





“Unlocking the potential of loyalty programs in reference to customer experience with digital wallets”

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UNLOCKING THE POTENTIAL OF LOYALTY PROGRAMS IN REFERENCE TO CUSTOMER EXPERIENCE WITH DIGITAL WALLETS

Abstract

The emergence of digital technology has fundamentally transformed how businesses generate value for their customers. One of the critical components of this paradigm shift in digital transformation is improving customer experience, which benefits both consumers and organizations.

This study aims to evaluate customer experience and its influence on customer satisfaction and loyalty in the digital wallet domain. It also analyzes the moderating role of loyalty programs. This study was conducted in the Indian context since, alongside advancements in technology and a focus on digitalization, there has been a substantial increase in the acceptance of cashless payment options. The data from 349 respondents using the snowball sampling technique were collected through Google Forms, and SmartPLS 4.0 was used for analysis.

The results showed that loyalty and satisfaction are significantly influenced in the digital wallet domain if organizations work on factors affecting customer experience. The results also proved that loyalty programs moderate the relationship between customer experience and customer satisfaction.

This analysis successfully unlocked the potential of loyalty programs and established that loyalty programs do not moderate customer loyalty. However, organizations must note that poorly designed loyalty programs are just like any other sale promotion scheme, which adds up to the promotional expense without achieving the overall long-term objective of sustaining loyal consumers.

Keywords

customer experience, customer loyalty, customer satisfaction, loyalty programs, structural equation modeling

JEL Classification

C51, C12, L86, M31, M37

INTRODUCTION

Over the years, captivating the target audience and exceeding their expectations has been a challenging task for organizations across the globe. Given the easy access to voluminous, real-time information, knowledgeable and tech-savvy customers are moving away from the marketing initiatives that once used to be the most promising ones (Rao, 2016). In this competitive world, multiple players compete in every segment, each focusing on retaining their existing customers and onboarding prospective ones. In many sectors, loyalty programs have proved crucial for enhancing client retention. Reward programs improve consumers' perception of switching costs and are thus effective in promoting customer retention (Wirtz et al., 2007). Many digital wallet providers have undifferentiated services and modest switching



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costs; hence, loyalty programs may be essential for relationship building (Wirtz et al., 2007). Companies believe loyalty programs influence behavior over time, resulting in satisfied and loyal customers (Bolton et al., 2000).

In many countries, digital wallets have become very popular due to their speed, flexibility of any time use, customer support, ease of use, and security. These features are difficult to replicate in other payment methods. Therefore, digital wallets have a promising future. Eventually, they would be like a super app that can manage individual finances, track spending, offer “buy now pay later” (BNPL), make investments, and facilitate biometric identification. The dilemma of how to satisfy growing consumer demand for efficient, secure, and timely anytime purchases is addressed by digital wallets. Knowing and understanding customers is essential if an organization wants to offer a customized payment experience. Therefore, this study seeks to investigate this research issue.

1. LITERATURE REVIEW

Consumers’ shopping experience is intensifying and improving, thanks to technological advancements. Digital wallets are at a critical juncture and have seen exponential growth due to rising consumer knowledge, increasing expectations, and changing consumer behavior. Consumers expect to search online for products/services, place orders, and make payments using smartphones (Morgan, 2021). Due to the exponential growth of communication technology, the usage of mobile phones has tremendously increased, thus paving the way for digital wallets. In a competitive landscape, providing a customized payment experience can be a crucial differentiator among the market players. Everyone loves a good deal, and thanks to digital wallets, loyalty programs for in stores and online environments can be effortlessly combined to offer attractive incentives and discounts.

The notion of “experiential marketing” was first brought into the limelight by Holbrook and Hirschman (1982). In the extant literature on consumer behavior, customers make rational decisions due to the inherent capability of human beings to analyze information. However, past studies did not consider consumption experience a significant factor (Andajani, 2015). According to Holbrook and Hirschman (1982), factors including senses, imagination, emotions, and customer engagement go into the decision-making process. Hence, with time, customer experience has become vital in understanding consumer behavior (Andajani, 2015).

Customer experience refers to a multifaceted, comprehensive assessment of a cognitive, emo-

tional, affective, physical, and social reaction to a brand during the purchasing process (Gentile et al., 2007; Hosany & Witham, 2010; Schmitt, 1999a). This experience is the individual’s unique, internal, and subjective reaction, one that has been influenced during an interaction at various touchpoints, whether direct or indirect (Gentile et al., 2007; Lemon & Verhoef, 2016).

Although customer experience is influenced during an interaction with the product /service or brand at various touchpoints, it is necessary to look at its dimensions for a comprehensive understanding of this concept. Schmitt (1999a) introduced cognitive, emotional, behavioral, sensory, and social dimensions that are the favored ones in this domain and have gained widespread acceptance because they provide an all-inclusive picture of customer experience (Gentile et al., 2007; Brakus et al., 2009; Schmitt, 1999b; Verhoef et al., 2009).

Customer loyalty is crucial to a successful marketing strategy (Otsetova, 2017). Customer loyalty can be defined as positive behavior toward a company, reflected by a consumer’s propensity to shop at a particular store again or preference for a particular brand (Zeithaml et al., 1996). Loyalty has also been defined as a strong desire to purchase a preferred good or service offered by the same company in the future, despite external influences and competitive marketing strategies that may influence customer churn (Oliver, 2014).

A customer’s attitude toward the services offered by an organization is customer loyalty (Kim et al., 2007; Stank et al., 1999). Loyalty is a long-term relationship built over time through a customer’s mul-

multiple dealings with a service or brand rather than through a single interaction (Anderson & Sullivan, 1993). Organizations must improve customer loyalty to retain existing customers, which is crucial for business growth (Zakaria et al., 2014). Loyalty, a critical aspect in relationship marketing, reflects the percentage of consumers who are satisfied with the goods/services offered (Makudza, 2021).

The relationship between customer experience and loyalty has been widely studied in the existing literature. For example, Brun et al. (2017) analyzed dimensions proposed by Schmitt (1999b), i.e., cognitive, sensory, affective, behavioral, and social with reference to “loyalty” and also examined the moderating role of channels namely physical and online. Further, Molinillo et al. (2022) examined the influence of various dimensions of customer experience on customer loyalty and satisfaction with retail apps.

In the prevailing literature, customer satisfaction is crucial for an organization’s overall growth and sustainability (Erevelles & Leavitt, 1992). Customers’ assessment of the gap between the anticipated and actual service performance is known as customer satisfaction (Anderson & Sullivan, 1993). Consumers are satisfied if the actual performance matches or surpasses their expectations, and vice-versa (Kotler & Keller, 2014). As per Meyer and Schwager (2007), customer satisfaction is the outcome of customer experience, where the difference between positive and negative experiences determines the degree of satisfaction. Organizations worldwide strive for customer satisfaction because it results in long-term benefits like loyal customers and positive word-of-mouth leading to sustained profitability (El-Adly, 2019; Ertemel et al., 2021; Greenwell et al., 2002).

Pei et al. (2020) examined how customer satisfaction, in-person and online atmosphere, are affected by the shopping environment through customer experience. Consumer satisfaction is necessary for building customer loyalty (Molinillo et al., 2022). A positive relationship exists between loyalty and satisfaction (Akbar & Parvez, 2009). A significant and direct relationship between customer satisfaction and loyalty has been established by Kim et al. (2004). As per the extant literature, customer loyalty is a logical outcome of customer satisfaction. To evaluate this further, Ertemel et al. (2021) studied the link be-

tween loyalty and satisfaction in the context of customer experience.

A loyalty program is a targeted marketing initiative that provides customers extra incentives, perks, or other advantages to promote loyalty (Leenheer et al., 2007; B. Sharp & A. Sharp, 1997). The widespread implementation of loyalty programs across the globe demonstrates acceptance and popularity of the concept of relationship marketing, which is a radical move from transaction-based marketing. The primary objective of relationship marketing is customer retention, which aims at building long-term affiliations (Reichheld, 1993; Liu & Yang, 2009). The underlying premise of loyalty programs is generally based on the notion that retaining existing customers is more cost-effective than acquiring new ones. The Pareto rule states that 20% of consumers generate 80% of revenue (Reichheld, 1993). As a result, it appears prudent to spend more on maintaining the relationship with the firm’s existing customers. Furthermore, unlike the short-lived benefits of promotional and advertisement strategies, loyalty programs have a lasting impact (B. Sharp & A. Sharp, 1997).

Generally, customer satisfaction is believed to be critical for developing consumer loyalty. Still, with reward programs in place, the influence of customer satisfaction is weakened, as loyalty programs influence customer loyalty (Wu & Wang, 2012). However, it is challenging to determine the influence of loyalty programs on consumer loyalty (Lin & Bennett, 2014).

Despite the extensive literature in this area, there is no consensus on how effective loyalty programs are; the evidence points to either little, no, or weak effect (Lin & Bennett, 2014). Previous studies in this area have mainly concentrated on the direct effects of loyalty programs on consumer loyalty, with few assessing the potential moderating influence of loyalty programs (Bolton et al., 2000; Evanschitzky & Wunderlich, 2006). Evanschitzky and Wunderlich (2006) validated the moderating effect of program membership on the association between conative and action loyalty.

Therefore, based on the literature review, this study aims to address this gap. Prior studies have primarily focused on the direct effects of loyalty

programs on customer loyalty; however, they very rarely addressed the probable moderating effects of loyalty programs on the link between customer experience, loyalty, and satisfaction.

H5: Loyalty programs in the digital wallet domain moderate the association between customer experience and satisfaction.

2. AIMS AND HYPOTHESES

This study aims to:

- (1) Evaluate customer experience with digital wallets and their relationship with customer satisfaction and loyalty.
- (2) Examine the moderating effect of loyalty programs in the digital wallet domain on the association between customer experience, satisfaction, and loyalty (Figure 1).

The following hypotheses are put forth:

- H1: Customer experience in the digital wallet domain significantly influences customer loyalty.*
- H2: Customer experience in the digital wallet domain significantly influences customer satisfaction.*
- H3: Customer satisfaction in the digital wallet domain significantly influences customer loyalty.*
- H4: Loyalty programs in the digital wallet domain moderate the association between customer experience and loyalty.*

3. METHODOLOGY

An online questionnaire was used to gather the data. Industry veterans assessed the questionnaire (Google Forms) and offered valuable insights. An online survey by a convenience sample of 40 customers served as the pre-test, which was used to ensure accurate results and a high-quality measurement instrument. The pre-test helped improve the questionnaire; hence, per the suggestions, some questions that did not meet the criteria were removed. Finally, Google Forms was circulated to the target audience.

The data were gathered between March and May 2022. The survey among the target population was made more accessible through snowball sampling. The study sampled 353 respondents; however, four were excluded because they were repetitive; hence, only 349 were used for further analysis.

Males constituted 50.1% of the respondents as against females (49.9%), implying no difference in the usage of digital wallets amongst the genders. 29.8% of participants are 46-60 years old, followed by 23.8% who are 36-45. Young respondents under 18 (4.6%) and the elderly over 60 (10.3%) constituted an insignificant part of this survey. The education level of respondents influences their perception of the customer experience. 33% of the participants had a master's

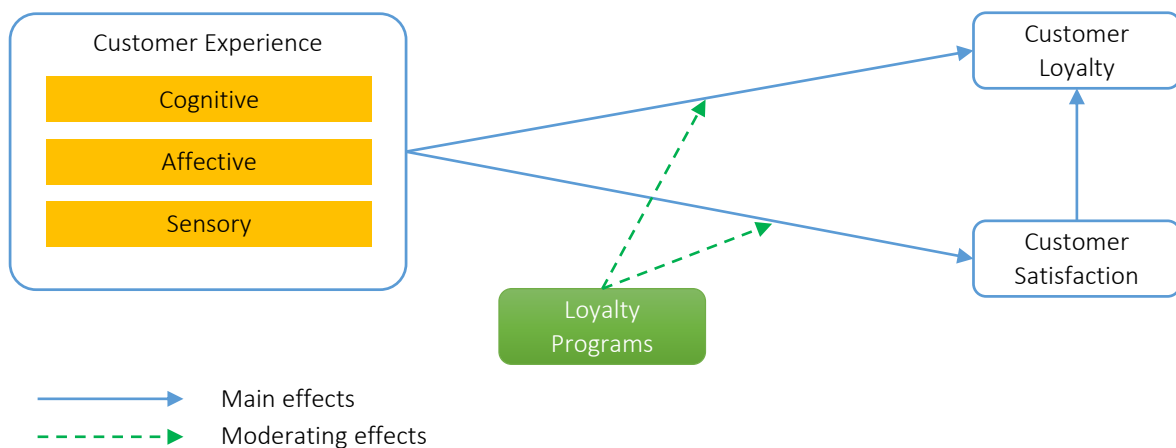


Figure 1. Conceptual model

degree, followed by 28.4% with a bachelor’s degree. Most participants worked in the private sector (56.7%), followed by the self-employed (17.8%). The respondents also comprised individuals who have used digital wallets for over four years. Further, 49% of the respondents used digital wallets daily, followed by 22% who used them once a week (Table 1).

Table 1. Demographic analysis

	Category	Frequency	Percentage
Gender	Male	175	50.1
	Female	174	49.9
Age	Below 18 years	16	4.6
	18-25 years	46	13.2
	26-35 years	64	18.3
	36-45 years	83	23.8
	46-60 years	104	29.8
	Over 60 years	36	10.3
Education level	High school or less	22	6.3
	Bachelor’s degree	99	28.4
	Master’s degree	115	33
	Higher than a Master’s degree	28	8
	Professional degree	85	24.4
Employment	Private sector	198	56.7
	Government sector	26	7.4
	Self-employed	62	17.8
	Student	35	10
	Others	28	8
Experience	Less than one year	38	10.9
	1-2 years	41	11.7
	2-3 years	59	16.9
	3-4 years	55	15.8
	More than 4 years	156	44.7
Usage	Daily	171	49
	Once a week	77	22.1
	Twice a week	56	16
	Once a month	38	10.9
	Once a year	7	2

The factors considered in the analysis are based on prior validated and acceptable scales. Customer experience was measured using cognitive, affective, and sensory dimensions. Three items for cognitive experience were used from Brakus et al. (2009) and Fornerino et al. (2006). Three items for affective experience were adapted from Mehrabian and Russell (1974) and Richins (1997). Three items for sensory experience were taken from Brakus et al. (2009).

Further, to analyze the moderating role of loyalty programs, five items were adapted from

Chaabane (2010). Also, customer loyalty was measured by four items taken from Caruana (2002) and Oliver (1997). Finally, items for customer satisfaction were adapted from Hubbert (1995) and Oliver (1997).

4. RESULTS

In social and behavioral studies, SEM has become an imperative tool. This study used SmartPLS 4.0 software for data analysis. Henseler et al. (2016) state that it is crucial to evaluate the goodness-of-fit of the measurement model before conducting the analysis. The SRMR value, i.e., 0.077, was lower than the acceptable brink of 0.080. Nevertheless, the overall model fit criteria should be cautiously approached because they are preliminary and must be investigated further (Benitez et al., 2020).

The factor loading of an item indicates how effectively it reflects the underlying factor (Research with Fawad, n.d.). As per the minimum threshold, each item’s factor loading on its variable must achieve values more than or equivalent to 0.7 (Henseler et al., 2009). For all the constructs, the factor loading was above the threshold level.

Further, composite reliability (CR) and Cronbach’s alpha (CA) were considered to check the model’s reliability. The minimum acceptable brink for Cronbach’s Alpha is 0.7 or higher, which was achieved for every construct (Cronbach, 1951) (Table 2).

Further, composite reliability in a model should be equal to or greater than 0.6 for exploratory purposes (Chin, 1998). An acceptable model for the confirmatory purpose has composite reliability of 0.70 or higher (Henseler et al., 2016). For this paper, composite reliability was attained for all the variables (Table 2).

In addition, convergent validity for all the variables was also checked, and it was evaluated using the average variance extracted (AVE). AVE must surpass 0.5 and be larger than the cross-loadings in an acceptable model (Chin, 1998). In the model, convergent validity was met (Table 2).

Table 2. Cronbach’s alpha, composite reliability, and average variance extracted

Constructs	Cronbach’s Alpha	Composite Reliability	Average Variance Extracted (AVE)
Customer Experience	0.764	0.864	0.680
Customer Loyalty	0.800	0.869	0.624
Customer Satisfaction	0.914	0.939	0.795
Loyalty Programs	0.876	0.910	0.668

Discriminant validity was evaluated through the Fornell and Larcker norm (Fornell & Larcker, 1981). Since all values fall within the threshold level, discriminant validity for the model was achieved (Table 3).

Table 3. Discriminant validity

Constructs	Customer Experience	Customer Loyalty	Customer Satisfaction	Loyalty Programs
Customer Experience	0.824			
Customer Loyalty	0.478	0.790		
Customer Satisfaction	0.414	0.726	0.892	
Loyalty Programs	0.556	0.456	0.434	0.818

Table 4 lists the findings of the structural model and hypotheses testing. The β coefficients of each regression, as well as their p-values, were calculated to test hypotheses. The results display that the relationships are significant at 95% ($p < 0.05$) except for hypothesis 4. The first three hypotheses are related to the direct impact, whereas the remaining two are related to the indirect impact, i.e., moderating effect.

The results of H1 testing reveal that customer experience has a positive and significant impact on loyalty ($\beta = 0.121, p = 0.015$); hence H1 is supported. H2 results show that customer experience positively affects customer satisfaction ($\beta = 0.209, p = 0.003$); hence, H2 is supported. Finally, the results of H3 manifest that satisfaction influences customer loyalty ($\beta = 0.665, p = 0.00$); hence, H3 is supported.

The results of H4 testing indicate no moderating effect or an insignificant impact of loyalty programs in the association between customer experience and loyalty ($\beta = 0.034, p = 0.152$); hence H4 is rejected. Finally, H5 assesses whether loyalty programs moderate the association between customer experience and satisfaction. The results reveal that digital wallet loyalty programs moderate and significantly impact the association between customer experience and satisfaction ($\beta = 0.124, p = 0.003$); hence, H5 is supported.

The results of H4 testing indicate no moderating effect or an insignificant impact of loyalty programs in the association between customer experience and loyalty ($\beta = 0.034, p = 0.152$); hence H4 is rejected. Finally, H5 assesses whether loyalty programs moderate the association between customer experience and satisfaction. The results reveal that digital wallet loyalty programs moderate and significantly impact the association between customer experience and satisfaction ($\beta = 0.124, p = 0.003$); hence, H5 is supported.

5. DISCUSSION

This paper evaluates the association between customer experience, satisfaction, loyalty, and the moderating effect of loyalty programs in the digital wallet domain. Very few studies to date on customer experience have been researched in the domain of digital wallets.

The influence of customer experience on loyalty is supported and is in line with the extant literature in this domain. The existing literature demonstrates a positive correlation between customer experience and loyalty (Imbug et al., 2018; Klaus & Maklan, 2013; Shahid et al., 2022). Therefore, a memorable and one-of-a-kind customer experience positively affects customer loyalty. However, due to intense market competition, customer loyalty has emerged as one of the most difficult challenges in the digital wallet domain. As a result, organizations must understand consumer behavior and focus on personalized services across the payments journey. In addition, organizations should evaluate the

Table 4. Hypotheses testing

	Hypothesis	Beta values (β)	P values	Results
H1	Customer Experience → Customer Loyalty	0.121	0.015	Significant
H2	Customer Experience → Customer Satisfaction	0.209	0.003	Significant
H3	Customer Satisfaction → Customer Loyalty	0.665	0	Significant
H4	Loyalty Programs x Customer Experience → Customer Loyalty	0.034	0.152	Not Significant
H5	Loyalty Programs x Customer Experience → Customer Satisfaction	0.124	0.003	Significant

antecedents of consumer experience across various touch points to provide a seamless payment experience across multi-channels. Ease of use, customer support, app attributes, and trust are the critical antecedents of consumer experience essential for customer loyalty.

The influence of customer experience on satisfaction is supported and is in line with the extant literature in this domain. As per the extant literature, satisfaction is an essential factor for customer retention, especially in this competitive environment, where customers seek something far more significant than just the functionality of the products/services (Kellog Insight, 2022).

Customers today have easy access to voluminous, real-time information; hence, it becomes effortless, especially for millennials, to move on the competitor; thus, the result of H2 signifies the importance of not only captivating the target audience but also exceeding their expectations to have a satisfied customer (Rao, 2016).

The influence of customer satisfaction on loyalty is supported and is in line with the extant literature in this domain. In the current business environment, it is effortless and fast to replicate the features offered by competitors; hence, the only way to be ahead of the competitors is to manage consumer experience and have satisfied customers. Therefore, customer retention is an essential tool for business growth and sustainability. Organizations must focus on retaining existing clients, as the acquisition cost for new ones is five to twenty-five times higher than the nominal cost of retaining existing customers (Gallo, 2014).

Organizations must consider this vital aspect of customer satisfaction across all touch points over the purchase journey. Efforts should be made to match and surpass the customer's expectations to have a satisfied customer. For onboarding new customers, it is crucial to have a satisfied customer who will be loyal to the brand and help in sustainable growth through positive word-of-mouth.

The result of H4 testing indicates no moderating effect or an insignificant impact of loyalty

programs in the association between customer experience and loyalty; hence, it is in line with the concept that loyalty schemes are more about matching competition than about having loyal customers. Loyalty programs can be easily copied or even further sugar-coated by the competitors; hence, customers can be tempted to move on to the competition (popularly known as “me-too schemes”) (Gilbert, 1996).

Loyalty programs can also be too expensive to implement, thus eroding the bottom lines in the long term. Generally, loyalty programs cannot be withdrawn after introducing them, as it is feared that customers would move to competitors once the incentives and rewards are stopped. Poorly designed loyalty programs are like any other sales promotion schemes that add to the firm's promotional expense without achieving the overall long-term objective of having loyal customers (O'Malley, 1998). Hence, the result of H4 is unique, as it clearly brings out the moderating role of loyalty programs and thus adds to the existing literature in this domain.

The result of H5 testing shows the moderating effect of loyalty programs on the correlation between customer experience and satisfaction, as loyalty programs act as a switching barrier due to the sunk cost. The “points accumulation” under the loyalty program is the most common mechanism, which acts as a switching barrier. Hence, loyalty programs intend to retain customers by promising future rewards. The primary objective of loyalty programs is to prize and boost repeat buying behavior. Further, the results are aligned with the concept of “something for nothing” (Brunelle, n.d.). Also, loyalty programs provide key information on customer behavior like purchase history, demographics, credit history, etc., which can help organizations to offer customized services.

Surprisingly, only a few authors have extensively worked on the moderating effect of loyalty programs; hence, the outcomes of H4 and H5 are ground-breaking as the study brings out the moderating role of loyalty programs in the association amongst customer experience, loyalty, and customer satisfaction.

CONCLUSION

This study analyzed the relationships between digital wallets, customer satisfaction, and loyalty and the moderating effect of loyalty programs on customer experience, satisfaction, and loyalty. The outcomes of this study can benefit organizations in the digital wallet domain by intensifying the satisfaction and loyalty of the customers by making efforts toward staging memorable customer experiences.

First, it is essential to point out that in the current business environment, it is easy and fast to replicate the features offered by competitors; hence, the only way to be ahead of the competitors is to manage consumer experience and have satisfied and loyal customers.

Second, loyalty programs do not moderate customer loyalty; hence, organizations must note that poorly designed loyalty programs are just like any other sale promotion scheme, which adds up to the promotional expense without achieving the overall long-term objective of having loyal customers. In addition, since the loyalty programs act as a switching barrier and are here to stay, the same should be designed so that they do not end up just as a point accrual system or a mechanism to collect customer information. However, businesses should focus on changing customer behavior for sustainable loyalty.

Researchers working in “customer experience with digital wallets” can further conduct their studies in different cultural backgrounds. Furthermore, the moderating effect of a loyalty program can be analyzed in the context of immediate and future rewards. In addition, research can assess the moderation effect of loyalty programs in low-involvement and high-involvement scenarios. Furthermore, since the concept of omnichannel is in trend, future studies can analyze the moderating result of loyalty programs on customer experience in online and offline environments. Finally, the longitudinal perspective on the association between customer experience, satisfaction, and loyalty can be examined.

AUTHOR CONTRIBUTIONS

Conceptualization: Vidushi Vatsa, Bhawna Agarwal, Ruchika Gupta.

Data curation: Bhawna Agarwal, Ruchika Gupta.

Formal analysis: Bhawna Agarwal, Ruchika Gupta.

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Visualization: Vidushi Vatsa, Ruchika Gupta.

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Writing – review & editing: Vidushi Vatsa, Bhawna Agarwal, Ruchika Gupta.

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