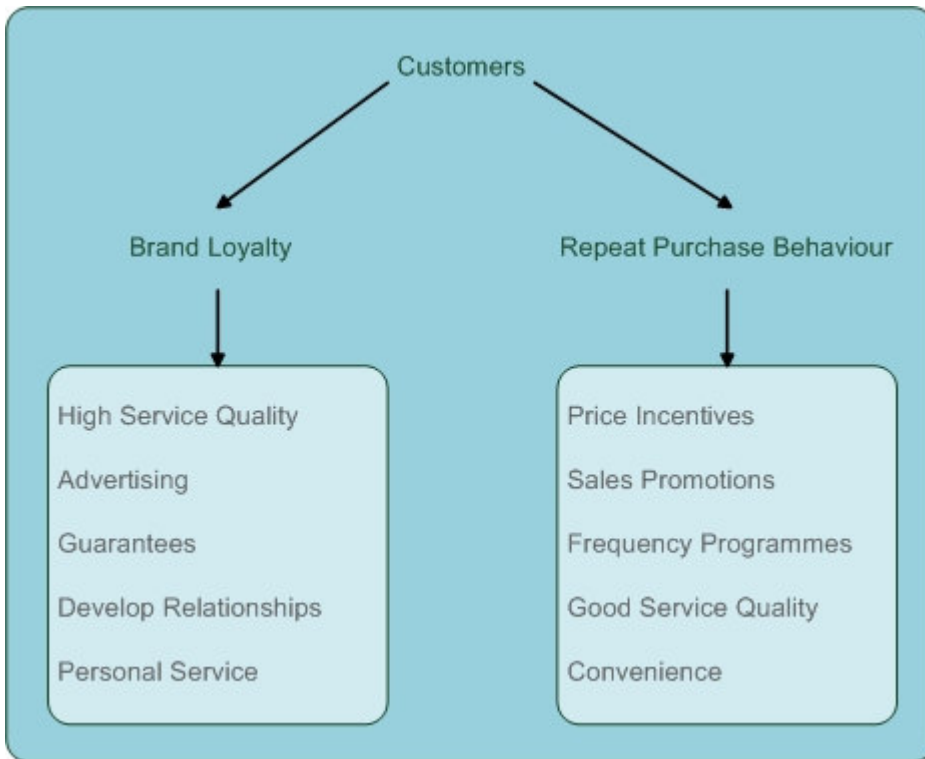


Figure 3.11 - Developing Brand Loyalty and Repeat Purchase Behaviour

Reproduced from Kurtz, D. & Clow, K. (1998: pg. 388)

Customer retention requires that firms must understand how customers view value, which may be different to what is perceived by the firm. Figure 3.11 above, shows which aspects are emphasized for brand loyalty and which aspects are emphasized for repeat purchase behaviour.

3.8.2 Customer Defection Management

The three principles that govern defection management are:

- Do not try to eliminate all defections;
- Watch for customers who have defected, are ready to defect, or who have reduced purchases;
- Develop a service recovery program.

An identification process requires a development of a customer database and this can occur through the use of a frequency purchase programme.

3.9 Building Customer Relationships

In order to enhance customer relationships, Brink & Berndt (2004:24) stipulate that the organization must “acquire knowledge about the customer, be able to develop insight into this knowledge and be able to interact regularly with the customer to acquire new information.”

Trust, commitment, shared goals and mutual benefits are essential requirements for a relationship, which in turn lead to creation of customer loyalty and ultimately customer retention.

3.10 Relationship Programmes

According to Winter (2001:15), it is evident from a large volume of research that “the overall goal of relationship programmes is to deliver a higher level of customer satisfaction than competing firms deliver.” He also refers to a strong positive relationship between customer satisfaction and profitability (Winter, 2001:16). Relationship programmes are:

- Customer service;
- Loyalty/reward programmes;
- Mass customization;
- Community building.

Customer service must be of top priority for companies that want to retain their customers. Programmes designed to enhance customer service are either reactive or proactive. Most companies nowadays can deal with reactive service, but proactive service needs attention as it is essential to good customer management.

Loyalty/reward programmes reward customers’ repeat purchasing. The biggest downfalls occur as a result of the fact that such programmes are often expensive, mistakes are difficult to correct and their effectiveness in general is being questioned.

Mass customization refers to creation of unique products or services and subsequently goes beyond one-to-one marketing.

Community building refers to relationships and networks between customers and a company or a brand. Ultimately this personal environment makes it difficult for a customer to leave.

3.10.1 Loyalty Programmes

Many industry experts are divided on whether the large expense of introducing and managing a customer loyalty program is actually worth it. The question is whether loyalty programmes are the most effective means towards customer retention. Additionally, can they contribute towards customer retention on their own? This is the basic premise behind this research report.

Encouragement of repeat business by rewarding customers for their business via loyalty/reward programmes has become almost a necessity. Loyalty cards are the most common forms of these programmes found throughout the world today. They have gained in popularity immensely in the past fifteen years, in no small part due to the developing culture of entitlement in which customers feel that they deserve special treatment.

Businesses have capitalized on this. However, the success of loyalty/reward programmes depends on how well the business uses the data it gathers to further its customer retention and ultimate profitability.

Many businesses find little profit in the use of loyalty/reward programmes, while others attribute much of their financial success to a well executed use of such programmes.

Critics see the lower prices and rewards as bribes to manipulate customer loyalty and purchasing decisions, or as a case of infrequent spenders subsidizing frequent spenders. Others worry about the commercial use of personal data collected as part of the programmes. According to Wikipedia, it is also highly likely that consumer purchases are tracked and analyzed towards more efficient marketing and advertising.

Research done by Hartmann and Viard (2006) of Stanford Graduate School of Business suggests, that loyalty/reward programmes like frequent flyer plans or buy-ten-get-one-free cards that have been touted as powerful tools for increasing company profits, have limited effectiveness and sometimes end up just costing organizations money.

Businesses should also search for innovative ways to distinguish programmes from those of the competition and to make them more appealing to the customers.

Effective loyalty programmes are those that trade value for value in acknowledgement of the relationship that has been built over time. The gift should be something that is valued by the recipient. A gift that is selected simply because it is cheap and easy for the giver is worse than no gift at all. So, are you buying customers with a rewards program? Or are you showing your appreciation to loyal customers by trading value for value? There is a world of difference!

It is important for organizations to understand the importance of loyalty/reward programme design – there is no such thing as a one-size-fits-all approach: to understand what your customers truly value, it necessitates one-on-one interviews with organizations and customers, as well as quantitative research.

Jack Aaronson (2005), a sought-after expert on enhanced user experiences, customer conversion, retention and loyalty, states that if you rely solely on a programme for loyalty, then you have already lost the game. Is that true? The researcher will attempt to establish the answer to the above-mentioned premise.

Jack Aaronson (2005) furthermore emphasizes that initially loyalty/reward programmes rewarded high-value customers and thereby built loyalty among customer bases. However, thereafter, everyone built one and loyalty programmes became synonymous with point systems. There are many other kinds of reward schedules beyond the point system.

Real loyalty comes from a brand experience. Loyalty/reward programmes cost a lot to maintain. They have become so common, that they are just a cost of doing business, not a differentiator. Customer loyalty must revert back to the brand experience and the intrinsic desire we have to be loyal to a brand we like.

Loyalty/reward programmes are running amok. Companies are mired in point systems. Those that will prevail rely on their brand differentiation. Brand experience loyalty will prove more important than any reward schedule or token economy.

Across the globe loyalty/reward programmes are increasingly finding the need to outsource strategic and operational aspects of their programmes, given the size and complexity a loyalty program entails.

According to Wikipedia, programme managers are typically agencies with specialist skills in loyalty consulting, creative and communication, data analytics, loyalty software and back end operations.

Maria Palma (2006) emphasizes that building customer relationships is a business skill – utilizing some type of customer database and adding personal touch is the difference between good companies and great companies.

A good loyalty/reward programme improves customer retention through better targeting and more personalized customer service.

Xavier Dreze and Joseph C. Nunes of the University of Southern California, Marshall School of Business have spent several years studying these programmes and have reached a number of conclusions as to how they can be structured to generate the most revenue for companies that offer them.

However, they emphasize that the loyalty/reward programmes need to be designed to offer differentiated products and services based on their purchasing patterns and profitability. If these are based simply on quantity discounts or paying for patronage, they will not endure. They are currently researching the effectiveness of status – silver, gold, platinum – associated with loyalty programmes and cards.

The phenomenon of loyalty schemes and incentive programmes has captured the interest of the Australian Centre for Retail Studies (ACRS) in Monash's

Faculty of Business and Economics, which is now investigating the effectiveness of such programmes.

Research project manager Dr Kerrie Bridson (2007) says that structured loyalty/reward programmes have been popular for at least 10 years, but now it needs to be ascertained whether the programmes work and whether they have recouped the investment they have made in them over that time. The market is becoming swamped with loyalty schemes, but she states that this does not necessarily spell doom for the idea.

The challenge for operators is to differentiate themselves in a crowded marketplace and design programmes which add value to the consumer shopping experience.

The recent ACRS report (Bridson, 2007) has already revealed several ways to make loyalty/reward programmes more effective:

- Making redemption of rewards easy;
- Using information about customers to improve service – it is futile to have a database full of information about customers if it is not used to serve them better;
- Matching loyalty currency to the market;
- Achieving balance – customers are not only motivated by tangible rewards: being valued as a customer is often just as important;

- Standing out from the crowd – companies need to differentiate their offers from those of their competitors;
- Treating the loyalty program as a long-term relationship-building strategy rather than a short-term promotion tool to drive sales or build a database.

In his research Strebel (Beirne et al, 2004) found, that the quicker someone redeemed something, the more loyal they became. According to him (Beirne et al, 2004), “If you look at all the advertising, for loyalty programmes, everyone is doing something very traditional talking about points, points, points...we wanted to show the added value and fun of being in the program.” The challenge for an organization therefore lies in how they present this to their customers as well.

It is important that a company remains committed for the long-term and evaluate the costs associated with any program over its lifetime. According to Dr Bridson (Monash Magazine, 2007), customers need to feel that the rewards are achievable and that they match customer needs. Customers do not have to spend too much for too long before they benefit. According to Dr. Bridson (Monash Magazine, 2007) the key to keeping programme members loyal is to focus on adding value to their relationship with an organization. The key to keeping programme members loyal is to focus on adding value to their relationship with an organization.

An additional challenge for organizations is emphasized by Michael Applebaum (2004) when he states that one of the biggest marketing challenges facing organizations today is figuring out how to convince their customers that they genuinely care about their needs.

The insurance industry, pharmaceutical firms, credit card companies, major airlines, wireless providers and cable operators, to name a few, are notorious for their inability to generate goodwill among consumers and, by and large, have failed to produce loyal customers.

According to research (Applebaum, 2004) organizations across industries are spending billions of dollars to implement customer loyalty/reward programmes. While many organizations claim their programmes drive customer retention and new business, industry experts differ on whether loyalty programmes actually drive loyalty or merely seekers of discounted goods and services. They too came to the conclusion that whether loyalty programmes truly work or not, one of the most effective ways to drive customer loyalty is by implementing an active customer feedback system and listening to customers.

Customer loyalty/reward programmes are considered innovative ways to create customer loyalty. Many industry experts are divided on whether the large expense of introducing and managing a customer loyalty/reward programme is worth it.

Regardless of the type of customer loyalty/reward programme, organizations still need to provide a convenient and effective way to communicate with their customers. Feedback systems have proven to be effective customer loyalty/reward programmes. When organizations take time to listen, analyze and respond to customer feedback, often, the result is a much more loyal customer.

Appelbaum (2004) also refers to Robert Passikoff, who states that the whole concept of leveraging customer loyalty is making people feel what you are offering to them is of value and that they feel valued. He characterizes emotion as a bridge between satisfaction and loyalty, and that is when customers believe a company genuinely cares about them.

This is confirmed by Cohen (2007) who states that a company has to make an emotional connection with your consumers so that they will commit to you. Mulcahy (2006), as a CEO of Xerox, also addresses the importance of staying connected to customers in order to retain them. Organizations need to remember that to keep customers coming back, they need to constantly remind them of their business.

According to Soman, a Marketing Professor at the University of Toronto (Holoway, 2005:1) the situation that needs to be addressed, however, is the fact that many companies just collect data without “thinking through the application and execution.”

Korea's OKCashback Rewards Programme has signed up half of Korea's population, which amounts to about 25 million people. In reference to economically active adults, more than 80% are members. Why is this programme so successful? The answer lies in the fact that these points are according to Ihlwan (2006:1) "*as good as cash.*" Most other programmes limit the point redemption to a few companies.

Although this programme does not make a lot of money for its company, its true value lies in its collection of personal data, which assists SK Corp. in communicating effectively with its customers. Additionally, SK Corp. shares this information with companies that take part in this loyalty programme and also take part in joint marketing ventures.

Lindsay (2006:1) emphasizes the need for dramatically different methods in order to affect the so-called "emboldened and empowered consumers." Furthermore, she emphasizes the operationalization around profitable market segments and not around profitable products. She also stipulates that the only way to create *passion* for one's brand is to create *cohesive bonds* with customers and to serve their needs obsessively. This is, according to Lindsay (2006:1) not driven by "functionality, features or usage, but by a shared attraction to the emotional meaning of your brand."

According to Macarthur (2006), Starbucks has benefited from being an early adopter of the gift cards, but the strength lies in how it drives its reloading. Industry executives feel that part of Starbuck's success lies in its dual use of the card for gifting and loyalty, which is an advantage as most companies have single-use cards.

In conclusion, James (2006) ascribes the popularity of loyalty/reward programmes to the fact that many experts link it to profitability and brand equity. Although it is an expensive exercise, Mr. Woolf (James, 2006:3) believes that loyalty/reward programme supplies information that is essential towards achievement of a company's corporate and strategic objectives, and subsequently its worth cannot be questioned or underestimated.

Apart from the issue that will be addressed by the researcher with regard to the power of loyalty/reward programmes' influence toward customer retention, there is a possibility for future research which will focus on what loyalty/reward programme strategies are effective differentiators (as discussed by variety of authors in the section above) with regard to customer retention.

CHAPTER 4: RESEARCH METHODOLOGY

4.1 Statement of Problem and Sub-Problems

Retention is a direct result of customer satisfaction and the latter is an essential ingredient for successful and profitable organizations. Loyalty/reward programmes are on the upswing and more businesses are getting involved in them in order to positively influence customer retention.

The researcher wants to establish whether an introduction of loyalty/reward programmes does have a strategic implication towards customer retention and ultimately towards providing the relevant organization within the services industry with competitive advantage.

The major concern within most organizations within the services industry is that of customer retention and therefore a way must be found to retain their customer base and thus manage their churn dynamics.

The services industry in general is very competitive. This leaves very little room to gain and maintain competitive advantage on product alone. There is a definite need for differentiation. The question therefore is,

“Can a loyalty/reward programme do the trick?”

In addition, the next question revolves around aspects that organizations struggling with customer retention should focus on, namely:

- To develop a one-on-one relationship with current customers?
- To develop and launch value-added-services to increase customer loyalty?
- To understand current customers better?

The researcher therefore aims to establish whether loyalty/reward programmes do have the strongest contribution on customer retention.

Research Problem

The main research problem in this study entails:

“Do loyalty/reward programmes, as an entity on their own, have a positive effect or influence on customer retention?”

The aim is therefore to establish if an introduction or maintenance of a loyalty/reward programme in an organization would be able to encourage customer loyalty and thereby reduce churn. This should ultimately result in an organization being able to obtain competitive advantage and ultimately increase their profit margins.

Many industry experts are divided on whether the large expense of introducing and managing a customer loyalty programme is actually worth it. It is the aim of the researcher to collect and interpret data to address the important question of whether loyalty programmes are the most effective way towards customer retention.

Research Sub-Problems

The two sub-problems that occur as a result of the primary research problem are:

- *Sub-Problem One*

This revolves around the issue of whether a loyalty/reward programme is the stronger influencing factor with regard to customer retention, than service quality.

- *Sub-Problem Two*

This revolves around the issue of whether a loyalty/reward programme is the stronger influencing factor with regard to customer retention, than customer contact.

Retention is a direct result of customer satisfaction and the latter is an essential ingredient for successful and profitable organizations. Loyalty/reward programmes are becoming a popular choice and more businesses are getting involved in them in order to positively influence customer retention.

4.2 Propositions for Problem and Sub-Problems

The propositions below will either be supported or not supported by the data that will be collected. The propositions to be tested are:

- *Proposition 1*

A loyalty/reward programme is the CRM component with the highest/strongest positive influence on customer retention.

- *Proposition 2*

A loyalty/reward programme is a more influential component of CMR than service quality, with regard to customer retention.

- *Proposition 3*

A loyalty/reward programme is a more influential component of CRM than customer contact, with regard to customer retention.

Inferences about the population will be made via hypotheses testing. The null hypotheses to be tested are reflected below. An exploratory hypothesis utilizes nominal variables, while in this particular research directional hypothesis will test the relationship and therefore ordinal variables will be taken into consideration.

Statistical tests that will be utilized can only disprove a hypothesis, but not confirm it. Should a hypothesis be disproved in the research then an alternative/research hypothesis which postulates some difference or inequality will become relevant.

Only a null hypothesis can be tested, and if it is rejected, then this is taken to signify support for the alternative hypothesis. In this research ordinal scales of measurement reflect a directional hypothesis. For each proposition the hypothesis to be tested is as follows:

- **Proposition 1**

A loyalty/reward programme is the CRM component with the highest/strongest positive influence on customer retention.

Hypothesis 1

Ho: $\mu_1 \leq 6$

H₁: $\mu_1 > 6$ (research hypothesis)

- **Proposition 2**

A loyalty/reward programme is a more influential component of CMR than service quality, with regard to customer retention.

Hypothesis 2

Ho: $\mu_1 \leq \mu_2$

H₁: $\mu_1 > \mu_2$ (research hypothesis)

- **Proposition 3**

A loyalty/reward programme is a more influential component of CRM than customer contact, with regard to customer retention.

Hypothesis 3

Ho: $\mu_1 \leq \mu_3$

H₁: $\mu_1 > \mu_3$ (research hypothesis)

4.3 The Sample

The researcher will systematically collect, analyze and interpret information/data in order to increase the understanding of the phenomenon in question. Qualitative research will be utilized based on a structured questionnaire. This questionnaire is attached for perusal as Appendix 4. Appendix 3 refers to the letter that accompanied the questionnaire.

Although secondary data will be utilized for the cross-sectional research study, primary data will be collected by the researcher. Questionnaires will be completed telephonically and through e-mail.

The sample was chosen through non-probability sampling, as the decision to choose the respondents from a base of current customers within service industry providers was at the discretion of the researcher.

4.4 Measuring Instruments

Non-metric, qualitative data will be collected which will reflect attitudes and opinions as well as the intentions of respondents. Nominal scales will be used for biographical and demographical data, while an ordinal, Likert scale will be used for measuring the data around service quality, customer contact and reward programmes.

In order to make interpretation of results more measurable the following methods will be applied to measure central location:

- *Mode*, which shows the most frequently occurring value;
- *Median*, which reflects the value above and below which half of the observations fall;
- *Mean*, which represents the arithmetic average.

Estimation refers to inferences about the population on the basis of what we observe in the sample. As the standard deviation of the population is unknown and the sample is quite small, normal distribution cannot be used and the t-distribution will be utilized instead.

4.5 Data Analysis

The focus of the research will not only be on data collection, but also on interpretation of data. The first step that data analysis will cover is the frequency distribution, which reflects how different values of a variable are encountered in the sample. Both absolute frequencies and relative frequencies will be reflected, where the former will be represented as simple counts, while the latter will be represented as percentages.

Measures of centrality will be calculated for service quality, customer contact and reward programmes.

CHAPTER 5: RESEARCH RESULTS

Biographic data collected was mainly nominal in nature, with annual income being the only ordinal variable. For this reason, only the mode could be calculated as a statistical variable.

Profile of the response group

All respondents answered the questions on gender, status, cultural group, educational level, annual income and current reward programme membership, so a full size sample of 60 for the group is reflected.

As mentioned earlier, the first step that was covered in the data analysis was the frequency distribution, which reflects how different values of the discrete variables are encountered in the sample.

The data summarized below was obtained from frequency data, namely both absolute frequencies and relative frequencies. These are reflected below according to each variable:

Gender as a variable

n = 60

Categories = 2

Mode = Male

Table 5.1 – Gender as a variable

Gender	Absolute Frequencies	Relative Frequencies
Female	27	45%
Male	33	55%

Status as a variable

n = 60

Categories = 5

Mode = Married

Table 5.2 – Status as a variable

Status	Absolute Frequencies	Relative Frequencies
Divorced	4	7%
Married	29	48%
Other	2	3%
Single	24	40%
Widowed	1	2%

Cultural group as a variable

n = 60

Categories = 4

Mode = Afrikaans

Table 5.3 – Cultural group as a variable

Cultural Group	Absolute Frequencies	Relative Frequencies
African	5	8%
Afrikaans	43	72%
English	10	17%
Indian	2	3%

Educational level as a variable

n = 60

Categories = 3

Mode = Matric

Table 5.4 – Educational level as a variable

Educational Level	Absolute Frequencies	Relative Frequencies
Matric	35	58%
Other	11	18%
University	14	23%

Annual income as a variable

n = 60

Categories = 5

Mode = Salary range between R60, 001 – R100, 000

Table 5.5 – Annual income as a variable

Annual Income	Absolute Frequencies	Relative Frequencies
Less than R60,000	11	18%
R60,001 – R100,000	21	35%
R100,001 – R180,000	9	15%
R180,001 – R250,000	12	20%
More than R250,001	7	12%

Current reward programme membership as a variable

n = 60

Categories = 2

Mode = None

Table 5.6 – Current reward programme membership as a variable

Current R.P.M.	Absolute Frequencies	Relative Frequencies
No	30	50%
Yes	30	50%

Number of reward programme subscriptions

n = 60

Categories = 4

Mode = No subscriptions

Table 5.7 – Number of reward programme subscriptions

Number of R.P.M.	Absolute Frequencies	Relative Frequencies
None	30	50%
One	18	30%
Two	9	15%
Three	3	5%

Based on the figures above, one can tell at face value that most respondents were Afrikaans speaking. The respondents were also mostly married, with completed secondary education. It was an extremely interesting coincidence that the split between current participants and non-participants in reward programmes was an equal 50%. Furthermore, half of the participants in reward programmes were members of one such programme only.

Measures of centrality

Measures of centrality were calculated for service quality, customer contact and reward programmes. In order to discover the true meaning of the collected data and its relevance to the research problem, the use of descriptive and inferential statistics took place. It was the intent of the researcher to address issues that have immediate relevance to current practices with regard to customer retention in the services industry.

Descriptive research design yielded quantitative information that was summarized through statistical analysis. Details hereof are supplied below.

In this section calculations were done on the average scores for service quality, customer contact and reward programmes.

The averages for service quality were calculated by averaging the scores for Q1-Q15, the scores for customer contact was an average for Q16-Q27 and the average for reward programmes was an average of Q28-Q36.

The averages that are summarized in the table below reflect responses to the importance of these CRM components with regard to retention potential, namely, Q15(service quality), Q26 (customer contact) and Q34 (reward programmes).

Table 5.8 - Descriptive statistics for service quality, customer contact and reward programmes

Variable	Service Quality	Customer Contact	Reward Programmes
Sample Size	60	60	60
Mean	6.4	5.5	5.3
Standard Deviation	1.1	1.6	1.6
Min	2	1	1
Max	7	7	7
Median	7	6	6

Given the scale utilized in the questionnaire where low scores equate to disagreement and high scores equate with agreement, it is evident that most respondents leaned more towards agreeing on most variables.

Ordinal scale of measurement was utilized so that the researcher could compare which component of CRM was better suited to customer retention, and to establish whether loyalty/reward programmes are in fact the strongest influencers of customer retention, as opposed to quality service and customer contact. The Likert Scale ranges from “Strongly Disagree” to “Strongly Agree.”

Measures of centrality were calculated for service quality, customer contact and reward programmes. In order to discover the true meaning of the collected data and its relevance to the research problem, the use of descriptive and inferential statistics took place.

It was the intent of the researcher to address issues that have immediate relevance to current practices with regard to customer retention in the services industry.

Inferences about the population were made via hypotheses testing. The null hypotheses reflected below were tested. An exploratory hypothesis utilizes nominal variables, while in this research directional hypothesis tested the relationship and therefore took into consideration ordinal variables.

Statistical tests that were utilized can only disprove a hypothesis, but not confirm it. Should a hypothesis be disproved then an alternative/research hypothesis which postulates some difference or inequality will become relevant. Only a null hypothesis can be tested, and if it is rejected, then this is taken to signify support for the alternative hypothesis.

In this research ordinal scales of measurement reflect a directional hypothesis. The researcher speculates that the rating of 6 is the mean for agreement. For each proposition the hypothesis to be tested is as follows:

- **Proposition 1**

A loyalty/reward programme is the CRM component with the highest/strongest positive influence on customer retention.

Hypothesis 1

Ho: $\mu_1 \leq 6$

H₁: $\mu_1 > 6$ (research hypothesis)

The research findings, however, show that the mean for loyalty programmes is 5.3 and therefore this rejects the alternative hypothesis. Subsequently, reward/loyalty programmes are not the CRM component with the highest/strongest positive influence on customer retention. The histogram below reflects this graphically.

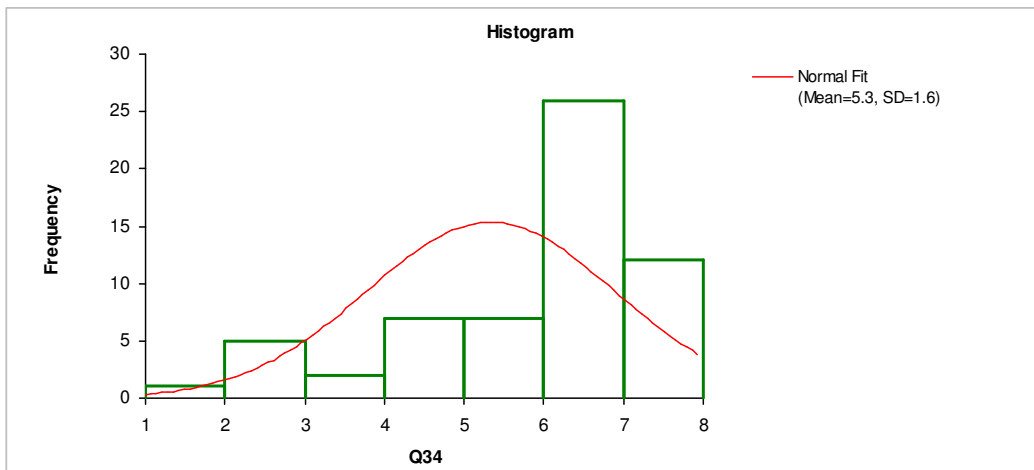


Figure 5.1 – Histogram for reward programmes

- **Proposition 2**

A loyalty/reward programme is a more influential component of CMR than service quality, with regard to customer retention.

Hypothesis 2

Ho: $\mu_1 \leq \mu_2$

H₁: $\mu_1 > \mu_2$ (research hypothesis)

According to the research results, the mean of $\mu_1 = 5.3$, while the mean of $\mu_2 = 6.4$ and as the result thereof, the null hypothesis is true and therefore there is no support for the research/alternative hypothesis. The histogram below reflects the mean for quality service.

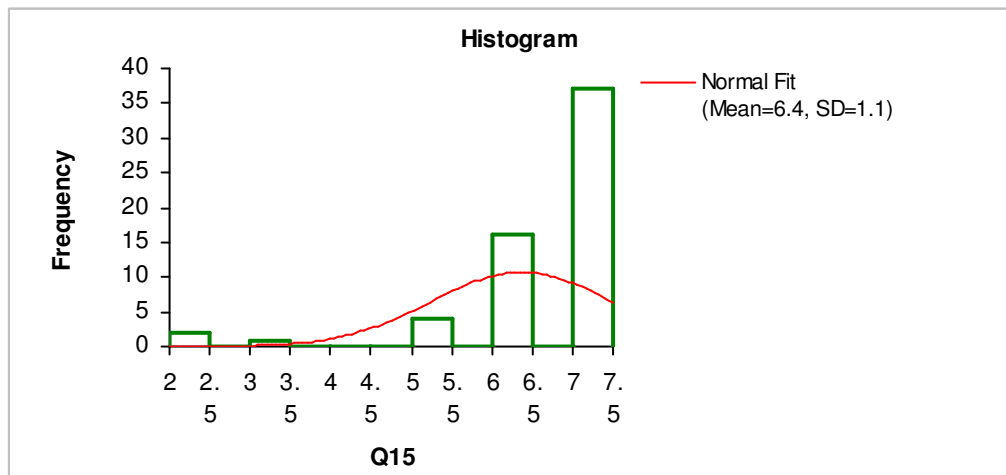


Figure 5.2 – Histogram for service quality

- **Proposition 3**

A loyalty/reward programme is a more influential component of CRM than customer contact, with regard to customer retention.

Hypothesis 3

Ho: $\mu_1 \leq \mu_3$

H₁: $\mu_1 > \mu_3$ (research hypothesis)

According to the research results, the mean of $\mu_1 = 5.3$, while the mean of $\mu_3 = 5.5$ (as per the histogram below) and as the result thereof, the null hypothesis is true and therefore there is no support for the research/alternative hypothesis. The results reflect that although customer contact is rated more influential towards customer retention than loyalty programmes, they still come second to quality service.

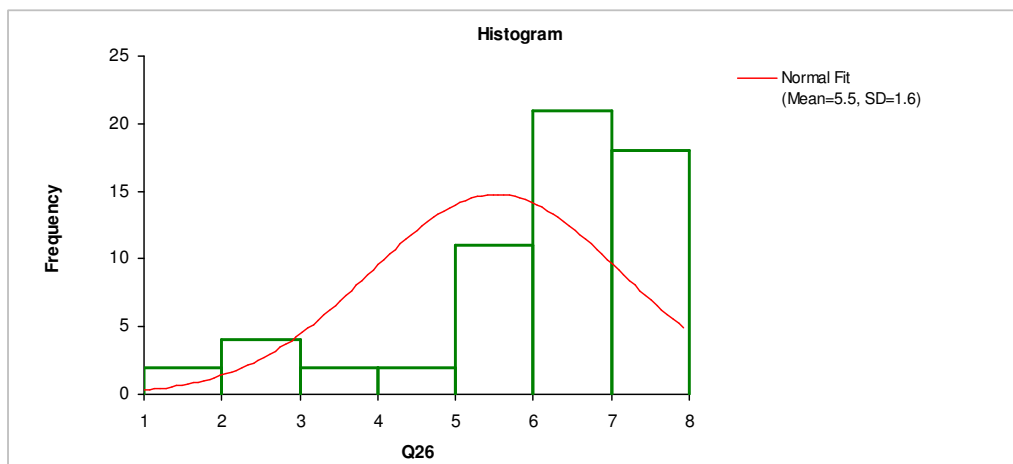


Figure 5.3 – Histogram for customer contact

Furthermore, although respondents somewhat agreed that customer contact plays a role in customer retention, they did feel that service quality must be present as well in order to reinforce their decision to stay with the service provider. Reference to the tabulation below can be made to Q27 in the questionnaire, which can be perused in Appendix 4.

Table 5.9 – The influence of customer communication on customer retention

Variable	Q27
Sample Size	60
Mean	6
Standard Deviation	1.1
Min	1
Ma	7
Median	6

Additionally, although respondents somewhat agreed that reward programmes are essential to their satisfaction, the respondents neither agreed nor disagreed with the co-influencing role of service quality and/or customer communication with regard to reward programmes and customer retention. This can be referred to the two questions below as per the questionnaire in Appendix 4.

Table 5.10 – The influence of reward programmes on customer retention

Variable	Q35	Q36
Sample Size	60	60
Mean	4.8	4.8
Standard Deviation	1.8	1.9
Min	1	1
Ma	7	7
Median	6	6

In order to ensure a more stable and reliable measure of variability, interquartile range was taken into consideration.

CHAPTER 6: DISCUSSION, CONCLUSIONS AND RECOMMENDATIONS

As mentioned earlier in the text, many industry experts are divided on whether the large expense of introducing and managing a customer loyalty program is actually worth it. It subsequently became the researcher's objective to evaluate whether loyalty/reward programmes are in fact the most influential component of CRM with regard to customer retention. The research study focused on three biggest components of CRM, namely loyalty/reward programmes, customer contact and service quality.

There are a number of aspects that were highlighted through this research study. First of all, it became evident, that if we make inferences from the collected sample, that out of the three CRM components studied in this research, the strongest influence (when studied as separate entities) with regard to customer retention comes from service quality, followed by customer contact and finally by loyalty/reward programmes.

This shows that loyalty/reward programmes are not the most influential strategic solution for customer retention and disputes all three propositions set forth by the researcher.

When one considers the finding, that out of the research sample, fifty percent had no current reward programme membership and that thirty percent of the sample only had one such subscription, this acts as a further reinforcement of the positioning of reward programmes among the other two researched CRM components.

Subsequently the answer to the question “*Can loyalty /reward programme do the trick?*” will obviously be no, with regard to customer retention strategy. The research also reinforces why so many industry experts are divided on whether the large expense of introducing and managing a customer loyalty programme is actually worth it. The review by Uncles, Dowling and Hammond (2002) from their research furthermore shows that the demand for such loyalty/reward programmes has been over-claimed by their advocates.

Although loyalty/reward programmes are on the upswing and more and more businesses are utilizing them as a customer retention strategy, the research shows that an introduction and maintenance of loyalty/reward programme will not necessarily result in an organization within the service industry being able to obtain competitive advantage with regard to customer retention via this channel.

Additionally, the research study shows that regardless of the type of customer loyalty/reward programme, a great product or service is the starting point for customer loyalty and organizations still need to provide a convenient and

effective way to communicate with their customers. One should keep in mind O'Malley's (1998) findings, which emphasize that even though many organizations have benefited from loyalty programmes, this occurred only when these were considered as *one* aspect of the coherent value proposition. An organization must also ensure that the objectives of such programmes are properly clarified.

Based on the findings, it seems that a reward/loyalty programme as a component of CRM as covered in the research study, does have an influencing role in customer retention despite it not being the most influential one. This reinforces the literature that Brink and Berndt (2000) set forth with regard to maximizing customer satisfaction and loyalty which in turns influences customer retention.

Tabulated below are some interesting findings according to the importance of the top five phenomena in each component:

Table 6.1 - Top customer criteria for CRM components

Performance Ranking	Service Quality	Customer Contact	Reward Programmes
1	Trustworthiness of the service provider	Competent and trained staff	Patronage awards are good practice
2	1 st time correct service	Promotions	Cash-back is ideal to use anywhere
3	Reliability	Advertising	Discount on future transactions
4	Knowledge-ability of staff	Service hotline	Additional free services
5	Staff professionalism	Informative web sites	Cash-back to use with service provider

Future research could therefore focus on what loyalty/reward programme strategies are effective differentiators with regard to customer retention. According to most writers below, the challenge for organizations is to differentiate themselves in a crowded marketplace and design programmes which add value and that are more appealing to the customers. Taking the above information into consideration, possible future research could revolve around these important customer criteria which could act as a possible framework for functional strategies that an organization in a service industry could incorporate in order to ensure customer retention.

In reviewing literature for the current research topic, the following aspects were highlighted:

- Effective loyalty programs are those that trade value for value in acknowledgement of the relationship that has been built over time. The gift should be something that is valued by the recipient;
- It is important for organizations to understand the importance of loyalty/reward programme design – there is no such thing as a one-size-fits-all approach. Xavier Dreze and Joseph C. Nunes of the University of Southern California, Marshall School of Business emphasize that the loyalty/reward programmes need to be designed to offer differentiated products and services based on their purchasing patterns and profitability. If these are based simply on quantity discounts or paying for patronage, they will not endure;

- In his research Strebel found (Beirne et al, 2004), that the quicker someone redeemed something, the more loyal they became;
- It is important that an organization remains committed for the long-term and evaluate the costs associated with any program over its lifetime. According to Dr Bridson (Monash Magazine, 2007) customers need to feel that the rewards are achievable and that match customer needs;
- An additional challenge for organizations is emphasized by Michael Applebaum (2004) when he states that one of the biggest marketing challenges facing organizations today is figuring out how to convince their customers that they genuinely care about their needs.

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CHAPTER 9: APPENDICES

Appendix 1

Service classification system

Reproduced from Kurtz L. & Clow K.E. (1998: pg. 15)

Classification Level	Categories	Options
Nature of organization	Purpose (Satisfy needs of)	Individuals Business Both
	Structure	Profit Nonprofit
	Type	Public Private
Nature of service	Degree of tradeability	Embodied service Pure service
	Service directed toward	Individuals Things
	Degree of merchantability	High Medium Low
Customer relationship	Type of relationship	Formal Informal Both
	Degree of participation	Customer must be present Customer must start and finish the service

		Customer has to start service Customer has to finish service
Nature of demand	Level of demand	Demand exceeds capacity Sometimes demand exceeds capacity Demand does not exceed capacity
	Degree of fluctuation	Wide Narrow Variable No fluctuation
Service package	Number of services and goods	One service One service, one good One service, multiple goods Multiple services Multiple services, one good Multiple services, multiple goods
	Units of service	Defined by situation Defined by time Both
	Degree of equipment base	High Medium Low
	Degree of customization	High Medium

		Low
	Degree of durability	High Medium Low Relative to customer Cannot be defined
Delivery method	Availability of service	One site Multiple sites
	Nature of delivery	Continuous Discrete Both
	Type of consumption	Independent Collective Both
	Allocation of capacity	Reservation Order-of-arrival Preferential Reservation and order-of-arrival Reservation and preferential Order-of-arrival and preferential Reservation, order-of-arrival, and preferential

Appendix 2

Stages in managing the customer relationship

Reproduced from Stone, Woodcock & Machtynger (2000: pg. 4)

Stage	Definition	Typical problems and opportunities
Targeting	When the customer is targeted as being an appropriate customer for the company, and induced to 'join'.	<p>Targeting is not precise enough. So, if the company tries to cross-sell to all its existing customers, irrespective of their suitability, this can be a loss-making activity.</p> <p>Very large numbers of customers are targeted, using a variety of approaches – direct mail, off the page, TV. This leads to overlapping coverage and wasted promotional budgets. At worst, if the activities of different product managers are not coordinated, the same person may be targeted for several different products at the same time, with the same names being rented more than once.</p>
Enquiry management	The customer is in the process of joining.	Usually a very short stage, but of critical importance. In many cases, failure to manage enquiries properly leads to many customers being lost before they join. Sometimes this process is just too expensive compared with subsequent customer value. At

		<p>this stage, customers' expectations are often set for future treatment, yet they are often disappointed.</p>
Welcoming	<p>After the customer has joined, depending on the complexity of the product or service, it is important to ensure that the customer is 'securely on board', eg knows who to contact if there are problems, knows how to use the product or service.</p>	<p>This is also often a very short stage, yet it is clear from what happens when a customer has problems or makes a claim that they often do not know who to call or what to do.</p> <p>For decisions involving significant outlays, customers may need to be reassured that they have made the correct decision and given the opportunity to say whether or not they feel they could have been handled better during the buying cycle.</p>
Getting to know	<p>This is the crucial period, when both sides exchange information with each other.</p> <p>Additional customers' needs may become apparent and how they use the product or service becomes known. More is also learnt about customers' honesty,</p>	<p>Many companies assume that this stage does not exist and that their customers go straight into a mature state of account management. Yet, if we take the example of financial services, the early cancellations that occur with many types of insurance policies and loans indicate that this is clearly not so. We cannot expect that no customers will cancel early, but we can expect to be able, by means of data analysis, to identify customers most likely to and implement preventive</p>

	<p>ability to pay and so on.</p>	<p>action. Experience in insurance and banking shows that if we try, we will have some success.</p> <p>Analysis of other industries with long-term relationships with customers indicates that communications behavior, brand attitudes and satisfaction with the category are good predictors of loyalty. Strong preferences can be formed quite early on in the relationship, eg if they respond to your communications, rate your brand highly and are satisfied with how you have arranged their portfolio of products or services, then they will be more likely to stay with you.</p>
Customer development	<p>The relationship is now being managed securely, with additional needs being identified in time and met where feasible.</p>	<p>This is the ideal state, though quite a few customers never reach it and often dip into the next stage or remain in the previous stage for a long time. This is best detected by short questionnaires, which can be administered by mail, telephone or by sales staff.</p>
Managing problems	<p>Customers can have such severe problems that special attention is needed to ensure that they return safely to customer</p>	<p>This stage is defined in terms of what suppliers should do, but, of course, the need for it is often missed and customers go straight into pre-divorce, eg after a mishandled service event or a change in their needs that remains undetected. If a company does not</p>

	<p>development. If this attention is not given, customers can be so dissatisfied that divorce is imminent. If customers do leave, they will usually, after a cooling-off period, be ready for 'winback'.</p>	<p>handle the initial problem well, and customers consider leaving, companies often fail to recognize that this is happening. Surprisingly, many companies give up here, and even pride themselves that they make it easy for customers to cancel. If the reason for cancellation or termination of the relationship was a change in circumstances or a move out of the category, then brand loyalty may be intact and, in some cases, enhanced if suppliers made termination easy.</p>
Winback	<p>Sometimes, the relationship ended because of high price or the wrong product, so winback can be initiated when these issues are resolved. Winback is hardest if customers left due to poor service, unless competitors' service is even worse!</p>	<p>The targeting of winback campaigns is made difficult because many companies are poor at defining and identifying lost customers and they have no reliable customer database.</p>

Appendix 3

Introductory letter accompanying the questionnaire

Dear Respondent!

My name is Jorlanda Krajnc and I am a final year MBL (Master of Business Leadership) student at the Unisa Graduate School of Business Leadership.

A research report is part of the MBL requirement, and my topic of choice is:

“Loyalty/Reward Programmes – Are they the most influential Strategic Solution for Client Retention?”

In order to fulfil the above-mentioned requirement, your contribution is extremely crucial and I request a few moments of your time to complete the attached questionnaire.

The questionnaire is divided into four sections, namely:

- Service quality
- Customer contact
- Reward programmes
- Demographics

Please tick your appropriate selection for every question.

I thank you for your consideration and contribution.

Regards,

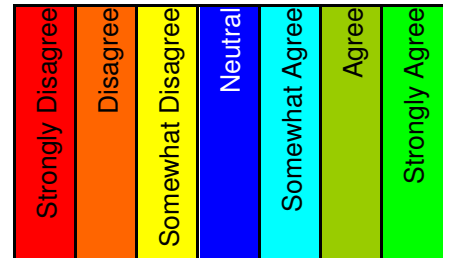
Jorlanda Krajnc

Appendix 4

The Questionnaire

SERVICE QUALITY

Please tick the appropriate selection. Thank you!



1	Getting the service right the first time is quality.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2	Reliability is of utmost importance.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3	Prompt response to requests is necessary.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4	Quality assurance provides peace of mind.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5	Complaints must be dealt with efficiently.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6	Guarantees are a must.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7	Value for money is a must.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8	Staff members must be knowledgeable about service.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Timely follow through on promises is needed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10	Professional attitude of all staff is required.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11	Willingness to provide prompt service.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	The service provider must be trustworthy.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Commitment to customers' needs is essential.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

14	Service quality by the service provider is essential to my satisfaction as a customer.
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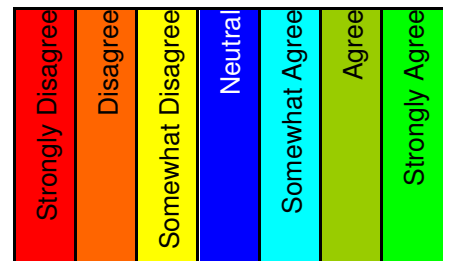
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15	Service quality by the service provider, on its own, will influence/ reinforce my decision to stay with the service provider.
----	---

--	--	--	--	--	--	--	--

CUSTOMER CONTACT

Please tick the appropriate selection. Thank you!



16	Service hotline is essential.
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--	--	--	--	--	--	--	--

17	Toll-free complaints line makes it easier to sort out problems.
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--	--	--	--	--	--	--	--

18	Quarterly surveys provides my feedback to service provider.
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--	--	--	--	--	--	--	--

19	Competent and trained staff are a priority.
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20	Customer exit interviews provide essential information.
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21	Trade shows are informative.
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22	Web sites are informative.
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--	--	--	--	--	--	--	--

23	Promotions are of value to me.
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--	--	--	--	--	--	--	--

24	Advertising reinforces my relationship with the service provider.
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--	--	--	--	--	--	--	--

25	Consistent communication between the service provider and I, is essential to my satisfaction as a customer.
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26 Consistent communication between the service provider and I, on its own, will influence/reinforce my decision to stay with the service provider.

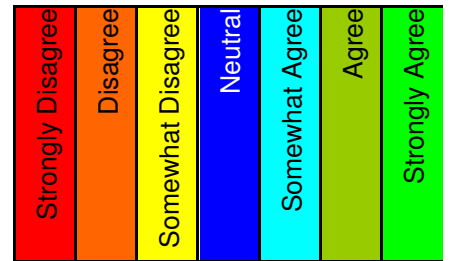
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27 Consistent communication between the service provider and I, in the presence of service quality will influence/reinforce my decision to stay with the service provider.

--	--	--	--	--	--	--

REWARD PROGRAMMES

Please tick the appropriate selection. Thank you!



28 Rewarding me for my patronage is good practice.

--	--	--	--	--	--	--

29 I prefer cash-back to use as I want, where I want.

--	--	--	--	--	--	--

30 I prefer the cash-back to use with service provider.

--	--	--	--	--	--	--

31 I prefer the discount on future transactions.

--	--	--	--	--	--	--

32 Additional free services are as good as cash-back or discounts by the service provider.

--	--	--	--	--	--	--

33 A loyalty/rewards programme by the service provider is essential to my satisfaction as a customer.

--	--	--	--	--	--	--

34 A loyalty/rewards programme by the service provider, on its own, will influence/reinforce my decision to stay with the service provider.

--	--	--	--	--	--	--

35	A loyalty/rewards programme by the service provider, in the absence of good service quality, will influence/reinforce my decision to stay with the service provider.
----	--

--	--	--	--	--	--	--	--

36	A loyalty/rewards programme by the service provider, in the absence of effective customer communication, will influence/reinforce my decision to stay with the service provider.
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DEMOGRAPHICS

Please tick the appropriate block. Thank you!

37	Gender	Male	<input type="checkbox"/>
		Female	<input type="checkbox"/>

38	Status	Single	<input type="checkbox"/>
		Married	<input type="checkbox"/>
		Divorced	<input type="checkbox"/>
		Widowed	<input type="checkbox"/>
		Other	<input type="checkbox"/>

39	Cultural Group	African	<input type="checkbox"/>
		Afrikaans	<input type="checkbox"/>
		English	<input type="checkbox"/>
		European	<input type="checkbox"/>
		Indian	<input type="checkbox"/>
		Other	<input type="checkbox"/>

40	Educational Level	Matric	<input type="checkbox"/>
		University	<input type="checkbox"/>
		Other	<input type="checkbox"/>

41	Annual Income	Less than R60,000	<input type="checkbox"/>
		R 60,001 - R 100,000	<input type="checkbox"/>
		R 100,001 - R 180,000	<input type="checkbox"/>
		R 180,001 - R 250,000	<input type="checkbox"/>
		More than R 250,001	<input type="checkbox"/>

42	Current Reward Programme Membership	Yes	<input type="checkbox"/>
		No	<input type="checkbox"/>

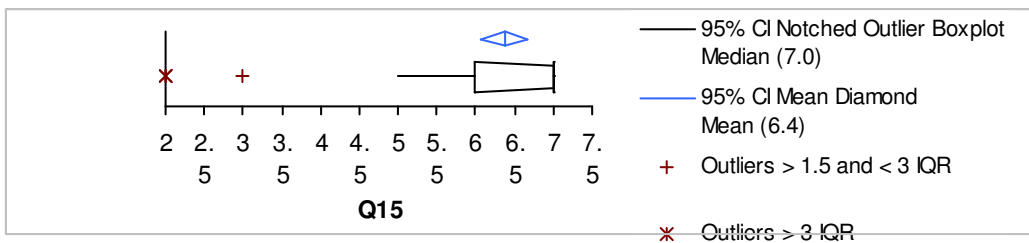
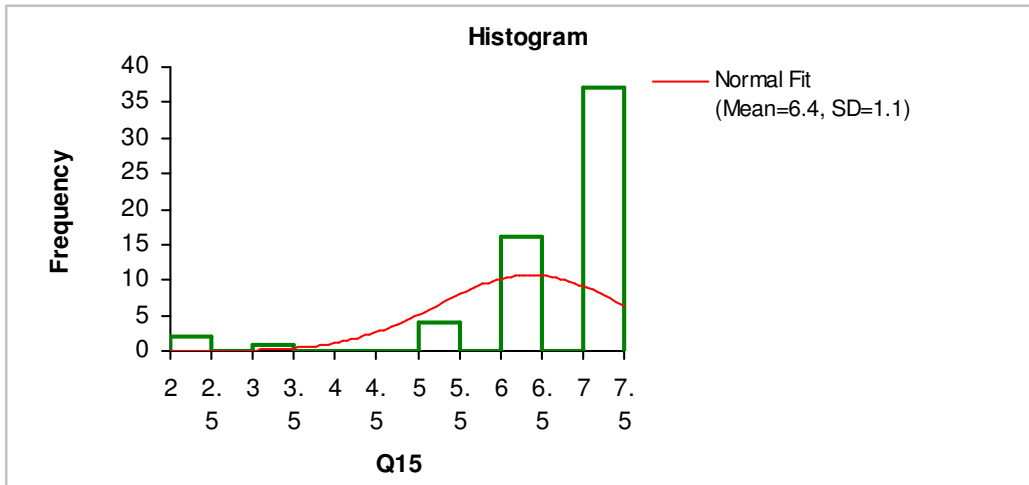
43	How many do you subscribe to	None	<input type="checkbox"/>
		One	<input type="checkbox"/>
		Two	<input type="checkbox"/>
		Three	<input type="checkbox"/>
		More than three	<input type="checkbox"/>

44	Please Specify	Clicks	<input type="checkbox"/>
		Edgars	<input type="checkbox"/>
		Discovery	<input type="checkbox"/>
		E-Bucks	<input type="checkbox"/>
		Voyager Miles	<input type="checkbox"/>
		Other	<input type="checkbox"/>

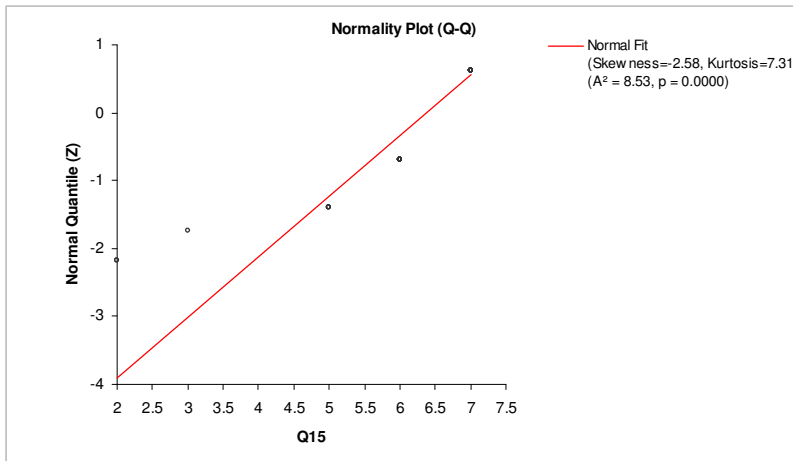
*I would like to express my appreciation for your contribution.
Thank you!*

Appendix 5

Graphical representations for service quality

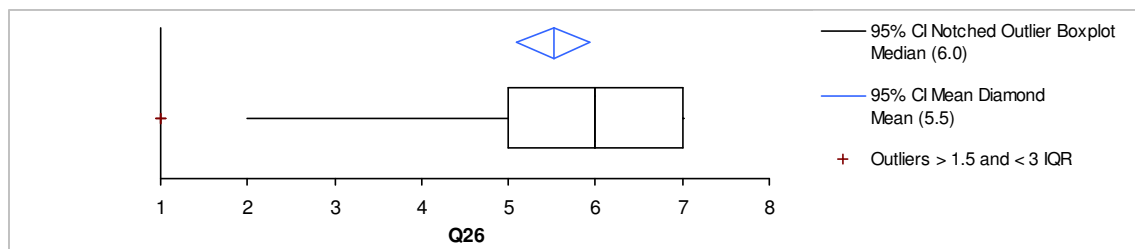
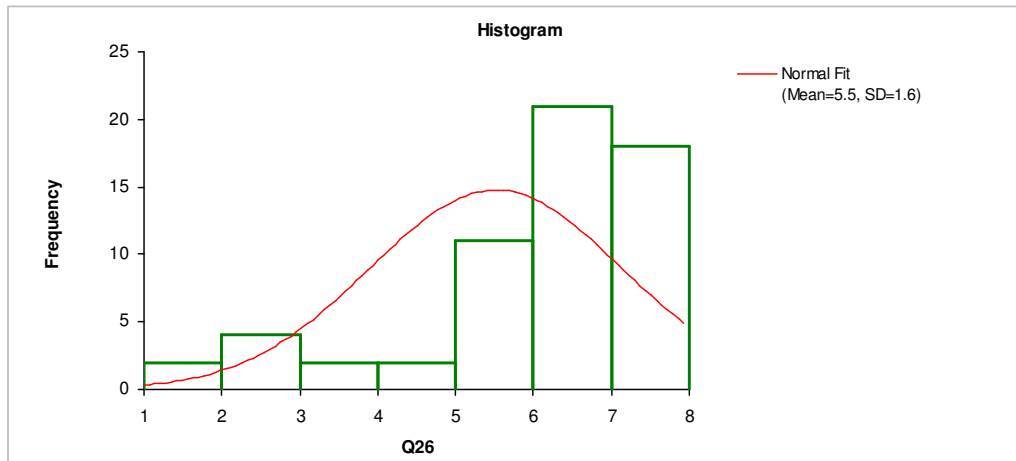


n	60		
Mean	6.4	Median	7.0
95% CI	6.1 to 6.7	97.3% CI	6.0 to 7.0
SE	0.14		
		Range	5
Variance	1.3	IQR	1.0
SD	1.1		
95% CI	0.9 to 1.4	Percentile	
		0th	2.0 (minimum)
CV	17.6%	25th	6.0 (1st quartile)
		50th	7.0 (median)
Skewness	-2.58	75th	7.0 (3rd quartile)
Kurtosis	7.31	100th	7.0 (maximum)
Anderson-Darling A ²	8.53		
p	<0.0001		

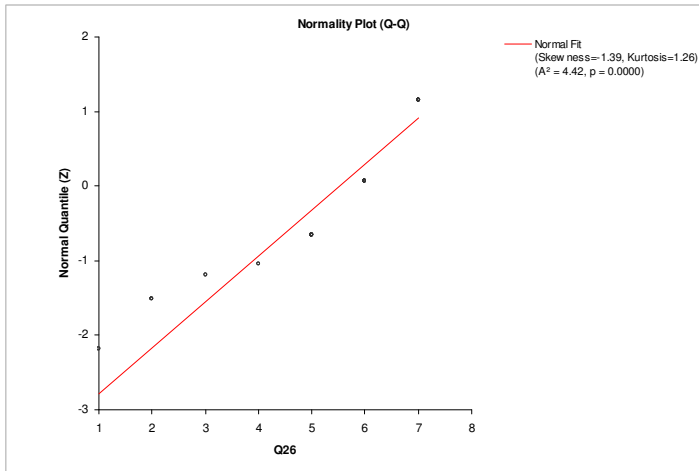


Appendix 6

Graphical representations for customer contact



n	60		
Mean	5.5	Median	6.0
95% CI	5.1 to 5.9	97.3% CI	6.0 to 6.0
SE	0.21		
Variance	2.6	Range	6
SD	1.6	IQR	2.0
95% CI	1.4 to 2.0	Percentile	
		0th	1.0 (minimum)
CV	29.4%	25th	5.0 (1st quartile)
Skewness	-1.39	50th	6.0 (median)
Kurtosis	1.26	75th	7.0 (3rd quartile)
		100th	7.0 (maximum)
Anderson-Darling A ²	4.42		
p	<0.0001		



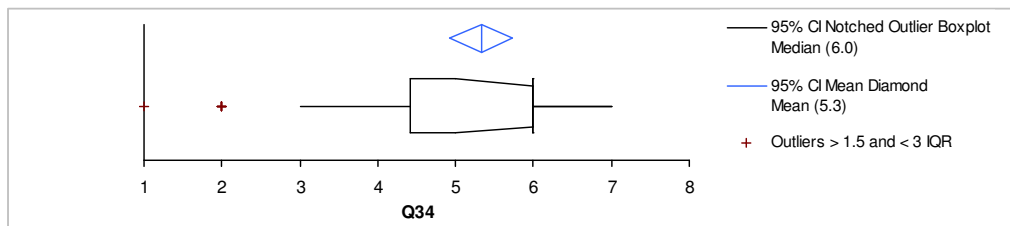
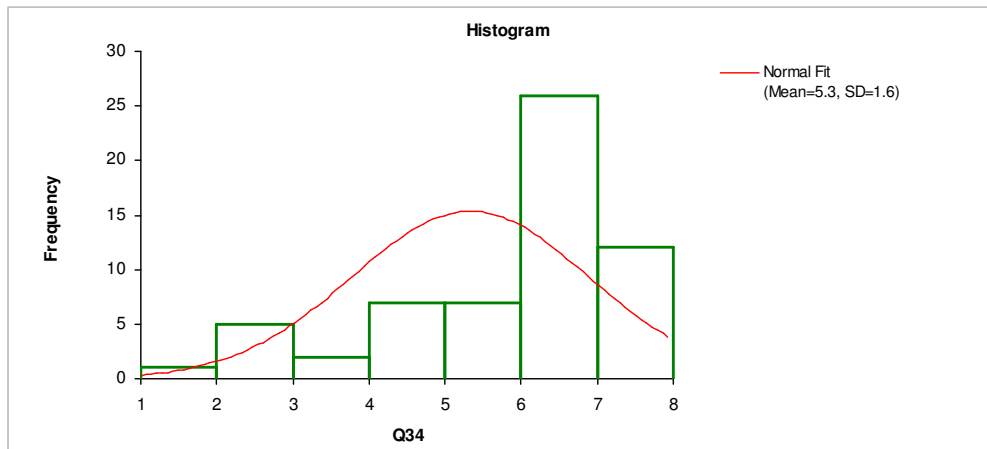
n	60			
		Mean	SE	SD
Q26	60	5.5	0.21	1.6
Hypothesised		6.0		

Mean	5.5
95% CI	—∞ to 5.9
SE	0.21

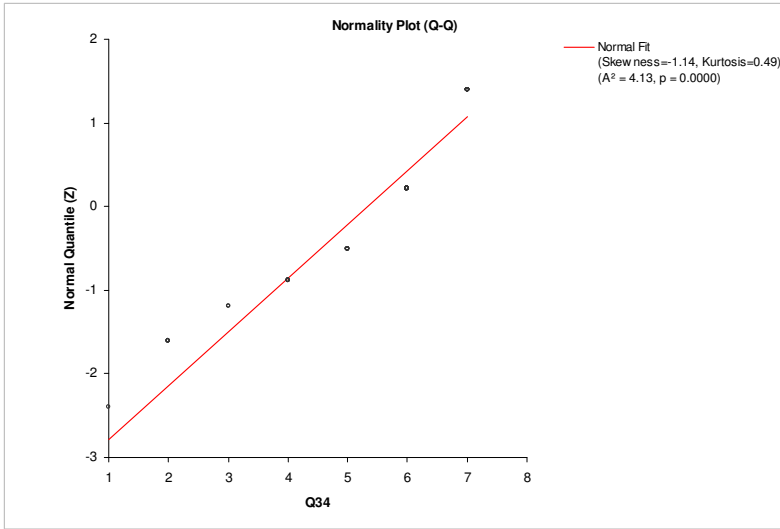
t statistic	-2.31
DF	59
1-tailed p	0.0122

Appendix 7

Graphical representations for reward programmes



n	60	Median	6.0
Mean	5.3	97.3% CI	5.0 to 6.0
95% CI	4.9 to 5.7	Range	6
SE	0.20	IQR	1.6
Variance	2.4	Percentile	
SD	1.6	0th	1.0 (minimum)
95% CI	1.3 to 1.9	25th	4.4 (1st quartile)
CV	29.2%	50th	6.0 (median)
Skewness	-1.14	75th	6.0 (3rd quartile)
Kurtosis	0.49	100th	7.0 (maximum)
Anderson-Darling			
A ²	4.13		
p	<0.0001		



n | 60

	n	Mean	SE	SD
Q34	60	5.3	0.20	1.6
Hypothesised		6.0		

Mean | 5.3
 95% CI | -∞ to 5.7
 SE | 0.20

t statistic | -3.31
 DF | 59
 1-tailed p | 0.0008

CHAPTER 10: ARTICLE FOR PUBLICATION

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Abstract:

The biggest challenge facing organizations in service industry today is that of customer retention. Loyalty/reward programmes have been promoted as the ultimate strategic solution towards customer retention by some industry experts, while the others question its influential potential as a customer retention strategy.

The primary purpose of this research was to establish whether loyalty/reward programmes, as one of the main contributing Customer Relationship Management (CRM) factors, are either simply a fad or actually a fab solution!

Subsequently, the research focused on the evaluation of the three most noted and influential CRM components in current literature and concluded that service quality and customer contact rated higher than loyalty/reward programmes with what should be considered the ultimate critic, namely the customer, or rather 60 of them.

Introduction

A major concern with most organizations within the services industry is that of customer retention and therefore a way must be found to retain their customer base and thus manage their churn dynamics. The services industry in general is very competitive. This leaves very little room to gain and maintain competitive advantage on product alone, especially in mature markets. There is a definite need for differentiation. The question therefore is,

“Can a loyalty/reward programme do the trick?”

Retention is a direct result of customer satisfaction and the latter is an essential ingredient for successful and profitable organizations. Loyalty/reward programmes are on the upswing and more businesses are getting involved in them in order to positively influence customer retention, which could result in an organization being able to obtain competitive advantage and ultimately increase their profit margins.

The objective of the research study was to collect and interpret data to address this important issue relevant to customer retention, in order to investigate and evaluate the influencing capabilities of loyalty/reward programmes on customer retention.

As retaining a profitable customer base is a key success factor in any service organization, it is critical that an organization manages its customer retention dynamics effectively. The logic of giving benefits to loyal customers is indisputable and should be of benefit to organizations that are struggling with customer retention. Duffy's (1998) emphasis lies in the premise that loyalty marketing is a business strategy and not just a program.

The intention of the researcher was to provide practical value by ensuring that the research results can ultimately provide the answer of whether a loyalty/reward programme, as a component of Customer Relationship Management (CRM), is a stronger influencer than service quality and customer contact with regard to customer retention.

Subsequently, the research study focused on the three biggest components of CRM, namely loyalty/reward programmes, customer contact and service quality, in order to address the research question, as stipulated below:

“How do loyalty/reward programmes, as a component of CRM, compare with service quality and customer contact (two other CRM components), as influencers of customer retention?”

In today's marketing environment customer relationship building and customer loyalty are critical to success and this is emphasized by both, Winstead (2000) and Keegan (2004).

In marketing theory this is referred to as relationship marketing and focuses on customer satisfaction and building of trust, which ultimately assists in customer retention. This approach varies strongly from the transaction focus which has pervaded marketing for decades.

Customer relationship building and management is, according to Perreault and McCarthy (2005), a real strategy with real benefits and adopting the so-called marketing concept will build a customer base, retain a customer base and path the way to profits for companies. Although the above phenomenon seems so obvious, many companies fall into the production-oriented way of thinking.

An essential ingredient for a successful organization is to keep the customers satisfied on a long-term basis. Retention is a direct result of client satisfaction and is primarily influenced by the value of products and services provided to customers. Satisfaction can be achieved through a business strategy which incorporates Customer Relationship Management.

However, the selection and management of customers is essential to *“optimize long-term value and it also requires a customer-centric business philosophy and culture to support effective marketing, sales and service processes.”* (Brink & Berndt, 2000:165)

Encouragement of repeat business by rewarding customers for their business via loyalty/reward programmes has become almost a necessity and these programmes are considered innovative ways to create customer loyalty. Despite this, many industry experts are divided on whether the large expense of introducing and managing a customer loyalty program is actually worth it.

Customers are the essence of any business and should subsequently be considered at all times. This implies that customers must be interacted with and communicated with at all times. This however is not done as most businesses assume that they are aware of what customers want and additionally assume that they satisfy their customers with on-time, quality products and services. Is this assumption correct? Well, no!!! It is evident that in today's times of higher expectations, jaded and demanding customers want intangible benefits. Some examples are quality service, customer focus and reliability.

Martin (1989:7) stipulates that:

“Delivering quality customer service requires knowledge, forethought and the devotion of a great deal of concentrated effort to doing the right things.”

How can a company find out what customers want? What is the secret that will ensure that the customers choose one competitor over another and continue to do so? *Well, talk to them, ask them!*

Definitions/Terminology

Customer Relationship Management (CRM) is an approach where a service provider fine-tunes the marketing effort with information obtained from a detailed customer data-base.

Customer retention deals with management of customer-to-customer interactions, development of programmes to minimize customer defections and improved service delivery to ensure that customer defections do not occur.

Customer satisfaction is a business term which is used to capture the idea of measuring how satisfied an enterprise's customers are with the organization's efforts in a marketplace. It is seen as a key performance indicator and is part of the four perspectives of a balanced scorecard.

Customer service refers to the totality of what an organization does for the customer to add value to the customer.

Customer value refers to the difference between the worth of a service and the cost of the service.

Loyalty/reward programme refers to a point scoring system whereby existing customers are rewarded for their loyalty to the company.

Loyalty business model is a business model used in strategic management in which company resources are employed so as to increase the loyalty of customers and other stakeholders in the expectation that corporate objectives will be met or surpassed. A typical example of this type of model is: quality of product or service leads to customer satisfaction, which leads to customer loyalty, which leads to profitability.

Marketing concept reiterates the focus on the customer and the emphasis falls on the customer's wants and needs. It looks at the way that an organization interacts with the customer.

Marketing orientation adopts a marketing concept whereby the organization aims all its efforts at satisfying its customers.

Production orientation occurs when a supplier provides a service or product and then tries to sell it to a customer.

Quality reflects how well the service obtained by the customer and provided by the service provider, conforms to the customer's wants and expectations.

Service quality refers to an organization's ability to deliver a service that is at either the expected or higher level than the level expected by the customers.

Marketing Concept

Marketing is the heart of the business, as it involves every facet of the business that is the closest to the customer. Branding and brand loyalty are critically important to marketing. The former refers to creating a recognizable image for an organization while the latter reinforces regular, repeat purchase.

The essence of marketing concept focuses on the customer and emphasis falls on understanding the customer's needs and wants. Through this, the organization offers the customer products and services that satisfy the customer's needs and add value, which may then lead to maximization of profit.

Although the literature reflected here is almost 20 years old, Hanan and Karp (1989:25) reiterate the importance of customer satisfaction and emphasize the role of eight factors that play a major role. These factors are known as *The Big Eight* and fall into three categories:

- *Product-related factors:*
 - Value-to-price relationship;
 - Product quality;

- Product benefits and features;
- Reliability.
- *Service-related factors:*
 - Warranty;
 - Response to and remedy of problems.
- *Purchase factors:*
 - Sales experience;
 - Convenience of acquisition.

Transactional Marketing vs Relationship Marketing

In short, transactional marketing focuses on a sale, while in relationship marketing the focus is definitely on the customer. According to Brink & Berndt (2004:4) “*transactional marketing has no ambition to climb the so-called loyalty ladder*”, while relationship marketing on the other hand, “*focuses on attracting, maintaining and enhancing customer relationship.*” (Brink & Berndt, 2004:6)

Grönroos (2000:25) differentiates between the two as follows:

- “*Relationship marketing is a perspective based on cooperation in order to facilitate a mutual creation of value.*”
- “*Transaction marketing is a perspective based on the exchange of ready-made value for money.*”

Grönroos' comprehensive definition of relationship marketing (2000:26) is reflected below:

“The purpose of relationship marketing is to identify and establish, maintain and enhance, and, when necessary terminate relationships with customers (and other parties) so that the objectives regarding economic and other variables of all parties are met. This is achieved through a mutual exchange and fulfilment of promises.”

Relationship marketing refers to building customer relationships and loyalty in lay-man's terms and it is critical to a company's success. Its objective is to build long-term connections between the company and its customers and to develop brand and firm loyalty. Functions of a relationship marketing programme should add value to the service for the customer and include, among others:

- Social reinforcement – customer's esteem and affiliation needs;
- Reassurance – refers to trustworthiness, reliability, commitment and concern;
- Benefit reinforcement;
- Solving customer problems;
- Providing service customization – to meet customers' particular needs;
- Service enhancements - VIP cards - customers are given extras to reward them for loyalty.

The relationship marketing philosophy is ingrained in the so-called *Customer Relationship Management*, hereafter referred to as CRM. Maria Palma (2006) emphasizes that building customer relationships is a business skill, whereby utilizing some type of customer database and adding the personal touch results in the ultimate difference between good companies and great companies.

Customer Relationship Management (CRM)

According to Brink & Berndt (2004), CRM is all about building long-term relationships with significant and profitable customers, which ultimately leads to customer retention and is essential for the long-term survival of organizations. In order to do this, excellent customer service is a must! Customer-centricity is a culture embedded within the organization. According to Stone, Woodcock and Machtynger (2000), benefits of CRM include improved customer retention, improved customer loyalty, as well as the resultant higher customer profitability and reduced cost of sales.

Providing customers with a highly interactive customer experience enables companies to establish, nurture and sustain long-term relationships better than ever before. The objective of CRM is to increase repeat purchases and reduce customer acquisition costs. With the assistance of information technology and the World Wide Web, it revolutionized CRM. This, according to Winter (2001:2), has been referred to as “*the new mantra of marketing.*”

CRM is utilized by companies to respond directly to requests from their customers, to improve their relationships with customers and to ensure that customers receive a highly interactive and customized experience. CRM focuses on individual customers. However, the essential aspect for a successful implementation of CRM is that a CRM strategy must be implemented on all levels which includes people, business processes, the organizational structure and the technical infrastructure and must be reinforced by top management support.

The fact that CRM affects all levels of strategic planning is reinforced by Stone, Woodcock and Machtynger (2000), as they furthermore stipulate that enhanced customer knowledge assists with corporate strategy, while the knowledge of particular markets positively affects the business strategy. Customer service approaches and promotional options affect the functional strategy.

According to Brink and Berndt (2000:19):

“CRM solutions have become strategic requirements in a customer focused economy. A company can attract and retain customers by knowing and delivering what they want, how they want it, and making it easy and problem-free for customers to interact with the organization.”

Services Marketing

The approach of marketing of services is different to that of marketing the product. The research concentrated on the former, as there is a constant increase in the need for services and shift towards the service economy as result of the many contributing factors that are specified by Kurtz and Clow (1998:6) such as:

- Movement to the information age;
- Shift towards industrialized economy;
- Aging population;
- Longer life expectancies;
- Increased leisure time;
- Higher per capita income;
- Changing social and cultural values;
- Advances in product technologies.

In general, there is consistent concern among people that service levels are declining and this has been due mainly to globalization, short-term goal orientation of service providers and an increase in customer demand.

There are six levels that assist companies in development of marketing strategies and tactics (Kurtz & Clow, 1998). Nature of the organization impacts a service organization's promotional strategies and its strategic approach to

business. The nature of service impacts the operations, efficiency, productivity, distribution and personnel. Customer relationships have an impact on operations, efficiency, supply and demand strategies, pricing and personnel. Supply and demand strategies, distribution and efficiency are impacted by the nature of demand. Distribution, capital investment, differentiation strategies, efficiency, productivity, staffing and pricing are impacted by the service package. The delivery method is impacted by facility design and distribution.

Kurtz and Clow (1998) also identify five variables that can be utilized by companies to gain competitive advantage and they are service outcome, price, distribution, promotion (advertising, sales promotion and personal selling) and corporate image (customers' opinion).

The purpose of the communication is to inform, persuade or influence customer behaviour. The most prominent communication options for services are advertising and sales promotions. The former could be informative, persuasive or reminding in nature.

Loyalty/reward programmes are sales promotions aimed at current customers to increase repeat purchase behaviour and brand loyalty, by rewarding customers for their patronage, and have the following characteristics:

- Multiple purchases over time are needed;
- Consist of a formal point accumulation method;

- Have a standardized redemption process;
- Rewards may be in the form of extra goods, services, discounts or cash.

The customers' expectations, or rather their wants and desires, with respect to service are emphasized throughout CRM literature. Zeithaml & Bitner (Brink & Berndt, 2004) differentiate between:

- *Desired service level*, which refers to the level of service that the customer hopes to receive;
- *Adequate service* refers to the lowered service expectation that the customer will accept;
- *Zone of tolerance*.

Kurtz and Clow (1998) add the *Ideal Service Level* dimension, which refers to the "wished-for" level of service, as well as the *Predicted Service Level*, which refers to the service level that the customers "expect" from the service provider.

Customer Retention and Loyalty/Reward Programmes

According to Meldrum and McDonald (1995:199), the profitability gained from customer retention can be quite phenomenal. Subsequently, many organizations have started to focus on retention. When an organization is certain that this is an appropriate strategy, it must determine what type of customers it wants to retain.

Economies of scale must be considered, but the customers most suitable for retention are those that like stable relationships, have reasonable demands and are potentially long-term purchasers.

Fowler (2005), like Holloway (2005) emphasizes the need to delight the customers in order to retain them. Customer satisfaction does not necessarily lead to repeat purchase behaviour. Subsequently, an organization's service must go beyond satisfying customers. They must build relationships with customers that will have the ability to retain customers.

According to Fredericks and Salter (Kurtz & Clow, 1998:385) *"The customer value package is the perceived combination of factors that in the consumer's mind creates a superior value for them."* Customer retention requires that firms must understand how customers view value, which may be different to what, is perceived by the organization.

The four factors that make up the customer value package are price, technical service quality, functional service quality and company image. The customer value package refers to the combination of factors mentioned above through which customers perceive superior value. The organization therefore has to understand how customers' view value in order to address retention issues.

In order to enhance customer relationships, Brink & Berndt (2004:24) stipulate that the organization must *“acquire knowledge about the customer, be able to develop insight into this knowledge and be able to interact regularly with the customer to acquire new information.”*

Trust, commitment, shared goals and mutual benefits are essential requirements for a relationship, which in turn lead to creation of customer loyalty and ultimately customer retention. Customer service must be of top priority for companies that want to retain their customers. Programmes designed to enhance customer service are either reactive or proactive. Most companies nowadays can deal with reactive service, but proactive service needs attention as it is essential to good customer management.

Loyalty/reward programmes are relationship programmes that reward customers' repeat purchasing. The biggest downfalls occur as a result of the fact that such programmes are often expensive, mistakes are difficult to correct and their effectiveness in general is being questioned.

According to research (Applebaum, 2004) organizations across industries are spending billions of dollars to implement customer loyalty/reward programmes, as they are considered to be innovative ways to create customer loyalty.

Loyalty/reward cards are the most common forms of these programmes found throughout the world today. They have gained in popularity immensely in the past fifteen years, in no small part due to the developing culture of entitlement in which customers feel that they deserve special treatment. But is this true for South African customers? Well, let us examine this concept in more detail.

Research Study and Results on CRM Components and Customer Retention

Retention is a direct result of customer satisfaction and the latter is an essential ingredient for successful and profitable organizations. Loyalty/reward programmes are on the upswing and more businesses are getting involved in them in order to positively influence customer retention.

The objective of the research study was to establish whether an introduction of loyalty/reward programme does have a strategic implication towards customer retention and ultimately towards providing the relevant organization within the services industry with competitive advantage. The main research problem in this study entailed:

“Do loyalty/reward programmes, as an entity on their own, have a positive effect or influence on customer retention?”

Ultimately, the two resultant sub-problems were:

- *Sub-Problem One*

Is a loyalty/reward programme the stronger influencing factor with regard to customer retention, than service quality?

- *Sub-Problem Two*

Is a loyalty/reward programme the stronger influencing factor with regard to customer retention, than customer contact?

Based on frequency distributions, one can tell at face value that most respondents in the study were Afrikaans speaking. The respondents were also mostly married, with completed secondary education. It was an extremely interesting coincidence, that the split between current participants and non-participants in reward programmes was an equal 50%. Furthermore, half of the participants in reward programmes were members of one such programme only.

This brings to the fore the research done by Hartmann and Viard (2006) of Stanford Graduate School of Business which suggests, that loyalty/reward programmes which have been promoted as powerful tools for increasing company profits , in actual fact, have limited effectiveness and sometimes end up just costing organizations money. Furthermore, the fact that the membership to loyalty/reward programmes was so limited in the respondents in this study reinforces the questioning of many critics of loyalty/reward programmes with regard to their effectiveness.

Measures of centrality were calculated for service quality, customer contact and reward programmes. This is tabulated below:

Table 1 - Descriptive statistics for service quality, customer contact and reward programmes

Variable	Service Quality	Customer Contact	Reward Programmes
Sample Size	60	60	60
Mean	6.4	5.5	5.3
Standard Deviation	1.1	1.6	1.6
Min	2	1	1
Max	7	7	7
Median	7	6	6

Ordinal scale of measurement was utilized so that the researcher could compare which component of CRM was better suited to customer retention, and to establish whether loyalty/reward programmes are in fact the strongest influencers of customer retention, as opposed to quality service and customer contact. The Likert Scale ranged from “Strongly Disagree” to “Strongly Agree.”

The researcher speculated that the rating of 6 was the mean for agreement. For each proposition the hypothesis tested was as follows:

- **Proposition 1**

A loyalty/reward programme is the CRM component with the highest/strongest positive influence on customer retention.

Hypothesis 1

Ho: $\mu_1 \leq 6$

H₁: $\mu_1 > 6$ (research hypothesis)

The research findings show, however, that the mean for loyalty programmes is 5.3 and therefore this rejects the alternative hypothesis. Subsequently, reward/loyalty programmes are not the CRM component with the highest/strongest positive influence on customer retention. The histogram below reflects this graphically.

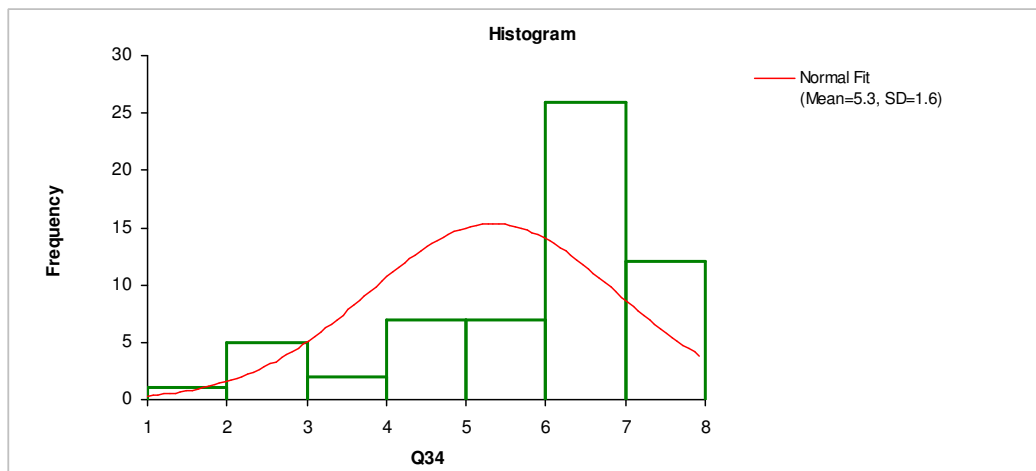


Figure 1 – Histogram for reward programmes

This result reinforces why there are still so many industry experts that are divided on whether the large expense of introducing and managing a customer loyalty program is actually worth it. Although it has become almost a necessity to reward customers for their repeat business via loyalty/reward programmes, as they have gained in popularity immensely in the past fifteen years, it shows that Jack Aaronson (2005), a sought-after expert on enhanced user experiences, customer conversion, retention and loyalty, is probably correct in his statement

that an organization has already lost the game, if it relies solely on a loyalty/reward programme for customer retention.

In addition, the review by Uncles, Dowling and Hammond (2002) from their research shows that the demand for such loyalty/reward programmes has been over-claimed by their advocates.

- **Proposition 2**

A loyalty/reward programme is a more influential component of CMR than service quality, with regard to customer retention.

Hypothesis 2

Ho: $\mu_1 \leq \mu_2$

H₁: $\mu_1 > \mu_2$ (research hypothesis)

According to the research results, the mean of $\mu_1 = 5.3$, while the mean of $\mu_2 = 6.4$ and as the result thereof, the null hypothesis is true and therefore there is no support for the research/alternative hypothesis. The histogram below reflects the mean for quality service.

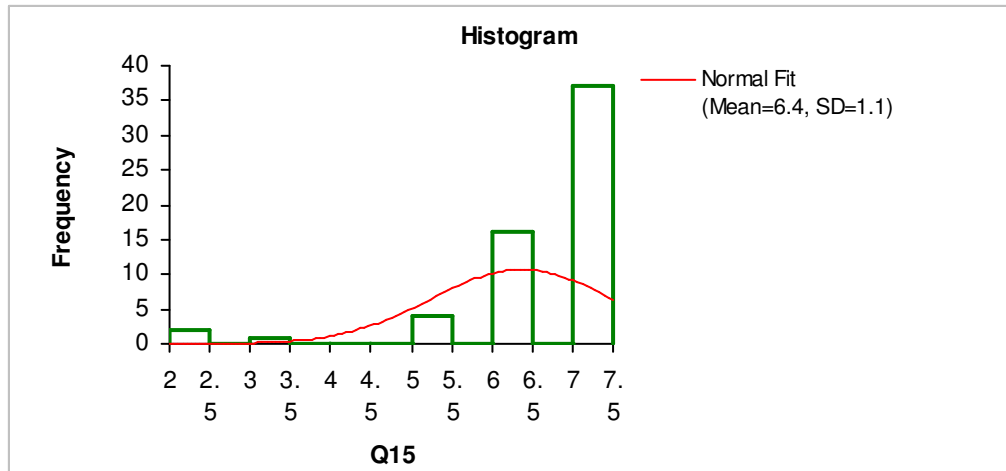


Figure 2 – Histogram for service quality

Customer service is directly related to the marketing concept and the organizational focus must embrace the issues of customer value, quality, customer service and customer satisfaction. Brink and Berndt (2000) also emphasize the linkage between service quality and customer satisfaction and this is reinforced further within this research study.

- **Proposition 3**

A loyalty/reward programme is a more influential component of CRM than customer contact, with regard to customer retention.

Hypothesis 3

Ho: $\mu_1 \leq \mu_3$

H₁: $\mu_1 > \mu_3$ (research hypothesis)

According to the research results, the mean of $\mu_1 = 5.3$, while the mean of $\mu_3 = 5.5$ (as per the histogram below) and as the result thereof, the null hypothesis is true and therefore there is no support for the research/alternative hypothesis. The results reflect that although customer contact is rated more influential towards customer retention than loyalty programmes, they still come second to quality service.

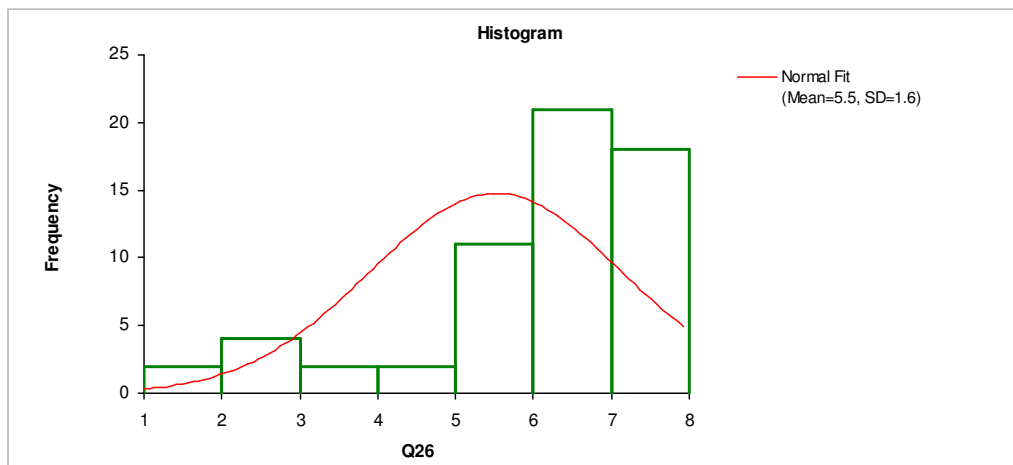


Figure 3 – Histogram for customer contact

Feedback systems have proven to be effective with regard to customer satisfaction and retention and when organizations take time to listen, analyze and respond to customer feedback, often, the result is a much more loyal customer. Mulcahy (2006), as a CEO of Xerox, also addresses the importance of staying connected to customers in order to retain them.

This is the conclusion of many industry specialists who feel that one of the most effective ways to drive customer loyalty is by implementing an active customer

feedback system and listening to customers. This research study, however, concludes that although customer contact plays a role in customer retention, service quality must be present as well in order to reinforce the customers' decision to stay with the service provider.

Conclusion

As mentioned earlier in the text, many industry experts are divided on whether the large expense of introducing and managing a customer loyalty program is actually worth it. It subsequently became the researcher's objective to evaluate whether loyalty/reward programmes are in fact the most influential component of CRM with regard to customer retention. The research study focused on three biggest components of CRM, namely loyalty/reward programmes, customer contact and service quality.

There are a number of aspects that were highlighted through this research study. First of all, it became evident, that if we make inferences from the collected sample, that out of the three CRM components studied in this research, the strongest influence (when studied as separate entities) with regard to customer retention comes from service quality, followed by customer contact and finally by loyalty/reward programmes.

This shows that loyalty/reward programmes are not the most influential strategic solution for customer retention and disputes all three propositions set forth by the researcher. When one considers the finding, that out of the research sample, fifty percent had no current reward programme membership and that thirty percent of the sample only had one such subscription, this acts as a further reinforcement of the positioning of reward programmes among the other two researched CRM components.

Subsequently the answer to the question “*Can loyalty /reward programme do the trick?*” will obviously be no, with regard to customer retention strategy. The research also reinforces why so many industry experts are divided on whether the large expense of introducing and managing a customer loyalty programme is actually worth it.

Although loyalty/reward programmes are on the upswing and more and more businesses are utilizing them as a customer retention strategy, the research shows that an introduction and maintenance of loyalty/reward programme will not necessarily result in an organization within the service industry being able to obtain competitive advantage with regard to customer retention via this channel.

Additionally, the research study shows that regardless of the type of customer loyalty/reward programme, a great product or service is the starting point for customer loyalty and organizations still need to provide a convenient and

effective way to communicate with their customers. One should keep in mind O'Malley's (1998) findings, which emphasize that even though many organizations have benefited from loyalty programmes, this occurred only when these were considered as *one* aspect of the coherent value proposition. Additionally, an organization must ensure that the objectives of such programmes are properly clarified.

Based on the findings, it seems that a reward/loyalty programme as a component of CRM as covered in the research study, does have an influencing role in customer retention despite it not being the most influential one. This reinforces the literature that Brink and Berndt (2000) set forth with regard to maximizing customer satisfaction and loyalty which in turns influences customer retention.

Tabulated below are some interesting findings according to the importance of the top five phenomena in each component:

Table 2 - Top customer criteria for CRM components

Performance Ranking	Service Quality	Customer Contact	Reward Programmes
1	Trustworthiness of the service provider	Competent and trained staff	Patronage awards are good practice
2	1 st time correct service	Promotions	Cash-back is ideal to use anywhere
3	Reliability	Advertising	Discount on future transactions
4	Knowledge-ability of staff	Service hotline	Additional free services
5	Staff professionalism	Informative web sites	Cash-back to use with service provider

Future research could focus on what loyalty/reward programme strategies are effective differentiators with regard to customer retention. According to most writers below, the challenge for organizations is to differentiate themselves in a crowded marketplace and design programmes which add value and that are more appealing to the customers. Taking the above information into consideration, possible future research could revolve around these important customer criteria which could act as a possible framework for functional strategies that an organization in a service industry could incorporate in order to ensure customer retention.

In reviewing literature for the current research topic, the following aspects were highlighted:

- Effective loyalty programs are those that trade value for value in acknowledgement of the relationship that has been built over time. The gift should be something that is valued by the recipient.
- It is important for organizations to understand the importance of loyalty/reward programme design – there is no such thing as a one-size-fits-all approach. Xavier Dreze and Joseph C. Nunes of the University of Southern California, Marshall School of Business emphasize that the loyalty/reward programmes need to be designed to offer differentiated products and services based on their purchasing patterns and profitability.

If these are based simply on quantity discounts or paying for patronage, they will not endure.

- In his research Strebel found (Beirne et al, 2004), that the quicker someone redeemed something, the more loyal they became.
- It is important that an organization remains committed for the long-term and evaluate the costs associated with any program over its lifetime. According to Dr Bridson (Monash Magazine, 2007) customers need to feel that the rewards are achievable and that match customer needs.
- An additional challenge for organizations is emphasized by Michael Applebaum (2004) when he states that one of the biggest marketing challenges facing organizations today is figuring out how to convince their customers that they genuinely care about their needs.

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