



Marketing Strategies of Services and Purchasing Incentives in Asia

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ABSTRACT

Objective – This research explores the changing mechanism in the relationship between retailers and consumers whereby consumers face higher-prices due to inflation while their earnings, and thereby their disposal income, does not simultaneously increase.

Methodology/Technique – An examination is conducted on the use of loyalty cards in the Malaysian retail sector to determine whether Asian consumers are enticed by the use of loyalty programs, which can be seen as an attempt to save money when making purchases.

Findings – The findings suggest that loyalty programs will expand in the future to include other offerings as they gain momentum and popularity. This research concludes that Malaysian consumers, like most of Southeast Asian consumers, are price adverse, and hence will take opportunities to save money when making purchases.

Novelty – The findings of this research can be generalized to the Southeast Asian region due to the similarity of consumption and national characteristics between Malaysian and Southeast Asian consumers.

Type of Paper: Empirical.

Keywords: Marketing; Strategy; Incentives; Services; Retail; Loyalty, Asia.

JEL Classification: M30. M31. M39

1. Introduction

With advancements in Artificial Intelligence “AI” utilities, consumer information has become more valuable than ever to retailers. An essential component of consumer data is gathered through loyalty programs (Liu, 2007). This research explores the importance of loyalty cards as means of value creation, and its ability to improve the purchasing intentions of consumers in Malaysia. Malaysian consumers have been described as a true representation of Southeast Asian consumers, particularly due to the similarities in demographic and purchasing behaviors (Schütte and Ciarlante, 2016).

* Paper Info: Revised: June 15, 2018

Accepted: September 29, 2018

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Between 2013 and 2017, numerous subsidies were lifted by the previous Malaysian government, which has caused an increase in prices of essential products and services (Chuah, Loayza and Nguyen, 2018). The Malaysian consumer is therefore more likely to take advantage of available marketing campaigns that offer a reduction in costs or promotional activities that increase the value of the purchase (Koen et al., 2017).

Inflation in the price of Malaysian consumer goods between the years 2013 and 2017 included everything from fuel to tobacco, including apparel and services. This caused a trickle-down effect to other consumer goods such as grocery items. Such inflationary prices are attributed to an increase in transportation costs, which is correlated with fuel price increases (Firend, 2015). These price hikes were caused by governmental budgetary constraints aimed at balancing the deficit in the national budget (Ullah, 2016). This increased consumer caution when making purchases (Adzis, Bakar and Shahar, 2017; Goh, Cham and Tay, 2017).

As a result, many grocery retailers in Malaysia have experienced an increase in market competition, in an already overcrowded retail sector (Hassan, H. and Rahman 2012). In Malaysia, like most Asian countries, the market remains dominated by small traditional retail shops, otherwise known as convenience shops. However, the over development of the real estate sector, coupled with economic growth, has encouraged international retailers to expand into Southeast Asia and Malaysia (Zhang Hanaoka, Inamura and Ishikura, 2017; Meyer-Ohle, 2014). This has coincided with the slowing down of the economy in Europe and the United States, following the financial crises of 2008/2009. The rapid growth of international retailers such as Robinson, Isetan, Parkson and Metrojaya, as well as grocery stores such as Giant, Tesco and Aeon has mushroomed in every state of Malaysia. As a result, the level of competition between various retailers has intensified.

Loyalty cards are therefore an effective tool to increasing consumer engagement (Demoulin and Zidda, 2008). Loyalty cards contain important data and information of a consumer, such as their demographic information, and other market intelligence information such as items purchased, the frequency of purchase, purchasing preferences, times and days of purchase, and the price per purchase. Such information is vital to retailers for the use of “AI” capabilities (Pantano, 2014).

The present research focuses on the increasing competition in the Malaysian and Southeast Asian retail sector and the oversupply of retail space, coupled with inflation hikes, all of which puts pressure on both consumers and retailers to further develop consumer/retailer experiences, particularly based on AI backed consumer analysis. Therefore, it is imperative to examine the changing relationship between retailers and consumers, particularly during the timeframe adopted in this study.

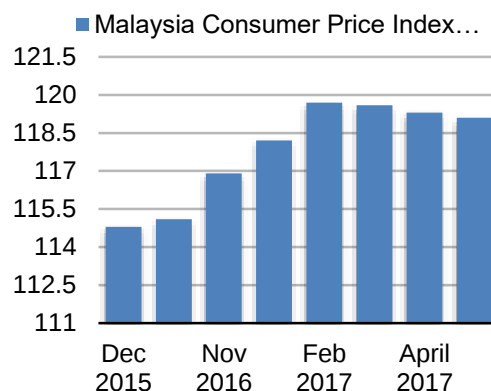


Figure 1. Malaysia Consumer Price Index 2017

The objective of the study is to provide an insight into the attitudinal factors that influence consumers' intention towards the use of loyalty cards in the retail sector. The study provides insight into the changing relationship between consumers and strategies applied by retailers, specifically the use of loyalty cards, as a means to improve customer retention rates in Malaysia. Such findings can be applied to surrounding countries in Southeast Asia, in times of high inflation and stagnant economic growth.

2. Literature Review

Consumer incentives continues to be an area of concern and importance in both theory and practice (Frederiks, Stenner and Hobman, 2015; Richards, Hamilton and Yonezawa, 2018). Numerous researchers, such as Naidoo and Gasparatos (2018); Shamout (2016); Ramanathan, Subramanian, Yu and Vijaygopal (2017), believe that there is a direct correlation between incentives provided to the consumer and purchasing frequencies. Research conducted by Nagadeepa, Selvi and Pushpa (2015) and Gunn and Mont (2014) suggest that retailers are in frequent search of methods that enhance their engagement with consumers, to in turn enhance consumer shopping frequency and experiences.

Breugelmans and Liu-Thompkins (2017) argue that loyalty programs provides a win-win solution to both consumers and retailers. This belief is also supported by researchers such as Lacey (2015) and Thompson and Chmura (2015). Further, Ziliani and Bellini (2004) suggest that rewards in the form of loyalty cards can be monetary or non-monetary in nature, and have a positive effect on customer loyalty.

Loyalty programs can manifest as promotional tools aimed at rewarding customers and generating immediate responses (Kumar and Reinartz 2018; Stathopoulou and Balabanis, 2016). Pansari and Kumar (2017) and Magi (2003) further suggest that loyalty programs tend to compensate the customer in the form of price reductions and tangible benefits in exchange for their long-term patronage. Loyalty can be classified into different categories. Open-ended programs do not employ any membership criteria whereas limited loyalty programs are aimed at a specific target group, and therefore, require the fulfilment of certain pre-membership criteria (Pansari and Kumar (2017).

Yoo, Bai and Singh (2018) claim that loyalty cards are a simple and economic way for retailers to implement strategic loyalty programs. It is most commonly applied in the retail sector and are treated as a mechanism for rewarding loyal members. The benefits provided by loyalty card schemes vary depending on the amount a consumer spends during each visit (Kim, Vogt and Knutson (2015).

A study conducted by Worthington and Fear (2009) identified that most members of loyalty programs are aware of the fact that their information can be used to track their purchasing habits, and are happy to be offered promotions accordingly. Loyalty programs have become more common in the age of artificial intelligence and sophisticated computing algorithms (Brown (2018); Linoff and Berry, (2011); Sterne (2017). Therefore, it is important to examine current trends and consumer attitudes towards loyalty programs in an economically vibrant region such as Southeast Asia, and to examine future trends and current practices.

There is a significant gap in the literature with respect to the generalization of research in Malaysia to the Southeast Asian region, particularly following the financial crisis in 2013 to 2017. This research attempts to provide recent and relative findings on the topic of consumer loyalty and use of loyalty cards. The theoretical contribution of this paper is to derive patterns of consumer behavior for attention and product design, pricing, and shopping experiences. This research contributes to the lack of available literature regarding Malaysian purchasing behavior, with a specific focus on the use of loyalty cards.

3. Methodology

The research methodology consists of primary and secondary data collection. The primary data is collected through a survey which has been distributed at local grocery shops and shopping malls in and around the city of Kuala Lumpur, Malaysia. The city of Kuala Lumpur can be described as a representative sample encompassing an ethnically diverse section of the population of Southeast Asia in general. The secondary

data was collected through publications by the Malaysian Retail Association spanning over the last 3 years, which provided significant data regarding sales in the grocery and retail sectors.

The sampling framework was restricted to the Klang Valley, due to the large consumer base located within the parameters of this area. The sample was then narrowed down to the following retail stores; AEON, Metrojaya, Isetan, Tesco and Sogo. All of those retailers are known to offer loyalty cards to their shoppers. A total of 250 questionnaires were distributed, and total of 223 questionnaires were collected back for analysis out of which only 200 sets of questionnaire were used for analysis.

The questionnaire used for data collection consisted of a 5-point Likert scale to measure variables such as past experience, relative advantage, privacy concerns, and questions gauging consumer attitudes towards the use of loyalty cards and consumer experience. The statistical analysis was conducted using a statistical package for social science SPSS v.21. The descriptive analysis was run on data sets, reliability tests, multiple regression, and Pearson correlation tests were conducted to determine the statistical significance between the various variables within the parameters of the study, and to test the hypotheses. For reliability, a Cronbach alpha test was conducted to measure consistency among the respondents.

Table 1. Reliability Analysis

Variables	Cronbach's Alphas
Relative Advantage	0.769
Past Experience	0.869
Privacy Concerns	0.514

4. Discussion

The descriptive analysis shows that 52.5% (105 respondents) are female, while 47.5% (95 respondents) were male. The ethnic distribution is as follows; a total of 43.5% of respondents where Malay, 42% were Chinese, 9% were Indian, 2.5% were Sarawakian, 1% were Sabahan, and the remaining 2% were others. Additionally, 51% of their respondents were between the ages of 21 and 29 years old and 78.5% held a diploma or higher.

Table 2. Distribution of Respondents According to Occupation

Demographic Characteristics	Frequency	Percentage %
Occupation		
Professional	16	8.0
Executive	86	43.0
Self-employed	19	9.5
Clerical	31	15.5
Student	6	3.0
Housewife	3	1.5
Technical	14	7.0
Others	25	12.5

Total	200	100
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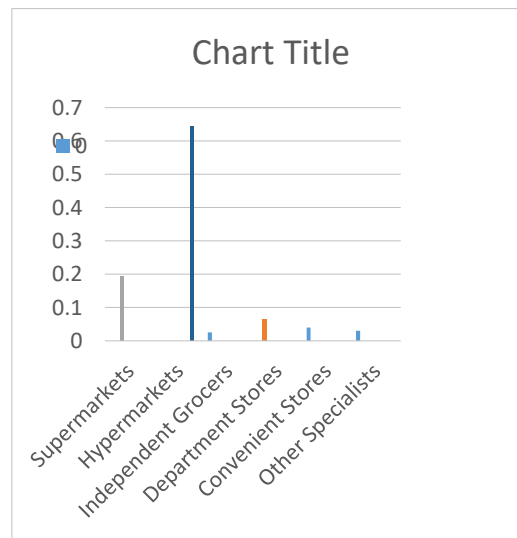


Figure 2. Type of Retail Stores Most Visited

The findings show that the respondents prefer shopping at hypermarkets, supermarkets and department stores because of the convenience they provide. The price of goods was another equally important reason for the respondents' choice of shopping location. The analysis further shows that the respondents visited convenience stores, independent groceries and other specialized shops due to the convenience of their location near to their workplace. Therefore, approximation, distance and accessibility are factors of importance to shoppers.

Table 3. Rank of Factors Influencing Purchases Made

Product Categories %	Rank					
	1	2	3	4	5	6
Foods	55.5	12.5	5.0	11.0	8.5	7.5
Household Product	32.0	45.0	6.0	5.5	6.5	5.0
Electrical Appliance	6.5	20.5	22.0	1.0	30.5	19.5
Leisure	0	11.0	1.0	56.5	23.0	8.5
Clothing	0.5	11.0	16.0	22.0	10.5	40.0
Others	5.5	0	50.0	4.0	21.0	19.5

The analysis also reveals that 17.5% of the respondents owned a loyalty card and 21.5% of respondents did not own any form of loyalty card.

5. Conclusion

This study demonstrates that consumers in major cities prefer to do their shopping in hypermarkets and supermarkets primarily due to the price and convenience at these locations. This reflects the increasingly price sensitive consumer in Malaysia and Southeast Asia. In Malaysia, secondary data shows that consumers prefer to go to one-stop shopping centers to do all of their shopping in one place. Hypermarkets and supermarkets in Malaysia often have all of the facilities needed by consumers such as a post office, banking services, food courts, and telecommunication services, making them an ideal place for the consumer. The analysis of the secondary data analysis further supports these findings, which shows that higher fuel prices and general increases in the consumer price index directly affect the consumer's choice of shopping location. Further, an increase in the use of loyalty cards is a reflection of attempts made by consumers to manage increases in commodity prices and items measured by the CPI.

It is fair to suggest that the Malaysian consumer, like most Southeast Asian consumers, are sensitive to rising prices and are keen to take advantage of any form of loyalty program that has the potential to save them money. The findings of this study are consistent with earlier findings by Firend (2015) and Yuping (2007). Based on the data analysis, it is considered that the trend toward the use of consumer incentives in the form of loyalty cards will expand to include other offerings as they gain momentum and popularity. This increase in the use of loyalty cards should encompass cross marketing offerings to increase the value of offerings to the consumer.

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