

**EFFECTS OF CUSTOMERS' REWARD PROGRAMS ON CUSTOMER LOYALTY IN SMALL SCALE SUPERMARKET**

**(A CASE STUDY OF JMK SUPERMARKET, ILORIN KWARA STATE)**

*BY:*

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**BEING A RESEARCH PROJECT SUBMITTED TO DEPARTMENT BUSINESS ADMINISTRATION AND MANAGEMENT, INSTITUTE OF FINANCE AND MANAGEMENT STUDIES (IFMS) KWARA STATE POLYTECHNIC ILORIN.**

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**CERTIFICATION**

This is to certify that this research work has been read and approved as meeting the requirement for the Award of Higher National Diploma (HND) in Business Administration and Management, Institute of Finance and Management Studies, Kwara

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## **DEDICATION**

**This project is dedicated to Almighty God and my parents**

## **ACKNOWLEDGEMENT**

I give all glory, honor and adoration to Almighty God for his grace, mercy, favor, protection, provision and guidance throughout my program in the department of business administration, institute of financial management studies (IFMS) in Kwara State Polytechnic. Have anxiously hope for this opportunity to express adequate profound gratitude to the people who have in one way or the other assisted my academic pursuit.

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I also use this medium to thank my Supervisor IMAM R. A. For his patience and constant kindness which he shown to me throughout this program, and I pray both will eat the true work of his hands (Amen).

May God almighty bless u all

Amen

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### ***ABSTRACT***

*The problem that prompt the conduct of this research is the need to examine the effectiveness of customer reward programs in enhancing customer loyalty. The goal of this study is to obtain a deep understanding of the impact of customer reward programs on customer loyalty. The study was applied to Danco supermarket in Ilo*



*rin, Kwara State. The study examines the impact of independent variable; point system, price discount and non-monetary program on the dependent variable; customer loyalty. 80 questionnaires were distributed randomly to Danco supermarket customers and regression and correlation statistical tools were used to analyze the gathered data. The findings reveal that there is a significant impact of all the customer reward programs in enhancing and maintaining customer loyalty except point system. Organizations are recommend to adopt customer reward programs that will reflect the customer's shopping preferences*

*and values, in order to keep them loyal to the business and create a life time customer.*

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background to the Study**

It is generally well known that customer reward programs often refer to as loyalty programs are valuable communication tools that promote positive behaviour of existing customers, and may later attract new ones. It is a way of businesses to gain a trust of customers and brand value. The reward programs collect and analyze customers' preference and shopping priorities, identify and reward the best customers, along with choosing the appropriate communication methods (Clark, 2010).

Customer reward programs offer rewards, discounts and other special incentives, so it is a way to attract and retain customer. It encourage repeated purchase and brand loyalty (Clark, 2010). According to marketing literature, reward programs increase customer retention while increasing loyalty. Marketing literature has distinguished among many type of reward programs. Immediate rewards include financial benefit such as discount and promotional offers, while deferred benefits include non-cash reward such as vouchers and coupons (Mai, Nguyen & Nguyen, 2021).

The first usage of loyalty programs in business was many years ago originally in Germany, where price competition was disallowed by government. In 1981 was the first launched of loyalty programs by American Airlines and quickly used by other airlines and hotels, car rental companies, credit card organizations and retailers. As reported in the New York Times, Forrester Research found that across 12 industries, retailers are the most loyalty while others, like TV service providers and internet service providers proved more unsteady. Retail loyalty programs are offering points, rebates, discounts or combinations of them (Lewis, 2004).

Loyalty programs are considered part of a comprehensive customer relationship strategy. Loyalty programs are not only a tool to increase the organization's loyal customers, but they are an opportunity to gather information about customer shopping habits and preferences. This information helps in customizing the organization's services. Retailers recognized that without "customer database", they were unable to identify the best customers and reward them for their preferable behaviour. The Loyalty Marketer's Association opined that due to the fact, that not all customers are potentially loyal customers, the ideal loyalty program would benefit only loyal and potential loyal customers. This means that the customers have first sorted into groups, and then to be approached in different ways. Customer loyalty programs should increase customer happiness and retention.

Loyalty induced positive attitude and behaviour such as repetitive support and purchases, and positive recommendation which influence other present and potential customers. Customer loyalty is vital to business performance as a loyal customer will generate a stable profit, balanced cash flow and enhanced company revenue's (Aaker, 1991). According to Duffy (1998), companies in most industries are studying, evaluating or implementing customer reward strategies and programs aimed at cultivating strong relationships with their best customers. A loyal customer is an important asset for organization especially when it decreases the need to seek new customers. In fact, it is an indication that the company products and services are meeting the needs of customers and expectations (Rowley & Dawes, 1999).

According to Bowen and Chen (2001), it is commonly known that there is a positive relationship between customer loyalty and profitability. It is found that when a company retains just 5 percent more of its customers, profits increase by 25 percent to 125 percent (Bowen & Chen, 2001). According to Ndubisi (2004), there are more and more companies investing on retaining customer- firm relationships. Theref

ore, improving customer's loyalty is an important task for business managers.

Customer loyalty is very important for the companies in the recent market environment. For the companies, customers are the core assets and companies can gain added value from customers only if they pay sufficient attention on customers (Rowley, 2005). The benefits of this are mutual and both companies and customers can be rewarded. From the perspective of companies, first, developing customer relationships bring companies invaluable resource. Second, it makes companies get more useful information about customers (Ndubisi, 2007). From another perspective of customers, first, loyal customers can help to reduce companies' cost, for example the marketing cost and operational costs, etc. Second, customer can serve as a part-time employee who can offer her or his friends and relatives information about products. Customer loyalty have significant impact on companies' development. Modern business environment is characterized with more intense competitions and companies are forced to build strong relationships with their customers to reach more profits (Ndubisi, 2007).

Customer loyalty is an important issue for the success of any retail organization, because it is known that drawing new customer is more expensive than keeping existing ones (Singh & Imran, 2012). Singh and Imran (2012) estimate that an average online retailer loses 25% of their customer every year, and a small increase in customer loyalty can increase profit by 25%. Relationship marketing aims to create lifetime customers because when customers have a relationship with a company, they are ready to forget any other competitors offer. Customers are motivated to do that because it gives them a greater efficiency in decision making, reduces the information processing, achieves a greater cognitive consistency in decisions, and reduces the perceived risks associated with future decisions (Singh & Imran 2012).

Takuma and mersini (2015), explained customer loyalty by two way; behavioural and emotional. In behavioural loyalty the customer regularly and repeated purchase from the same seller or business organization and emotional loyalty is the outcome of a psychosomatic linking with the service or product relating to preference and component like encouraging attitude and commitment.

## **1.2 Statement of the Problem**

In the rural business area, many retail outlets have overlooked the relevance of implementing customer reward programs as a tool to attract new customers and ret

ain existing ones. On the other hand, in the developed cities where there is high competition between and among business firms, retailers offer several types of reward programs to increase sales of products, maintain standard market share and make reasonable profit necessary for the survival of the business firm.

Due to the rapid increase in competition in urban cities retail market, retailers offer several types of reward programs to increase sales of products through customer repurchase over a period of time. Jain and Singhal (2012) concluded that in spite of the predominant use of reward programs, there is inadequate affirmation on the long-standing effects of these programs and their efficiency is not well recognized.

Despite the wide spread of reward programs in modern market, there is little empirical research that focuses on the measurement of influence of these programs on customer retention. The key to measuring the influence of reward programs is that they work as dynamic incentive tool relying on providing benefits based on cumulative purchasing over time. Reward programs encourage consumers to shift from single-period purchasing decision to multiple-period purchasing decision. (Sima & Elham, 2015)

While many companies carried out customer reward programs, fewer than half of these are active. Key reasons for that are that the reward programs include lack of reward relevance, rigid reward structures, and poor quality customer service. However, reward programs need to be designed with more targeted rewards, differ according to different groups of members based on their value, and they need to provide greater value at higher customer value tiers, by rewarding best customers to encourage higher spending levels. In order to do that the organization needs to understand their customer's needs and behaviors, by creating customer profiles with relevant data on customer interactions to have a complete picture of a customer's preferences. (Ray Shaw, 2015)

Previous studies had laid emphases on the activeness of customer reward programs and effectiveness of these programs in retaining customer. This study will examine the effectiveness of customer reward programs in enhancing customer loyalty.

### **1.3 Research Questions**

This study is an attempt to investigate the impact of customer reward programs on customer loyalty. In the course of doing so, the following research questions will be addressed:

- i. Does point system have impact on customer retention?
- ii. What is the impact of after sales service on customer loyalty?
- iii. What is the impact of discount price program on customer repurchase?

#### **1.4 Research Objectives**

The general objective of this study is to examine the impact of customer reward programs on customer loyalty. In order to attain this objective, the research will address the following sub-objectives:

- i. To evaluate the impact of point system on customer retention.
- ii. To analyze the impact of after sales service on customer loyalty.
- iii. To assess the impact of discount price program on customer repurchase.

#### **1.5 Research Hypotheses**

In the course of this research effort, the following hypotheses will be tested:

H<sub>1</sub>: Point system have impact on customer retention.

H<sub>2</sub>: There is significant impact of after sales service on customer loyalty.

H<sub>3</sub>: There is significant impact of discount price program on customer repurchase.

#### **1.6 Significance of the Study**

This research is design to investigate the impact of customer reward programs on customer loyalty. The research will serve as a tool to clarify the role of customer reward programs and their impact on customer loyalty. It will also look into the most important impact of reward programs that affect customer loyalty and make recommendation about the most effective. This type of research will help to provide the proper recommendation for organizations and also serve as specialized scientific addition in the field of studying customer loyalty.

#### **1.7 Scope of the Study**

This research concentrates on the impact of customer reward programs on custo



mer loyalty in small scale supermarket with emphasis on Danco supermarket in Ilorin, Kwara State as a case study. The research covers the period of 2020 to 2023.

## **1.8 Definition of Terms**

The following terms and concepts are defined as used in this study:

Customer: A customer is an individual or business that purchase goods and services from business organization.

Reward Programs: These are programs designed to increase customer engagement and purchases in exchange for discounts and other benefits.

Customer Loyalty: Customer loyalty describes an ongoing relationship between a company and their customer in which the customer is willing to repeatedly return to the company to conduct business.

## **1.9 Plan of the Study**

Chapter one: The chapter will cover the introduction section of the study which will provide a brief overview of the topic 'impact of customer reward programs on customer loyalty'. It will address the problem of the research, research questions, objective of the research study, hypotheses of the research, significance of the study, definition of key terms and plan of the study.

Chapter two: The chapter will cover literature review section of the study. It will dwell on the relevant past and present work on customer reward programs and customer loyalty. It also include identification and description of conceptual framework, theoretical framework and empirical review(theories, principles, generalization and research findings that are close related to customer reward programs and customer loyalty).

Chapter three: The chapter focuses on the processes and procedures used in gathering and analyzing data. The areas to be covered include research design, population of the study, sample size and sampling technique, method of data collection, method of data analysis and historical background of the case study.

Chapter four: In this chapter, data collected in the previous section will be presented, analyzed and interpreted. Hypotheses of the study will be tested and discussion of the findings will be presented.

Chapter five: This section of the research work will centered on summary of the research work, conclusion of the findings and recommendation will be made on the impact of customer reward programs on customer loyalty in small scale enterprises.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter dwells on the relevant previous and present work on customer reward programs and customer loyalty. It involves the identification and description of theories, principles, generalizations and research findings that are closely related to the study.

#### **2.1 Conceptual Framework**

##### **2.1.1 Concept of Customer Reward Program**

A customer reward program, also known as customer loyalty program, is a strategy that helps retain customers and encourages them to continue purchasing from a company. Loyalty/reward programs are structured marketing efforts that reward, and therefore encourage, loyal buying behavior, which is potentially beneficial to the firm (Sharp & Sharp, 1997). The rewards programs are offered by a company to customers who frequently make purchases. A loyalty program may give a customer advanced access to new products, special sales coupons or free merchandise. Customers typically register their personal information with the company.

According to Wijaya (2008), customer reward program is a program offered to the customers to build an emotional bond to the company or the brand of company. Peiguss (2012), views loyalty programs as an incentive by providing benefits based on cumulative purchasing over time. Loyalty programs encourage consumers to shift from myopic or single-period decision making to dynamic or multiple-period decision making. These programs encourage repeat buying and improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes.

Loyalty program is a technique of growing and maintaining the existing customers and supporting the rebuying through the incentive scheme (Doyle, 2013). Also, Rebecca (2019) assert that customer loyalty program is a marketing approach that recognizes and rewards customers who purchase or engage with the brand on a recurring basis. Customer reward program has been defined as a program run by a c



company that offers benefits to frequent customer. Those benefits may be in the form of discounts, rebates, free products, or other promotion. An effective customer reward program rewards customer who buy from the business on a regular basis, encouraging the customer to return frequently (Tara, 2022).

A loyalty program is a strategy in which a company provides its customer with rewards and discounts for being loyal. It helps businesses retain existing customers and increase product sales (pulse, 2023).

### **2.1.2 Types of Customer Reward Programs**

Organizations have rewarded the loyalty of preferred customers by enhanced services or price discounts. Recently, loyalty rewards programs have become applicable in several sectors businesses. Loyalty programs are structured marketing efforts that reward, and encourage loyal buying behavior which is potentially beneficial to the company. Specifically in retailing marketing it includes: point-based reward programs, tiered reward programs, paid reward programs etc.

1. Points system: This is the most common type of reward program. Frequent customers earn points, which translate into some type of reward: discount, gifts, or special customer treatment, customer purchases toward a certain amount of points to redeem their reward. Reward programs based on service usage levels (frequent buyer programs) have become common in the transportation and hospitality industries. This type of loyalty program is most appropriate for businesses that encourage frequent, short-term purchases. Sephora's Beauty Insider rewards program is a widely popular example of point reward system where customers earn reward based on a traditional point system.
2. Tier reward system: This type of reward programs offer small rewards as a base offering for being a part of the program, and encourage repeated customers by increasing the value of the rewards as the customer moves up the loyalty ladder. The difference between points and tiered systems is that customers extract short-term versus long-term value from the loyalty program. Tiered programs may work better for high commitment, higher price-point businesses like airlines, hospitality businesses, or insurance companies.
3. Charge an upfront fee for VIP benefits: Charge one-time (or annual) custom

ers to start collecting points by their purchases. Clearly this system is most applicable to businesses that thrive on frequent, repeat purchases. For an upfront fee, the customers are relieved of inconveniences that could impede future purchases. Example of this type of reward program is Designer Shoe Warehouse. DSW has long run VIP loyalty program that rewards customers with points for each purchase.

4. Non-monetary programs: This involve providing value to customers in other ways than discount and cash rewards. Depending on the customer's values, and on the industry, customers may find more value in non-monetary over discounts or cash rewards.
5. Frequent buyer programs: Retailers offer the low free service to the customers if the number of purchases or the total purchase amount reaches a specific limit. This creates the tendency in the customers to make those counts of purchases or the total purchase value in order to get the offer. It increases the sale of product leading to customer loyalty over a period of time.
6. Loyalty card program is an incentive plan that allows a retail business to gather information about its customers. Customers are offered product discounts, coupons, points toward merchandise or some other reward in exchange for their voluntary participation in the program. Another goal of a loyalty card program is to build repeat business by offering participating customers something that is not available to non-participating customers.
7. Gift card or Certificates: Retailers have introduced gift vouchers with specific amount and validity of their company. With this gift card it fastens unclear the buyer to go to the retailer who has issued the gift card and spend the amount.

With the available amount of the gift card customer will buy the goods more than the cost and increase in selling of goods. If one likes the store and the availability of goods, then customers become regular one.

8. Partner with another company to provide all-inclusive offers: Understanding customers' lifestyle and their purchase process will help determine which company is a good fit as a partner to reward the loyal customers. Providing customers with valued services beyond what the company can offer will grow the companies' network to reach their partners' and customers.

9. Return policy for loyal customer: The retailer offers the extended return policy to the Loyal Customers. This provides confidence to the customers as return is always a major concern of many.
10. Bundle goods: The seller sells various goods or services with the main item at no extra cost (Singh & Khan, 2012).

### **2.1.3 Types of Customer Reward Programs Users**

There are four types of customers regarding their attitudes to use loyalty programs.

1. Never: Never consumers are those who are not affected by loyalty programs and their reward incentives in any way. These set of customers are not influenced at all by loyalty reward programs.
2. Light consumers are having reward program memberships and being influenced by their incentives, but only moderately. These users are relatively affected by loyalty programs and their reward incentives.
3. Heavy consumers are highly influenced members of reward programs. The users in the group are influenced by loyalty reward incentive to a great extent.
4. Extreme consumers are customers who are addicted to or obsessed with loyalty programs. They place an uttermost value to reward incentives and this influences their buying decision to a large extent.

### **2.1.4 Benefits of Customer Reward Programs**

Researches from previous studies proved that, only 12% - 15% of customers are loyal to a single retailer. This small number of loyal customers generate between 55% - 70% of company sales. Some food retailers find that 65%-95% of their sales go to members of loyalty programs. 53% of food retailers offer loyalty programs, 75% of the loyalty programs members used their loyalty cards at least weekly and 25% at least used them once a month. The retail marketing literature demonstrates several benefits for loyalty programs for both businesses and consumers.

For businesses, loyalty programs are profitable because:

1. The costs of serving loyal customers are less.

2. Loyal customers are low price sensitive.
3. Loyal customers spend more with the company.
4. Loyal customers pass on positive recommendations about their favorite brands to their friends and relatives.
5. Loyalty programs provide the company with a wealth of consumer information. While companies can evaluate different purchases, the use of a loyalty program gives additional information about the type of products that may be purchased together, and whether certain coupons are more effective than others.
6. Retaining customers is less expensive than acquiring new ones, and customer experience management is the most cost-effective way to drive customer satisfaction, customer retention and customer loyalty.
7. Loyal customers are more likely to purchase more, with a high-margin of supplemental products and services.
8. Loyal customers reduce costs associated with consumer education and marketing.

Also, Peter (2010) addresses thirteen business benefits of a loyalty initiative:

1. Retain existing customers.
2. Acquire new customers.
3. Move customers' up-segment.
4. Win-back defected & churned customers.
5. Increase customer lifetime value.
6. Build relationships.
7. Create brand advocates.
8. Adjust pricing levels.
9. Responding to competitive challenges.
10. Select stock lines effectively.

11. Plan merchandising more intelligently.
12. Reduce promotional and advertising costs.
13. Aid in selecting new trading sites.

### **2.1.5 Objectives Customer Reward Programs**

Reinatz (2004) summarizes the objectives for using customer reward programs as the following:

1. Building true attitudinal and behavioral loyalty.
2. Efficiency profits.
3. Effectiveness profits.

Loyalty programs aim to retain the existing customers and encourage their loyalty, but loyalty to each company's objectives vary according to the company. Loyalty programs are:

1. To reward loyal customers.
2. To collect information in order to know who are the best customers.
3. To manipulate the behavior of buyers, the promotion applies to an individual in order to encourage customers to try new products.
4. To respond to competitors' actions (Margarita, 2016).

He further divided loyalty programs objectives into two groups:

1. The main objectives are to develop consumer loyalty, build communication capabilities, provide support to other company departments, etc.
2. The secondary objectives are to solve problems of the company, keeping in touch with the public, create additional opportunities to retain customers, improve company brand and so on.

He continued in his research work to clarify the main tasks of loyalty programs. Loyalty programs are employed to perform several and distinctive task which include:

- To develop and strengthen the existing customer loyalty. First of all,