

# 9. Loyalty program and communication effectiveness as drivers of store loyalty

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# Loyalty program and communication effectiveness as drivers of store loyalty

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## Abstract

**Purpose** – The purpose of this study is to determine the direct effect of a loyalty program on program loyalty and store loyalty and to determine the role of communication effectiveness as a mediating variable in moving customers from program loyalty to store loyalty in the context of micro, small and medium enterprises (MSMEs).

**Design/methodology/approach** – Respondents of this study were 100 customers of the MSMEs that sell Batik products in Cirebon, Indonesia who were selected by the purposive sampling method. This study focuses on primary data collected through a structured questionnaire. Data were analyzed using SmartPLS 3.0 to determine the causality relationship between variables and to test the communication effectiveness as a mediating variable.

**Findings** – The results of this study indicate that the loyalty program has a significant effect on program loyalty; program loyalty has a significant effect on store loyalty and communication effectiveness, and communication effectiveness has a significant effect on store loyalty. Other results indicate that communication effectiveness partially mediates the relationship between program loyalty and store loyalty.

**Research limitations/implications** – Despite the significant implications, this study has four limitations. First, the research results cannot conclude the store in general because the sampling of this study is limited to MSMEs only. Future research is needed to explore more deeply to compare store loyalty to MSMEs and non-MSMEs. Second, this research is only aimed at MSMEs that have loyalty programs. Future research can be carried out by comparing MSMEs that have loyalty programs and MSMEs without loyalty programs. Third, this study only uses two independent variables and one mediating variable. As is well known, there are many other variables that are antecedents of store loyalty. Future research needs to be done to explore the effect of other variables (mediating and moderating) on store loyalty, such as service quality, company image and customer satisfaction. Fourth, the research sample is only 100 respondents. Future research should use a larger sample as this research is customer-based.

**Practical implications** – This study has a significant impact on MSMEs management by providing strategies that can increase and retain customers who have high store loyalty. MSMEs need to design loyalty programs to influence customer perceptions of status, buying habits and relationships with companies. A customer associates a high value with loyalty program membership, the customer is more likely to find the communication relevant and credible, leading to effective communication that can increase store loyalty.

**Social implications** – This study provides real strategies and opportunities for MSMEs to develop so that they can survive or compete with similar companies. It is hoped that MSMEs will be able to absorb more labor so that it can increase the contribution of MSMEs to the national economy.

**Originality/value** – This study addresses the inconsistency of various results from previous studies regarding the relationship between program loyalty, loyalty programs, communication effectiveness and store loyalty, both directly and indirectly. In addition, several studies have been carried out in large corporate contexts. However, according to the authors' knowledge, this research is for the first time being conducted in the context of MSMEs.

**Keywords** Communication effectiveness, Store loyalty, Loyalty program, Program loyalty

**Paper type** Research paper

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## 1. Introduction

Micro, small and medium enterprises (MSMEs) have a very important and strategic role in economic development, especially in Indonesia. Based on data from the Ministry of Cooperatives, Small and Medium Enterprises in 2019, the number of MSME businesses was 64.2 million or 99.99% of the total businesses in Indonesia. MSMEs play a role in economic growth and employment, play a role in distributing development results and are proven not to be affected by the crisis (Suliyanto, 2013). The absorption capacity of the MSME labor is as much as 117 million workers or 97% of the absorption capacity of the business world labor. Meanwhile, the contribution of MSMEs to the national economy [gross domestic product (GDP)] was 61.1% and the remaining 38.9% was contributed by large business actors whose total was only 5,550 or 0.01% of the total business. These MSMEs are dominated by micro-businesses, amounting to 98.68% with a labor absorption of around 89%. Meanwhile, the contribution of micro-enterprises to GDP is only around 37.8% (BPS-Statistics Indonesia, 2020).

MSMEs have several problems including business financing, lack of capital and unclear marketing and distribution systems (Wasiuzzaman, 2019). Along with the increasing development of internet and social media users, providing opportunities for MSMEs to overcome these difficulties by streamlining communication through the application of social customer relationship management (SCRM). Based on data from the Ministry of Cooperatives, Small and Medium Enterprises, as many as 10.79 million MSMEs have used online platforms to market their products (BPS-Statistics Indonesia, 2020). The use of social media by MSMEs is the most appropriate SCRM technology because most social media are freely available and used by the majority of customers (Rehnen *et al.*, 2017; Moustaghfir *et al.*, 2020). SCRM is an important strategy that can be used by companies to increase customer profits and loyalty (Evanschitzky *et al.*, 2012). SCRM describes a business strategy that adds social media elements to longstanding customer relationship management. SCRM can be understood as customer service and customer loyalty on social media. A company is shifting store focus to customers who are active on various social media platforms, to both offer customer service on social channels and to optimize its own store services by collecting customer data through these channels (Abdullah *et al.*, 2012). The long-term goal of SCRM is to increase customer satisfaction and loyalty.

Customer loyalty is very important for every company because it can increase future sales, price premium, share of wallet and share of visits (Liang and Wang, 2007; Kang *et al.*, 2015). Customer loyalty is the most important driving force for business success in highly competitive competition (Sun *et al.*, 2013). Therefore, the company focuses its efforts on building and maintaining customer loyalty. One of the marketing techniques used to build customer loyalty is through loyalty programs (Gupta *et al.*, 2018). Loyalty programs are used as the main strategy for companies in facing increasingly fierce competition (Bruneau *et al.*, 2018) and play a strategic role in attracting and retaining customers (Schumann *et al.*, 2014). The role and existence of the loyalty program is to provide information that is very important to customers (Abdullah *et al.*, 2012).

Based on previous studies, the evidence regarding the effectiveness of loyalty programs in increasing program loyalty remains mixed and often inconsistent. The inconsistency and variety of research results can be seen from the results of different studies. There are several research results which state that loyalty programs have a positive effect on customer loyalty (Berezan *et al.*, 2015; Lo *et al.*, 2017) and several studies that state loyalty programs do not affect customer loyalty (Kim *et al.*, 2012; Ma *et al.*, 2018; Khairawati, 2019).

Customers can develop a store's positive attitude toward the benefits they receive from joining a loyalty program which will lead to loyalty to the program (Bowden and Dagger, 2011). Program loyalty is not the same as attitude loyalty toward the store because customers can switch to a competitor's program offering more attractive benefits.

Therefore, it is very important to understand what processes move customers from program loyalty to store loyalty (Sharp and Sharp, 1997; Yi and Jeon, 2003; Liu, 2007; Khan, 2014).

One of the factors that can affect program loyalty and store loyalty is communication effectiveness (Sharma and Patterson, 1999; Abroms and Maibach, 2008; Beck *et al.*, 2015). Communication is very important because without effective communication in making transactions it will not be possible to run well (Middleton and Byus, 2011; Coulter and Roggeveen, 2012). Effective communication and good communication skills will also attract new customers and retain existing customers (Raab *et al.*, 2015; Risius and Beck, 2015; Berezan *et al.*, 2016). Sometimes negotiations do not go smoothly, so in this case, good communication is needed so as not to cause problems and mistakes between the two parties (Srivastava, 2016). By increasing the effectiveness of communication, customer loyalty can be formed, so that it can also affect store loyalty (Reinold and Tropp, 2012; Widhiastuti, 2013). Without loyalty from customers, the company may not be able to survive or compete with similar companies.

Previous research on the factors that move customers from program loyalty to store loyalty has been conducted in the context of large companies (Jerman and Završnik, 2012). However, this study is aimed at the influence of loyalty programs on program loyalty in the context of MSMEs. This study also aims to determine the effect of program loyalty on store loyalty. In addition, this study uses the communication effectiveness variable that has been carried out by MSMEs as a mediating variable on the relationship between program loyalty and store loyalty.

## 2. Literature review and hypothesis

### 2.1 Loyalty program

Loyalty programs have long been an important element of management in owner-customer relationships (Bolton *et al.*, 2000) and have attracted the attention of marketing scientists as the focus of marketing research (Voorhees *et al.*, 2015). Most of the research is directed at examining how these programs contribute to financial performance (Ha and Stoel, 2008) and the ability of the loyalty program to foster customer loyalty (Leenheer *et al.*, 2007; Zakaria *et al.*, 2014). Loyalty programs are marketing programs designed to build customer loyalty, one of which is by providing incentives or gifts to customers (Meyer-Waarden *et al.*, 2013).

The company implements a loyalty program to influence customer perceptions of their status, buying habits and customer relationships with the company, thereby encouraging greater loyalty (Henderson *et al.*, 2011). Thus, the loyalty program has financial benefits (Bolton *et al.*, 2004), such as special customer discounts for loyalty program members, cash-back offers and coupons (Mimouni-Chaabane and Volle, 2010). Customers will also experience social benefits, such as friendship, friendship and personal recognition (self-actualization) from participating in the loyalty program (Meyer-Waarden *et al.*, 2013). The family feeling created by the customer loyalty program gives a feeling of belonging between the customer and the company, this feeling of importance and integration is a means of fulfilling emotional needs (Gandomi and Zolfaghari, 2013). This social bond is difficult to break and it is likely that customers will maintain their relationship with the company (Wang and Liang, 2010). In addition, customers' perceptions of value can increase loyalty for relationship changes (Kim *et al.*, 2013). The perceived usefulness of a loyalty program, both financial and social, should increase customer loyalty to the program (Meyer-Waarden, 2015).

Loyalty programs run by a company provide benefits or perceived value to its members as a sign of appreciation for store loyalty to the company (Berman, 2006). Previous research has explained that program loyalty is a consequence of loyalty programs (Evanschitzky *et al.*, 2012; Kang *et al.*, 2015). In their research, Evanschitzky *et al.* (2012) stated that the loyalty program (economic value, social benefits and special treatment) had an effect on



program loyalty. Another study conducted by Kang *et al.* (2015) states that loyalty programs increase loyalty to the program.

So based on previous research, this study suggests the following hypothesis:

H1. Loyalty program has a positive and significant effect on program loyalty.

## 2.2 Program loyalty

The level of business competition continues to grow increasingly fierce in the past few decades. As an implication, business people must always strive to find ways to survive in these competitive conditions. One of the ways that can be taken to achieve this goal is through the implementation of a loyalty program (Mazodier and Merunka, 2014). Lewis (2004) distinguishes two types of loyalty based on targets, namely, store loyalty and program loyalty. Program loyalty is defined as a customer who has a positive attitude toward the benefits of the loyalty program, while company store loyalty is a positive attitude toward the company's stores. Loyalty programs are held to build customer loyalty, generally in the form of a scheme of providing additional benefits to customers based on purchase data that customers have made. (Yi and Jeon, 2003). In practice, the additional benefits provided can take many forms, from recognition, preferential treatment, access to special products or services, special prices to gift-giving.

A number of studies have proven the positive impact of program loyalty for the formation of customer loyalty (Bolton *et al.*, 2000; Meyer-Waarden, 2015) and are even stronger drivers of purchasing behavior than positive attitudes toward the company (Evanschitzky *et al.*, 2012). Swoboda *et al.* (2013) empirically show that program loyalty leads to store loyalty by manipulating different reward schemes, whereas Martenson (2007) has shown that program loyalty leads to company loyalty. Apart from the empirical evidence of the positive impact of loyalty programs on customer loyalty, a number of studies indicate that there are certain conditions that affect the effectiveness of loyalty programs in shaping customer loyalty (Uncles *et al.*, 2003; Yi and Jeon, 2003). Loyalty programs will be effective in forming customer loyalty if they are relevant to brand positioning (Uncles *et al.*, 2003), are in a high-involvement condition (Yi and Jeon, 2003) and do not provide requirements for additional benefits that are too difficult (Kivetz and Simonson, 2002). A number of these facts indicate that the loyalty program does not necessarily have a positive impact on customer loyalty, depending on the circumstances. In most cases, customer loyalty is indeed formed from continuous interaction between consumers and brands, not from loyalty programs.

Loyalty program members receive a unique form of communication from the store, the store receives periodic and personal messages from offers made specifically for the store (Gupta *et al.*, 2018). Personalization of communication can also increase the personal relevance associated with communication and increase the effectiveness of communication. Therefore, if a customer associates a high value with loyalty program membership, he or she will be more likely to find store communications relevant and credible leading to effective communication. The results of research by Maity and Gupta (2016) state that program loyalty significantly affects communication effectiveness.

Research conducted by Danaher and Rossiter (2011) also states that effective communication between customers and stores can be well-established with the store's loyalty program. If these two variables are considered properly, it can increase profits for the store. This result is also supported by Jerman and Zavrsnik (2012) which state that the loyalty program developed by the store can increase the effectiveness of communication, which, in turn, can increase sales.

So based on previous research, this study suggests the following hypothesis:

H2. Program loyalty has a positive and significant effect on store loyalty.

H3. Program loyalty has a positive and significant effect on communication effectiveness.

In addition, communication affects all aspects of the customer-company relationship, especially loyalty which ultimately increases customer retention (Beck *et al.*, 2015). Communication effectiveness involves regular, timely and relevant interactions between the store and the customer which leads to emotional bonding and creates a psychological barrier to exit (Hänninen and Karjaluoto, 2017). Gupta *et al.* (2018) state that the effectiveness of communication increases company loyalty.

So based on previous research, this study suggests the following hypothesis:

H4. Communication effectiveness has a positive and significant effect on store loyalty.

### 2.3 Mediating role of communication effectiveness

Previous research has significantly established a causal relationship between program loyalty and store loyalty, but it is necessary to reveal the psychological path that customers follow between program loyalty and store loyalty (Omar *et al.*, 2013; Steinhoff and Palmatier, 2016). Two recent studies have identified a mediation process that links program loyalty with store loyalty. The first study from Kang *et al.* (2015) shows that program loyalty improves customer store identification in terms of emotional benefits such as pride in being a customer, feeling good and having a sense of self in accordance with the store, thus affecting store loyalty. The second study from Gupta *et al.* (2018) states that there are three drivers to direct program loyalty into store loyalty. The three drivers are perceived functional value, customer engagement with experience and communication effectiveness. Of the three drivers, we chose the effectiveness of communication as a driver of program loyalty toward store loyalty which is relatively suitable in the context of MSMEs.

Patterson (2016) reveals that the effectiveness of communication has a big impact in the context of a more professional service between customers and stores, by linking loyalty programs created by stores with the psychological comfort of customers that can increase store loyalty.

So based on previous research, this study suggests the following hypothesis:

H5. Communication effectiveness mediates a relationship between program loyalty and store loyalty.

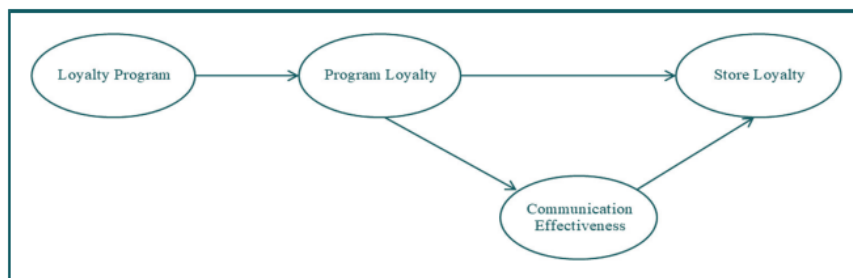
Based on the above hypothesis, the proposed conceptual framework is presented in Figure 1.

## 3. Methods

### 3.1 Sample and data collection

Data collection was carried out in 10 MSMEs that sell Batik products in Cirebon, Indonesia. MSMEs, which are the sample of the study, are stores that carry out a loyalty program. This

**Figure 1** Proposed conceptual model



loyalty program is organized by the Department of Cooperatives and MSMEs in Cirebon. The loyalty program was followed by several MSMEs, one of which was MSMEs selling Batik products. MSMEs that sell Batik were chosen as respondents because Batik is a great cultural heritage owned by Indonesia. The United Nations Agency for Education, Science and Culture or UNESCO has inaugurated Batik as a Humanitarian Heritage for Oral and Intangible Culture on October 2, 2009. The results of this study can be used to increase sales of Batik in Indonesia, especially in Cirebon.

Respondents in this study were selected using purposive sampling by distributing questionnaires directly to respondents. Respondents selected are those who take part in the loyalty program provided by the store. This research took place over 14 days during September 2020, including weekends and weekdays and includes all the opening hours of each store. A total of 110 questionnaires were distributed and 100 questionnaires can be used with an effective rate of 91%.

This research studies the relationship between loyalty program variables, program loyalty, communication effectiveness and customer loyalty. Program loyalty is measured by three indicators (Kang *et al.*, 2015), a loyalty program is measured by four indicators (Kim *et al.*, 2012), Communication effectiveness is measured by seven indicators (Gupta *et al.*, 2018) and store loyalty is measured by five indicators (Das, 2014). The variable measurement tool used in this research is interval data measurement. To measure respondents' responses to indicators on each variable, a seven-point Likert scale was used.

### 3.2 Data analysis

The data collected was processed using SmartPLS 3.0. Data analysis was carried out in two parts, namely, descriptive statistics and model evaluation results. The structural equation model is used to determine the effect of the independent variable on the dependent variable. Hypothesis testing is determined by the value of the *t*-statistic. A relationship is said to be significant with a significance level of 5% if it has a *t*-statistics value of more than 1.96 (Hair *et al.*, 2010). Testing of the mediation effect was carried out using the variance accounted for (VAF) method developed by Preacher (2015).

## 4. Results

### 4.1 Demographic characteristics

The characteristics of respondents regarding gender, marital status, age, occupation and use of social media are described in Table 1.

Based on Table 1, the characteristics of the respondents are 56.0% are women, 78.0% are married, 38.0% are in the age range 18–30 years, 42.0% are workers and 36.0% use Instagram as social media.

### 4.2 Model evaluation

Convergent validity was tested through the loading factor value of the indicator on the construct variable. The desired loading factor is 0.7 or more, but variables that have a loading factor of 0.4 to 0.7 can still be calculated. Convergent validity can also be determined by using the average value of the average variance extracted (AVE). A construct can be declared to meet convergent validity if the loading factor of each indicator has a value of 0.5 and has an AVE value of at least 0.5 (Preacher, 2015). Based on Table 2, it is known that all the indicators and construct variables have met the criteria for the convergent validity test.

Furthermore, the reliability test is used to test the accuracy and precision of a measuring instrument in a measurement procedure. A measurement result can be trusted if the

Table 1 Respondents characteristic		
Demographic factors	Frequency	(%)
<i>Gender</i>		
Male	44	44.0
Female	56	56.0
<i>Marital status</i>		
Single	22	22.0
Married	78	78.0
<i>Age (year)</i>		
18–30	38	38.0
31–40	30	30.0
41–50	31	31.0
Above 50	1	1.0
<i>Occupation</i>		
Government employees	24	24.0
Self-employment	25	25.0
Worker	42	42.0
Other	9	9.0
<i>Social media</i>		
Instagram	36	36.0
Facebook	27	27.0
WhatsApp	21	21.0
Other	16	16.0
Note: $n = 100$		

Table 2 Factor loading and AVE values				
Variables	Indicator		Factor loading	Remark
Communication effectiveness	CE1	The communication that occurs can build the same understanding between store and customer	0.785	Valid
	CE2	The communication that occurs develops a sense of pleasure	0.818	Valid
	CE3	The communication that occurs changes attitudes in the direction desired by the store and customer	0.819	Valid
	CE4	The communication that occurs builds good social relationships	0.811	Valid
	CE5	The communication that occurs causes the expected action	0.843	Valid
	CE6	The communication that occurs can increase purchases by customers	0.721	Valid
	CE7	The communication between store and customer was very effective	0.704	Valid
Store loyalty	SL1	I visit the same shop if I want to buy Batik	0.824	Valid
	SL2	I rarely make the switch to another store	0.889	Valid
	SL3	I will make another visit	0.850	Valid
	SL4	I provide recommendations to other parties	0.877	Valid
	SL5	I will say positive things about the store	0.859	Valid
Loyalty program	LP1	Prices for products in stores are cheaper than in other places	0.793	Valid
	LP2	Stores provide discounts for customers who shop using customer cards	0.904	Valid
	LP3	Store offers a lucky draw program	0.784	Valid
	LP4	There are price cuts for the purchase of certain product combinations	0.906	Valid
Program loyalty	PL1	I like this loyalty program more than other programs	0.878	Valid
	PL2	I have a strong preference for this loyalty program	0.847	Valid
	PL3	I would recommend this loyalty program to others	0.782	Valid

implementation of measurements on the same subject group several times obtained relatively the same results. Internal reliability consistency was tested through Cronbach's alpha and composite reliability (CR) as shown in Table 3. Based on Table 3, the Cronbach's alpha value and CR of all variables are above 0.70 which is a measure of reliability feasibility



(Hair *et al.*, 2010). Thus, all research variables have good reliability and have met the internal consistency reliability test.

Based on Table 3, it can be seen that the CR for all variables is above 0.70 and the AVE value is between 0.818 and 0.840. Discriminant validity was assessed using Fornell and Larcker (1971) by comparing the square root of each AVE diagonally with the correlation coefficient (off-diagonal) for each construct in the relevant row and column. For the construction of loyalty programs and program loyalty, there are slight differences. However, the difference is too small, which is 0.008 and can be ignored (Rahim and Magner, 1995). Overall, discriminant validity is acceptable for this measurement model and supports discriminant validity between variables.

Furthermore, measurement of discriminant validity using Heterotrait-Monotrait (HTMT) criteria based on Henseler *et al.* (2015), with a suggested threshold value of 0.90. In other words, HTMT values above 0.90 indicate a lack of discriminant validity. Based on Table 4, it can be seen that all variables meet the requirements for discriminant validity because they have a value of less than 0.90.

#### 4.3 Hypothesis testing direct effect between variables

Hypothesis testing is carried out on the direct effect of each independent variable on the dependent variable. If the coefficient value is positive and the *P*-value < 0.05, the hypothesis is not rejected (Hair *et al.*, 2010). The direct effect of the independent variable on the dependent variable can be seen in Table 5.

Based on Table 5, it can be seen that all direct effect hypotheses are acceptable (*H1–H4*) because they have a positive coefficient value and a *P*-value ≤ 0.05. The results of the hypothesis in Table 5 are seen in the path diagram as shown in Figure 2 below:

#### 4.4 Hypothesis testing the mediating role of communication effectiveness

An indirect test is used to test the effect of the mediating variable on the direct effect of the independent variable on the dependent variable. The communication effectiveness variable acts as a variable that mediates the effect of program loyalty on store loyalty. Testing of

**Table 3** Cronbach's alpha, CR, AVE, **the square root of the AVE** (in bold) and correlations between constructs (off-diagonal)

Variables	Cronbach's alpha	CR	AVE	A	Variables		
					B	C	D
Communication effectiveness (A)	0.897	0.919	0.820	<b>0.917</b>			
Store loyalty (B)	0.912	0.934	0.840	0.851	<b>0.906</b>		
Loyalty program (C)	0.870	0.911	0.826	0.810	0.841	<b>0.854</b>	
Program loyalty (D)	0.786	0.875	0.818	0.872	0.874	0.862	<b>0.903</b>

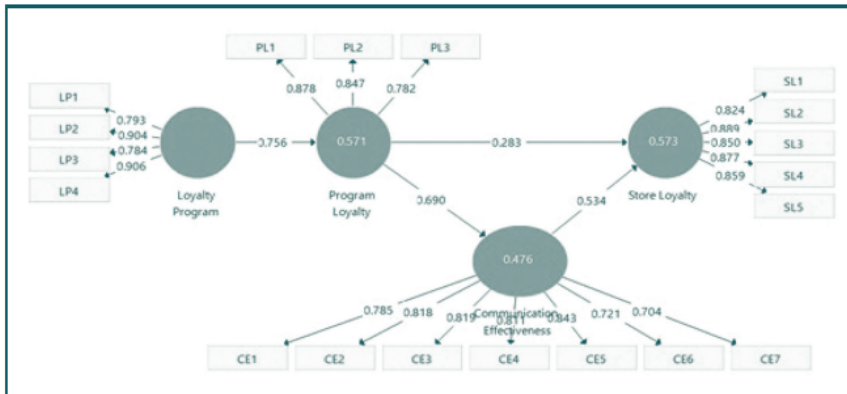
**Table 4** HTMT results

Variable	Loyalty program	Program loyalty	Communication effectiveness	Store loyalty
Loyalty program	–			
Program loyalty	0.64	–		
Communication effectiveness	0.32	0.71	–	
Store loyalty	0.56	0.58	0.77	–

**Table 5** Hypothesis testing of direct effects

Hypothesis	Direct effect	Coefficient	T statistics	P-values	Remark
H1	LP → PL	0.756	15.761	0.000	Significant
H2	PL → SL	0.283	2.547	0.011	Significant
H3	PL → CE	0.690	14.724	0.000	Significant
H4	CE → SL	0.534	5.851	0.000	Significant

Notes: Loyalty program (LP); program loyalty (PL); communication effectiveness (CE); store loyalty (SL).

**Figure 2** Path analysis

the mediation effect was carried out using the VAF method developed by Preacher (2015). The effect of mediation can be seen in Table 6.

The effect of communication effectiveness as a mediating variable between program loyalty and store loyalty in this study is shown by the direct influence and indirect influence of the program loyalty variable on store loyalty. The effect of program loyalty on communication effectiveness and store loyalty either directly or indirectly has a statistically significant effect because it has  $P \leq 0.05$ . Therefore, communication effectiveness mediates the effect of program loyalty on store loyalty by partially mediating.

## 5. Conclusion

### 5.1 Theoretical implications

The results showed that the loyalty program had a positive and significant effect on program loyalty, program loyalty had a positive and significant effect on store loyalty,

**Table 6** Hypothesis testing of mediating effects

Hypothesis	Value
Direct effects	0.655
Indirect effects	0.689 * 0.535
Total effects	1.024
VAF	0.360
Remark	Partial mediation

program loyalty had a positive and significant effect on communication effectiveness and communication effectiveness had a positive and significant effect on store loyalty. The results also show that communication effectiveness plays a role as a partial mediating variable on the relationship between program loyalty and store loyalty. The results of this study are in line with research conducted by [Evanschitzky et al. \(2012\)](#) which states that loyalty programs have an effect on program loyalty. The results of this study indicate that the loyalty program has a positive and significant effect on program loyalty. Thus, there is sufficient evidence to suggest that loyalty programs have a positive and significant effect on program loyalty. The benefits of the loyalty program provided by the MSMEs store will continue to have an impact on customers to be loyal to the program ([Bridson et al., 2008](#)).

Additionally, customers who develop store loyalty are usually attracted by the loyalty program and its benefits ([Rajagopal, 2009](#)). Customer perceptions of the value and benefits available through participation in a loyalty program result in loyalty to the program, which, in turn, increases loyalty to the store. The results of this study are in line with the results of research by [Kang et al. \(2015\)](#) which explains that program loyalty causes store loyalty. The results of this study indicate that program loyalty has a positive and significant effect on store loyalty. Thus, there is sufficient evidence that program loyalty has a positive and significant effect on store loyalty. Loyalty to the program will continue to have an impact on customer loyalty to the store.

Customers with high program loyalty will tend to have higher personal relevance. That personal relevance stems from a sense of community because of the value the store associates with its membership. Loyalty program members receive a unique form of communication from the store ([Coulter and Roggeveen, 2012](#)). The store receives periodic messages and personalized messages from special offers. Personalization of communication can also increase the personal relevance associated with communication, thereby increasing the effectiveness of communication ([Ahamad, 2019](#)). Therefore, if customers associate high value with loyalty program membership, customers will tend to find communication relevant and credible, leading to effective communication ([Pratono, 2018](#)). The results of this study are in line with the results of research conducted by [Sharma and Patterson \(1999\)](#) which states that program loyalty significantly affects the effectiveness of communication. The results of this study indicate that program loyalty has a positive and significant effect on communication effectiveness. Thus, there is sufficient evidence that program loyalty has a significant positive effect on communication effectiveness. Loyalty to the program will continue to have an impact on the effectiveness of communication made by the store.

Loyalty programs use targeted communication to build stronger bonds between customers and stores ([Constans and Lal, 2000](#); [Ailawadi et al., 2008](#); [Martos-Partal and González-Benito, 2011](#)). The effectiveness of communication is driven by the perceived relevance of the message and the credibility of the message source. Loyalty program members receive personal communications from the store, which can be a boost for the personal relevance built into the store ([Das, 2014](#); [Jang et al., 2015](#)). The effectiveness of the communication that exists between the store and the customer will lead to an emotional bond which results in a psychological barrier to exit so that the customer becomes loyal to the store ([Pratono, 2018](#); [Puyod and Charoensukmongkol, 2019](#)). The results of this study are in line with the results of research conducted by [Maity and Gupta \(2016\)](#) which states that the effectiveness of communication increases company loyalty. The results of this study indicate that the effectiveness of communication has a positive and significant effect on store loyalty. Thus, there is sufficient evidence that the effectiveness of communication made by stores has a positive and significant effect on customer loyalty. The effectiveness of good communication will have an impact on store loyalty ([Maity and Gupta, 2016](#); [Sreejesh et al., 2016](#)).

In addition, loyalty program members receive effective communication via social media. Effective communication between stores and customers has an impact on customer loyalty to the store. The results of this study indicate that communication effectiveness is able to mediate the relationship between program loyalty and store loyalty. The results of this study are in line with research conducted by Gupta *et al.* (2018) which states that there are three drivers to direct program loyalty into company loyalty, one of which is communication effectiveness.

## 5.2 Practical implications

The main managerial contribution of this research is directed to stores/companies that are interested in increasing customer loyalty. First, the loyalty program designed by MSMEs can increase loyalty to the program and store loyalty. Loyalty is a manifestation of the fundamental human need to have, support, get a sense of security and build attachments and create an emotional attachment. (Vesel and Zabkar, 2009; Meyer-Waarden, 2015). Meanwhile, customer loyalty is a behavioral impetus to make repeated purchases and to build customer loyalty to a product or service. Customers are said to be loyal if the customer shows regular buying behavior (Bloemer and de Ruyter, 1998; Bridson *et al.*, 2008; Walsh *et al.*, 2011). Most businesses such as retail businesses implement loyalty programs to increase their customer satisfaction and prevent their customers from switching to their competitors (Yoon and Tran, 2011; Sreejesh *et al.*, 2016). There are various ways that business people can do to increase customer loyalty in the face of business competition, one of which is by increasing loyalty to the program.

Second, with the increasing competition between MSMEs, a strategy is needed to retain loyal customers. It is very important for MSMEs to understand the personality of store customers to understand the tastes of their customers. Customers have their own personalities and continuously learn from the environment about the latest MSMEs products so that MSMEs need to understand this. MSMEs need to increase store loyalty by increasing the quality of satisfying store services (Yoon and Tran, 2011).

Third, MSMEs design loyalty programs to influence customer perceptions of status, buying habits and relationships with companies (Hwang *et al.*, 2019). Loyalty programs run by MSMEs provide benefits felt by customers as a sign of appreciation for customer loyalty to MSMEs. The benefits of the loyalty program that are felt are obtained from cash rewards (economic/monetary benefits), personal communication and preferential treatment when shopping at MSME stores. Customers who feel the benefits of the MSMEs loyalty program will continue to participate in the loyalty program because of these perceived benefits.

Fourth, the effectiveness of communication is able to mediate the relationship between program loyalty and store loyalty. The response from customers is very important to develop MSME products. The effectiveness of communication can be done by asking customers to provide reviews of product quality and shop service quality (Sivadas and Baker-Prewitt, 2000), for example, by filling out questionnaires, online surveys or from emails sent to customers. MSMEs can also give prizes if customers are willing to fill out the questionnaire, for example, giving samples of new products or giving vouchers to some lucky customers. Customer loyalty or loyalty is a measure of the number of times a customer makes a purchase or participates in a business. Every store or company may have various ways to measure customer loyalty. However, the most basic way that can be done is to look at the number of purchases made by customers in a database. Customers who make repeated purchases are the most valuable customers (Koo, 2003; Martenson, 2007; Swoboda *et al.*, 2013). There are many benefits that can be obtained by having loyal customers. Besides being able to increase profits, manufacturers will also often get good reviews from customers. This is very important to gain the trust of potential customers. That is why until now many business people have done various ways to increase customer loyalty to stores.



### 2 5.3 Limitations and future research

Despite the significant implications, this study has four limitations. First, the research results cannot conclude the store in general because the sampling of this study is limited to MSMEs only. Future research is needed to explore more deeply to compare store loyalty to MSMEs and non-MSMEs. Second, this research is only aimed at MSMEs that have loyalty programs. Future research can be carried out by comparing MSMEs that have loyalty programs and MSMEs without loyalty programs. Third, this study only uses two independent variables and one mediating variable. As is well known, there are many other variables that are antecedents of store loyalty. Future research needs to be done to explore the effect of other variables (mediating and moderating) on store loyalty, such as service quality, company image and customer satisfaction. Fourth, the research sample is only 100 respondents. Future research should use a larger sample as this research is customer-based.

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