A Conceptual and Empirical Framework for the Development of a Country Wide Loyalty Scheme Servicing the Cyprus Tourism Industry

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Customer loyalty programs have become more popular in today's competitive business environment even though they have stimulated the attention of the hospitality industry since the mid 80's. Shifting from the mainstream conquest marketing, that is, the constant search for new customers, the tourism industry has focused its attention on loyalty and retention marketing via the development of loyalty schemes. While many segments of the industry have successfully developed and utilized loyalty programs/schemes in the past three decades, the development of a holistic and integrated country-wide customer loyalty scheme still poses major conceptual and methodological challenges. The empirical findings obtained in this paper have both conceptual and methodological implications as well as added value for tourism policymakers and industry stakeholders when planning promotion strategies for tourism destinations worldwide.

Introduction and Related Literature

A customer loyalty scheme is an institutionalized incentive system that attempts to enhance consumers' behavior beyond the direct effects of the changes to the price or the core offering (De Wulf, Oderkerken-Schröder and Iacobucci, 2001; Palmatier, Dant, Grewal, and Evans, 2006). Loyalty schemes as a marketing program focus on the increase of the lifetime value of current customers by long term interactive relationships (Garbarino and Johnson, 1999). These definitions clearly present the close relations between the loyalty programs and the basic ideas of relationship marketing.

Numerous scholars have explored the multiple benefits caused by loyalty and customer retention schemes, namely, increased profitability (Reichheld and Sasser, 1990)[a], the generation of positive word of mouth (Bowen and Shoemaker, 2003), the retention of market share and the maintenance/growth of high value customers (Shoemaker and Lewis, 1999, p. 346), the manipulation of consumer behaviour, diminished

advertising costs for attracting new customers, increased referrals, and the creation of a competitive advantage (Reichheld, 1996 *as cited in* Tepeci, 1999, p. 224). Finally, Bagdoniene and Jakstaite (2006) advocate that loyalty schemes envision to strengthen the position of the business entity in the market, by increasing its market share, revenues and profitability.

Butscher (2004, *as cited in* Bagdoniene and Jakstaite, 2006) developed a comprehensive hierarchy of the primary and secondary goals (referred to as tasks) of a loyalty program.

As can be extracted from a visual inspection of Figure 1, tasks of primary importance include the development of customer loyalty, the attraction of new customers, the creation of a database to store customers' behavioural and attitudinal characteristics, the establishment of communication channels, and the provision of support to other departments of the company. In addition, numerous secondary tasks of loyalty programs such as the improvement of the image of the brand and increase customers' visitations are also included in the hierarchy.

Figure 1. Butscher's Hierarchy of loyalty programme's goals

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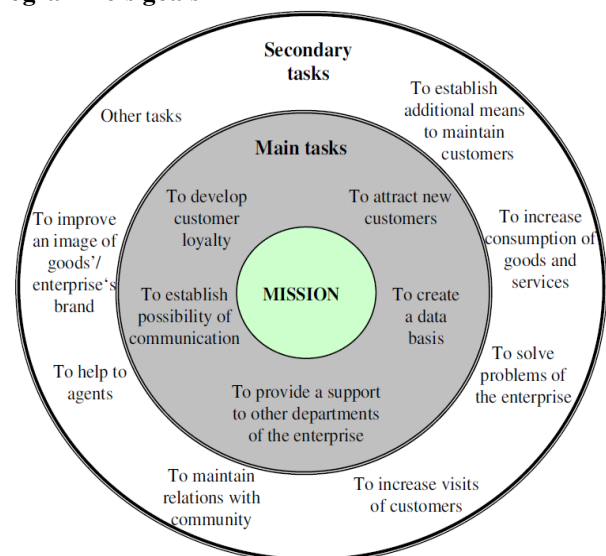
[a] In their seminal work **Reichheld and Sasser (1990)** found that a 5% increase in customer retention results in a 25-125% increase in profits.

Based on attitudinal and behavioural characteristics, numerous scholars (Backman and Crompton, 1991; Baloglu, 2002; Dick and Basu, 1994) have categorised loyalty into four distinctive typologies; low (no loyalty), latent, spurious (inertia) and true (premium). Spurious or inertia loyalty exists when the individual exhibits a high repetition of purchase while at the same time he/she does indicate an emotional attachment to the company. In contrast, latent loyalty exists when a strong emotional attachment is not corresponding to a high degree of purchases. The ideal situation, that is the true or premium loyalty, exists when both a strong attitudinal attachment and a high repeat patronage towards the brand (product or service) exists, while the most cited elements of attitudinal attachment are emotional commitment, trust, satisfaction, perceived value and service quality (Harris and Goode, 2004). In the same fashion, Tepeci (1999) summarizes the following factors as essential for creating brand loyalty; awareness, reputation, image, promotion, perceived quality, innovations, brand extension, satisfaction and customer background. Finally, Bowen and Shoemaker (2003, p. 46) argue that building loyalty by hotels requires an integrated strategic approach rather than tactical efforts.

When someone investigates loyalty at a conceptual level, two issues arise. The first is whether loyalty equals satisfaction, and second, the distinctive differences between frequency (repetitious behaviour) and loyalty programs. Scholars (Shoemaker and Lewis, 1999; Bowen and Shoemaker, 2003) argue that customer loyalty is not the same as customer satisfaction. Shoemaker and Lewis (1999) suggest that "satisfaction measures how well a customer's expectations are met, while loyalty how likely a customer is to repurchase and engage in partnership activities" (pp. 352-353). They conclude by stating that satisfaction can exist without loyalty, but it is very difficult and rare to have loyalty without satisfaction.

Destination loyalty is defined as the level of tourist's perceptions of a destination as a recommendable place (Chen and Gursoy, 2001). Chen and Tsai (2007) find that destination image perceived by tourists and an experience related to trip quality (comparison between expectation and actual experience) are both positive. Gitelson and Crompton (1984) identified many reasons for somebody becoming a repeat visitor to a familiar destination: satisfied with particular destination; find same kind of people; emotional attachments to particular destination; further exploration of destination; gives recommendations to other to other potential tourists.

Although a certain number of studies have explored the issue of repeat visitation (Gitelson and Crompton, 1984; Gyte and Phelps, 1989; Fakeye and Crompton, 1991; Bowen and Shoemaker, 1998) and have identified some tourist loyalty typologies (Backman and Crompton, 1991; Oppermann and Chon, 1997; Pritchard and Howard, 1997; Baloglu, 2001; Petrick and Sirakaya, 2004), the empirical examination of the concept of loyalty and its applications in the tourism industry has been limited.

Tourist destinations depend heavily on the repeat visitor segment or recommendations to other. Edvardsson *et al.* (2000) define customer loyalty as a customer's predisposition to repurchase from the same firm again, which in this case is traveller's predisposition to revisit. A number of studies have examined the differences between first-time and repeat visitors (Gitelson and Crompton, 1984; Gyte and Phelps, 1989; Fakeye and Crompton, 1991), and the impact of previous visitation experience on future destination choice (e.g., Chon 1990; Mansfeld 1992; Crompton 1992). According to Morais and Lin (2010), first-time visitors may be mainly influenced by access and processing of information about destination attributes, whereas repeat visitors may pay more importance to the destinations' psychological meaning. Clarifying first-time visitor's destination loyalty reveals information about what managers can do to keep new customers. In contrast, knowing repeat visitors' formation of destination loyalty can help managers to retain old customers.

Tourism destination choice stressed the importance of previous experience on the destination choice process. The selection or rejection of a destination is related with familiarity. Previous experience is an important factor affects positive or negative destination awareness as well as traveler destination preferences (Um and Crompton 1990; Mayo and Jarvis 1981; Woodside and Lysonski 1989). Some people may not even look for information on other destinations for their next destination choice.

Previous studies reveal that satisfaction is affected by travel motivation (Mannell and Iso-Ahola, 1987; Ross and Iso-Ahola, 1991; Fielding *et al.* 1992). Maximizing travel satisfaction is crucial for a successful tourism destination management. An understanding of satisfaction must be a basic parameter used to evaluate the performance of destination products and services (Noe and Uysal, 1997; Schofield, 2000).

Addressing the need for a Customer Loyalty Program - The case of Cyprus

The use of loyalty programs presents various facets and characteristics in the international tourism industry. However, in the international tourism market there is a lack of an integrated and holistic loyalty scheme program. The present study aims to bridge this gap by providing a conceptual and methodological framework that will ultimately enable the profiling -based on demographic and psychographic parameters- of tourists visiting Cyprus and in particular those who are interested to participate in the proposed country-wide loyalty scheme.

Cyprus, a popular island destination is depending heavily on tourism since it accounts for 10% of its GDP in 2011 (Cyprus Tourism Organization, Annual Report 2011). In 2011, according to the Statistical Service of the Republic of Cyprus, 2.4 million tourists visited the island

with tourism receipts reaching €1.745 billion Euros (Statistical Service of the Republic of Cyprus: Tourism Statistics, 1999-2011). The United Kingdom is the largest contributor, with 42.7% of tourism arrivals, followed by Russia (13.9%), Germany (6.6%) and Greece (5.8%). Despite the current financial crisis in the country, caused by its overexposure to Greek financial institutions, official statistics revealed an increase of 10.1% in tourist arrivals from the previous year. Impressive and noteworthy is the 49.2% increase of tourist arrivals from Russia, a direct result of the country's extensive promotional campaign towards that particular market (Statistical Service of the Republic of Cyprus: Tourism Statistics, 1999-2011).

A study by Clerides and Pashourtidou (2007) has investigated the the behaviour of repeat travellers, who account for 36.4% of the arrivals, and has reached to the following conclusions: (i) Tourists with higher levels of expenditure have a higher probability of repeating their visit in the future (p. 64); (ii) There is a positive relationship between the duration of stay, tourist satisfaction, and intention to return (p. 64); (iii) Tourists coming from the United Kingdom have a higher probability of becoming repeat visitors (p. 65); (iv) Travellers between 30–39 years of age and those over 60 are more willing to repeat their visit in the country (p. 65); (v) Individuals coming to the island in May, September and April are most likely to repeat their visit (p. 69).

It is thus evident that the enrichment and overall improvement of the Cyprus tourism product is vital for the island to maintain a competitive position in the international tourism arena. To this end, policies and actions should be aimed at nurturing repetitive buying behaviours and developing an emotional attachment with travellers. It is apparent that the introduction of a loyalty scheme for Cyprus tourism will contribute towards the atainmnet of the above stated objective, while at the same time will enhance both attitudinal and behavioural characteristics.

Methodology

As already stated, the purpose of this study is to profile, based on demographic and psychographic parameters, the tourists visiting Cyprus and in particular those who are interested to participate in the proposed country-wide loyalty scheme. In particular, the study aims to clarify the perceptions of incoming tourists about the proposed development of a country-wide loyalty scheme servicing the Cyprus tourism industry.

With the utilization of a quantitative methodology, while reflecting at the same time on the existing literature, a research instrument was developed. In order to ensure the best possible response rate, questionnaires were administered by professional research assistants at the two international airports of the country (Larnaca and Paphos), in selected hotel establishments, in popular cafes and restaurants, in archeological tourist areas, and on beaches and other public areas where there is an extensive tourist presence. In order to avoid the danger of under or over-representing some members of the population, a probability-stratified sample was utilized. The sample consisted of 2.343 incoming tourists in Cyprus (i.e., questionnaires with no missing data).

Linear discriminant analysis was utilised to model the relationship between the dependent categorical variable and the set of independent (exploratory) variables **(Fisher, 1936; Lattin *et al.* 2003)**. In our context the independent variables represent the answers to the various questions of the questionnaire whereas the categorical dependent variable is the answer to the question if they want to participate in a loyalty scheme with $k = 2$ possible values–categories (yes and no).

The main goals of LDA are: (a) to explain the differences between the classes (in our case the yes or no answer for the loyalty scheme), in terms of the independent variables and (b) to utilize the model for future predictions. The method along with the prediction model provides a number of statistical results leading to the estimation of probability (posterior probability) that a tourist belongs in a particular group (yes or no). In other words the method can calculate the probability, based on the answers to the questionnaire of a tourist that he will participate in a loyalty scheme or not (Fisher, 1936; Lattin and Green, 2003).

The idea is to find a linear combination of the independent variables that would produce maximally different discriminant scores z between groups (yes or no for participation in a country-wide tourist loyalty scheme program). If a denotes the linear combination and X an n × p data matrix, then the discriminant scores are given by:

$$z = Xa \quad (1)$$

In our context the rows of the data matrix X contain the vector representation of the answers to the questions of the questionnaire. According to (1) the matrix X can be written as:

$$X = \begin{bmatrix} x_{11} \cdots x_{1p} \\ \cdots\cdots\cdots \\ x_{d1} \cdots x_{dp} \\ \cdots\cdots\cdots \\ x_{n1} \cdots x_{np} \end{bmatrix} \quad (2)$$

We also assume that the n row vectors of the X matrix fall in k=2 categories. Fisher proposed to choose the linear combination a that maximizes the ratio of the between-group sum of squares to the within-group sum of squares of the discriminant scores z. This is an eigenvalue problem which is solved numerically by using Singular Value Decomposition (SVD) (2). In the case where the number of groups is only two (as in our case), then only one discriminant function is enough to

distinguish the groups. If the number of groups k is greater than two ($k>2$), then we use $m = min (k − 1, p)$ discriminant functions, called canonical discriminant functions, to exhibit the differences among the groups.

Research Findings

Wilks' lambda indicates the significance of the discriminant function. **Table 1** indicates a highly significant function (p<,00) and provides the proportion of total variability not explained, i.e. it is the converse of the squared canonical correlation. So we have 33.4% unexplained. The relatively large eigenvalue (1.794) supports the case for an effective discriminant function (see **Table 2**).

Table 1. Tests of equality of group Means

Tests of Equality of Group Means				
	Wilks' Lambda	F	df1	df2	Sig.
Age	0.991	8.264	1	2343	0.009
Education	0.993	3.692	1	2343	0.010
Adventure	0.995	10.759	1	2343	0.001
Experience	0.998	4.063	1	2343	0.044
Health	0.996	10.513	1	2343	0.001
Shopping	0.994	13.386	1	2343	0.000
Culture	0.980	0.260	1	2343	0.610
Wellness	0.666	3.088	1	2343	0.079
Religion	0.882	1.070	1	2343	0.301
Nightlife	0.995	10.209	1	2343	0.001
Natural Environment	0.998	1.246	1	2343	0.264
Discounts in general	0.752	771.858	1	2343	0.000
Save money	0.927	183.462	1	2343	0.000
Recognition	0.950	120.792	1	2343	0.000
Security	0.817	524.121	1	2343	0.000

Table 2. Eigenvalue table

Log Determinants				
Function	Eigenvalue	% of variance	Cumulative %	Canonical correlation
1	1.794[a]	100.0	100.0	0.666

[a] First 1 canonical discriminant functions were used in the analysis

The structure matrix table (**Table 3**) shows the correlations of each variable with each discriminate function. In this section we have again high scores for *Discounts in general* (0,64) and *Security* scores (0,53) and *Save Money* (0,31) which suggest a label of economic utility as the function that discriminates between those who are willing to join a country-wide customer loyalty scheme program and those who are not.

The classification table includes the rows which are the observed categories of the dependent and the columns are the predicted categories. The classification results (**Table 4**) reveal that 86.7% of respondents were classified correctly into to join or not to join groups. *Those who are willing to join a national wide loyalty card program* were classified with slightly better accuracy (60.1%) than *those who are not* (39.9%).

Table 3. Structure matrix table

Structure matrix	
	Function 1
Discounts in general	.644
Security	.531
Save money	.314
Recognition	.255
Shopping	-.129
Adventure	.085
Health	-.076
Nightlife	.075
Education	.074
Wellness	-.047
Age	.044
Natural Environment	-.210
Religion	.030
Culture	-.026
Experience	.012

Table 4. Classification Results table

Classification Results[b,c]					
			Predicted Group Membership		
		to join or not	YES	NO	Total
Original	Count	to join	469	312	781
		Not to join	81	1488	1569
	%	to join	**60.1**	39.9	100.0
		Not to join	5.2	**94.8**	100.0
	Count	to join	469	312	781
		Not to join	81	1488	1569
	%	to join	60.1	39.9	100.0
		Not to join	5.2	94.8	100.0

[a] Cross validation is done only for those cases in the analysis. In cross validation, each case is classified by the function derived by the functions derived from all cases other than that case.
[b] 86.7% of original grouped cases correctly classified
[c] 86.7% of cross-validated grouped cases correctly classified

Discussion and Conclusions

Research findings suggest that actors from both sides of the spectrum (policy makers/stakeholders and researchers) can utilise economic utility theory based on a tourist-profile-oriented approach to develop national wide loyalty card programs. The empirical results provided by Discriminant analysis provide evidences that the variables which are highly related to the prediction of the participation in a national wide loyalty scheme are "Save money" and "Discounts in general". It is widely accepted that the effect of price discounts on purchase volume represents the core positioning of a large amount of firms in the tourism industry. The implementation of the proposed national wide scheme is expected to lead to the reduction of the negative effects of seasonality; one of the biggest challenges of the Cyprus's tourism industry. By providing a price discount or a financial incentive during seasons characterised by low demand, the economic utility of the offering is enhanced by compensating incoming tourists for higher volume or more frequent arrivals of both first time and repeat tourists.

As indicated by the empirical analysis, "Security" and "Recognition" are also important determinants for participation in the proposed national wide loyalty scheme card program of Cyprus. As a direct implication

of this finding there is a requirement for the development of different loyalty segmentation approaches, based on security and recognition issues.

To the knowledge of the researchers no prior study has attempted to address these issues in the context of the Cyprus tourism industry. On this basis it can be claimed that the proposition of a national tourism loyalty scheme will lead to the enrichment and overall improvement of the Cyprus tourism product. This will ultimately enhance the competitiveness of the tourism industry by nurturing repetitive buying behaviours and developing an emotional attachment with travellers.

Future research should address the perceptions of hospitality stakeholders (hoteliers, travel operators, and executives of local Hospitality and Tourism Associations) towards the potential development of a country-wide loyalty scheme servicing the tourism industry of Cyprus.

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