CHAPTER 3: DEVELOPMENT OF THEORETICAL FRAMEWORK

Based on the critical literature review and in response to the entitled as mentioned earlier for further research within the area of store patronage, the present study develops a model which examines the unexplored consequences of store patronage in relation with customer loyalty program. Researcher has tried his best to acknowledge all the relevant work by various authors in loyalty literature with the help of giving credit to them and also given credit to quoted work by others in similar bracket.

3.1 Perceived value of loyalty Program and satisfaction

It is found to be a key determinant of a brand’s long-term viability (Krishnamurthi & Raj, 1991). Customer satisfaction can be referred to “the summary of the psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer’s prior feelings about the consumption experience” (Oliver, 1981). It is often considered as an important determinant of repurchase behavior (Liao, Palvia, & Chen, 2009) and customer loyalty (Eggert & Ulaga, 2002). Satisfaction is the outcome of the positive behavior about previous interaction with the firm (Jones & Suh, 2000). Satisfaction with a loyalty program represents a consumer's contentment regarding his/her experiences with the program (Oliver, 1997). Empirical evidence supports that satisfaction has a significant impact on loyalty program success (e.g., Go’mez et al., 2006; Jang, 2006; Ping, 2003; Yang & Peterson, 2004). Customer loyalty is the ultimate objective of customer satisfaction measurement (Sivadass and Baker-Prewitt, 2000).

Finally, Program perceived benefits of loyalty program significantly influence program satisfaction and program trust. This proposition helps the measurement of the importance of perceived value when predicting program satisfaction which is suggested by prior researchers trust (Moliner 2007; Singh, Sirdeshmukh) and satisfaction by (Grace, O'Cass 2005).

H1: Perceived values of loyalty programs are positively related with satisfaction.
3.1.1 Utilitarian values and satisfaction

In the previous loyalty research, researcher has found the relevant link for utilitarian value with satisfaction that derives in part from financial advantages (Bolton et al., 2004; Johnson, 1999). Peterson (1995) proposed that motivation behind the joining loyalty program as the saving money. Benefits related to convenience lead to utilitarian value as well and motivate people to subscribe in loyalty programs. Even another advantage is to minimize the difficulty of choosing among alternatives; consumers develop enduring relationships with firms (Sheth and Parvatlyar (1995). A critical key to the success of a loyalty program is whether a consumer can perceive and identify the benefits of membership and appreciate receiving rewards (Demoulin & Zidda, 2008).

H1a: Utilitarian values are positively related to the satisfaction.

H0: Utilitarian values are not positively related to the satisfaction.

3.1.2 Hedonic values and satisfaction

According to Johnson (1999), entertainment is the measure component of loyalty program because of the recreation associated with collecting and redeeming loyalty rewards points. In this case, customer’s participation looks like players of the game and make the perception of self-fulfilment (Mimouni-Chaabane & Volle, 2010). In the context of apparel loyalty programs, entertainment can also be provided through special promotions, including fashion shows (Nordstrom, Macy's, Bloomingdale's) and other entertaining events (e.g., American Eagle’s bra-fitting parties, Nordstrom’s Designer Preview event).

According to Hirshman and Holbrook (1982), “hedonic value derives from non-instrumental, experiential, emotional, and personally gratifying benefits.” It may also be associated with buying, the use of media, and increased behavioral loyalty (Babin and Attaway 2000; Arnold and Reynolds, 2003; Jones et al., 2006; Babin et al., 1994). Finally, Johnson (1999) proposed that customer loyalty programs attract consumers because of the pleasure value associated with collecting and redeeming points.
H1b: Hedonic values are positively related to the satisfaction.

H0: Hedonic values are not positively related to the satisfaction.

### 3.1.3 Symbolic values and satisfaction

Symbolic values provide extrinsic benefits that loyalty program provide about needs for personal expression, esteem status, and social appreciation (Keller, 1993) which is in nature of intangible and often on-goods and service related features. According to (Gordon, 1998), customer loyalty programs offer an opportunity to differentiate and discriminate among customers who likely perceive customized offers as a sign of respect through loyalty program and also may experience recognition benefits (Csikszentmihalyi, 2000). This kind of special benefits customer feels like the firm and front-line personnel treat them exceptionally significant than they would treat non-subscriber of the customer loyalty program (Beatty et al., 1996; Gwinner et al., 1998). Consequently, the perception of customers changes as a social benefit, such that loyalty program user considers themselves as a part of an exclusive group of privileged customers of that store, easy differentiate with that customer group and share values associated with the store (Muniz and O'Guinn, 2001). Customer loyalty programs further focus on not merely the product but also the experience they are getting through as ownership and consumption of goods and services (McAlexander et al., 2002).

H1c: Symbolic values are positively related to the satisfaction.

H0: Symbolic values are not positively related to the satisfaction.

### 3.2 Perceived values of loyalty program and trust:

Similarly, with the proposition in the previous part to conclude that loyalty program perceived equity values applied a much significant influence on store program customer satisfaction and program trust compared to program perceived benefits. This entails that feeling reasonable in their customer loyalty program increases loyalty subscriber’s satisfaction and trust in the customer program. This confirms the importance of using the measure of perceived benefits when predicting program trust.
Finally, Loyalty program perceived benefits significantly influences program satisfaction and program trust.

\textit{H2: Perceived values of loyalty programs are positively related to trust.}

Trust can be considered as a major influencing factor in affecting customer relationship loyalty and customer loyalty. If one customer trusts transaction related activity, such a customer is willing to extend a significant behavioral intention toward the particular store. Accordingly, when a customer trusts store, that customer is ready to form a positive buying intention towards the retail outlet. There is sufficient proof that supports the argument of the relationship between loyalty program and trust. When retail store act in a way that builds customer trust, a risk associated with the transaction is reduced, thus enables the customer to make confident predictions about the store's future repeat intention. Trust influences loyalty by affecting the customer’s perception of congruence in values with the retail store, and such value congruence is significantly related to the customer’s satisfaction and loyalty. Trust as an element of customer loyalty influences building customer loyalty (Du Plessis 2010; Chen & Xie 2007; Aydin & Ozer 2005).

\textit{H2a: Utilitarian values are positively related to the trust.}

\textit{H0: Utilitarian values are not positively related to the trust.}

\textit{H2b: Hedonic values are positively related to the trust.}

\textit{H0: Utilitarian values are not positively related to the trust.}

\textit{H2c: Symbolic values are positively related to the trust.}

\textit{H0: Utilitarian values are not positively related to the trust.}

\subsection*{3.3 Trust and satisfaction}

In the present theoretical development, there is strong support for the proposition of satisfaction has a strong positive relationship with repeat purchase (Fullerton, 2005; Hellier et al., 2003; Hennig-Thurau, 2004; M. A. Jones et al., 2000; M. A. Jones et al.,}
Satisfaction is a fundamental conception in customer relationship theory and is well developed as an effect of strong loyalty in the different firm to firm and business to customer marketing (Oliver and Swan 1989; Geyskens et al. 1996). Most of the company invest in such resource to gain customer satisfaction, and if customers perceive that services receiving from retailer meet their expectations, customers get satisfaction (Oliver 1997). Finally, those resources lead to the strong relationship between satisfaction and trust.

**H3: Trust with the loyalty program is positively related with satisfaction.**

**H0: Trust with the loyalty program is not positively related to satisfaction.**

### 3.4 Trust and commitment relationship

Commitment stems from trust, shared values and the belief that it will be difficult to find partners that can offer the same value (Morgan and Hunt, 1994). Commitment encourages partners to collaborate to preserve investments in the relationship (Morgan & Hunt 1994). Rauyruen and Miller (2007) further define commitment as “a psychological sentiment of the mind through which an attitude concerning continuation of a relationship with a business partner.” According to Morgan and Hunt (1994), relationships can be viewed as a series of transactions that foster an awareness of a shared relationship through trust and commitment. Higher levels of trust and commitment, in turn, are related to higher levels of customer retention, and this could result in higher organizational profitability.

Trust is an individual’s credence that an exchange partner will deliver popular services in a predictable approach (Foa and Foa 1976). Trust has received little attention in the consumer behavior literature. Most of the time customer believes in store when they recognize them to be making investments that reduce customer’s
uncertainty, increase the efficiency of the store, and improve the effectiveness of their relationships in retail marketing, trust is considered a predecessor of commitment, and an essential characteristic of successful relationships (Morgan and Hunt 1994).

**H4**: *Trust in the loyalty program is positively related to commitment.*

**H0**: *Trust in the loyalty program is not positively related to commitment.*

### 3.5 Satisfaction and commitment

Commitment is defined as “the intention to continue a relationship because it is worthwhile” (Moorman, Zaltman and Deshpande 1992). Consumers who perceive that the online retailer is investing resources in meeting their desires should consider the relationship important and should be more likely to continue the relationship. Commitment has both affective and cognitive mechanisms (Geyskens et al. 1996), so commitment should be influenced by both trust and satisfaction. (Janet Wagner and Gabrielle Rydstrom 2001)

**H5**: *Satisfaction is positively related to commitment.*

**H0**: *Satisfaction is not positively related to commitment.*

### 3.6 Satisfaction and program loyalty

It was shown that the relationship between store satisfaction and store loyalty does indeed depend on the level of satisfaction. Bloemer and Kasper (1995) distinguishes the difference between the degree of customer satisfaction that leads to the store loyalty which supports a similar finding with brand satisfaction. Besides, it found the link that the amount of satisfaction has a positive effect on store loyalty.

There is two opinion about satisfaction which comes from the analysis of literature review on the satisfaction and store loyalty relationship. The first opinion concluded
that satisfaction is the main driver of consumer loyalty that we discussed in the earlier hypothesis development (Dixon et al., 2005; C. Fornell, 1992; Genzi & Pelloni, 2004; Hallowell, 1996; Heitmann et al., 2007; B. Mittal & Lassar, 1998; V. Mittal & Kamakura, 2001; S. O. Olsen, 2007; Szymanski & Henard, 2001; Zeithaml et al., 1996). Heitmann et al. (2007) stated that determinants of satisfaction that positively affects loyalty, willingness to recommend, and word of mouth. Customer satisfaction had a direct influence on the customer retention. Satisfied customers stay loyal, and want to continue their relationship. The second opinion on the satisfaction-customer loyalty relationship is that while consumer satisfaction may positively influence consumer loyalty, it is not sufficient to form loyalty (Auh & Johnson, 2005; Balabanis et al., 2006; M. D. Johnson et al., 2001; Julander et al., 2003; Kim et al., 2004; R. I. Oliver, 1999; L. L. Olsen & Johnson, 2003; S. O. Olsen, 2007; Reichheld et al., 2000; Suh & Yi, 2006). Opposite view derives from the few research that satisfaction is not the only outcome of store loyalty.

It will check this proposition also that several researchers (Reichheld et al., 2000; Suh & Yi, 2006) reported that even a loyal, satisfied consumer is vulnerable to situational factors such as competitors' coupons or price cuts. Therefore, satisfaction is not likely to be the sole and reliable predictor of loyalty. Even satisfaction is viewed as a necessary mediating factor in loyalty formation, but it becomes less important as loyalty begins to be set through other mechanisms (S. O. Olsen, 2007). According to Carpenter & Fairhurst, (2005) satisfaction influences, relative attitude, repurchase, and recommendation but have no direct effect on loyalty. One expropriation for variations in the satisfaction and store loyalty relationship rests on the nature of the judgment tasks involved (Auh & Johnson, 2005).

**H6:** Satisfaction is positively related with program loyalty.

**H0:** Satisfaction is not positively related to program loyalty.
3.7 Trust and program loyalty

Program loyalty builds through the trust because trust is an element of customer loyalty (Du Plessis 2010; Chen & Xie 2007; Aydin & Ozer 2005). The values that customers are getting through the relationship are trust, value, and satisfaction, while the business ultimately endeavors to create long-term loyalty (Wetsch 2005). Several researchers have argued that trust plays a central role in relationship building and maintenance (e.g., Anderson, Lodish, and Weitz 1987; Chaudhuri and Holbrook 2001; Doney and Cannon 1997; Dwyer, Schurr, and Oh 1987; Morgan and Hunt 1994).

Guenzi P and et al. (2009) revealed that customer trust in the store, has a positive impact on store loyalty intentions both directly and indirectly, that is by increasing perceived value, which in turn fosters program loyalty intentions.

\[ H7: \text{Trust in the loyalty program is positively related with program loyalty.} \]

\[ H0: \text{Trust in the loyalty program is not positively related to program loyalty.} \]

3.8 Commitment and program loyalty

Commitment has a strong positive relationship with repurchase or repurchases intent (Dixon et al., 2005; Fullerton, 2005; Garbarino & Johnson, 1999; Hennig-Thurau, 2004; Macintosh & Lockshin, 1997; Rauyruen & Miller, 2007). Liang & Wang (2005) argued that relationship quality and commitment be usually further regarded as previous circumstances of repeat purchase behavior. The overall construct of commitment offers appeared in several empirically examined studies (e.g., Dwyer, Schurr, and Oh 1987; Johnson and Garbarino 1999; Gruen, Summers, and Acito 2000; Morgan and Hunt 1994) and has now been shown to be essential to the creation and loyalty of long-term relationships. A form of commitment, customer loyalty is an essentially relational phenomenon (Sheth and Parvatiyar 1995). Oliver (1999) defines customer loyalty like a deeply held commitment to consistently repurchase or
patronage products despite situational effects and competing for marketing initiatives (emphasis added),

\[H8: \text{Commitment in the loyalty program is positively related with program loyalty.}\]

\[H0: \text{Commitment in the loyalty program is not positively related to program loyalty.}\]

### 3.9 Trust, Satisfaction, commitment and store patronage

Higher levels of trust and commitment, in turn, are related to higher levels of customer retention, and this could result in higher organizational profitability (Morgan and Hunt 1994). Oliver (1999) defines customer loyalty like a deeply held commitment to consistently repurchase or patronage products despite situational effects and competing for marketing initiatives.

Heitmann et al. (2007) stated that determinants of satisfaction that positively affects loyalty, willingness to recommend, and word of mouth. Customer satisfaction had a direct influence on the customer retention. Satisfied customers stay loyal, and want to continue their relationship.

\[H9: \text{Trust in the loyalty program is positively related with store patronage.}\]

\[H0: \text{Trust in the loyalty program is not positively related to store patronage.}\]

\[H10: \text{Satisfaction with a loyalty program is positively related with store patronage.}\]

\[H0: \text{Satisfaction with a loyalty program is not positively related with store patronage.}\]

\[H11: \text{Commitment in the loyalty program is positively related with store patronage.}\]

\[H0: \text{Commitment in the loyalty program is not positively related with store patronage.}\]
3.10 Program loyalty and store patronage behavior

Beatty et al. (1996) observed that companies that made a good relationship with their shoppers enjoyed higher sales, more valuable word-of-mouth recommendations lower costs every transaction and therefore, greater dedication and customer retention. Bowen and Shoemaker (1998) posit that a loyal guest handed over positive comments about the hotel to a group of within least ten people. Shugan (2005) calls loyalty products shams and believes the fact that real loyalty programs will need to "create current customer help by committing to the customer" instead of producing liabilities using promising future rewards.

Several researchers have investigated several other aspects of loyalty programs, such as an effect of loyalty programs with a share of wallet (Mägi 2003, Meyer-Waarden 2007) everywhere they find that having memory cards of competitors’ loyalty course reduces the share of wallet and customer life for the main store. Exploration by Wirtz, Mattila, and Lwin (2007) suggests that some loyalty program's attractiveness "had a positive impact on the share of wallet regardless of the amount of emotional attachment to the company."

H12: Program loyalty is positively related with store patronage.

H0: Program loyalty is not positively related with store patronage.

3.11 Gender and store patronage

Melnyk et al. (2009) have differentiated customer loyalty according to the sex of the customers. Also, provide the same suggestion that women need to be more loyal consumers despite the group versus individual dynamics of the loyalty object (Madson and Cross; Meyers-Levy 1988). Popular theories of gender differences (Cross and Madson 1997b; Meyers-Levy 1988) also provide the same argument that women are more loyal consumers regardless of the group versus individual nature of the store loyalty object.
H13: There is a significant difference in the level of store patronage behavior according to their gender.

H0: There is no significant difference in the level of store patronage behavior according to their gender.

3.12 Income and store patronage

It is a general opinion that high-income group customer has the higher percentage of consumption. In another claim that customer might value the utilitarian benefits from loyalty programs less than a household of the low-income class. The consumption pattern of such a customers in not clear by income and even loyalty of such a customer cannot be defined by income. Some studies argue the customers with high earnings tend to be a relational and loyal buyer but also functional ones. Few distinctions are here that customers with low incomes are usually looking at the economic benefits, while women’s always look for recreational benefits (recreations). Men, the especially executive, generally are more practical in buying decision.

H14: Store patronage behavior differs with the income of loyalty program subscriber.

H0: Store patronage behavior does not differ with the income of loyalty program subscriber.
3.13 Conceptual Framework and Hypothesis Summary

Figure 3.1 Conceptual diagram of perceived values and store patronage relationship

3.14 Hypothesis for the final study

- Hypothesis 1: Perceived values of loyalty programs are positively related to satisfaction.
- Hypothesis 1a: Utilitarian values are positively related to satisfaction.
- Hypothesis 1b: Hedonic values are positively related to satisfaction.
- Hypothesis 1c: Symbolic values are positively related to satisfaction.
- Hypothesis 2: Perceived values of loyalty programs are positively related to trust.
- Hypothesis 2a: Utilitarian values are positively related to trust.
- Hypothesis 2b: Hedonic values are positively related to trust.
Hypothesis 2c: Symbolic values are positively related to trust.

Hypothesis 3: Trust in the loyalty program is positively related with satisfaction.

Hypothesis 4: Trust in the loyalty program is positively related to commitment.

Hypothesis 5: Satisfaction is positively related to commitment.

Hypothesis 6: Satisfaction is positively related to program loyalty.

Hypothesis 7: Trust in the loyalty program is positively related with program loyalty.

Hypothesis 8: Commitment in the loyalty program is positively related with program loyalty.

Hypothesis 9: Trust in the loyalty program is positively related with store patronage.

Hypothesis 10: Satisfaction with a loyalty program is positively related with store patronage.

Hypothesis 11: Commitment in the loyalty program is positively related with store patronage.

Hypothesis 12: Program loyalty is positively related with store patronage.

Hypothesis 13: There is a significant difference in the level of store patronage behavior according to their gender.

Hypothesis 14: Store patronage behavior differs with the income of the loyalty program subscriber.