

THE IMPACT OF LOYALTY PROGRAM ELEMENTS
ON CUSTOMER RETENTION FOR MALAYSIAN
RETAILERS

BY

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ABSTRACT

A loyalty program is a marketing strategy designed to encourage customers to continue shopping at the store or use the products. In the retailing industry, the loyalty program has been widely used as an approach to building closer customer relationships and eventually customer retention, particularly as the rivalry becomes more intense. Hence, this research aims to examine the impact of loyalty program elements on customer retention for Malaysian retailers. The research suggests a model of four loyalty program elements namely loyalty card, discount price, gift voucher, and special treatment in determining how a loyalty program can assist retailers in Malaysia retain their customers. Using the survey method, 201 data has been collected. The data has been analyzed using SPSS version 25. The findings show that discount price is the loyalty program element that increases customer retention the most, followed by special treatment and loyalty cards. However, the influence of the gift voucher element on customer retention is not significant. These findings provide insights to Malaysian retailers particularly on how to improve and allocate promotional resources more effectively if a loyalty program is being employed.

مُلخّص البحث

طُوّرت برامج الولاء في أسواق التجزئة المختلفة بما فيها المتاجر المركزية الضخمة، والمتاجر الكبرى، والفنادق، والمطاعم، وقطاع النقل الجوي، مما أدى إلى بعث منافسة شديدة بين تجار التجزئة الذين يتطلبون حملات تسويقية أكثر تنافسية تساعدهم في بناء علاقات أوثق مع عملائهم، ومن إستراتيجيات بناء مثل هذه العلاقات برامج الولاء، وعليه؛ يهدف هذا البحث إلى دراسة تأثير برامج الولاء على احتفاظ تجار التجزئة المميزين بالعملاء، وقد اقترح البحث أنموذجًا لأربعة أنواع من أدوات برامج الولاء؛ هي بطاقة الولاء، وسعر الخصم، وقسيمة الهدايا، والمعاملة الخاصة، وذلك لتحديد كيفية مساعدة هذه المتغيرات تجار التجزئة في الاحتفاظ بعملائهم، وباستخدام طريقة المسح؛ جُمعت بيانات 201 من المشاركين، وجرى تحليل البيانات باستخدام برنامج الحزمة الإحصائية للعلوم الاجتماعية SPSS، وقد أظهرت النتائج أن بطاقة الولاء هي الأفضل من بين أدوات برامج الولاء في الاحتفاظ بالعملاء، ويليهما سعر الخصم والمعاملة الخاصة، في حين أن لا تأثير مهمًا لقسيمة الهدايا في الاحتفاظ بالعملاء، وتوفر هذه النتائج رؤى لتجار التجزئة المميزين عن كيفية تحسين الموارد الترويجية وتخصيصها بكفاءة في حال استخدموا برامج الولاء.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Assalamu Alailum Wrt.Wbt

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TABLE OF CONTENTS

Abstract	ii
APPROVAL PAGE	iv
DECLARATION	v
Copyright Page.....	vi
INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA.....	vi
ACKNOWLEDGEMENTS	vii
Table of contents	viii
List of Tables	xi
List of Figures	xii
CHAPTER ONE	1
INTRODUCTION.....	1
1.1 BACKGROUND OF THE STUDY	1
1.2 PROBLEM STATEMENT.....	4
1.3 RESEARCH OBJECTIVES.....	8
1.3.1 General Objective of the study.....	8
1.3.2 Specific Objective of the study	8
1.4 RESEARCH QUESTIONS	8
1.5 SIGNIFICANCE OF THE STUDY	9
1.6 SCOPE OF THE STUDY.....	9
1.7 DEFINITIONS OF THE KEY TERMS	10
1.7.1 Customer retention	10
1.7.2 Customer loyalty	10
1.7.3 Loyalty program.....	10
1.7.4 Loyalty card	10
1.7.5 Discount price	10
1.7.6 Gift voucher	11
1.7.7 Special treatment.....	11
1.8 ORGANIZATION OF CHAPTERS	11
1.9 CHAPTER SUMMARY	12
CHAPTER TWO	13
LITERATURE REVIEW	13
2.0 INTRODUCTION	13
2.1 CUSTOMER RETENTION	13
2.2 LOYALTY PROGRAM.....	16
2.3 Previous studies in Malaysia	19
2.4 TYPE OF LOYALTY PROGRAM	20
2.4.1 The benefit of Loyalty Card.....	22
2.4.2 The benefit of Discount Price	23
2.4.3 The benefit of Gift Voucher.....	23
2.4.4 The benefit of Special Treatment.....	24
2.5 THEORY	25
2.5.1 Learning Theory.....	25
2.5.2 An extended view of behavior learning theory....	26

2.5.3 Theoretical Framework	31
2.5.4 Positive Reinforcement	33
2.5.5 Negative Reinforcement.....	36
2.5.6 Discussion	38
2.6 HYPOTHESIS DEVELOPMENT	40
2.6.1 Loyalty Card and Customer Retention.....	40
2.6.2 Discount Price and Customer Retention	44
2.6.3 Gift Voucher and Customer Retention.....	47
2.6.4 Special Treatment and Customer Retention.....	51
2.6.5 Conceptual Framework	54
2.7 CHAPTER SUMMARY	55
CHAPTER THREE	56
RESEARCH METHODOLOGY	56
3.1 INTRODUCTION:	56
3.2 RESEARCH METHODOLOGY	56
3.3 RESEARCH DESIGN.....	57
3.4 STUDY POPULATION AND SAMPLE FRAME.....	58
3.4.1 Population	58
3.4.2 Sampling Frame	58
3.5 SAMPLING METHOD.....	59
3.6 SAMPLING SIZE	59
3.7 DATA COLLECTION METHOD	60
3.8 QUESTIONNAIRES DESIGN	61
3.8.1 Measurements Items.....	62
3.8.2 Face Validity	64
3.8.3 Pre-testing	64
3.9 DATA ANALYSIS METHOD	65
3.9.1 Descriptive analysis	65
3.9.2 Reliability test	65
3.9.3 Exploratory factor analysis EFA.....	66
3.9.4 Pearson correlation.....	66
3.9.5 Multiple regression analysis.....	67
3.10 CHAPTER SUMMARY	68
CHAPTE FOUR.....	69
DATA ANALYSIS	69
4.1 INTRODUCTION	69
4.2 DATA ANALYSIS	69
4.3 SAMPLE CHARAcTERISTICS	69
4.3.1 Respondents' Demographic Information	70
4.3.2 Gender	70
4.3.3 Ethnic Group	70
4.3.4 Educational level.....	71
4.3.5 Income level	71
4.4 GENERAL INFORMATION.....	72
4.4.1 Would you describe yourself as being loyal to one supermarket?.....	72
4.4.2 Would you describe yourself to be a satisfied customer of loyalty program?.....	73

4.4.3 Does collection of points influence you or buy more or to buy a specific alternative promotional product that offers a bonus points?.....	73
4.5 Descriptive Analysis Results of the Construct	74
4.6 Exploratory factor analysis (EFA).....	78
4.7 Reliability test.....	83
4.8 Pearson correlation	84
4.9 Multicollineary analysis	86
4.10 Multiple regression analysis	87
4.10.1 Regression analysis coefficient determination R-value	87
4.10.2 Regression of Anova test	89
4.10.3 Regression Coefficient and Hypothesis Testing	89
4.11 SUMMARY OF THE CHAPTER	95
CHAPTER FIVE	96
DISCUSSION, LIMITATION AND CONCLUSION	96
5.1 INTRODUCTION	96
5.3 DISCUSSION OF RESEARCH QUESTIONS	96
5.3.1 The effect of loyalty card on customer retention	97
5.3.2 The effect of discount price on customer retention.....	97
5.3.3 The effect of gift voucher on customer retention.....	98
5.3.4 The influence of special treatment on customer retention	98
5.4 IMPLICATIONS	99
5.4.1 Theoretical Implications.....	99
5.4.2 Managerial Implications.....	100
5.5 RECOMMENDATIONS.....	101
5.6 LIMITATIONS AND FUTURE RESEARCH	102
5.7 CONCLUSION	103
REFERENCE	104
APPENDIX A	120

LIST OF TABLES

Table 2.1 Showing types of loyalty program elements	21
Table 4.1 Descriptive data for items and construct variable	76
Table 4.2 KMO and Barlett's Test	79
Table 4.3 Anti Image Communalities	79
Table 4.4 Total variance explained	81
Table 4.5 Pattern matrix	83
Table 4.6 Reliability Test	84
Table 4.7 Pearson correlation coefficient	85
Table 4.8 Pearson correlation	86
Table 4.9 Collinearity Statistic VIF Indicators	87
Table 4.10 Model Summary of Regression Analysis	88
Table 4.11 ANOVA	89
Table 4.12 Multiple Regression Coefficient	91
Table 4.13 Summary of hypothesis	95

LIST OF FIGURES

Figure 1.1 Malaysia hypermarket share. Source: Planet retail company web site.	6
Figure 2.1 Learning Theory in Marketing context	28
Figure 2.2 Theoretical framework of instrumental conditioning (Source: Solomon 2015, Global Edition)	32
Figure 2.3 Conceptual Framework	54
Figure 4.1 Gender	70
Figure 4.2 Ethnic group	70
Figure 4.3 Educational level	71
Figure 4.4 Income level	72
Figure 4.5 loyal to supermarket	72
Figure 4.6 Satisfied customer loyalty program	73
Figure 4.7 Collection of point	74

LIST OF ABBREVIATIONS

CRM	Customer Relationship Management
CAGR	Compound Annual Growth
LC	Loyalty Card
DP	Discount Price
GV	Gift Voucher
ST	Special Treatment
SPSS	Statistical Package for Social Sciences
EFA	Exploratory Factors Analysis
KMO	Kaiser-Meyer-Olkin
VIF	Variance Inflation Factor

1CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Retailing is recognized as one of the world's leading service contributors that are continuously evolving (Sharmeela-Banu et al., 2012). Customer retention strategy is thought to be a crucial instrument for retailers to survive and develop in the highly competitive industry, as retailers face strong competition from local and international distributors, as well as non-traditional distributors like internet distributors (Levy, 2009; Sharmeela-Banu et al., 2012). The report from Mordor Intelligence (2019) indicates that Europe's retail market and North America's developed economies are mature and highly competitive. On the other hand, Asia-Pacific, Middle East, and Latin America's developing economies have played a key role in driving the market growth. The market offers products such as food, clothing, furniture, jewelry, etc. Besides this, it is possible to classify the stores into convenience stores, specialty retailers, internet retailers, and several others.

In recent years, loyalty card programs have been introduced in various retail sectors including the hotel, restaurant, and air travel industries (Bose & Rao, 2011; Kamau, 2017). Researches conducted in the UK supermarkets to determine the role of loyalty cards on customer retention has shown that loyalty programs directly improve customer loyalty through rewards as an incentive to regularly shop at any supermarket (Karim, 2011; Kamau, 2017). More results from the UK research revealed that loyalty programs generate significant information for supermarkets, including customer's names, addresses, and purchases. Supermarkets may use this information to tailor

product offerings, promotions, investments, and advertisements to customer requirements, thus indirectly boosting customer loyalty and retention (Kamau, 2017). Families are signed on to an average of 18 loyalty programs in the United States, (Kamau, 2017).

In developing nations, for example in Bangladesh, customer loyalty programs have only recently become a standard of the retail sector (Jain & Singhal, 2012; Kamau, 2017). Loyalty programs in India have encouraged consumers to make strategic choices when making repeated transactions (Jain & Singhal, 2012; Kamau, 2017). In Russia, customer loyalty determines their attachment to the brand and its merchandise (Chesnokova¹, Radina¹ & Serdyuk, 2014). In China, a study of net results reveals that loyalty programs are a double-edged tool (Ma, Li & Zhang, 2018).

Malaysia, as one of the developing countries, has her large and growing retail food market being supplied by local and imported products. (Mordor Intelligence, 2019). In 2018, consumer preference started moving to supermarkets, providing a more convenient, cheaper way to shop for grocery stores. (Mordor Intelligence, 2019). These shops enable consumers to spend less time browsing goods and thus, reducing the time they spend shopping for food. The demand for the Malaysian retail sector is expected to experience a 3.4% CAGR (Compound Annual Growth) during the forecast period. (Mordor Intelligence, 2019). The market is segmented by product category, the channel of distribution, and competitive market. It should be observed that retailing has been one of Malaysia's most vibrant sub-sectors, which has undergone a steady transformation over the years (Sharmeela-Banu et al., 2012).

The report from Mordor Intelligence (2019) covers major international players operating in the retail sector in Malaysia. The country's retail industry today is dominated by a few significant players. This has generated strong competition among

retailers needing a more strategic marketing program to help retailers establish a closer relationship with their customers. This ultimately resulted in the emergence and use of the loyalty program in Malaysia.

Most loyalty programs in Malaysia use a card to collect points and offer gifts or vouchers to redeem certain points (Omar, Alam & Aziz, 2011). Advance Information Marketing Sdn's CEO, Nyang Koon Seng, Bhd. (AIM) says Malaysia has two loyalty programs (or loyalty cards/systems) (Omar, Alam & Aziz, 2011) as cited in Nyang Koon Seng, Bhd. (AIM). The first category is the loyalty program for multiple merchants or multiple branding schemes. This system of rewards offers participants the leeway to earn points from different retailers on various goods. The second loyalty program is a single retailer program. This is an in-house system in which cardholders can collect points only from a specific retailer's outlet. The program gives cardholders other benefits and privileges such as discounted grocery products, free insurance coverage, gift rebates, cash vouchers, free parking, exclusive card promotions.

In Malaysia, the single merchant loyalty card program is more common than the multi-merchant loyalty card program, (Kopalle & Neslin, 2003; Liu & Yang, 2009; Mustafa, Nordin, (n.d)). Retailers like Tesco, Aeon, Sogo, and IKEA often use the single customer loyalty card program. Examples of multi-merchant loyalty programs are Bonus link and BCard.

1.2 PROBLEM STATEMENT

Due to globalization, and the current economic situation, every business must be very competitive. One way is by providing and improving its loyalty program to prevent its customers from moving to other rivals (Ho Huang, Rosten & Tang, 2009). Retailers introducing loyalty programs will benefit from income growth, sales, customer loyalty, customer retention, customer information, and, above all, dissuade their close competitors (Kumar & Shah 2004). Loyalty rewards programs are introduced to provide tangible rewards for loyal customers in terms of pricing or gift incentives (De Wulf et al., 2001). Through engaging in a loyalty program, consumers may benefit from rewards such as discounts, gifts, special treatment choices (Bridson Evans & Hickman 2008). Loyalty programs are also useful and essential to build and maintain customer retention (Magatef & Tomalieh, 2015). A successful reward program will encourage customers to make repeated purchasing decisions (Zawawi & Mohamad, 2016).

Nevertheless, past studies provided evidence that this is not always the case. Customers may immediately stop joining the program if their membership does not produce sufficient benefits and value (Steyn, Pitt, Strasheim, Boshoff & Abratt, 2010). A study by Stauss, Schmidt, and Schoeler, (2005) found four (4) groups, namely Inaccessibility, Worthlessness, Redemption Cost, and Qualification Obstacle. The first group; Inaccessibility, refers to a group where there are various types of annoyance experiences. In the context of program rewards, they do not access the expected reward because the capability offered is deficient, or because the staff is poorly qualified and thus, do not provide the service promised. The second group, Worthlessness, where customers do not see the benefits of the program as rewarding. In the third group, Redemption Cost, customers sometimes find it annoying as they

can only use the reward by spending on material or emotional. While the fourth group, Qualification Obstacle, frustrations experiences in this group are attributed to situations in which the reward is linked to difficult or impossible conditions to meet, for example, the compilation of points can be very challenging and generally quite an effort. (Stauss, Schmidt & Schoeler, 2005). Thus, the view of customers today on the loyalty program may vary from when it was first launched (Omar et al, 2015).

The way loyalty programs influence customer behavior may differ due to environmental factors attributing to cultural, social, technical, and regional political factors (Robinson, 2013). Therefore, findings on the impact of the loyalty program conducted in other developing countries such as the Czech Republic (Kohlmeyer, 2016) and Jordan (Magatef & Tomalieh, 2015). Countries like Kenya, (Kamau, 2017); and Pakistan (Khalil, Ullah & Khalil, 2015); may not be the same or can be different from the Malaysian market. With different types and levels of loyalty programs being introduced and used in Malaysia, the scholars and industry players often raise issues related to the loyalty program (Omar et al., 2015; Asiah, Che Aniza, Rosidah, & Azrin, 2010).

Despite extensive research into loyalty programs in Malaysia, previous studies have focused only on the relationship between loyalty programs, customer satisfaction, or equity (Jumaat & Jasmani, 2010; Zakaria et al, 2013; Omar, Musa & Nazri, 2007). Also, limited research has been done in Malaysia on the impact of loyalty programs (Chin & Choe, 2014). Moreover, 12 to 15% of customers are loyal to one store (Nor et al., 2015 as cited in Choe & Au, 2018), shows the low rate of customer loyalty.

Besides, in Malaysia, strong economic conditions and market confidence drive sustainable growth. Hypermarkets tend to struggle as supermarkets grow, discounters

are emerging strongly due to the Government's I-keeP initiative, and local players are competing it out with big global retailers (Euromonitor International, 2020). Moreover, in terms of market share, the industry currently is dominated by a few major' players. However, mid-size and smaller firms grow their businesses by securing new contracts and targeting new opportunities with technology development and product growth (Mordor Intelligence, 2019).

In Malaysia, multinational hypermarkets and supermarkets dominate the retail market, with Tesco controlling 30% of Malaysia's industry by sales, 24% by Giant, (22%) by Jusco, and 15% by Carrefour (Fong, Kian & Fern, 2015).

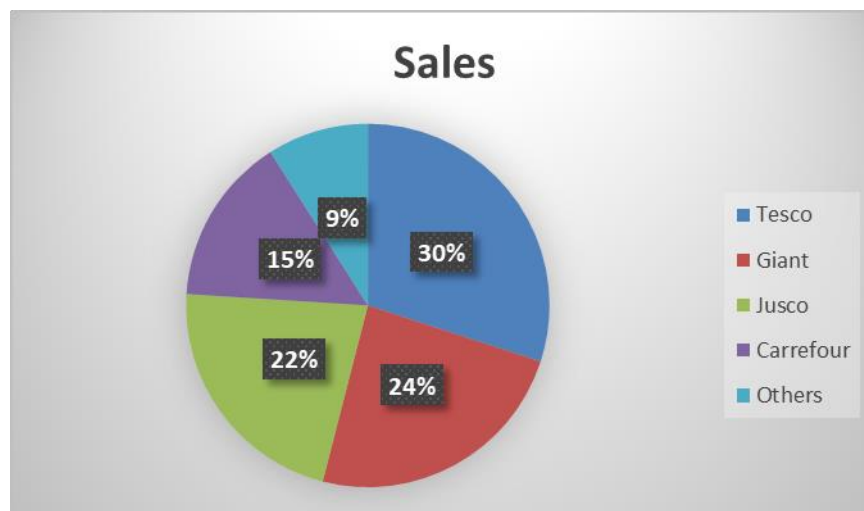


Figure 1.1 Malaysia hypermarket share. Source: Planet retail company web site.

Thanks to the emergence of numerous competitors, retail stores or supermarkets have grown into hypermarkets, and mega malls, and therefore, caused serious problems among Malaysian retailers to keep loyal customers (Jumaat & Binti, 2010).

A study carried out by Julian et al, (2016) stated that specific conclusions might be made in the Malaysian context. Julian et al highlighted two (2) critical points: First, strong industry rivalry allows businesses to have a loyalty program to remain competitive in the marketplace.

The Malaysian retail industry is experiencing drastic changes from the beginning with the introduction of numerous retail models offering a broad product portfolio, and department stores keep the top position in the industry due to their established country presence. These are not consequently responsive to competition from other supermarket styles. As a result, a saturated market made it necessary for all retailers to design their customer loyalty strategies with one of those strategies being the loyalty program. However, there is no clear explanation of why consumers are loyal to a single retailer, (Julian et al, 2016). The second critical point was the lack of marketing tools with loyalty programs. All loyalty card programs offer an equal reward, there is no particular incentive for the consumers to be loyal to a particular retailer. As a result, other relationships marketing tools or strategies need to be developed to complement the loyalty card programs. (Julian et al, 2016). Moreover, a study by Permarupan et al, (2014) concludes that it is challenging to get loyal buyers in the supermarket industry where store brand and national brand product prices are very much the same. Thus conducting the study in Malaysia is essential as it can provide an insightful perspective of Malaysia's customer behavior. Accordingly, this study aims to explore the effect of loyalty programs on customer retention for Malaysian retailers.

1.3 RESEARCH OBJECTIVES

1.3.1 General Objective of the study

This study aims to better understand the context of loyalty programs in Malaysia by exploring different tools, the driver that can influence consumer behaviors. This study's main objective is to determine the effect of loyalty programs on customer retention for Malaysian retailers.

1.3.2 Specific Objective of the study

The following sub-objectives are as follows:

1. To examine the effect of loyalty card on customer retention
2. To examine the effect of discount price on customer retention
3. To examine the effect of gift voucher on customer retention
4. To examine the influence of special treatment on customer retention

1.4 RESEARCH QUESTIONS

The study looked at the following questions

1. Does a loyalty card affect customer retention?
2. Does the discount price affect customer retention?
3. Does a gift voucher affect customer retention?
4. Does special treatment influence customer retention?

1.5 SIGNIFICANCE OF THE STUDY

The study focuses on the effect of the loyalty program on customer retention. Thus scholars in this area may use this study as a reference or as a basis for literature review. Numerous researchers have made a significant contribution to marketing literature such as clarifying ways to reinforce consumer behavior. Through learning theory, research provides a deeper understanding of loyalty programs by analyzing their positive and negative reinforcement. Hopefully, academic scholars will be able to use these ideas in the future to analyze the relationship between businesses and their buyers in Malaysia.

The results of this study may be useful to business managers, such as the clarification of the role and effect of loyalty programs on customer retention. The results of this study can help retail grocery managers enhance their loyalty program decisions. Supermarket or business retailer managers in Malaysia would acquire a different understanding of the impact of loyalty programs on customer retention. Moreover, the results would help business managers to beat the rivalry faced by supermarkets. In turn, customers will feel better knowing which supermarket offers an effective loyalty program and performs at a higher spending level.

1.6 SCOPE OF THE STUDY

This study only determines the effect of four (4) types of loyalty programs on customer retention for Malaysian retailers. The study is limited only to the Klang Valley /Kuala Lumpur area where most of Malaysia's major retail players' stores are located.

1.7 DEFINITIONS OF THE KEY TERMS

1.7.1 Customer retention

Customer retention is when customers keep the transaction with the organization for an extended period (Ascarza et al., 2017).

1.7.2 Customer loyalty

Customer loyalty is identified as the customer's tendency to purchase products or services from the company over competing options provided on the marketplace (Khan Singh, 2012).

1.7.3 Loyalty program

Loyalty programs build a customer database that links customer data to their transaction and encourages repeat purchase behavior and loyalty (Levy et al, 2015).

1.7.4 Loyalty card

A loyalty card is a marketing program that rewards consumers for their regular purchase with incentives and rebates while providing retailers collected information on consumer buying habits (Rao & Kotian, 2018).

1.7.5 Discount price

A discount price is a reduced price given to the buyer by the seller as a reward for specific buyer behavior (Tjiptono, 2011).

1.7.6 Gift voucher

A gift voucher can be interpreted as a voucher or card received by a customer from a merchant and intended to be exchanged for products or services (at a specified monetary value or for similar goods or services) that the merchant may offer in the future (Jones, 2010).

1.7.7 Special treatment

Special treatment is defined as giving a high-status recognition to selected customers that go beyond regular firm offerings (Lacey, Suh & Morgan, 2007).

1.8 ORGANIZATION OF CHAPTERS

Chapter one of the dissertation provides a detailed overview of the background of the study and gives a precise explanation of what the proposed study is all about. It describes the problem statement, objectives of the study, research questions, and the significance of the research as well as the definitions of key terms.

Chapter two reviews the literature for the study. It discusses the effect of loyalty programs and the factors that increase customer retention. Lastly, the chapter presents the proposed model of hypothesis which was from previous works of literature.

Chapter three describes the methodology, research design, sample size, research instruments, data collection method, and analysis.

Chapter four examines the data and presents the analysis.

Lastly, chapter five consists of the research findings and the various discussions. It will also explain the theoretical and managerial implications as well as limitations that the researcher will encounter during the research. The conclusion will include recommendations for future research.

1.9 CHAPTER SUMMARY

This chapter looks at the global retail industry and loyalty programs in Malaysia. . It addresses the problems statement, the research objectives and the research questions, the significance, as well as provides the list of the definitions of key terms.