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# CUSTOMER SHOPPING ORIENTATION AND PERCEPTIONS OF FOOD LOYALTY PROGRAM REWARDS: A SOCIAL EXCHANGE PERSPECTIVE

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## ABSTRACT

Loyalty as the basis for developing long-term relationships with customers is researched in the frame of Social Exchange Theory. Companies invest a lot in loyalty programs to ensure adequate customer relationship management. The survey on random sample of Serbian citizens aims to identify factors that cause satisfaction or dissatisfaction with loyalty programs and, through understanding them, direct further efforts in the development of these programs. The research tested and proved the influence of the instant of rewards, but also the functionality of the applications especially on mobile phones, indicating differences in purchasing food and non-food products.

## Introduction

Loyalty programs (LPs) have proven to be key competitive assets of retailers, especially in highly competitive markets, such as food retail, where the maximization of customer retention and lifetime value is an unavoidable success precondition (Neset et al., 2021). Therefore, understanding how customers perceive and engage with different LP rewards is vital for grocers to design and implement a well-functioning and attractive LP.

LP implementation revolves around understanding relations among different LP rewards, LP functionalities, customer value perceptions and behavioral determinants. Prior research has shown that LP rewards, observed as direct or indirect, tangible or intangible, drive customer satisfaction, increase perceived value, and subsequently

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increase overall loyalty (Y. Hwang & Mattila, 2018; Meyer-Waarden, 2015). Moreover, the effectiveness of LPs has been shown to depend not only on the reward characteristics themselves but also on customers' shopping motivations and orientations, as they influence customers' reward preferences and responsiveness to loyalty initiatives (Bombaj & Dekimpe, 2020; García Gómez et al., 2012). Despite these insights, existing literature does not provide an answer on how customers' perception and preferences of specific LP rewards and functionalities differ depending on customers' shopping (loyalty) orientation.

Customer attitudes towards loyalty rewards and functionalities are influenced by their relational and transactional orientations towards the retailer. This in terms is directly reflected onto customer's long-term LP engagement and overall loyalty (Rehnen et al., 2017). This perspective is theoretically grounded in Social Exchange Theory (SET), framed by the fact that individuals engage in and maintain relationships based on subjective evaluations of the rewards and costs associated with these exchanges (Emerson, 1976). SET provides a valuable relational perspective on customer LP participation and perception, as customers weigh the perceived benefits of LP rewards against the efforts or constraints of program participation (Cropanzano et al., 2017). The theory suggests that customer perceptions of rewards are not uniform, but rather contingent upon individual shopping (loyalty) orientation, which affects the perceived utility and emotional value of LP participation.

By basing our conceptual model in SET, we could explore how customer shopping orientation influences the perception of loyalty program rewards in the food retail sector. Thus, our guiding research question was how does LP ownership shape customers' preferences towards different LP rewards and functionalities. The paper aims to provide precise insights into how customer segments differentiated by shopping (loyalty) orientation assess LP rewards and functionalities. Research findings have several managerial implications, which can help retailers align their LP reward structures with customer expectations and their perceived value frameworks.

The paper is structured to adequately explore the research question. Next section is dedicated to the overview of relevant theoretical concepts and literature, followed by implemented research methodology. The next two sections cover the results of hypotheses testing with corresponding discussion. The final section includes concluding remarks, along with research limitations and future research outlook.

## **Literature Review and hypothesis development**

### *Building customer loyalty in retail*

In its broadest sense a loyalty program (LP) represents an incentive-based marketing instrument aimed at generating customer loyalty (J. Hwang & Choi, 2020). Loyal customers can be perceived as those with formed identifications to retailer's brand, products, services or employees (Jones & Sasser, 1995). However, creating and maintaining customer loyalty is not an easy task in a competitive retail market.

Companies have been investing significant effort in maintaining relationships with their customers, recognizing that attracting new shoppers is much costlier than keeping the existing ones (Mainardes et al., 2020).

There is ample of motivation for retailers to develop loyalty programs. Loyal customers tend to stay with the chosen retailer longer, spend more money on its products and shop more frequently (Meyer-Waarden & Benavent, 2009). Also, loyalty drives customers to be less price sensitive, have a positive attitude towards the retailer and be less prone to disappointment in bad service situations (Danaher et al., 2016).

On the other hand, customers continuously compare their perceived benefits and perceived costs. The resulting difference, if positive, constitutes perceived value created, manifested through positive emotional response, satisfaction or motivation (Y. Hwang & Mattila, 2018). Basically, value for the customer is generated through loyalty program rewards, since rewards lead to a fulfillment of customers' desires or goals (J. Hwang & Choi, 2020).

#### *Loyalty program rewards and customer shopping orientation*

Loyalty reward programs consist of well-integrated marketing incentives aimed at increasing customer spending and shopping frequency (Y. Hwang & Mattila, 2018). These incentives, or rewards, represent any concrete or abstract customer-oriented stimuli which lead to a positive mental response (Meyer-Waarden, 2015).

Although with the same end goal, loyalty program rewards differ significantly amongst themselves. Consequently, existing literature diverges into several categorization paths. Kim et al. (2021) point out hard and soft loyalty program benefits, in which rewards, such as prizes, discounts or rebates represent tangible benefits, whereas soft benefits revolve around special customer privileges, such as personalized communication, cueing prioritization, etc. Similarly, Bombaij and Dekimpe (2020) differentiate between direct and indirect retailer rewards. Direct rewards are related to the retailer, such as giveaway products, whereas indirect rewards are unrelated to the retailer.

Within the existing loyalty program reward literature there are two distinct research directions – the one focused on the effects of reward program characteristics and design, and the other analyzing the influence of customer behavioral and psychographic characteristics on loyalty reward preferences. Furthermore, customer's value perception of LP rewards has been shown to influence their loyalty towards the LP (J. Hwang & Choi, 2020), while LP design undeniably affects customer loyalty and LP enrolment (Meyer-Waarden, 2015).

By focusing on differentiating between direct and indirect rewards, Rothschild and Gaidis (1981) demonstrated that direct rewards are more likely to trigger desired customer response, due to more intrinsic value being delivered to the customer. Direct rewards are an effective marketing tool for retailers to further improve customer loyalty (Bombaij & Dekimpe, 2020). Söderlund and Colliander (2015) investigated how customer satisfaction changes depending on the three types of rewards in a retail LP (under-reward, equity reward, and over-reward).

LP rewards are oftentimes put in the specific context of customers' mindset or behavioral pattern. One example is determining that when customer satisfaction is high, delayed rewards are better suited to driving customer loyalty compared to immediate rewards (Huang & Chen, 2010). On the other hand, shopping motives are also very important when it comes to shaping customer's loyalty (García Gómez et al., 2012). In this context, Taylor and Neslin (2005) show that a frequency reward program can cause customer response in terms of price consciousness and shopping enjoyment.

Within the domain of customer's denominators of LP rewards preferences, shopping orientation plays an important role. Shopping orientation stems from two distinct research streams – the one that underlines shopper's propensity towards shopping, and the other emphasizing the importance of context, such as purchasing situation or product category (Jensen, 2011). For example, Jang and Mattila (2005) showed that immediate monetary rewards are preferred by customers to nonmonetary ones, when visiting fast food or casual dining restaurants. Similarly, Cortiñas et al. (2008) observed brand choices within different product categories of card and non-card holders.

LP effectiveness varies significantly depending on LP design characteristics, such as the program structure, reward content and delivery, as well as industry characteristics (Belli et al., 2022). This has driven many researchers to focus their effort on deciphering the importance of shopping orientation on grocery LPs (Bombajj & Dekimpe, 2020; Filipe et al., 2017; Meyer-Waarden et al., 2023; Nettet et al., 2021). These papers mainly investigate the effect of customers' predominant orientation on food retailers and food product categories. There are also few papers focused on the non-food loyalty program context, such as the one by Das (2014).

In sum, prior research on LP reward programs is abundant and clearly shows that shopping orientation of LP users affects their purchasing decision-making. Although several papers have confirmed that LP reward (preferences) vary depending on specific customer shopping orientations and LP reward preferences, to date there have been insufficient studies on customer preferences of different LP reward types, depending on the customer shopping orientation displayed through food or non-food LP ownership. The following section introduces social exchange theory as a theoretical foundation for deriving hypotheses suggesting that LP owners' shopping orientation influences their preferences towards specific LP rewards.

#### *Social exchange theory*

Social exchange theory, according to Blau (1986) in its broadest sense deciphers long-term behavior of individuals (or organizations) in the conditions of tangible and intangible resource exchange. The underlined notion in the context of marketing application is that resources can over time evolve into long-standing relationships (Cropanzano et al., 2017), and ultimately customer loyalty (Casper Ferm & Thaichon, 2021).

Possessing a distinct utilitarian premise, SET suggests that customer decision is preceded by a subjective cost-benefit analysis (Emerson, 1976). Within these considerations,

customers are often faced with a choice of whether or not to engage and/or maintain a relationship with the seller (Chang et al., 2015).

As a well-established theory, SET functions as an explanatory and predictive framework whose power and precision depend on the manner in which a customer actually fits a specific category or a segment (Emerson, 1976). Although customers derive satisfaction as the difference between perceived rewards and costs, this equation's outcome varies depending on relationship dynamics, inter-personal influences and developed emotions (Lee et al., 2014).

Rewards, as well as other aspects such as promotions, fall into the category of extrinsic benefits for the customer. These are also coupled by different intrinsic benefits as well (Casper Ferm & Thaichon, 2021). As per SET, customer perception of different loyalty reward programs can differ depending on associations to specific behavioral or psychological customer categories. In their paper, Rehnen et al. (2017) showed that attitudinal loyalty of customers gathering loyalty points is much more demonstrated on social media, compared to traditional transactions. Fan et al. (2021) also implemented SET to observe how employee loyalty changes with the level of ethical leadership.

On the basis of SET's notion of loyalty development and reward perception, this study will try to understand how customer shopping (loyalty) orientation influences customer perception of loyalty reward schemes.

### *Hypotheses*

Literature on LP functionalities and reward systems is abundant, covering multiple topics, such as comparisons between different types of reward types, conditions of reward preferences, importance of various LP functionalities on LP usage, etc. Despite being abundant, there are several shortcomings present in the existing literature. As pointed out by Bombaij and Dekimpe (2020), although the importance of LP rewards and functionalities have been confirmed, research on specific elements is mostly not present. In this sense, when analyzed, design elements are observed individually, in empirical isolation, very rarely together with other LP design aspects. Furthermore, very few contingency factors are considered in these studies.

Several studies confirm the positive effect that the well implement LP design elements have on increasing LP effectiveness (Danaher et al., 2016), customer enrollment and overall loyalty (Meyer-Waarden, 2015). Following the reasoning of Hwang & Choi (J. Hwang & Choi, 2020) who demonstrated in their paper that consumer evaluations of LP rewards and functional characteristics influence their loyalty towards the LP, we propose following hypotheses:

*H1. Loyalty program owners value LP rewards more than non-users.*

*H2. Loyalty program owners value LP functionalities more than non-users.*

The literature review pointed out that customer shopping orientation is also an important aspect to consider when investigating customer perception of different LP

design elements. In this regard, most studies focus on comparing customers with and without LP, whilst only few implement a non-binary empirical approach (Bruneau et al., 2018). Drawing upon this, in our study we also differentiate between LP users and non-users, however we further classify the customer shopping (loyalty) orientation into three distinct groups – food LP owners, non-food LP owners, and owners of both types of LPs.

By doing so, we observe our respondents' attitude and exhibited behavior towards sellers of specific product categories. Thus, food LPs are related to grocery retailers, whereas non-food LPs are related to pharmacies, bookstores, petrol stations, etc. Extending our research along this premise, we can formulate two additional hypotheses:

*H3. Customer shopping (loyalty) orientation affects customer perception of LP reward.*

*H4. Customer shopping (loyalty) orientation affects customer perception of LP functionalities.*

## Methodology

### *Sample selection and data collection*

The total number of respondents was 800 adult citizens of Serbia aged 18 to 64 (Table 1). The respondents were recruited from a panel using a quota sample with key variables being age, gender and region. Quotas were set based on the latest official Census data (SORS, 2022).

**Table 1.** Sample description

| VARIABLE  | N   | %     |
|---|-----|-------|
| <b>AGE</b>  |     |       |
| 18-24   | 96  | 12.0% |
| 25-34   | 156 | 19.5% |
| 35-44   | 185 | 23.1% |
| 45-54   | 184 | 23.0% |
| 55-64   | 179 | 22.4% |
| <b>EDUCATION</b>                                      |     |       |
| Incomplete primary school                             | 3   | 0.4%  |
| Primary school  | 13  | 1.6%  |
| Secondary school, high school                         | 367 | 45.9% |
| College (3-year post-secondary)                       | 147 | 18.4% |
| University degree (Bachelor's)                        | 213 | 26.6% |
| Master's, Magister or Doctorate                       | 57  | 7.1%  |
| <b>MARITAL STATUS</b>                                 |     |       |
| Living alone  | 145 | 18.1% |
| Married, in a common-law union, living with a partner | 457 | 57.1% |
| Divorced  | 70  | 8.8%  |
| Widower / Widow                                       | 31  | 3.9%  |
| Prefer not to answer                                  | 97  | 12.1% |

| VARIABLE  | N   | %     |
|---|-----|-------|
| <b>HOUSEHOLD SIZE</b>                                   |     |       |
| 1   | 145 | 18.1% |
| 2   | 135 | 16.9% |
| 3   | 150 | 18.8% |
| 4   | 191 | 23.9% |
| 5   | 92  | 11.5% |
| 6 or more   | 45  | 5.6%  |
| Prefer not to answer                                    | 42  | 5.3%  |
| <b>EMPLOYMENT STATUS</b>                                |     |       |
| Employed full-time                                      | 495 | 61.9% |
| Employed part-time                                      | 18  | 2.3%  |
| Self-employed   | 56  | 7.0%  |
| Farmer  | 19  | 2.4%  |
| Currently unemployed                                    | 91  | 11.4% |
| Retired   | 25  | 3.1%  |
| In education (including occasional work while studying) | 45  | 5.6%  |
| Homecare  | 14  | 1.8%  |
| Prefer not to answer                                    | 37  | 4.6%  |
| <b>PERSONAL MONTHLY INCOME</b>                          |     |       |
| No personal income                                      | 73  | 9.1%  |
| Up to 30,000 RSD  | 35  | 4.4%  |
| 30,001 – 50,000 RSD                                     | 42  | 5.3%  |
| 50,001 – 75,000 RSD                                     | 105 | 13.1% |
| 75,001 – 100,000 RSD                                    | 160 | 20.0% |
| 100,001 – 125,000 RSD                                   | 114 | 14.3% |
| 125,001 – 155,000 RSD                                   | 66  | 8.3%  |
| 155,001 – 185,000 RSD                                   | 25  | 3.1%  |
| 185,001 – 225,000 RSD                                   | 20  | 2.5%  |
| More than 225,001 RSD                                   | 16  | 2.0%  |
| Prefer not to answer                                    | 144 | 18.0% |
| <b>CUSTOMER SHOPPING (LOYALTY) ORIENTATION</b>          |     |       |
| Only have food LP                                       | 83  | 10.4% |
| Only have non-food LP                                   | 102 | 12.8% |
| Possess both types of LP                                | 444 | 55.5% |
| Do not possess LP                                       | 171 | 21.4% |

*Source:* Authors' calculations

Demographic and socio-economic variables used in quota setting were interlinked to avoid skewed recruitment and sample which would result in sample distortion and predominant recruitment of respondents of a certain age or gender in a certain region. Consumers' educational, occupation and income levels were observed as proven predictors of consumer loyalty behavior (White & Tong, 2019). For example, high-income customers react to marketing instruments differently from the low-income ones, especially when it comes to retail prices, which is reflected onto their attitude towards loyalty (Klopotan et al., 2016). By crossing demographic variables and setting

more detailed quotas, greater fit of the sample to population data was enabled while a well-recruited sample leads to higher-quality data.

Exclusion criteria included underaged respondents, while participating in loyalty program was not used in the recruitment process with both users and non-users included into the study. The sample is likely to be biased towards more digitally literate respondents due to panel data collection method and may not be fully representative of the broader population of adults in Serbia.

The panel that was used for the study was based on overall non-probability sampling which does not guarantee that each individual has a known chance of selection, which is an additional limitation for the sample representativeness. The panel was opt-in panel recruited through online advertisement. The participation in the study included incentives such as points.

### *Instruments for data collection*

The mindset a customer adopts when shopping, focusing on the objectives, whether they be efficiency or enjoyment, is known as shopping orientation. It can be categorized as either task-focused, where the objective is to make a purchase quickly and efficiently, or experiential, where the focus is on the pleasure, enjoyment, discovery or elements of the shopping experience (such as browsing aisles or looking for inspiration). This study employed food and non-food shopping, and shopping of both categories, as the categories influence how shoppers navigate the process and interrelate with different product categories. Both Food Shopping Orientation and Non-Food Shopping Orientation might be task focused (consumers prioritize the speed and efficiency) or experiential (shoppers may enjoy exploring new food options, discovering ingredients or a new smell of detergent, browsing for a new style of clothing, etc.). Other Shopping Orientations might include Value-Consciousness (shoppers seek a balance between price and quality), Convenience-Oriented (shoppers may be willing to pay more for convenience or speedy access to things because they value ease and speed when buying), etc.

The questionnaire measured demographic data (gender, age, region, type of settlement urban and rural), as well as loyalty programs usage, and the most often used loyalty program in different product categories (groceries, cosmetics, pharmacy products, products at gas stations, pharmacy products, products at gas stations, sports equipment, products in bookstores, with open ended options at the end to fill in other types of products for which respondents have loyalty programs). Focus was on frequently used and large monthly expenditures products, low price categories. Loyalty program usage was measured on multiple selection question, while the most often used loyalty program was identified on a single item selection question. The key analytical questions were related to likability of the reward systems and functionalities in loyalty programs and how much shoppers would like each of them to be in their loyalty program and the importance of particular selected functionalities on a Likert 1 to 5 scale. Research from multiple areas (i.e. education, advertising, employee attitudes, social studies, studies

of medical outcomes, marketing, etc.) show that single-item scales provide reliable measures comparable with multiple scales (Bergkvist & Rossiter, 2007, 2009; Youngblut & Casper, 1993). Single item scales are particularly useful to control the length of the questionnaire, with repeating multiple-item scales fatiguing for respondents. Independent variables are tangible and one-dimensional, also fitting for single item scales.

The theoretical framework of the study directed us to items related to rewards and functionality of loyalty programs in order to confirm both types of aspects and their role in loyalty management. Loyalty programs and rewards are closely related. Rewards are a crucial tool used by loyalty programs to motivate consumer interaction and create enduring bonds, which promotes repeat business and brand promotion.

We included 6 items related to rewards drawn from the literature review:

- Point collection (q1) – as a basic mechanism and well-integrated incentives to earn rewards in LP, aimed at increasing customer spending and shopping frequency (Y. Hwang & Mattila, 2018).
- Product discounts at the register (q2) and Occasional larger rewards (q3) – items related to the effects of reward program characteristics and design, we based this item on differentiating between direct and indirect rewards (Rothschild & Gaidis, 1981). Based on their research we are testing direct rewards, as a mechanism which is more likely to trigger desired customer response, due to more intrinsic value being delivered to the customer.
- Personalized rewards (q4) – well known mechanism of rewards, indirectly linked to psychographic characteristics, directly to the loyalty reward preferences, as well as to value perception of LP rewards which has been shown to influence customer loyalty and LP enrolment (Meyer-Waarden, 2015).
- Profile instant info and data (q5) and Combined household reward gathering (q6) – items testing customer preferences of different LP reward types, and linked to the customer shopping orientation related to household, as a unit, which approaches shopping and manages rewards, including the household's goals, preferences, and the specific context of households shopping trips.

Apart from rewards, we also included 7 items related to functionalities. Tested functionalities are included at the hypothetical level related to customer behavioral and psychographic characteristics, more specifically to basic human values (Schwartz's theory of basic human values). We tested speed (q8. Fast activation at the register), ease of access (q9. Easy access to customer profile) and notification types customization, assuming they are linked to hedonic values. Reward control through profile (q10. Point and reward control through profile), automatic purchase recording (q7. Automatic purchase recording) and notification control (q13. Notification type customization) were also included, with the assumption they are linked to one of the basic controlling needs. Finally, we observed family LP and point transferability (q11. Family LP, and q12. Point transferability), which are assumed to be linked to shopping process.

During questionnaire design special attention was paid to the length of the questionnaire, to avoid lengthy survey causing fatigue among respondents and jeopardizing the quality of data collection.

### *Methods used for analysis*

Exploratory factor analysis (EFA) with Direct Oblimin rotation was used to identify and derive relevant factors from measured LP items. Data adequacy was checked using Kaiser-Meyer-Olkin (KMO) statistic and Bartlett's test of sphericity. To check for convergent validity of derived factors Average Variance Extracted (AVE) was measured, whereas internal consistency was confirmed through Composite Reliability (CR and Cronbach's Alpha).

Initial analysis included testing the sample data for normality (using Shapiro–Wilk and Kolmogorov–Smirnov tests) and homoscedasticity (using Levene test). Since the data demonstrated non-normal distribution and heteroscedasticity, the accepted option for testing differences between more than two observed groups is using non-parametric tests, more precisely Kruskal-Wallis test, also known as one-way ANOVA on ranks (Nahalkova Tesarova & Krizanova, 2023). Which observed groups demonstrated significant preferential differences in LP rewards and functionalities was tested post hoc using Dunn's test with Bonferroni correction.

## **Results**

In total, the sample consisted of 800 responses through 17 item questions. The assumption of normal distribution of data was assessed using the Shapiro–Wilk test. The test statistics were significant for all observed items, which implies that data deviates significantly from a normal distribution pattern. This was also confirmed through graphical analysis. Levene's test was used to test the assumption of homogeneity of variances. All question items, except for q12 and q13 exhibited heteroscedasticity.

Next, observed item questions were put through EFA in order to identify relevant LP design variables. The use of EFA was justified through Kaiser-Meyer-Olkin and Bartlett's tests. The results pointed out two distinct factors. Items in the first factor represent tangible and personalized rewards, while the second factor includes features related to ease of use and digital functionalities of the LP (Table 2).

**Table 2.** Results of the conducted EFA analysis

| Variables                             | Item loadings | AVE          | CR           | Cronbach's $\alpha$ |
|---------------------------------------|---------------|--------------|--------------|---------------------|
| <i>LP rewards</i>                     |               | <i>0.640</i> | <i>0.857</i> | <i>0.892</i>        |
| q1. Point collection                  | 0.738         |              |              |                     |
| q2. Product discounts at the register | 0.740         |              |              |                     |
| q3. Occasional larger rewards         | 0.878         |              |              |                     |
| q4. Personalized rewards              | 0.858         |              |              |                     |
| q5. Profile instant info and data     | 0.816         |              |              |                     |

| Variables                                     | Item loadings | AVE   | CR    | Cronbach's $\alpha$ |
|---|---------------|-------|-------|---------------------|
| q6. Combined household reward gathering       | 0.759         |       |       |                     |
| <i>LP functions</i>                           |               | 0.633 | 0.923 | 0.910               |
| q7. Automatic purchase recording              | 0.759         |       |       |                     |
| q8. Fast activation at the register           | 0.828         |       |       |                     |
| q9. Easy access to customer profile           | 0.814         |       |       |                     |
| q10. Point and reward control through profile | 0.788         |       |       |                     |
| q11. Family LP                                | 0.815         |       |       |                     |
| q12. Point transferability                    | 0.771         |       |       |                     |
| q13. Notification type customization          | 0.791         |       |       |                     |

KMO statistic = 0.937

Bartlett's test Sig. < 0.001

*Source:* Authors' calculations

Since AVE values were above the threshold of 0.5, CR was higher than 0.7 (Bagozzi & Yi, 1988) and Cronbach's  $\alpha$  exceeded 0.7 (E. Kim et al., 2017), convergent validity and internal consistency were confirmed.

Since the use of non-parametric tests to determine whether significant differences between observed customer groups exist was justified, Kruskal-Wallis test was performed (Table 3).

**Table 3.** Results of Kruskal-Wallis test on testing the differences within LP rewards and LP functionalities perceptions

| Variables          | No LP  | Non-food LP | Both LPs | Food LP | $\chi^2$ | p-value | $\eta^2$ |
|--------------------|--------|-------------|----------|---------|----------|---------|----------|
| LP rewards         | 256.36 | 405.20      | 461.77   | 363.90  | 99.891   | <0.001  | 0.122    |
| LP functionalities | 294.08 | 402.54      | 450.34   | 350.64  | 60.796   | <0.001  | 0.085    |

*Source:* Authors' calculations

Results show that significant differences within how customers perceive and prefer LP rewards and functionalities exist, driven by customer orientation. Also, by observing the effect size ( $\eta^2$ ) we can conclude that for both LP rewards and functionalities the effect is medium (Tomczak & Tomczak, 2014).

Post hoc comparisons using Dunn's test with Bonferroni correction revealed significant differences in LP reward importance between customers without LP and all other observed groups. Customers without LP value LP rewards much less than LP owners, regardless of their shopping orientation. Additionally, customers with both LPs valued LP rewards much more compared to customers with only grocery shopping LP orientation. No other group difference was statistically significant.

When it comes to LP functionalities, similarly to rewards, customers without LPs value LP functionalities much less compared to customers oriented on only non-food, as well as on both LPs. Also, customers oriented on both food and non-food LP displayed much higher valuation of LP functionalities compared to only food-oriented LP owners.

Results of the analysis and implications on the hypotheses testing are shown in Table 4.

**Table 4.** Hypotheses testing results

| Hypothesis | Conclusion    |
|------------|---------------|
| H1         | Confirmed     |
| H2         | Confirmed     |
| H3         | Not confirmed |
| H4         | Confirmed     |

*Source:* Authors' calculations

Extending the analysis on the level of individual LP reward type, Dunn's post hoc testing demonstrates similar patterns to the one related to general LP rewards perception differences (Table 5).

**Table 5.** Results of Dunn's post hoc testing of the differences within LP rewards customer preferences

| Items                                   | No LP  | Non-food LP | Both LPs | Food LP | $\chi^2$ | p-value* | $\eta^2$ |
|---|--------|-------------|----------|---------|----------|----------|----------|
| q1. Point collection                    | 321.61 | 436.12      | 429.95   | 361.75  | 34.291   | <0.001   | 0.039    |
| q2. Product discounts at the register   | 310.94 | 384.46      | 444.23   | 370.78  | 47.957   | <0.001   | 0.056    |
| q3. Occasional larger rewards           | 325.36 | 399.72      | 441.47   | 337.12  | 41.117   | <0.001   | 0.048    |
| q4. Personalized rewards                | 322.36 | 396.66      | 439.66   | 356.73  | 37.879   | <0.001   | 0.044    |
| q5. Profile instant info and data       | 279.80 | 403.40      | 447.07   | 396.48  | 71.471   | <0.001   | 0.086    |
| q6. Combined household reward gathering | 279.35 | 397.27      | 452.53   | 375.72  | 76.257   | <0.001   | 0.092    |

\*Adjusted p-values based on Bonferroni's correction

*Source:* Authors' calculations

Customers without LP clearly value every LP reward type less than customers with distinctive shopping LP orientation. Also, customers with both LPs usually prefer LP rewards more than the ones with food LP orientation, except when it comes to collecting points and receiving instant information and data on the profile page, upon using the LP. No significant differences were identified between food and non-food LP oriented customers.

Similar conclusion was derived for LP functionalities as well based on post hoc testing (Table 6).

**Table 6.** Results of Dunn's post hoc testing of the differences within LP functionalities customer preferences

| Items   | No LP  | Non-food LP | Both LPs | Food LP | $\chi^2$ | p-value* | $\eta^2$ |
|---|--------|-------------|----------|---------|----------|----------|----------|
| q7. Automatic purchase recording              | 281.05 | 417.33      | 449.80   | 362.20  | 73.838   | <0.001   | 0.089    |
| q8. Fast activation at the register           | 270.18 | 414.57      | 450.62   | 383.57  | 87.572   | <0.001   | 0.106    |
| q9. Easy access to customer profile           | 263.75 | 428.78      | 450.27   | 381.27  | 94.278   | <0.001   | 0.115    |
| q10. Point and reward control through profile | 262.90 | 422.77      | 457.70   | 350.62  | 103.854  | <0.001   | 0.127    |
| q11. Family LP                                | 270.92 | 384.89      | 455.35   | 393.24  | 87.305   | <0.001   | 0.106    |
| q12. Points transferability                   | 314.14 | 389.80      | 435.31   | 405.37  | 36.52    | <0.001   | 0.042    |
| q13. Notification type customization          | 308.20 | 398.20      | 441.12   | 376.20  | 44.805   | <0.001   | 0.053    |

\* Adjusted p-values based on Bonferroni's correction

Source: Authors' calculations

Customers without LP do not value functionalities as much as LP owners. When it comes to food LP oriented customers, differences between owners of both LP types are not present in preferences of fast activation of LP at the register, having a family LP, being able to transfer LP points and having customizable notifications. Although no evidence of differences between food and non-food LP oriented customers were found, owners of only non-food LPs were much more reserved to having a family LP compared to customers owning both types of LP.

## Discussions

The introductory question in the questionnaire singled out respondents who have and use a loyalty program, and the next question asked them to choose what they were satisfied with in the programs they use. The answers that illustrate the previously tested relationships are presented in **Figure 1**.

**Figure 1.** Importance of different LP satisfaction factors

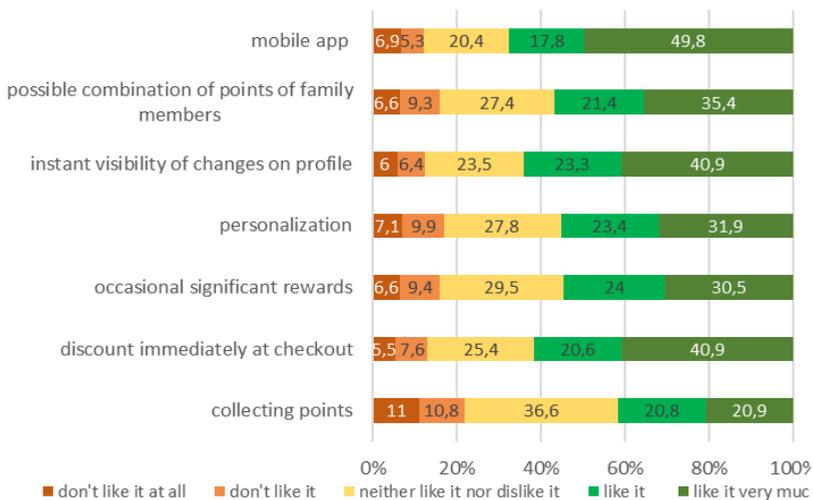
Source: Authors' calculations

The most frequently cited sources of satisfaction with loyalty programs are economic motives that form the basis for the decision to join a loyalty program. Urban residents are more pragmatic in this regard and statistically significantly more often recognize motives such as direct discounts on certain products and vouchers compared to respondents from rural areas. While financial rewards and benefits such as direct discounts on certain products and discounts through accumulated points and total spending are the most important sources of satisfaction with loyalty programs for 84% and close to 70%, respectively, comfort factors such as personalization and easy fulfillment of reward requirements are mentioned by 13.8% and 14.6% of respondents.

These factors, which are less frequently cited as a source of satisfaction, are, however, no less important, since based on qualitative data from group interviews with consumers, it can be concluded that these are often reasons for dissatisfaction (Alshmemri et al., 2017). In addition, personalization of loyalty programs is statistically significantly more important for women than for men. This finding is the result of a comparison of demographic groups: gender, age categories (18 to 24 years, 25 to 34 years, 35 to 44 years, 45 to 54 years and 55 to 64 years), regions (Belgrade region, Vojvodina, Šumadija and Western Serbia region and Southern and Eastern Serbia region), and type of settlement (urban and rural settlements).

The z-test was used to analyze the statistical significance of the differences between the proportions in the above groups, with a significance level of  $p=0.05$ . The z-test with the stated significance level of  $p=0.05$  was used for all analyses of the statistical significance of the differences between the compared groups. The orientation of respondents in Serbia is in line with expectations based on the theory of two-factor satisfaction: when asked about satisfaction with loyalty programs, respondents first list sources of motivation, followed by “hygiene factors” related to comfort (**Figure 2**).

**Figure 2.** Preferred rewards and functionalities in loyalty programs



Source: Authors' calculations

The first significant insight from the analyzed data is that women are statistically significantly more supportive of each of the rewards and functionalities of the loyalty program. Furthermore, all of the aforementioned functionalities and rewards record average ratings of 4 or close to 4 (on a scale of 1 to 5). Customers overwhelmingly rate all tested rewards and functionalities positively, except for collecting points, which is preferred by only 41.% of respondents (20.9%+20.8%). Other ways of exercising the right to a reward are much more desirable: instant discounts at the checkout (61.5%) and occasional larger rewards (54.5).

Men are skeptical of all forms of earning rewards through loyalty programs, and as many as 25.2% of them have a negative attitude towards collecting points. The most desirable loyalty program functionality for as many as 67.5% is the mobile phone application, followed by 64.1% of respondents, the updated status of the customer's profile in the loyalty program, and personalization of rewards with 55.3%.

However, some aspects of these programs cause ambivalent consumer attitudes and such attributes of loyalty programs are presented in the following section as disadvantages (Figure 3).

**Figure 3.** Importance of different LP dissatisfaction factors



*Source:* Authors' calculations

The homogeneity of all respondents is a key characteristic of the answers to the question about dissatisfaction with the components of the loyalty program. No statistically significant differences were observed between the groups of respondents who differ in gender, age, regional distribution of respondents, or even the type of settlement in which they live, except in one specific case. The urban population is more critical when it comes to the attitude that "Rewards can be uninteresting" (z-test,  $p=0.05$ ).

When it comes to directly measured aspects of dissatisfaction with loyalty programs, rewards and financial aspects cause more frequent dissatisfaction. It is interesting to note that the respondents are not very critical of the possibility that too much communication is achieved through the loyalty program. In the discussions conducted in focus groups, opinions about customer fatigue caused by frequent notifications emerged, but these

assumptions were not confirmed and even the slightly greater dissatisfaction of men with this phenomenon, which was suggested, was not statistically significant.

Also, the suspicion expressed by business people towards loyalty programs that being held at the checkout because of the loyalty program causes great dissatisfaction, was not confirmed in this case. Slowing down checkouts due to loyalty programs was noted by a number of respondents (11.9%), but this source of dissatisfaction is relatively minor compared to most other sources of dissatisfaction (especially economic ones such as rewards and required spending).

### **Conclusions**

The key takeaway of this research is that the competitiveness of a loyalty program depends on differentiating from other competing loyalty programs, both in terms of the type and relevance of the rewards it provides to members, as well as in terms of the functionality of the loyalty program itself.

For a loyalty program to be desirable, it must, in addition to standard functionalities (collecting points), also contain some attractive differentiating features such as personalization of rewards, gamification (moving to a higher level), constant insight into earned points and possible savings, a clear overview of available rewards, etc. Also, for a loyalty program to be desirable, in addition to regular collection of points, it must also contain some positive surprises in the form of rewards directly at the checkout, combining spending and group collection of points, etc.

Loyalty program users undergo a kind of benefit “learning” program, so that they value rewards and benefits more than those who do not participate in these programs. Any facilitation for customers to reach the reward, combined with the comfort of using the loyalty program (easy to activate, no waiting at the checkout, etc.), positively differentiates the loyalty program from the existing “bunch” of impersonal and boring programs that become failed marketing investments.

This study has certain limitations that should be acknowledged. The data were collected through an online survey, which may have introduced coverage and self-selection biases, as individuals without stable internet access or interest in online participation were less likely to respond. In addition, all constructs were self-evaluated, which may have led to subjective bias and social desirability effects. Finally, the research sample was limited to consumers in Serbia, restricting the generalizability of the findings to other cultural and market contexts. Future studies could validate these results using mixed-mode data collection and comparative cross-country samples. Additionally, future research avenues could further analyze the effects of additional customer behavioral patterns and psychographic profiles on customer preferences of loyalty program rewards and functionalities.

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## Conflict of interests

The authors declare no conflict of interest.

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