Customer Loyalty Programs on Customer Retention: Empirical Evidence from Textile Industry in Sri Lanka

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ABSTRACT: In the present world, organizations have identified customers as the foundation of the business' success. In marketing, finding customers who are willing to purchase goods or services is not enough to build a successful marketing strategy. More focus should be given to retaining a customer for so long as well as attracting a customer by utilizing marketing strategies. Hence the researcher has developed this study to find the impact between different customer loyalty program strategies with the customer retention in the textile industry in Sri Lanka. Point system, gift vouchers and gift items and discounts were taken as proxies for the independent variable and customer retention has been considered as the dependent variable. The researcher used five-point likert scale questionnaire to collect primary data from retail customers of textile industry and questionnaires were given to 160 people. The researcher has used Cronbach Alpha to find the reliability and KMO and Bartlett's Test to find out the validity in the data analysis. And the researcher found that skewness value and kurtosis values were situated between -1 and +1. Therefore, the data set was normal to proceed with analysis. The researcher has used Pearson correlation matrix to identify the relationship between Customer loyalty programs and customer retention and it suggests a positive relationship between them. Furthermore, the researcher has used regression analysis to find out the impact between these variables and it also suggests a significant impact. The researcher found that gift vouchers/ gift items and discounts have significant impact on customer retention while the point system loyalty programs do not have significant impact in Sri Lankan textile market. This study is very significant for the textile retail outlets to pay serious attention to this and can make relevant and most appropriate loyalty programs for attract and retain customers.

Key words: Customer loyalty, Customer retention, Loyalty, Point system

I. INTRODUCTION:

In the contemporary world, customers are considered as the vital element of the business success. After tracking the customer importance in all stages of the marketing process, managers pay their attention to ensure the greater customer satisfaction. By using marketing efforts, organizations should look for a way to manage customers that will identify, create and maintain satisfying relationship with their customers.

Customer satisfaction is defined as a customer's overall evaluation of the performance of an offering to date (John-son and Fornell ,1991). This overall satisfaction has a strong positive effect on customer loyalty intentions across a wide range of product and service categories.

A customer loyalty program is a reward program offered by a company to customers who frequently make purchase. Liu (2007) explained that Loyalty Program as "a program that allows consumers to accumulate free rewards when they make repeated purchases with a firm. It is known that there is a positive relationship between customer loyalty and profitability (Magdalena 2016). Customer loyalty reflects a customer's willingness to buy from or work with a brand again and again, and it is the result of a positive customer experience, customer satisfaction and the value of the products or services the customer gets from the transaction. Successful loyalty programs can help convert satisfied customers to loyal customers which protects market shares over time (Vinod, 2011).

Due to the fast-growing competition in the textile market, retailers offer several types of loyalty programs such as point systems, gift vouchers, gift items and discounts for their customers. Textile customers can be converted into the loyal customer in future with the help of loyalty programs. Despite of the wide spread of loyalty programs in the textile industry, there is less considerable number of empirical studies carried out for this particular sector in the Sri Lankan context. By considering the above fact, it is justifiable to conduct research on the topic "Impact of customer loyalty programs on customer retention of Textile industry in Sri Lanka"

Problem statement: The problem statement of the research paper can be demarcated as

"What is the effect of customer loyalty programs on customer retention of Textile Industry within Sri Lankan Context?"

Objectives: The main objective of the study is to find out the impact of customer loyalty programs on customer retention in textile retail outlets. The sub-objectives are as follows.
- To find the impact of point system on customer retention
- To find the impact of gift vouchers & gift items on customer retention.
- To find the impact of discount on customer retention

Hypothesis
Based on the prevailing literature, following hypotheses were developed.
H1 – There is a significant impact on point system on customer retention
H 2 -There is a significant impact on gift vouchers & gift items on customer retention
H 3 –There is a significant impact of discounts on customer retention

II. LITERATURE REVIEW:
Scholar's special attention adverted towards to variety of models, analytical tools and methodology related to this studied area and key findings of the previous studies were summarized as follows.

Customer loyalty is both an attitudinal and behavioural propensity to support one brand over all others, regardless of whether because of fulfillment with the item or administration, its convenience or performance, or simply familiarity and comfort with the brand. Jacoby and Kyner (1973) define loyalty as, "the biased, behavioural response, expressed over time, by some decision-making unit, with respect to one or more alternative brands out of a set of such brands, and is a function of psychological processes". Customer loyalty motivate customers to shop all the more reliably, spend a more prominent offer of wallet, and feel positive about a shopping experience, help attract customer to well-known brands in a competitive environment. Relationship marketing adopt that a stable customer base is a core business asset. The substance and the nature of relationship and their business value is abbreviated in the concept of customer loyalty. (Mao, 2010)

Loyalty, however, is not a straightforward construct. Retailers and academics still search for the most suitable approaches (Garcia Ǵomez, 2006). Loyalty can be understood as new business concept and a strategy, which allows to retain customers. Loyalty can be understood as a new business philosophy, and a strategy, which allows getting new customers, retaining the trust of customers, personnel, and partners in the process of mutually beneficial cooperation based on participants' voluntary actions. The main idea in this cooperation process with customers, personnel and partners is to offer them product or service in order to satisfy their needs (Uncles M., 2003)

Customer retention is the movement that an offering association embraces keeping in mind the end goal to lessen client rebellions. Effective client maintenance begins with the principal contact an association has with client and proceeds all through the whole lifetime of a relationship and its imperative to a business as fulfilled held clients have a tendency to spend more, cost less and make significant references to new potential clients (Gable, 2008).

Customer retention is defined as clients' expressed continuation of a business association with the firm. For Internet specialist organizations (ISPs), it is proceeding to utilize a similar supplier. For retail banks, it is proceeding to keep up a record association with the bank. Also, for markdown retailers, it is the proceeded with rehash shopping with the retailer. A great part of the examination with respect to consumer loyalty and clients' real conduct has concentrated on the connection amongst fulfillment and maintenance. This accentuation is generally the consequence of early research, which identified client maintenance as a key driver of firm profitability (Perkins-Munn, 2005).

III. METHODOLOGY:
The researcher has used deductive approach for the study and the primary data has collected from 151 respondents with 94% response

rate using a structured questionnaire based on theconvenience sampling method. The questionnaire composed of two parts and the first part concerned about the demographic characteristics of the respondents while the second part donated to collect data about the customer loyalty and customer retention.

According to Leavy (2004), statistical analysis is used to describe an account for the observed validity of the data. The researcher has used descriptive statistics and inferential statistics such as regression analysis and Pearson correlation for the further analysis

IV. ESTIMATION AND RESULTS

Descriptive Statistics

TABLE I: Results of Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
Point System	3	5	4.50	.408
Gift Vouchers & Gift Items	3	5	4.06	.541
Discounts	2	5	3.86	.675
Customer Retention	3	5	4.01	.662

Source: Output of data analysis

As per the above analysis, the maximum and the minimum value for the point system is 3 and 5 respectively. Its mean value is 4.5 and it can change either negatively or positively by 0.408. The maximum and the minimum value for the gift vouchers and gift items is 3 and 5 respectively. Its mean value is 4.06 and it can change either negatively or positively by0.541. The maximum and the minimum value for the discounts is 2 and 5 respectively. Its mean value is 3.86 and it can change either negatively or positively by 0.675. The maximum and the minimum value for the dependent variable is 3 and 5 respectively. Its mean value is 4.01 and it can change either negatively or positively by 0.662.

Reliability and validity of the concepts
Cronbach's Alfa

TABLE II: Results of reliability test

Variable	Cronbanch Alpha
Point System	0.676
Gift Vouchers & Gift items	0.698
Discounts	0.829
Customer Retention	0.838

Source: Output of data analysis

Since all the values are greater than 0.7, the questionnaire can be considered as a reliable one.

KMO and Bartlett's Test

TABLE III: Results of validity test

Variable	Validity
Point System	0.589
Gift Vouchers & Gift items	0.692
Discounts	0.66
Customer Retention	0.808

Source: Output of data analysis

In order to test the external validity of the measures the KMO and Bartlett's test was used.

Assumptions of the regression analysis

Normality test

TABLE IV: Results of normality test

	Skewness	Kurtosis
Point System	**-0.181**	**-0.974**
Gift Vouchers & gift items	-0.176	-0.394
Discounts	-0.104	-0.686
Customer Retention	-0.165	-0.679

Source: Output of data analysis

Skewness and Kurtosis values imply that the data set has normally distributed because the values around zero.

Multicollinearity

TABLE V: Results of multicollinearity test

Variable	VIF
Point System	1.004
Gift Vouchers & gift Items	1.153
Discounts	1.158

Source: Output of data analysis

All variables VIF factors are less than 5.it provides enough evidence to express that there is no multicollinearity situation in the data set.

Results of the regression analysis
Significance of the model

TABLE VI: Significance of the model

Predictor	Coefficient	P Value
Constant	0.839	0
Point System	0.124	0.288
Gift Vouchers & Gift Items	0.316	0.001
Discounts	0.345	0

Source: Output of data analysis

When consider about P value, it implies of the significant level. P value of the Gift vouchers and discounts is 0.001 and 0.000 respectively. It provides enough evidence to prove that there is significant impact between gift vouchers and discounts on customer retention. But when the get point system p value 0.124, it is above to the significant value. Therefore, point system did not significantly impact customer loyalty.

Fitted model

As per the above analysis, point system has been removed from the final model because of the insignificancy and the below Model has been selected as the final fitted regression model.

TABLE VII: Results of the correlation

		Customer Retention	Point System	Gift Vouchers & Gift Items	&Discount
Customer Retention	Pearson Correlation	1	.048	.385**	.442**
	Sig. (2-tailed)		.562	.000	.000
	N	149	149	149	149
Point System	Pearson Correlation	.048	1	-.024	-.064
	Sig. (2-tailed)	.562		.772	.440
	N	149	149	149	149
Gift Vouchers & Gift Items	Pearson Correlation	.385**	-.024	1	.365**
	Sig. (2-tailed)	.000	.772		.000
	N	149	149	149	149
Discount	Pearson Correlation	.442**	-.064	.365**	1
	Sig. (2-tailed)	.000	.440	.000	
	N	149	149	149	149

Source: Output of data analysis

The estimated regression equation is,
$$\gamma = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \varepsilon$$

Where,
Y_i = Customer Retention
$\beta_0, \beta_1 \beta_2$ = Estimated Regression Coefficients
x_1 = Gift Vouchers & Gift Items
x_2 = Discounts
ε_i = Random Error Term

According to the output of regression analysis of this study, the researcher has formulated the final fitted regression model as follows;
$$Y = 0.839 + 0.316 x_1 + 0.345 x_2 + \varepsilon$$

Estimated regression coefficient (β_0, β_1 and β_2) can be interpreted as β_0 describes that it is expected to have customer retention of 0.839, when there is no any impact of gift vouchers and discounts while β_1 describes that customer retention can be increased by 0.316 units, if gift vouchers are increased by 1 unit while keeping other factors as constants.
Then β_2 Describes that customer retention can be increased by 0.345 units, if the discounts are increased by 1 unit.

Pearson Correlation
The following correlation output can be used to arrive a conclusion regarding the relationships which exist between each indicator.

The researcher has used Pearson correlation matrix to identify the relationship between Customer loyalty programs and customer retention. According to 4.13 above table Pearson Correlation is 0.385, suggesting that there is a moderate positive relationship.
between Gift vouchers and customer retention. The p value of Gift vouchers was 0.000 which was less than the significance level of 0.05. So, there is statistical evidence to show that there is

a significant relationship between gift vouchers & gift items and customer retention.

Then consider about Discounts and Pearson Correlation is 0.442, according to that value there is a moderate positive relationship between discount and customer retention. And the P value was 0.000 which below to the significant level of 0.05. Therefore, there is a significant relationship between discounts and customer retention.

Above table shows that Point system Pearson correlation value was 0.048. It means there is a weak positive relationship between point system and customer loyalty programs. Figure shows that 0.562 significant levels but it was above to the significant level of 0.05. Therefore, point system did not significantly correlate with customer retention.

V. CONCLUSION:

The impact of customer loyalty plays a vital role when considering about the business success. In this paper, I tried to investigate the impact of customer loyalty on customer retention in textile industry in Sri Lanka based on the primary data collected from 151 respondents.

Descriptive statistics and inferential statistics such as multiple regression and Pearson correlation have been employed to analyze the data. The results of the regression analysis implies that there is no any impact of the point system to the customer retention and only discounts and gift vouchers/ gift items are having a significant impact towards the customer retention. The same has been again emphasized by the results of the Pearson correlation as well.

Based on existing literature, the researcher developed the conceptual framework considering only three loyalty programs as point system, gift vouchers & gift items and discount to investigate the impact of these factors on customer retention with reference to textile retail outlets in Sri Lanka.

Conducting this research, researcher found the customer loyalty programs are influencing on customer retention considering the textile retail outlets in Sri Lanka. In further developments researchers have ability to find other factors that are influencing on customer retention other than above three factors.

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