

# THE IMPACT OF FREQUENCY PROGRAMS ON CUSTOMER LOYALTY: A PRELIMINARY STUDY OF HOTEL DINER LOYALTY IN THAILAND

by

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## Abstract

*This study adopts Dick and Basu's (1994) customer loyalty conceptual model as a research framework. It is a comprehensive model of customer loyalty that presents a relationship of two constructs: repeat patronage and relative attitude. The specific aims of this study are to identify a classificatory scheme of loyalty conditions and investigate how a frequency program can shift the attitudinal dimension of members in order to improve loyalty and to gain a deeper understanding of the effectiveness of frequency programs used in the hotel industry in Thailand. A multi-scale items of loyalty measurement from member's perspective was used in accordance with the two dimensional loyalty model developed by Dick and Basu (1994).*

## INTRODUCTION

The widespread use of customer loyalty and frequency programs by all manner of companies would suggest that they are proven effective tools (Duffy, 1998; Noordhoff *et al.*, 2004). However, this is not a convincing point to foster a belief in the efficacy of frequency programs on customer loyalty. There are deeper issues raised by managers about the cost benefit of frequency programs.

Most customer loyalty programs available across the service industry have largely focused on building repeat patronage. There is now a combined approach through a theoretical framework of customer loyalty, that uses both repeat patronage and relative attitude constructs in measuring loyalty (Dick and Basu, 1994).

Two different kinds of frequency programs are employed by hotels: frequent stay and frequent diner. A frequent stay program requires no membership fee, while a frequent diner program charges an annual membership fee for privileged services and benefits.

The frequency program examined in this study is a structured fee-based frequency program. Loyalty conditions of members with different lengths of membership are measured using a combined approach, focusing particularly on motives of repeat patronage and level of relative attitude. In addition, the impact of Social Influences on loyalty development is also

tested.

The repeat patronage construct focuses on customer behavior. Its inclusion provides a basis for measuring and evaluating what customers do. The relative attitude construct focuses on how customers evaluate services they use, and provides a basis for understanding the reasons behind the behavior.

## LITERATURE REVIEW

An increase in customer loyalty from both behavioral and attitudinal dimensions is the anticipated outcome among hotel managers, and the importance of customer loyalty is recognized as a key to profitability in service business (Andreassen and Lindstad, 1998; Bowen and Chen, 2001; Dick and Basu, 1994; Gwinner *et al.*, 1998; Javalgi and Moberg, 1997; Pritchard and Howard, 1997; Uncle *et al.*, 2003).

Dick and Basu (1994) developed a comprehensive customer loyalty conceptual model, which then became a springboard for researchers to investigate the level of customer loyalty in various businesses. The model describes four different types of customer loyalty conditions through the relationship matrix of repeat patronage dimension and relative attitude dimension, namely: no loyalty, latent loyalty, spurious loyalty and sustainable loyalty. It offers a wider view

in understanding customer loyalty. The model suggests that in order to increase the degree of customer loyalty from spurious loyalty to true loyalty, relative attitude dimension needs to be reinforced while maintaining motives that drive repeat patronage (Dick and Basu, 1994). This consensus was referred similarly in many relevant studies, namely Berry and Parasuraman (1991), Gwinner *et al.* (1998), Javalgi and Moberg (1997), Patterson and Smith (2001).

It is therefore crucial to measure customer loyalty in both the repeat patronage dimension and the relative attitudinal dimension in order to define the level of member loyalty. The result from the combined approach of Dick and Basu (1994) offers a more in-depth view of customer loyalty in addition to the assessment of Social Influences variables and loyalty development among frequency program members.

In the literature reviewed, the impact of the frequency programs on customer loyalty in the area of service businesses remains to be discovered, particularly those programs with annual membership fee. Moreover, among the structured membership programs, there is a profound lack of understanding about the level of customer loyalty from both the repeat patronage and the relative attitude.

Repeat patronage intention seemed to be a widely used construct in measuring customer loyalty (Evans, 1999; Hellier *et al.*, 2003). This suggests that the degree of loyalty tends to be measured more by the customers' repeat patronage level - or behavioral level - than by the customer's attitudinal level. However, attitudinal or emotional attachments have increasingly gained attention as important factors leading to customer loyalty (Butcher *et al.*, 2001).

Measuring and recognizing members' attitudinal loyalty condition consequently allows managers to optimize the effect of non-financial benefits and to capitalize on them as a competitive advantage to the firm. For this reason, there is a clear tendency within the literature to adopt a combined approach in studying frequency programs.

The combined approach facilitates not only the design of a financial benefit based programs, but also the design of effective frequency programs. If the service providers can identify the levels of customers' attitude, they will be more aware of their customers' inclination to switch or become less loyal. They can then design programs that accommodate the attitude of their customers so as to retain them (Blattberg *et al.*, 2001).

In the service businesses with high contact environment between customers and service employees for example, the fine dining restaurant business environment, the interpersonal bond between customers and service employees was found to be one of the factors that influence loyalty continuance (Butcher *et al.*, 2001). Therefore, when measuring customer loyalty in this particular service business, it is necessary to combine the customers' attitude measurement with their behavior measurement. This is in contrast to the retail businesses environment which usually offers price-incentive to motivate repeat visits or to increase behavioral loyalty.

Social Influences are reflected through non-financial benefits such as customer recognition, social support, the interpersonal relationship between customers as well as between customers and employees of the service provider (Berry and Parasuraman, 1991; Butcher *et al.*, 2002; Gwinner *et al.*, 1998; Patterson and Smith, 2001).

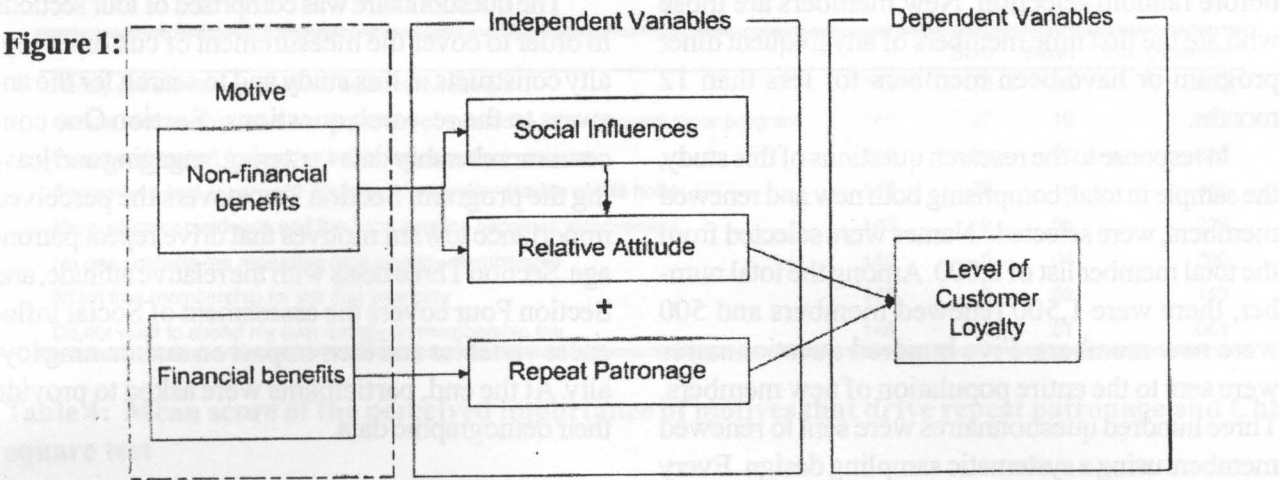
Gwinner *et al.* (1998) and Javalgi and Moberg (1997) stated that if businesses gained only high behavioral loyalty (repurchase) from their customers, but low attitudinal loyalty (no strong perceived differentiation or preference towards product or service), they would more likely encounter switching behavior to competitors. Because the low attitudinal loyalty represents the weak level of desire or commitment to the product or service, once the competitor offers lower prices they are more likely to switch.

Frequency programs with mere economic benefits or rewards can be replicated easily and rapidly (Palmer *et al.*, 2000). This disadvantage becomes more serious when new competitors with similar programs crop up. The customers' switching behavior might occur as soon as they have reached beyond the breakeven point of their initial investment in entrance membership fee.

The significant and common arguments in the literature reviewed so far can be summed up as follow: most frequency program members appear to express spurious loyalty; the financial benefits are key motivations for repeat purchase; and membership fees promote immediate attitudinal loyalty. Nevertheless, these points could prove to be right or wrong in different business situations.



RESEARCH DESIGN AND METHODOLOGY



Research questions and the proposition development

Based on the conceptual framework of this study shown in Figure 1 the research questions are formed below.

Question 1: To what extent can frequent diner programs build customer loyalty?

Question 2: What is the difference in the level of loyalty between renewed and new members of the hotel frequent diner program?

Question 3: How do Social Influences impact on the development of customer loyalty among members?

This generates the following research propositions:

P1. Members of hotel frequent diner programs expressed a high level of perceived importance of motives that drive repeat patronage but a low level of relative attitude.

P2. New members and renewed members of hotel frequent diner programs differ in their perceived importance of motives that drive repeat patronage.

P3. New members and renewed members of hotel frequent diner programs differ in their level of relative attitude.

P4. Social Influences are positively related to the decision to renew membership or to maintain loyalty with the program.

P5. New members and renewed members of hotel frequent diner programs differ in their preference of Social Influences.

The first proposition above is devised under the establishment of research question 1: To what extent can frequent diner programs build customer loyalty?

Propositions 2 and 3 above are set to serve the

research question 2: What is the difference in level of loyalty between renewed and new members of the hotel frequent diner program?

Lastly, propositions 4 and 5 are developed to serve the onset of the research question 3: How do Social Influences impact on the development of customer loyalty among members?

Research methodology

This study utilized a self-administered questionnaire to measure the degree of customer loyalty. It was designed to examine the level of relative attitude and the level of perceived importance of motives that drive repeat patronage. Furthermore, it also measured the level of perceived importance of Social Influences variables among members with different lengths of membership.

Sample selection

Respondents were selected from a database of new and renewed members of the participating hotel. The researcher gained permission to access the member list of one hotel that is currently implementing a frequent diner program. The hotel selected is one of the top five star hotels located in the central district of Bangkok, Thailand. The hotel targets executive-level business travelers as well as local residents with high social and economic status. Selecting one hotel avoids list duplication because members may belong to more than one hotel frequent diner program. Respondents were recruited through a mail survey. A stratified random sampling technique based on length of membership was utilized prior to mailing out. The member

database was separated by length of membership before random selection. New members are those who are the first time members of any frequent diner program or have been members for less than 12 months.

In response to the research questions of this study, the sample in total, comprising both new and renewed members, were selected. Names were selected from the total member list of 2,000. Among the total number, there were 1,500 renewed members and 500 were new members. Five hundred questionnaires were sent to the entire population of new members. Three hundred questionnaires were sent to renewed members using a systematic sampling design. Every 5<sup>th</sup> renewed member was chosen from the entire population of renewed members. This is to ensure that the whole range of membership was covered.

## Research instrument

The questionnaire was comprised of four sections in order to cover the measurement of customer loyalty constructs in this study and to search for the answers to the research questions. Section One concerns membership data - entering, engaging and leaving the program. Section Two covers the perceived importance toward motives that drive repeat patronage. Section Three deals with the relative attitude, and Section Four covers the assessment of Social Influences variables and their impact on maintaining loyalty. At the end, participants were asked to provide their demographic data.

## THE RESULTS

**Table 1: Respondents' profile by length of membership**

		Frequency	Percent	Percent of Population
Valid	<1 year	28	19.3	25.0
	1-3 years	46	31.7	75.0*
	>3-5 years	33	22.8	
	>5 years	38	26.2	
	Total	145	100	100.0

\*75% of population represents members whose length of membership is 1 or more years

**Table 2: Reasons for joining a hotel's frequent diner program**

	n	Sum	Mean	Std. Deviation
Value for money	145	113	.78	.416
Satisfaction with the quality of food	145	76	.52	.501
Satisfaction with the variety of menu	145	71	.49	.502
Convenient location	145	63	.43	.497
Satisfaction with the quality of service	145	58	.40	.492
Satisfaction with the restaurant ambience	145	49	.34	.475
Hotel's reputation and image	145	48	.33	.472
Convenient parking	145	46	.32	.467
For business use	145	44	.30	.461
Having relatively high frequency of dining out	145	38	.26	.441
Hotel sales' persuasion	145	33	.23	.421
Recommend by friend who has been a member	145	11	.08	.266
The popularity of restaurants	145	9	.06	.242
Membership fee waived	145	7	.05	.215
The program represents a symbol of high social status	145	4	.03	.164

**Table 3: Reasons for leaving a hotel's frequent diner program**

	n	Sum	Mean	Std. Deviation
Hardly use the card and felt not worth to renewing it	145	72	.50	.502
Annual membership fee is too expensive compared to other frequent diner program	145	27	.19	.391
Found and applied for another better frequent diner program	145	26	.18	.385
Encounter a bad experience about product and/or service of this hotel	145	26	.18	.385
Move office or residence and the hotel location becomes inconvenient	145	8	.06	.229
No one contacts me regarding renewing my membership	145	6	.04	.200
Attain free membership for the first year only	145	3	.02	.143
Do not want to spend my own money on membership fee	145	1	.01	.083

**Table 4: Mean score of the perceived importance of motives that drive repeat patronage and Chi-square test**

		Length of membership		
		New member (n=28)	Renewed member (n=117)	Total
Do not want to waste the membership fee without enjoying any benefits	Mean	3.86	3.90	3.89
	Std. Deviation	1.208	1.309	1.286
I can use complimentary rewards, free voucher	Mean	4.21	3.90	3.96
	Std. Deviation	.957	1.170	1.136
I can use the discount vouchers	Mean	4.07	3.51	3.62
	Std. Deviation	1.086	1.201	1.196
This program provides me more value for money than other frequent diner program	Mean	3.43	3.79	3.72
	Std. Deviation	1.103	1.141	1.139
Special deal / discount given by this frequent diner program	Mean	4.04	3.95	3.97
	Std. Deviation	.793	1.057	1.010
The more I dine the more points I can earn through this program	Mean	2.54	2.55	2.54
	Std. Deviation	1.232	1.256	1.247

Note: 1= Not important at all; 5 = very important

**Test Statistics a,b**

	Chi-Square	df	Asymp. Sig.
Do not want to waste the membership fee without enjoying any benefits	.182	1	.669
I can use complimentary rewards, free voucher	1.627	1	.202
I can use the discount vouchers	5.751	1	.016
This program provides me more value for money than other frequent diner program	2.849	1	.091
Special deal / discount given by this frequent diner program	.001	1	.981
The more I dine the more points I can earn through this program	.003	1	.957

- a. Kruskai Wallis Test
- b. Grouping Variable; length of membership



Table 5: Factor loading of motives that drive repeat patronage

Component Matrix <sup>a</sup>	
	Component
	1
Special deal / discount given by this frequent diner program	.779
I can use the discount vouchers	.746
I can use complimentary rewards, free voucher	.741
Do not want to waste the membership fee without enjoying any benefits	.660
This program provides me more value for money than other frequent diner program	.543
The more I dine the more points I can earn through this program	.466

Extraction Method: Principal Component Analysis.

a. 1 components extracted.

Table 2: Reasons for joining a hotel's frequent diner program

Reasons	Frequency	Percentage
Satisfaction with the quality of food	145	78.3
Satisfaction with the variety of menu	145	78.3
Convenient location	145	78.3
Satisfaction with the service of staff	145	78.3
Satisfaction with the membership program	145	78.3
Good reputation and image	145	78.3
Convenient parking	145	78.3
For special occasion	145	78.3
Having a high status	145	78.3
Good service provided	145	78.3
Membership of the hotel will be a marketing	145	78.3
The quality of the restaurant	145	78.3
Member of the hotel	145	78.3
The program provides me more value for money than other frequent diner program	145	78.3

**Table 6: Mean score of relative attitude and Chi-square test**

		Length of membership		
		New member (n=28)	Renewed member (n=117)	Total
I recommend others to apply for membership	Mean	2.96	2.98	2.98
	Std. Deviation	1.071	1.122	1.108
I tell others about the good benefits	Mean	3.36	3.22	3.25
	Std. Deviation	.951	1.060	1.038
I have no intention to switch to other better program	Mean	2.36	2.75	2.68
	Std. Deviation	1.283	1.033	1.092
I never search for better programs	Mean	2.64	2.94	2.88
	Std. Deviation	1.311	1.234	1.250
I gave or I will give any comments/ recommendations	Mean	3.00	3.34	3.28
	Std. Deviation	1.305	1.138	1.175
I would remain a customer of this hotel even if there would be no Frequent Diner Program offering	Mean	2.61	2.79	2.76
	Std. Deviation	1.397	1.200	1.238

Note: 1= Totally unlikely; 5 = Totally likely

**Test Statistics <sup>a,b</sup>**

	Chi-Square	df	Asymp. Sig.
I recommend others to apply for membership	.007	1	.934
I tell others about the good benefits	.532	1	.466
I have no intention to switch to other better program	3.786	1	.052
I never search for better programs	1.601	1	.206
I gave or I will give any comments/ recommendations	1.579	1	.209
I would remain a customer of this hotel even if there would be no Frequent Diner Program offering	.578	1	.447

a. Kruskal Wallis Test

b. Grouping Variable: Length of membership

**Table 7: Factor loading of relative attitude variables**

Rotated Component Matrix <sup>a</sup>		
	Component	
	1	2
I tell others about the good benefits	.912	.036
I recommend others to apply for membership	.898	-.037
I gave or I will give any comments/ recommendations	.560	.177
I never search for better programs	-.011	.853
I have no intention to switch to other better program	.066	.812
I would remain a customer of this hotel even if there would be no Frequent Diner Program offerin	.137	.692

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.



**Table 8: Mean score of perceived importance toward Social Influences and Chi-square test**

		Length of membership		
		New member (n=28)	Renewed member (n=117)	Total
Recognizing me and greet me personally	Mean	2.93	3.44	3.34
	Std. Deviation	1.464	1.309	1.350
Remembering my seating preference	Mean	2.64	3.18	3.08
	Std. Deviation	1.446	1.400	1.420
Sending me relevant communication regularly	Mean	3.64	3.68	3.67
	Std. Deviation	1.420	1.097	1.161
Offering me a customised service	Mean	3.14	3.50	3.43
	Std. Deviation	1.433	1.317	1.343
F&B outlet manager or senior staff is friendly	Mean	3.18	3.39	3.35
	Std. Deviation	1.335	1.358	1.352
Offering a dedicated hotline service exclusively for members	Mean	3.04	3.09	3.06
	Std. Deviation	1.319	1.336	1.329
Providing me a personal customer relationship officer	Mean	2.57	2.83	2.78
	Std. Deviation	1.200	1.288	1.272
Offering exclusive community activities	Mean	2.89	2.97	2.96
	Std. Deviation	1.343	1.323	1.322
Providing superior treatment apart from giving discount benefits	Mean	3.39	3.61	3.57
	Std. Deviation	1.397	1.319	1.332

Note: 1 = Not important at all; 5 =Very important

**Test Statistics <sup>a,b</sup>**

	Chi-Square	df	Asymp. Sig.
Recognizing me and greet me personally	2.930	1	.067
Remembering my seating preference	3.194	1	.074
Sending me relevant communication regularly	.200	1	.655
Offering me a customised service	1.491	1	.222
F&B outlet manager or senior staff is friendly	.719	1	.396
Offering a dedicated hotline service exclusively for members	.058	1	.809
Providing me a personal customer relationship officer	.911	1	.340
Offering exclusive community activities	.098	1	.754
Providing superior treatment apart from giving discount benefits	.652	1	.419

a. Kruskal Wallis Test

b. Grouping Variable: Length of membership

**Table 9: Factor loading of Social Influences variables**

Rotated Component Matrix <sup>a</sup>		
	Component	
	1	2
Recognizing me and greet me personally	.879	4.701E-02
Remembering my seating preference	.837	.241
F&B outlet manager or senior staff is friendly	.732	.252
Offering me a customised service	.644	.432
Sending me relevant communication regularly	.511	.324
Providing me a personal customer relationship officer	.274	.779
Offering exclusive community activities	.115	.776
Providing superior treatment apart from giving discount benefits	.310	.740
Offering a dedicated hotline service exclusively for members	.199	.738

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

Regression analysis is used to determine the strength of association between dependent variables, thereby revealing the strength of the two factors derived from factor loadings. The purpose is to find out what the key factor of non-financial benefits (Social Influences) is for frequent diner program to create greater impact on loyalty development. Table 10 shows the result of regression analysis. A regression model includes two factors derived from factor loadings. The independent variable is the mean score of Social Influences measurement, the dependent variable is the loyalty continuance (y) and the equation is:

$$\hat{y} = b_0 + b_1 + b_2 +$$

Where: b0 is a constant; b1 is Factor 1-an Implicit Concern; and b2 is Factor 2 - an Explicit Concern. The estimated model is: . Both factors were significant at p<0.05. The result indicates that Implicit Concern (b1 = .918) has a higher influence than Explicit Concern (b2 = .00365) in encouraging members to stay loyal and maintain their membership with the program.

R square is 1 as the regression is run using the measurement of mean score of Social Influences (constant) which is the key construct that predicts the probability of customer loyalty continuance. (Mean score of Social Influences is 3.25 which equal to the probability of loyalty continuance among member of frequency program).

- Proposition 1 (P1) - that members offered frequent diner programs expressed a higher level of perceived importance of the motives that drive repeat patronage - a level of relative attitude - is verified by the test result.
- Proposition 2 (P2) - that the new members and renewed members of hotel frequent diner programs differ in their perceived importance of motives that drive repeat patronage - received rather weak support from the test.
- Proposition 3 (P3) - that the new members and renewed members of hotel frequent diner programs differ in their level of relative attitude - is rejected as false.
- Proposition 4 (P4) - that Social Influences are positively related to loyalty with the program - was analyzed and found positively the test result.
- Proposition 5 (P5) - that the new members and renewed members of hotel frequent diner programs differ in their preference of Social Influences - was rejected as false.

**FUTURE RESEARCH**

In view of future research, the results suggest the need to examine the impact of the frequency program through the comparative degree of loyalty between members and non-members of the hotel's frequent diner programs. Furthermore, extending the work by using the factors underlying repeat patronage among non-members as compared with members could possibly help to discover what may diminish churn.

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**Table 10: Results of Regression Analysis Loyalty Continuance**

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	1.000 <sup>a</sup>	1.000	1.000	.01763

a. Predictors: (Constant), REGR factor score 2 for analysis 1, REGR factor score 1 for analysis 1

**ANOVA<sup>b</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	121.450	2	60.725	195417.368	.000 <sup>a</sup>
	Residual	.044	142	.000		
	Total	121.495	144			

a. Predictors: (Constant), REGR factor score 2 for analysis 1, REGR factor score 1 for analysis 1

b. Dependent Variable: Mean of SI

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients	t	Sig.
1	(Constant)	3.250	2219.927	.000
	REGR factor score 1 for analysis 1	.918	625.163	.000
	REGR factor score 2 for analysis 1	3.653E-03	2.486	.014

a. Dependent Variable: Mean of SI

Loyalty Continuance  $\hat{y} = 3.25 + 0.918(\text{Fac1\_1}) \text{ Implicit Concern} + 0.00365(\text{Fac2\_1}) \text{ Explicit Concern}$

## CONCLUSION

The findings revealed that loyalty continuance for each year is more likely to depend upon the economic benefits given at the renewal stage, upon the knowledge of what the competitors are offering through their programs, and upon the monitoring of the frequency of the members' return visits.

The findings showed that Social Influences, provided by fulfilling the Implicit Concern function, could become a competitive advantage and a powerful tool for loyalty development among frequency program members. This outcome is consistent with the findings from Butcher *et al.*'s (2002) study. In conclusion, this initial analysis shows:

**Proposition 1 (P1)** - that members of hotel frequent diner programs express a high level of perceived importance of the motives that drive repeat patronage but a low level of relative attitude - is verified by the test results.

**Proposition 2 (P2)** - that the new members and renewed members of hotel frequent diner programs differ in their perceived importance of motives that drive repeat patronage - received rather weak support from the test.

**Proposition 3 (P3)** - that the new members and renewed members of hotel frequent diner programs differ in their level of relative attitude - is rejected as false.

**Proposition 4 (P4)** - that Social Influences are positively related to the decision to renew membership or to maintain loyalty with the program - was analyzed and found positive by the test result.

**Proposition 5 (P5)** - that the new members and renewed members of hotel frequent diner programs differ in their preference of Social Influences - is tested and rejected as false.

## FUTURE RESEARCH

In terms of future research, the results suggest the need to examine the impact of the frequency program through the comparative degree of loyalty between members and non-members of the hotels' frequent diner programs. Furthermore, extending the work by using the factors underlying repeat patronage among non-members as compared with members could possibly help to discover what may diminish churn.

As this study has confirmed, monetary benefits are inevitable factors in attracting new members. A further research topic could also be geared towards the issue of member valuation, finding out the optimal amount for the value of financial benefits given in exchange for the membership fee. Future research could also involve the examination of the weaknesses and strengths of charging a membership fee for the frequency program.

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