The Factors Affecting the Redemption of Credit Card Reward Points in Indonesia

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Reward point is a form of customer loyalty program used by many credit card issuers in many countries, including Indonesia. This paper presents the result of a descriptive study that was conducted in an attempt to assess the Indonesian credit cards users' level of awareness about the reward-point programs, and identify the factors affecting the redemption of reward points. The respondents of the study are the credit card users in two major cities in Indonesia in 2009. Snowball sampling technique is used to collect data from the users using questionnaire as a measurement tool. Of the 500 questionnaires distributed for this study, 276 usable questionnaires were returned giving a response rate of 55%, which was considered satisfactory for subsequent analysis. The Chi-Square and logit regression analysis are used to analyze the data. Results show that 82.20% of the sample reported being either completely or partially aware of their credit cards' point-reward program. Regarding the factors affecting the redemption of reward points, the study found that redemption rate is related to the awareness about reward point program, duration of credit card usage, average usage of credit cards, and the customers' attitude toward incentives of reward point program.

INTRODUCTION

Credit card is a part of a system of payments named after the small plastic card issued to users of the system. It is a card entitling its holder to buy goods and services based on the holder's promise to pay for these goods and services.

The concept of using a card for purchases was known for more than 67 years ago. Thirty years later, carrying a credit card may not only be convenient to customers as it eliminates the need to carry cash for most purposes, but also a life style.

The use of credit card as one of the tools of payment system in Indonesia was first introduced by Dinners Club when they issued credit cards in 1973. Prior to that in 1968 American Express Bank had provided service for their customer credit cards that were issued abroad.

In 1979 Bank Central Asia (BCA) introduced for the first time the domestic credit cards and by the year 1983 BCA issued Master Card, further on followed by Bank Duta which issued the first rupiah Visa Card with the credit facilities.

The development of credit card all over the world and the banking deregulation in Indonesia has pushed the entrance of the new players in the credit card industries such as, Bank BII with Visa Card in 1988, Bank Bali with Master Card, Citibank with Visa, and Bank Danamon with Master Card. For the last 10 years the total number of banks as the credit card issuers has been growing rapidly.

The competition among credit card issuers in Indonesia in obtaining/maintaining customers has been very tough recently. In order to attract new customers and/or to retain them, credit card issuers in Indonesia have been showing a renewed interest in marketing their products/services to their customers more effectively. They use a variety of ways such as providing customers with excellent services, modern looking equipment, courteous, skillful, well-trained employees, and supportive operational systems. They also provide loyalty programs, such as offering enhanced product warranties at no cost, free loss/damage coverage on new purchases, and points which may be redeemed for cash, products, or airline tickets. Research conducted by MarkPlus Insight in cooperation with Infobank Magazine (2010) found that the contribution of point reward programs on Indonesian credit card loyalty program performance is 19.50%.

Loyalty program, particularly point reward programs have proven effective in attracting and building credit card customer loyalty (Uncless, 1994 in Liu et al, 2009; Geller, 1997). Liu et al (2009) conducted a study to discuss the basic issues such as the role of consumer awareness about point reward programs, and the extent of card issuers' efforts in creating consumer awareness in China. In addition they also identified the factors affecting the redemption of reward points. Using regression analysis, they found that redemption rate is related to the awareness about point reward programs, duration of credit card usage, average usage of credit cards, and the customers' attitude toward incentives of point reward programs. The use of regression analysis in this case may not be appropriate due to the dependent variable of the study was measured in nominal scale.

Although a number of studies in this issue have been done in some western countries, and Asian countries such as China, and Taiwan, the development of similar study into loyalty program, particularly point reward programs in Indonesia is still important, for a number of reasons:

1. Most of researches conducted in other countries, where the different cultures might have different effects on the customer's attitude about the loyalty programs, therefore we need to reexamine the model in Indonesia;
2. In order to analyze data, the current study will use other method that appropriate to the measurement of variable scale;
3. It could be valuable to utilize the results of the previous study by extending the model, and including new variable such as the kind of credit card issuers (e.g. foreign banks vs local bank).

This study aims to reexamine the model to identify factors that affecting the redemption of credit card reward points in Indonesia by including kind of credit card issuers as the new variable.

LITERATURE REVIEW

Customer Loyalty

Customer loyalty, *not* customer satisfaction, is a key to the success of an organization. High customer loyalty is central to successful customer retention, and companies who compete on the basis of loyalty will win over the competition (Dawes and Swailes, 1999).

The conceptualization of the customer loyalty construct has been developed gradually over the years. In the earlier years, loyalty is defined as the proportion of purchases of a household devoted to the brand it purchase most often (Cunningham, 1956). Prior studies on customer loyalty have focused primarily on product-related or brand loyalty, whereas research on customer loyalty to service organizations has remained limited (Gremler and Brown, 1996). Gremler and Brown (1996) extend the concept of loyalty to intangible products, and their definition of service loyalty includes the three specific components of loyalty, namely: the purchase, attitude, and cognition. They define service loyalty as the degree to which a customer exhibits repeat purchasing behavior from a service provider, possesses a positive attitudinal disposition toward the provider, and considers using only this provider when a need for this service exist.

Customer Loyalty Programs

Customer loyalty programs are systems that offer incentives, either tangible or intangible rewards, to consumers for specific repeated behavior, usually repeat buys. Loyalty programs are now thought to have been among the successful marketing instruments of the 1990s (Liu, 2009).

It's common knowledge that acquiring customers costs more than keeping them. Further, it's clear that building customer loyalty programs have a great side effect: they yield customers who are brand advocates. Hence, the right customer loyalty program offers benefits, in which it can reduce costs, increase lifetime customer value as a form of equity. For some companies, the decision to establish a loyalty program was made according to a commonly held apocryphal belief that it is six times more expensive to obtain a new customer that it is to keep a current one and to encourage him or her to increase their consumption frequency (Wansik, 2003).

Loyalty programs may offer benefits in a number of different ways. Many loyalty programs offer a sustained discount (such as 5%) for a period of time - perhaps a year, perhaps for the life of the business. Others offer a discount, once certain criteria have been met — for example, certain amount of discount on a single purchase once a customer has spent a certain amount at the business. The other form of loyalty program is known as loyalty cards or rewards cards or benefit cards. In Indonesia, loyalty cards have been issued by many businesses, such as Ace Hardware, Index, Century Pharmaceuticals, Ranch Market, Metro Department Store, etc. For each retail purchase, customers will automatically earn rewards points, which can later be redeemed for various free rewards items.

Credit Card Reward Programs and the Previous Studies in the Area

In the last 25 years, loyalty programs became popular not only in industries such as hotels, rental car agencies, and department stores, but also in credit card industry.

There are four types of reward programs offered to credit card users in Indonesia (Novita, 2010): point rewards, cash back, discounts, gift for each approval application, and combination of them. The current research focuses on point rewards programs. This program is offered to the customer as long as his/her credit card account is in good standing. Customers will earn one (1) reward point for every retail transaction of a certain amount on his/her credit card. Benefits of reward points include shopping vouchers, hotel vouchers, electronic equipments, jewelry, waiver of annual fee, entry passes to major cinemas, etc.

The success of point reward programs is indicated by the level of redemption rate. Customers will be able to redeem their points if they earned sufficient points as the results of using their credit cards frequently. In order to succeed in the point reward programs, banks need to disseminate about the programs to their customers more effectively to spread and to reinforce awareness about point-based reward programs and to encourage them to enjoy the benefits (Liu et al, 2009).

As described earlier, loyalty programs, particularly point reward programs have proven effective in attracting and building credit card customer loyalty (Uncless, 1994; Geller, 1997). Most of studies related to this nature have been conducted in western countries, and some in China. Previous studies in western countries have discussed the characteristics of rewards and their impact on loyalty; however some of the basic issues such as the role of consumer awareness about point reward programs, and the extent of card issuers' efforts in creating consumer awareness appear to remain unexplored (Liu et al, 2009). To fulfill the research gap, Liu et al (2009) conducted a study to identify the factors affecting the redemption of reward points. In addition they also assessed Chinese credit card users' level of awareness about the reward-point programs. They conducted a two-phase study between May and August 2007 i.e. an exploratory focus group discussion as the first phase, and personal interview with 400 credit card users in China as the second phase. From the focus group discussion, they found that:

1) People who knew little about reward point programs were unlikely to redeem points;
2) People who use credit card frequently obtain enough points to redeem some rewards more rapidly and frequently;
3) Some participants' attitude toward point-reward program incentives seemed positive or very positive;

4) Some participants also mentioned about the duration of credit cards held, the average usage of credit card, the number of cards used, and point expiration periods.

Based on the focus group results, the questionnaire used in the second phase was designed in order to answer their research questions. They conducted an extensive telephone survey to the respondents who were drawn from a population more likely to be credit card users than general Chinese population.

The result shows that the important conditions which positively affecting the redemption of reward points are: awareness of the reward point programs, a positive attitude about the incentives, and average frequency of credit card usage. In addition, the result shows the negative relationship between the redemptation rates and the duration of credit card held. More specifically, redemption rates were higher for credit cards that had been issued more recently. Regarding the level of awareness about the reward-point programs, they found the low level of awareness about the reward-point program.

RESEARCH METHODOLOGY

Research Questions

As described before, this study aims to reexamine the model developed by Liu et al (2010) to identify factors that affecting the redemption of credit card reward points in Indonesia by including kind of credit card issuers as the new variable. The research questions of the current study are:

(1) Is awareness about point-reward program greater for customers who have been using their cards longer?
(2) Do customers who are more aware of their point-reward programs redeem their points at higher rates?
(3) Do customers who hold more positive attitudes toward their point-reward programs redeem their points at higher rates?
(4) Do customers who use their credit cards more often redeem their points at higher rates?
(5) Are there any differences between the customer awareness of rewards programs offered by foreign banks compared to local banks?

Sample

The focus of this research is on the factors affecting the redemption of credit card reward points in Indonesia. Therefore, the population for this research consists of credit cards users who have been enjoying credit card services.

Data were gathered from personal interviews using questionnaire as a measurement tool, and it was conducted in Jakarta and Surabaya by 5 trained interviewers during 2 months period, between November and December 2009.

Snowball sampling technique is used to collect data from the users using questionnaire as measurement tools. In order to increase their representation and the response rate, data were also gathered from convenience sample of professional people. Of the 500 questionnaires distributed for this study, 276 usable questionnaires were returned giving a response rate of 55%, which was considered satisfactory for subsequent analysis.

The survey questionnaire is a revised version of that originally developed by Liu et al (2009). It consists of two parts; the first part of the questionnaire collects demographic data, such as gender, age, education, and occupation, and other information such as the number of credit cards used, the most frequently used card, the length of time to be a customer of credit card, and how frequently they use the credit card. The second part of the questionnaire focuses on credit card reward programs.

The statistics descriptive, Chi-Square and logit regression analysis are used to analyze the data.

RESULTS

TABLE 1
THE GENERAL SAMPLE DESCRIPTION

The Characteristics of the Respondents	Frequency	Percentage
Gender		
Female	143	51,80
Male	133	48,20
Age		
21 – 30	73	26,60
31 – 45	142	51,50
>45	61	21,90
Occupation		
Entrepreneur	40	14.50
Professionals	30	10.80
Employee	175	63.40
Others	31	11.30
Education		
High school or under high school	45	16.30
Diploma	44	15.90
Under graduate	131	47.50
Graduate	56	20.30
Monthly Income		
Less than Rp10,000,000	59	21.20
Rp10,000,000- Rp20,000,000	165	59.70
More than Rp20,000,000	52	19.00
Number of credit cards		
One	113	40.90
Two – Three	120	43.50
Four or more	43	15.60
Most frequently used card		
Citibank	100	36.20
BCA	75	27.20
BNI	32	11.60
Others	69	25.00
Type of bank		
Local	140	50.70
Foreign	136	49.30
The length of time of credit card held (years)		
Less than 1	24	8.70
1 – 5	125	45.30
5 – 10	60	21.70
More than 10	67	24.30
Average usage of credit card		
Daily	21	7.60
Weekly	87	31.50
Monthly	149	54.00
Every three months or more	19	6.90

From table 1, it can be seen that based on the 276 sample credit card customers that meet the sample criteria, both male and female respondents were evenly distributed with the percentage of 48.20% and 51.80% respectively. For the whole sample, 51.50% respondents fell in the age range of 31 to 45, and 67.80% completed university degree. The most popular category of monthly income was in the range of Rp10,000,000 to Rp20,000,000 (59.70%). In terms of their occupation, 63.40% worked as employees. In terms of the length of time of the customer has been a customer of credit card, 46.00% respondents fell in the range more than 5 years. In terms of the frequency of the utilization of credit card, 39.10% respondents fell in the frequency of daily to once a week, 54.00% once a month, and 6.90% every three months or more. In terms of the number of cards that customers have held, 40.90% respondents held 1 credit card only, 43.50% fell in the number of credit cards range of 2 to 3, and 15.60% respondents held more than 3 credit cards.

The Awareness of the Point-Reward Programs

The degree of respondent awareness of their credit card reward programs was categorized into 3 categories: fully aware, partially aware, and completely unaware. The categorization was determined based on six "yes or no" questions about credit cards reward programs that adopted from Liu et al (2009), as follows:

(1) The respondents who were not only aware of their credit card reward programs, but also knew the money-reward proposition, the number of points per amount of purchase, the minimum number of points required before redemption, the redemption procedure, and the rewards available for redemption, were categorized as fully aware respondents;

(2) The respondents who knew about the reward program but did not fulfill all the conditions , were categorized as partially aware respondents;

(3) The respondents who were not aware the existence of any such programs, were categorized as completely unaware respondents.

The results show that 26.80% respondents were categorized as fully aware, 55.40% partially aware and 17.80% completely unaware. It can be concluded that 82.20% respondents reported being either fully or partially aware of their credit card point-reward programs. This proportion is close to the 79% of credit card users in China (Liu, 2009), and much more close to the 82.70% of credit card users in Taiwan (Lou, 2006 in Liu, 2009) who were fully or partially aware of credit card reward programs.

The Redemption Rates

In order to identify the redemption rate, finding indicates that only 39.50% of respondents redeem their reward points, and the other 60.50% of respondents never redeem.

Major Reasons for No Redemption

The reasons behind low redemption rates were reported as follows:

1. 50% of respondents don't know the redemption process;
2.   25% of respondents never earn sufficient points;
3. 10% of respondents feel that the benefits are not adequately valuable;
4. 15% respondents feel that the rewards are not enough attractive.

In previous research conducted in other countries, they also found the low redemption rate. Liu (2009) reported that 36% of respondents in China redeeming their reward points, while in the US and other western countries 21% - 40% respondents were estimated to redeem their reward points (Diamond Consultants, 2007 in Liu, 2009). Basically, the main reason behind the low redemption rates almost the same as found either in China or in other western countries: the respondents don't know the redemption process.

Attitude Toward Incentives of Reward Point Programs

Regarding the customers' attitude toward incentives of credit card reward point programs, 61.80% respondents have positive or strongly positive attitude, 34.80% neutral, and only 3.70% respondents have negative or strongly negative attitude.

Chi-Square Test

In order to test the statistical significance of the five questions in the study, χ^2 test was applied. The results can be seen in the following table.

TABLE 2
CHI-SQUARE TEST

No.	Questions	χ^2 value	χ^2table
1.	Is awareness about point-reward programs greater for customers who have held their card longer?	9.768*	9.210
2.	Do customers who are more aware of their point-reward programs redeem their points at higher rates?	82.133**	10.597
3.	Do customers who hold more positive attitudes toward their point-reward programs redeem their points at higher rates?	46.710**	7.879
4.	Do customers who use their credit cards more often redeem their points at higher rates?	17.080**	10.597
5.	Are there any differences between the customer awareness of rewards programs offered by foreign banks compared to local banks?	19.08**	10.597

Notes: *significant at 0.01; **significant at 0.005

From table 2 it can be observed that, at the 0.01 significance level, the longer card use history and the awareness about reward point program are dependent. That is, the awareness about point reward program appears vary, depending on the category of the length of time holding the card. Referring to questions 2, 3, and 4 as appear in the same table, at the 0.005 level of significance, the relationships of awareness and redemption rate, usage rate and redemption rate, attitudes toward incentive and redemption rate are statistically significant. Moreover, at the 0.005 significance level, we find that the kind of the bank and the awareness about reward point program are dependent. That is, the customer awareness about point reward program offered by foreign banks is higher than local banks.

Logistic Regression Model

In order to analyze the relationships between various factors and redemption behavior, we utilized Logistic Regression Model as follows:

$$Y = Pi = 1/[1 + \exp - (\beta o + \beta 1Xi1 + \beta 2Xi2 + \beta 3Xi3 + \beta 4Xi4 + \beta 5Xi5)]$$

where:

Pi: probability to redeem the reward points
Y: Reward point redemption
       Y = 1, if the customer redeem the reward point
       Y = 0, if the customer doesn't redeem the reward point
X1:   Awareness about reward point programs
       X1 = 1, if customer is fully aware
       X1 = 2, if customer is partially aware
       X1 = 3, if customer is completely unaware
X2:   The attitude towards incentive programs
X3:   Average usage rate of credit card
X4:   Duration of credit card usage
X5:   The kind of the bank
       X5 = 1, if the bank is foreign bank
       X5 = 0, if the bank is local bank

The first independent variable above is awareness about reward point programs. The customer who is more aware of his/her point-reward programs will redeem his/her points at higher rates. The second independent variable is the attitude towards incentive programs. The customers who have more positive attitude towards incentive programs may accumulate points by using their cards more frequently and then they may redeem their points at higher rates. The third independent variable is the average usage rate of credit card. The customers who use credit card more often as a tool of payment compared to using cash will accumulate more reward points, and they will have more opportunity to redeem their points. The fourth independent variable is the time length of credit card held. The customers who hold credit card over a long period of time are more likely accumulate their reward points, and they will have more opportunity to redeem their points. The current research extends the previous model developed by Liu (2009) by including a new variable such as the kind of credit card issuers (local bank vs. foreign bank).

The next sets of results are for the model we specified.

TABLE 3
OMNIBUS TEST OF MODEL COEFFICIENTS

		Chi-square	df	Sig.
Step 1	Step	138.580	6	.000
	Block	138.580	6	.000
	Model	138.580	6	.000

TABLE 4
MODEL SUMMARY

Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	231.758(a)	.395	.534

TABLE 5
VARIABLES IN THE EQUATION

		B	S.E.	Wald	df	Sig.	Exp(B)
Step	X1			34.052	2	.000	
1(a)	X1(1)	4.666	1.089	18.374	1	.000	106.265
	X1(2)	2.753	1.051	6.862	1	.009	15.683
	X2	1.058	.251	17.728	1	.000	2.881
	X3	.514	.234	4.841	1	.028	1.672
	X4	.383	.185	4.289	1	.038	1.467
	X5(1)	.022	.350	.004	1	.950	1.022
	Constant	-10.273	1.677	37.527	1	.000	.000

a Variable(s) entered on step 1: X1, X2, X3, X4, X5.

The likelihood of the ratio chi-square of 138.580 with a p-value of 0.000 tells us that our model as a whole fits significantly. The Nagelkerke R-squared is 0.534, meaning that approximately 53.40% of the variability of reward point redemption is accounted for by the variables in the model.

As described earlier, that a logistic regression was used to predict reward point redemption from customer awareness, customer attitude towards reward point program, average usage of credit card, the length of time of holding the credit card, and whether the respondent was from foreign or local bank. The result shows that customer awareness, customer attitude towards reward point program, average usage of the credit card, and the length of time holding the credit card, were significant predictors of reward point redemption, but the kind of bank (whether foreign or local) was not related toward reward point redemption. These findings, excluding the length of time holding the credit card, were consistent with research conducted by Liu et al in China (2009).

Regarding the relationship between the length of time holding the credit card and the redemption rate, the result of current study is inconsistent with the research conducted by Liu et al (2009). This study found that the customers who have held their card longer redeem their reward points at higher rate. As predicted before that the customers who hold the credit card over a long period of time are more likely accumulate their reward points, and they will have more chances to redeem their points.

CONCLUSIONS

The purpose of the current study is to reexamine the model developed by Liu et al (2009) to identify factors that affecting the redemption of credit card reward points in Indonesia by including the kind of credit card issuers as the new variable.

The current study found that 26.10% respondents were categorized as fully aware, 55.40% partially aware and 17.80% completely unaware. Furthermore, we found that the longer the history of the possession of the card the more aware of the reward point programs. In addition, the kind of bank and the awareness about reward point program are dependent.

Based on the Logistic Regression Analysis, it can be concluded as follows:

- The probability to redeem the reward points is higher for those aware customers than the unaware ones;
- The probability to redeem the reward points is higher among the positive attitude customers than the neutral or negative ones;
- The probability to redeem the reward points is higher among the higher card usage customers than the lower one;
- The probability of customers with lengthy credit card possession to redeem their reward points is higher than others.

Managerial Implications

The current study found that the low awareness level was significantly related to low redemption rate. Marketers need to develop communication plans to explain what is reward point, what are the benefits of points rewards programs, how are rewards points earned, how can the point be redeemed, etc. The effective and efficient promotional tools need to be considered. Because the information about point rewards programs should be explained in detail, and the early users of credit cards in Indonesia are more likely to be internet literacy, so that disseminating the program via email could be more effective and efficient. Therefore, if they are more aware of the benefit of the reward programs, they tend to use their credit card more often, and by doing so the more reward points collected to be redeemed.

Limitations

This study has some limitations that need to be considered. There are other variables that might influence the consumer redemption behavior, such as culture, demographic factors, etc. The current model used is not designed to include all the possible influences on consumer redemption behavior.

The results of this study might have limited generalization due to the fact that the sampling method used cannot be categorized as probability sampling.

Recommendations for Future Research

Several issues, associated with the limitations of this study as mentioned above, require further research considerations.

Future research should concentrate on improving the model's fit by replicating the proposed model for different service industry. Although this study shows encouraging preliminary results, additional studies are needed to evaluate the model stability and applicability across different products, industries, and cultures.

Additional variables should also be considered to include. It is possible to look at developing a richer model that incorporates other variables beyond the five used in this study.

In order to obtain the representative sample, probability sampling method should be considered to use.

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