

## **Factors Affecting Loyalty Programmes and their Influence on Satisfaction of Shoppers of Organised Retail Stores**

A. Murugan\*, P. N. Prasad\*\* and R. Mageh\*\*\*

*Abstract: The results reveal that the customer prefer the point of purchase programme, cash discounts, reward, rebate, affinity, coalition, gift certificate, coupon and voucher, frequent customer card, membership card and privilege card and event / contests of organised retail stores. The factor analysis shows that there are five independent groups and these factors are grouped in to quality, value addition, convenience, user friendly and variety. The quality, value addition, convenience and user friendly are positively influencing the shopper's overall satisfaction of loyalty programmes of retail stores.*

*Keywords: Customer Satisfaction, Exploratory Factor Analysis, Loyalty Programmes*

*JEL Classification: M<sub>21</sub>, M<sub>31</sub>*

### **1. INTRODUCTION**

With more than 12 million retail outlets, India has one of the highest retail densities in the world. In India, organised retailing, is contributing five per cent of total retail sector at present and is still evolving. Besides, retail sector forms 10-11 per cent of GDP. It is alluring in terms of investment, employment opportunity and usage of technology. The retail landscape in India is dominated by mom-pop stores and though organised retail is emerging, but in last 5-7 years has seen many Indian companies making a entry into organised retail, with a few multinationals entering in the cash-and-carry formats and others tying-up with Indian companies (Jain, *et. al.*, 2010).

In India the retail growth was 23 per cent before 1990; during the year 1990 to 2000 it was increased to 34 per cent after 2000 it reaches 43 per cent at present. The size of the Indian Retail Industry touched Rs.1810000 crore by 2012 and the organised retail may constitute around Rs. 2430000 crore in 2015. India has the highest shop

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\* Assistant Professor, Department of Management Studies, S. Veerasamy Chettiar College of Engineering and Technology, Puliangudi-627 855, E-mail: murugan.av@gmail.com

\*\* Professor, Department of Management Studies, Noorul Islam University, Nagarcoil-629 180

\*\*\* Associate Professor, Department of Management Studies, Anna University, Chennai-600 025

density in the world and the share of modern retail is likely to grow from its current three per cent to 15-20 per cent over the next decade. About 85 per cent of organised retailing is taking place in India's urban areas while 66 per cent of it taking place in India's six main cities alone and the rest of 15 per cent in semi-urban and rural areas. The growth is much faster in south India than in northern states. In southern part of India, the organised retail market growth is estimated as 35 per cent per annum. In Chennai, the growth rate of organised retail sector is 12 per cent while in Hyderabad it is seven per cent and in Kerala, it is four per cent per annum.

The effectiveness of a loyalty programme is likely to depend on its design. An important element is how much monetary value the loyalty programme gives to its members, and in which form. The key economic design elements of the loyalty programme are its discount and saving features (Kim, *et. al.*, 2001). The programme with a discount feature gives price discounts on certain items of the assortment for loyalty programme members only. In this way, a discount feature supplies member shoppers with immediate rewards for their purchases. The discount feature stimulates shoppers to purchase the items on promotion or to buy categories they usually buy in other stores (Kopalle and Neslin, 2003).

A programme with a saving feature gives loyalty programme members saving points, dependent on the monetary amount spent at the company. A programme member can redeem these points for a reward, such as a free product, after s/he has reached a saving threshold. The saving feature stimulates shoppers to show loyal purchase behavior to reach certain threshold levels, which is called the points-pressure mechanism. Further, a saving feature creates switching costs if a shopper stops purchasing s/he loses the accumulated saving points (Feinberg, *et.al.*, 2002).

A saving feature stimulates purchases of the entire assortment and not only of specific items (as the discount feature does). Obtaining saving rewards requires considerable shopper effort, so that it expects stronger feelings of uniqueness and pride (psychological drivers). A discount has, in contrast with saving points, a direct negative effect on share of wallet. On the other hand, shoppers prefer to obtain a reward immediately instead of getting it sometime in the future. Further, the discount feature directly supports the retail store's value proposition. Finally, the saving feature may also have a positive effect on behaviour after the reward has been redeemed (Van Osselaer, *et al.*, 2003).

The special characteristic of loyalty programmes is that their attractiveness may change the shopper's decisions. When a shopper decides not to purchase in a given period of time, the likelihood of earning a reward decreases, because the shopper moves no closer to the reward threshold and the time left to earn rewards shrinks (Bhattacharya and Sen, 2003). Therefore, it is attempted to study the factors affecting loyalty programmes and their influence on satisfaction of shoppers of organised retail stores in Chennai, India.

## **2. LITERATURE REVIEW**

In research investigation by O'Brien and Jones (1995), five key elements were identified that need to be considered when designing loyalty programmes. These elements include - cash value of reward, choice of reward, aspirational value attached to reward, relevance of reward to the customer and convenience.

Another much investigated area in the study of loyalty programmes was their structure and organization. Five different types of loyalty programmes, namely - reward programme, rebate programme, appreciation programme, partnership programme and affinity programme were identified by Johnson (1998) on the basis of their structure and organization. As per Johnson, each of these loyalty programmes had a unique structure that can be used by businesses for achieving specific goals.

Varadarajan and Jayachandran (1999) found that while studying loyalty programme performance, it was important to recognize that loyalty programmes did not operate as separate entities in an isolated environment. Their success depended not only on the programmes themselves but also on other facilitating or inhibiting factors present in the environment. Mainly, the three sets of factors that represented the main market entities involved: the focal loyalty programme, the consumers (i.e., target market), and rival programmes and firms (i.e., competition) were affecting the effectiveness of loyalty programmes. Of these, programme related factors explained a firm's internal strategies that could contribute to the success of a loyalty programme, whereas consumer and competition factors represented things in the external environment that were equally important to loyalty programme performance.

Kim, *et. al.*, (2001) identified the optimal conditions for offering cash versus free products as rewards. They found that the former was better if there were few price-sensitive heavy buyers, whereas the latter was more effective when the heavy buyer group was large or not very price sensitive. The price was the prime factor affecting the loyalty programmes.

Yi and Jeon (2003) found that processes underlying the effects of the loyalty programme on customer loyalty were different depending on involvement. In the high involvement condition, direct rewards were preferable to indirect rewards regardless of reward timing. In the low-involvement condition, immediate rewards were more effective in building a programme's value than delayed rewards. This meant that delayed rewards such as a mileage programme could be justified in the high-involvement condition as long as they were linked with value-enhancing rewards. In the low-involvement condition, there might be a conflict of interest between the customer and the programme sponsor, because the customer might be concerned with only the reward schedule and not the reward type. In cases of low involvement, immediate rewards such as lotteries were recommended because customers may purchase to receive incentives.

Leenheer and Bijmolt (2003) found that expenditure differences between members and non-members may be partly driven by the most loyal customers into

the loyalty programmes and the success of loyalty programmes depended upon the expenditure pattern and price differences between members and non-members of loyalty programmes.

In a study undertaken by Noble and Philips (2004) found that customers reject loyalty programme memberships out of their concern for time, unattractive programme benefits and perceived personal losses such as - loss of social status or privacy. Liu (2007) found that loyalty programme membership led to an increase in purchase levels among light and moderate buyers and helped improve their loyalty towards the store. In an investigation involving Dutch households Leenheer, *et. al.*, (2007), found that loyalty programme membership impacted customers' share of wallet with the patronized grocery store in a small yet significant manner.

Yuping Lu (2007) had concluded that despite the prevalent use of loyalty programme, there was limited evidence on the long-term effects of such programme, and their effectiveness was not well established. Using longitudinal data, the study showed that consumers who were heavy buyers at the beginning of a loyalty programme were most likely to claim their qualified rewards, but the programme did not prompt them to change their purchase behaviour. In contrast, consumers whose initial purchase levels were low or moderate gradually purchased more and became more loyal to the firm. For light buyers, the loyalty programme broadened their relationship with the firm into other business areas.

Vyas and Sinha (2008) had concluded that as acquiring new customers was getting costlier day by day, business organizations had offered continuity/loyalty programme to retain/reward existing customers and maintain relationships. The premise of CRM was that once a customer was locked in, it would be advantageous to both the organization as well as customer to maintain relationships and would be a win-win situation for both. Consumers found it beneficial to join such programme to earn rewards for staying loyal. Through loyalty programmes, firms could potentially gain more repeat business, get opportunity to cross-sell and obtain rich customer data for future CRM efforts.

Hoffman and Lowitt (2008) stated that loyalty programmes designed with a short term orientation and not aligned to customers' interest would cause customers to consider switching to competitor programme/s that offered similar benefits. Loss of freedom in choosing brands and presence of contractual bonds like minimum purchase levels etc. also discouraged customers from accepting loyalty programme memberships.

Yuping and Rong, (2009) by focusing on long-term programmes, they excluded promotional programmes that offered only one-shot, immediate benefits, such as instant-win scratch cards and grocery stores' discount card programmes. Programme-related factors included both programme design and management. From the design perspective, a loyalty program needed three key specifications: (1)

participation requirements, (2) point structure, and (3) rewards. These three dimensions were affecting the success of the loyalty programmes.

Jain, *et. al.*, (2010) found that regular discounts comprising the yearly sale discounts, end of season sale discounts and festival discounts were being offered compliment to customer relationship management. Over and above stores also offered additional special discounts targeting their customers who regularly visited and made purchases. Promotions indicated additional sale of products or a group of products with merchandise which got sold quickly, examples like buy one get one free. These footfall drivers to the store helped stores to keep changing offers from time to time and constantly align themselves to customer shopping habits.

Bose and Rao (2011) found that that the most probable reason would be difference in internal stimuli processing between Indian and French members. The French were more exposed to the loyalty program phenomenon than the Indians and therefore, could be clearer about the various benefits a loyalty programme could provide and therefore, clearly segregated the benefits they wanted or perceived to be provided by the loyalty programme. In India, loyalty programme market was in its fledgling stage and was restricted mainly to the urban populous and/or youth exposed to western lifestyle. Therefore, the members might not be analytical to the minutest detail about the particular benefits they required or perceived a loyalty programme to provide. Hence it might be the case that exploration and recognition dimension from the original scale got merged in the Indian context. The members might actually take membership to get the hedonistic benefit of recognition and superiority as a customer and in the process consider the exploration benefits to be the obvious consequences.

### **3. METHODOLOGY**

Among the different trade centers in Tamil Nadu, the Chennai city has been purposively selected followed by organised retail stores for the present study. The shoppers have been selected randomly for the present study by adopting multi stage random sampling technique. The data and information are collected from 500 shoppers of organised retail stores through pre-tested, structured questionnaire pertain to the year 2011-2012. Based on a qualitative exploratory study, the various items of loyalty programmes are examined and/or revised. The questionnaire is then finalized to conduct official quantitative research. The items are measured in the form of five point Likert scale. In order to understand the socio-economic profile of the shoppers and shopper's awareness of loyalty programmes, the frequency and percentage analysis have been carried out. The weighted mean has been worked out to examine the shopper's preference of loyalty programmes. In order to identify the factors affecting the loyalty programmes of organised retail stores, the exploratory factor analysis has been employed. In order to assess the influence of factors affecting loyalty programmes on overall satisfaction of shoppers of retail stores, the multiple linear regression has been applied.

## 4. RESULTS AND DISCUSSION

### 4.1. Socio-Economic Profile of the Shoppers

The socio-economic profile of the shoppers of organised retail stores was analyzed and the results are presented in Table-1. The results show that about 58.80 per cent of the shoppers of retail stores are males, while the rest of the shoppers of retail stores are females. It is clear that about 52.80 of the shoppers of retail stores are unmarried and the rest of 47.20 per cent of them are married.

**Table 1**  
**Socio-Economic Profile of the Shoppers**

<i>Particulars</i>	<i>Shoppers (N=500)</i>		<i>Particulars</i>	<i>Shoppers (N=500)</i>	
	<i>Frequency</i>	<i>Per Cent</i>		<i>Frequency</i>	<i>Per Cent</i>
<b>Gender</b>			<b>Marital Status</b>		
Male	294	58.80	Married	236	47.20
Female	206	41.20	Unmarried	264	52.80
<b>Age (Years)</b>			<b>Education</b>		
Up to 25	207	41.40	Secondary	13	2.60
25-35	172	34.40	Higher Secondary	29	5.80
35-45	65	13.00	Graduation	203	40.60
45-55	41	8.20	Post Graduation	186	37.20
>55	15	3.00	Professionals	69	13.80
<b>Occupation</b>			<b>Monthly Income (Rs.)</b>		
Individual Business	50	10.00	Up to 15000	84	16.80
Government Services	40	8.00	15000-30000	92	18.40
Private Sector Services	296	59.20	30000-45000	264	52.80
Professional	114	22.80	45000-60000	33	6.60
			> 60000	27	5.40

The results indicate that about 41.40 per cent of the shoppers of retail stores belong to the age group of up to 25 years followed by 25-35 years (34.40 per cent), 35-45 years (13.00 per cent), 45-55 years (8.20 per cent) and more than 55 years (3.00 per cent). It is observed that about 40.60 per cent of the shoppers of retail stores are graduates followed by post graduates (37.20 per cent), professionals (13.80 per cent), higher secondary (5.80 per cent) and secondary (2.60 per cent) education.

It is apparent that about 59.20 per cent of the shoppers of retail stores are employed in private sector services followed by professional (22.80 per cent), individual business (10.00 per cent) and government services (8.00 per cent). It is observed that about 52.80 per cent of the shoppers of retail stores belong to the monthly income group of Rs. 30000-45000 followed by Rs. 15000-30000 (18.40 per cent), up to Rs. 15000 (16.80 per cent), Rs. 45000-60000 (6.60 per cent) and more than Rs. 60000 (5.40 per cent).

#### 4.2. Shopper's Awareness of Loyalty Programmes

The distribution of shopper's awareness of loyalty programmes in organised retail stores was analyzed and the results are presented in Table 2. The results show that about 43.00 per cent of the shoppers are highly aware of loyalty programmes in organised retail stores followed by moderately aware (26.40 per cent), aware (22.00 per cent), less aware (5.80 per cent) and very less aware (2.80 per cent).

**Table 2**  
**Distribution of Shopper's Awareness of Loyalty Programmes in Organised Retail Stores**

<i>Shopper's Awareness</i>	<i>Frequency</i>	<i>Per cent</i>
Highly Aware	215	43.00
Aware	110	22.00
Moderately Aware	132	26.40
Less Aware	29	5.80
Very Less Aware	14	2.80
<b>Total</b>	<b>500</b>	<b>100.00</b>

#### 4.3. Shopper's Preference of Loyalty Programmes of Organised Retail Stores

The loyalty programmes offered by organised retail stores were analyzed by working out weighted mean and the results are presented in Table 3. It is observed that the loyalty programmes of point of purchase programme, cash discounts, reward, rebate, affinity, coalition, gift certificate, coupon and voucher, frequent customer card, membership card and privilege card and event / contest are preferred by the shoppers of organised retail stores. Besides, the shoppers are neutral with the loyalty programmes of trip/ greetings via SMS and mail and novelties/ accessories offered by the organised retail stores.

**Table 3**  
**Shopper's Preference of Loyalty Programmes of Organised Retail Stores**

<i>Loyalty Programmes</i>	<i>Weighted Mean</i>	<i>Status</i>
Point of Purchase Programme	4.17	Preferred
Cash Discounts	4.14	Preferred
Reward	3.99	Preferred
Rebate	3.73	Preferred
Affinity	3.72	Preferred
Coalition	3.62	Preferred
Gift Certificate, Coupon and Voucher	3.59	Preferred
Frequent Customer Card	3.78	Preferred
Membership Card and Privilege Card	3.80	Preferred
Event / Contest	3.83	Preferred
Trip/ Greetings via SMS and Mail	3.29	Neutral
Novelties/ Accessories	3.52	Neutral

#### 4.4. Factors Affecting the Loyalty Programmes of Retail Stores

In order to identify the factors affecting the loyalty programmes of organised retail stores, the exploratory factor analysis has been employed. The principal component method of factor analysis was carried out with Eigen values greater than one through varimax rotation and the results obtained through rotated component matrix are presented in Table 4. There are five independent groups which are extracted accounting for a total of 63.95 per cent of variations on 21 attributes. The each of the five factors contributes to 16.48 per cent, 14.78 per cent, 12.81 per cent, 11.43 per cent and 8.45 per cent respectively. The overall reliability of scale used in this study is satisfactory with the Cronbach's alpha value of 0.82.

Factor-I: From the table, it is inferred that out of 21 attributes, six variables have their high, relatively tightly grouped factor loadings on factor-I.

This factor consists of:

- Organised retail store has lots of two of one sale (0.54)
- Organised retail store has higher in quality in name brands (0.69)
- Organised retail store gives back to the community by making food donations tied proportionately to shopper sale to organization who feed the needy (0.61)
- Organised retail store offers "stores within store" (0.69)
- Organised retail store offers loyalty cards where item price reductions grow proportionately higher with continued use of the card throughout a calendar year (0.54)
- Organised retail store offers delivery of products to home (0.54)

Hence, this factor is named as "QUALITY".

Factor-II: is formed with:

- Organised retail store offers housekeeping tips (0.57)
- Organised retail store offers special ordering of products online for shopper pick up later (0.59)
- Organised retail store offers significant merchandise drawings or big pay-out cash sweepstakes monthly where the changes of winning increase with monthly purchase (0.57)
- Organised retail store offers supervised play area for your children (0.72)
- Organised retail store offers a drive up window to pickup groceries so shopper doesn't have to carry them.(0.57)
- Organised retail store offers shoppertainment (0.63)

These variables are named as "VALUE ADDITION"



**Table 4**  
**Factors Affecting the Loyalty Programmes of Retail Stores - Exploratory Factor Analysis**

<i>Particulars</i>	<i>Rotated Factors Loadings on</i>				
	<i>Factor- I</i>	<i>Factor- II</i>	<i>Factor- III</i>	<i>Factor- IV</i>	<i>Factor- V</i>
Organised retail store offers quick moving checkout lines				.53	
Organised retail store offers a wide variety of fresh product					-.80
Organised retail store is conveniently located			.66		
Organised retail store has a wide selection deli counter				.61	
Organised retail store offers high quality of product			.51		
Organised retail store is much spacious				.55	
Organised retail store has lots of two of one sale	.54				
Organised retail store has higher in quality in name brands	.69				
Organised retail store gives back to the community by making food donations tied proportionately to shopper sale to organization who feed the needy	.61				
Organised retail store offers" stores within store"	.69				
Organised retail store offers loyalty cards where item price reductions grow proportionately higher with continued use of the card throughout a calendar year	.54				
Organised retail store offers a shopper loyalty card					.55
Organised retail store accepts the bank card			.82		
Organised retail store offers wide variety of ethnic products			.54		
Organised retail store offers housekeeping tips		.57			
Organised retail store offers special ordering of products online for shopper pick up later		.59			
Organised retail store offers significant merchandise drawings or big pay-out cash sweepstakes monthly where the chances of winning increase with monthly purchase			.57		
Organised retail store offers delivery of products to home	.54				
Organised retail store offers supervised play area for your children		.72			
Organised retail store offers a drive up window to pickup groceries so shopper doesn't have to carry them.		.57			
Organised retail store offers shoppertainment		.63			
Eigen Value	6.15	1.73	1.30	1.11	1.04
% of Variance	16.48	14.78	12.81	11.43	8.45
Cumulative % of Variance	16.48	31.26	44.07	55.50	63.95
Cronbach's Alpha			0.82		

*Extraction Method: Principal Component Analysis.*

*Rotation Method: Varimax with Kaiser Normalization.*

*Rotation converged in 12 iterations.*

Factor-III: This factor includes:

- Organised retail store is conveniently located (0.66)
- Organised retail store offers high quality of product (0.51)
- Organised retail store accepts the bank card (0.82)
- Organised retail store offers wide variety of ethnic products (0.54)

These four variables are named as “**CONVENIENCE**”

Factor-IV: This factor is formed with:

- Organised retail store offers quick moving checkout lines (0.53)
- Organised retail store has a wide selection deli counter (0.61)
- Organised retail store is much spacious (0.55)

This factor is named as “**USER FRIENDLY**”

Factor-V: This factor includes:

- Organised retail store offers a wide variety of fresh product (-0.80)
- Organised retail store offers a shopper loyalty card (0.55)

This factor is named as “**VARIETY**”

#### 4.5. Influence of Factors Affecting Loyalty Programmes on Overall Satisfaction of Shoppers of Retail Stores

In order to assess the influence of factors affecting loyalty programmes on overall satisfaction of shoppers of retail stores, the multiple linear regression has been applied and the results are presented in Table 5. The factors derived through factor analysis are considered as independent variables and the overall satisfaction of loyalty programmes is considered as dependent variable.

**Table 5**  
**Influence of Factors Affecting Loyalty Programmes on Overall Satisfaction of Shoppers of Retail Stores -Multiple Regression**

<i>Factors Affecting Loyalty Programmes</i>	<i>Regression Coefficients</i>	<i>t-value</i>	<i>Sig</i>
Intercept	1.142**	1.386	.011
Quality (X <sub>1</sub> )	.794**	3.932	.013
Value Addition (X <sub>2</sub> )	.586**	3.649	.012
Convenience (X <sub>3</sub> )	.420**	3.814	.011
User Friendly (X <sub>4</sub> )	.352*	2.482	.042
Variety (X <sub>5</sub> )	.308	1.012	.485
R <sup>2</sup>	0.61		
Adjusted R <sup>2</sup>	0.59		
F	5.794		0.02
N	500		

Note: \*\*Significance at one per cent level

\*Significance at five per cent level

The results indicate that the adjusted  $R^2$  is 0.59 indicating the regression model is moderately fit. It is inferred that about 59.00 per cent of the variation in dependent variable (Overall Satisfaction) is explained by the independent variables (Factors Affecting Loyalty Programmes of Retail Stores). The results show that quality, value addition and convenience are positively influencing the shopper's overall satisfaction of loyalty programmes of retail stores at one per cent level of significance, while user friendly is also positively influencing the shopper's overall satisfaction of loyalty programmes of retail stores at five cent level of significance.

## 5. CONCLUSION

The foregoing analysis shows the most of the shoppers of retail stores are males and most of them are unmarried. The majority of the shoppers of retail stores belong to the age group of up to 25 years and most of the shoppers are graduates. The most of the shoppers of retail stores are employed in private sector services and most of them belong to monthly income group of Rs. 30000-45000. The results also reveal that about 43.00 per cent of the shoppers are highly aware of loyalty programmes of organised retail stores. The results show that the customer prefer the point of purchase programme, cash discounts, reward, rebate, affinity, coalition, gift certificate, coupon and voucher, frequent customer card, membership card and privilege card and event / contests of organised retail stores.

The factor analysis shows that there are five independent groups which are extracted accounting for a total of 63.95 per cent of variations on 21 attributes and these factors are grouped in to quality, value addition, convenience, user friendly and variety. The quality, value addition, convenience and user friendly are positively influencing the shopper's overall satisfaction of loyalty programmes of retail stores.

In order to make the shoppers more satisfied, the quality loyalty programmes should be designed and implemented. Besides, the loyalty programmes should add the value for shopper's money and make those programmes convenient and user friendly to the shoppers. Meanwhile, the loyalty programmes of organised retail stores should be continuously kept and improved in all the present and future loyalty programmes of organised retail stores. In order to make loyalty programmes effective, organised retail stores need to design rewards in such a way to provide combination of tangible and intangible rewards.

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