

Loyalty Program Membership Influences Perceptions of Service Quality, Customer Satisfaction and Loyalty: Evidence from Macao Casinos

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OUTLINE

- Introduction
- Literature Review and Hypotheses
- Methods
- Results
- Conclusion and Discussion

INTRODUCTION: Practitioners' viewpoint

- Fierce competition: **34** casinos, **5,242** game tables, **16,102** slot machines in Macau (Gaming Statistics from the DICJ, Jan. 2012)
- Many casinos spend **millions of dollars**: develop loyalty programs, acquire members, and adopt membership marketing strategy



INTRODUCTION : Academics' viewpoint

- “Do customer loyalty programs really work?”
 - **Yes** (e.g., Bolton et al., 2000)
 - **No** (e.g., Dowling & Uncles, 1997)
 - **Only** in a minority of customer segments (e.g., Long & Schiffman, 2000; Palmer & Mahoney, 2005; Sharp & Sharp, 1997)
- **Diverse methods** to **measure** the impact of loyalty programs (Dubé & Shoemaker, 1999; Shoemaker & Lewis, 1999)

INTRODUCTION : Academics' viewpoint

- **Most** of them have concentrated on the **main effect** of a loyalty program on customer loyalty. (Dubé & Shoemaker, 1999; Shoemaker & Lewis, 1999)
- Very **limited** research has discussed the **moderating effects** of loyalty program membership (e.g., Bolton et al, 2000)
- Service **quality** → **satisfaction** → **loyalty** (Gronholdt et al., 2000; Oliver 1997, 2010; Szymanski & Henard, 2001)
- **Only a few studies** have examined the external factors moderating the relationship (Homburg & Giering, 2001; Mittal & Kamakura, 2001)

RESEARCH QUESTIONS AND HYPOTHESIZED MODEL

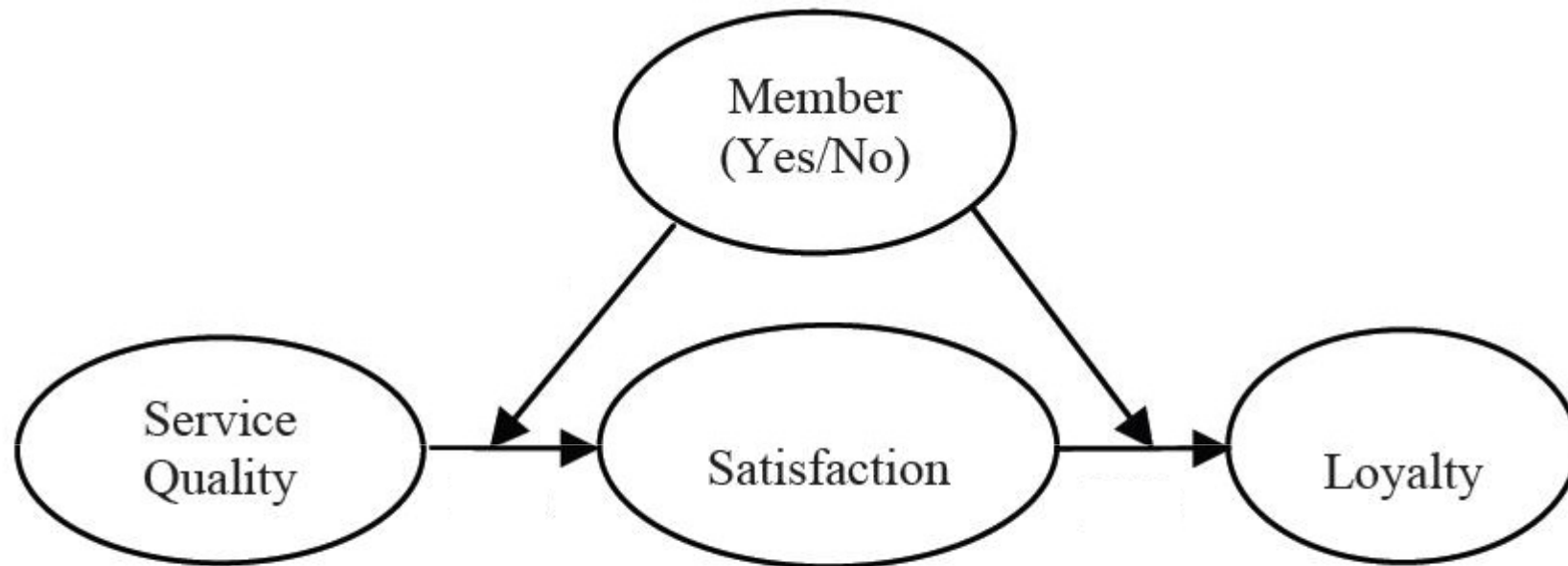
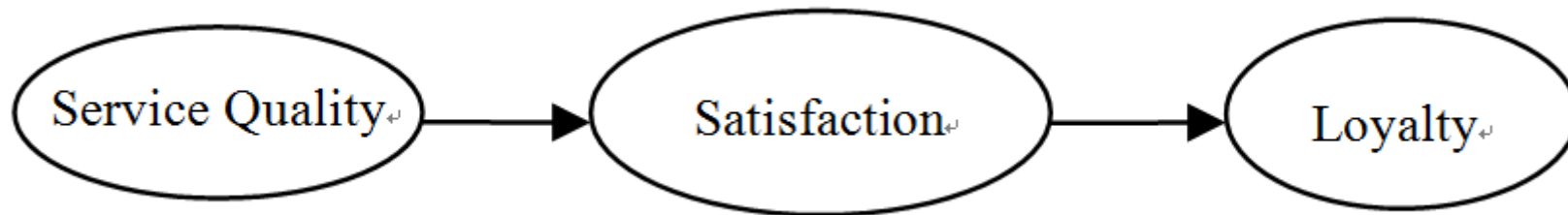


Figure 1. Hypothesized Model of the Relationships

- (1) The **moderating** effect of customer **membership** on the relationship between **service quality** and **satisfaction**;
- (2) The **moderating** effect of customer **membership** on the relationship between **satisfaction** and **loyalty**.

LITERATURE REVIEW AND HYPOTHESES



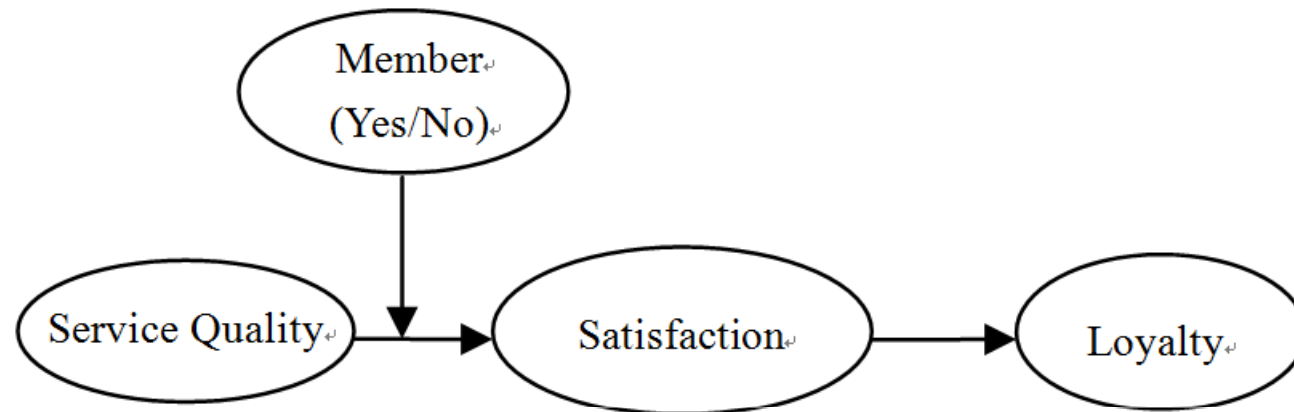
- ***Hypothesis 1a.*** Perceptions of service quality will be ***positively related to customer satisfaction.***

(Cronin & Taylor, 1992; Gruen et al., 2000; Spreng & Mackoy, 1996; Taylor & Baker, 1994)

- ***Hypothesis 1b.*** Customer satisfaction will be ***positively related to customer loyalty.***

(Anderson & Sullivan, 1993; Anderson et al., 1994; Biong, 1993; Hallowell, 1996; Halstead & Page, 1992; Rust & Zahorik, 1993; Taylor & Baker, 1994; Woodside et al., 1989)

A . Interaction of service quality and membership on satisfaction



- Studies based on **expectation theory** (Oliver, 1980, 1997; Parasuraman et al., 1991b; Teas, 1993, 1994; Woodruff et al., 1983)
- **Special treatment and benefits:** Total Rewards program of Harrah's casino (Anonymous, 2002; Palmer & Mahoney, 2005)
- Members have **higher expectations** about service quality, the satisfaction of members is likely to be **more negatively** affected by service quality
- ***Hypothesis 2a. Customer membership will moderate the relationship between service quality and satisfaction such that the relationship will be weaker for members than for nonmembers.***

B. Interaction of satisfaction and membership on loyalty



- **Switching costs positively moderate** the effect of satisfaction on loyalty (Lee et al., 2001; Sharma & Patterson, 2000; Zhilin & Robin, 2004)
- Members have **higher switching costs** due to **benefits & losses** associated with their membership (Anonymous, 2002; Palmer & Mahoney, 2005)
- Members are likely to be **less knowledgeable and less certain** about the performance of competing establishments (Bolton et al., 2000)
- The positive impact of satisfaction on loyalty be **intensified** for members.
- ***Hypothesis 2b. Customer membership will moderate the relationship between satisfaction and loyalty such that the relationship will be stronger for members than for nonmembers.***

RESEARCH QUESTIONS AND HYPOTHESIZED MODEL

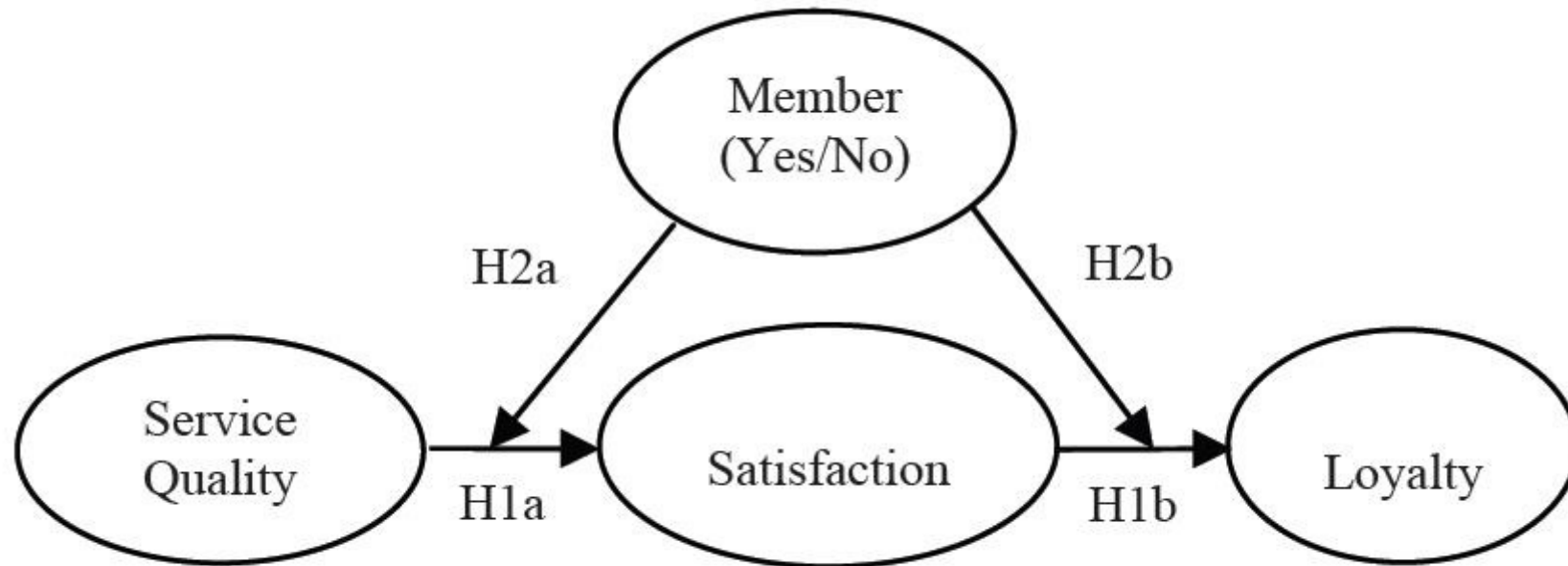


Figure 1. Hypothesized Model of the Relationships

- (1) The **moderating** effect of customer **membership** on the relationship between **service quality** and **satisfaction**;
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METHODS

- *Sample and procedure:*
- Survey on the site at the shuttle bus station of **Six Casinos** located in **Macao** SAR, China, **2011**
- **745** questionnaires in total are distributed and collected, and **672** questionnaires are qualified (**90.2%**)

METHODS

- **Measures:**
- Multi-item scales were adapted from prior studies' validated measures
- **Perceptions of Service Quality. PZB's 22-item SERVQUAR scale, $\alpha = 0.93$**
(Parasuraman, Zeithaml, and Berry, 1985, 1991a; Cronin & Taylor, 1992)
- **Customer Satisfaction. A three-item scale, $\alpha = 0.87$**
(Anderson et al., 1993, 1997; Fornell et al., 1996)
- **Customer Loyalty. A four-item scale was adapted, $\alpha = 0.79$**
(Baloglu, 2002; Fornell, 1992; Gronhold et al., 2000; PZB, 1996)
- **Customer Membership.** "Are you a member of the club?"
- **Controls.** Gender, age at last birthday, education level, and salary ranges.
(e.g. Homburg & Giering, 2001; Lang, 2009; Mittal & Kamakura, 2001)

METHODS

- *Reasons to select PZB's 22-item SERVQUAL scale:*
- They adequately cover the **service quality domain** in a casino setting which has been listed as groups of service quality features in related research (Chen et al., 2005)
- **No good scale** to measure casino service quality has yet been published, and there is **no evidence** that the SERVQUAL scale is inappropriate in the casino setting (Garry et al., 2007)
- Some academics are trying to develop a casino service quality scale, **CASERV** (Wong & Fong, 2012), but it remains to be validated.
- The SERVQUAL scale has been **widely tested** in various service settings.

- ***Data analysis:***

Table 2
Confirmatory Factor Analysis Results

| Constructs | Loading | CR | AVE | α |
|---------------------------------|---------|------|------|----------|
| Service Quality | | 0.92 | 0.71 | 0.93 |
| 1. Tangibility | 0.68 | | | |
| 2. Reliability | 0.88 | | | |
| 3. Responsiveness | 0.72 | | | |
| 4. Assurance | 0.94 | | | |
| 5. Empathy | 0.95 | | | |
| Customer Satisfaction | | 0.87 | 0.70 | 0.87 |
| 1. Overall satisfaction | 0.90 | | | |
| 2. Confirmation of expectations | 0.81 | | | |
| 3. Performance versus ideal | 0.79 | | | |
| Customer Loyalty | | 0.84 | 0.57 | 0.79 |
| 1. Repurchase intention | 0.74 | | | |
| 2. Recommendation intention | 0.82 | | | |
| 3. Positive word of mouth | 0.85 | | | |
| 4. Preference | 0.58 | | | |

Notes: CR=Composite Reliability; AVE=Average Variance Extracted; α =Cronbach's Alpha. For details of the scale items, please refer to the appendix.

RESULTS

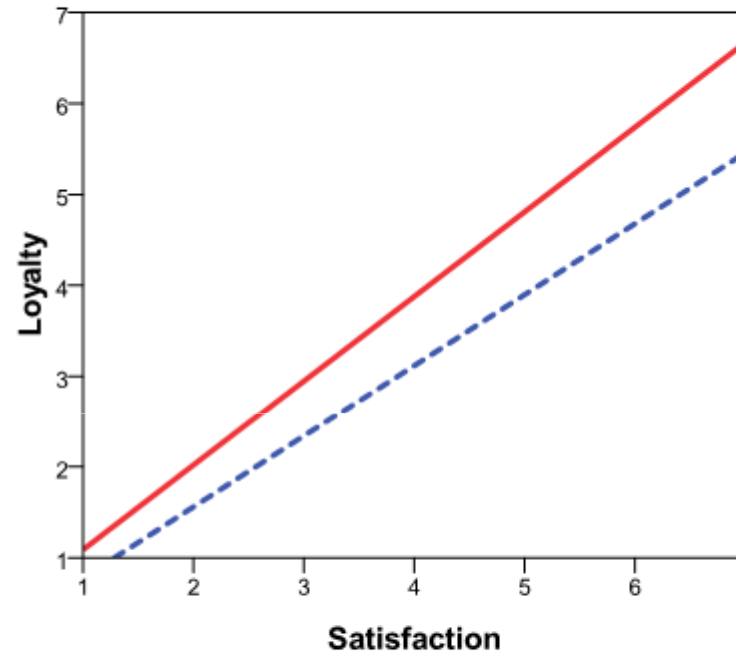
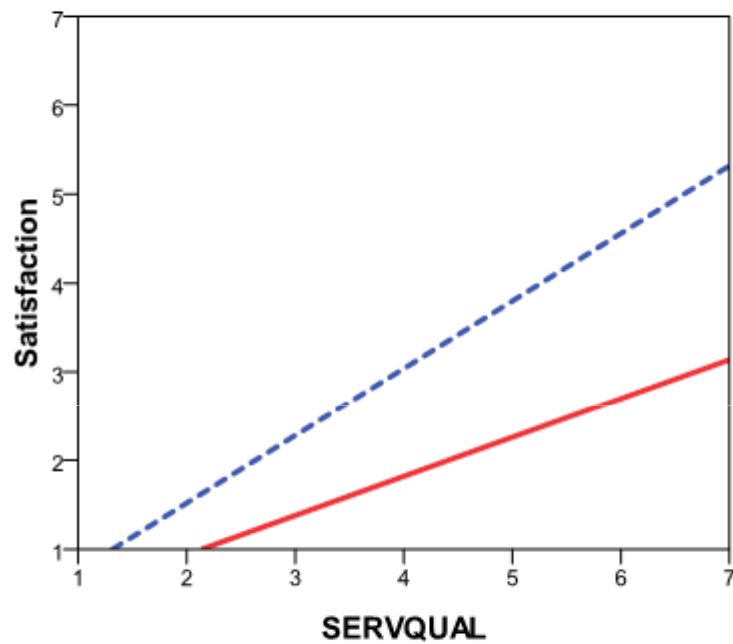
Table 4
Results of Moderated Regression Analysis

| Variables | Model 1: Satisfaction | | | | Model 2: Loyalty | | | |
|---------------------------|-----------------------|-----------|---------|--------------|------------------|-----------|---------|--------------|
| | β | F | R^2 | ΔR^2 | β | F | R^2 | ΔR^2 |
| Step1: Controls | | | | | | | | |
| Gender | 0.03 | 6.09** | 0.04** | 0.04** | -0.11** | 2.80* | 0.02* | 0.02* |
| Age | -0.10 | | | | 0.03 | | | |
| Education | 0.06 | | | | 0.02 | | | |
| Salary | -0.17** | | | | -0.07 | | | |
| Step2: Main effects | | | | | | | | |
| SERVQUAL | 0.76*** | 165.89*** | 0.60*** | 0.56*** | | | | |
| Member | 0.08** | | | | 0.17*** | | | |
| Satisfaction | | | | | 0.78*** | 201.73*** | 0.65*** | 0.63*** |
| Step3: Moderating effects | | | | | | | | |
| SERVQUAL* Member | -0.33*** | 159.48*** | 0.63*** | 0.03*** | | | | |
| Satisfaction* Member | | | | | 0.16* | 182.03*** | 0.66*** | 0.01*** |

Notes: CI = 95% confidence interval for beta; n = 672; * p < 0.05; ** p < 0.01; *** p < 0.001.

Figure 2

Moderating Effect of Membership on Service quality-Satisfaction-Loyalty



----- Nonmembers

————— Members

| |
|---|
| <p>--- Satis. = $0.76 * \text{SERV}$</p> <p>— Satis. = $(0.76 - 0.33) * \text{SERV} + 0.08$</p> |
|---|

| |
|---|
| <p>--- Loy. = $0.78 * \text{Satis}$</p> <p>— Loy. = $(0.78 + 0.16) * \text{Satis} + 0.17$</p> |
|---|

CONCLUSIONS AND DISCUSSION

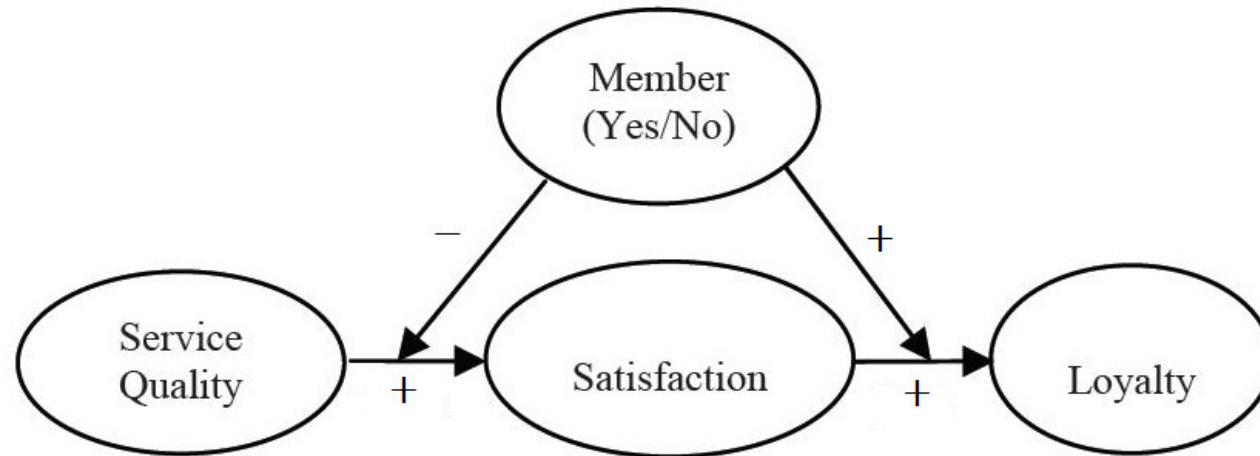


Figure 1. Hypothesized Model of the Relationships

- **Empirical evidence** in **Macao casinos**: quality → satisfaction → loyalty
- Loyalty programs undoubtedly are **effective**
- By comparing the **regression coefficients** of program members and nonmembers in the relationships, the effectiveness of loyalty programs can be better understood
- Members may be **more difficult to** satisfy than nonmembers
- Members may be **more prone to** loyalty than nonmembers

- ***Limitations and Recommendations:***

- The validity of **SERVQUAL scale** in the casino industry needs to be examined more carefully
- Further study should explore developing a scale for **service quality in casinos**

- **Generalization** in other casinos outside Macao
- Further research could explore the moderating effect in various customer **segments**.

Thanks for your attention!

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