

What drives Indian consumer credit card loyalty? The perspective of involvement in reward programmes

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This study, from the customer involvement perspective, looks at the impact of reward point programmes on the purchasing behaviour of Indian credit card users. A total of 125 valid responses were collected using an online survey of Indian credit card users. The study found that customers' involvement is not only low, but also does not affect their loyalty (frequency of card use and usage expenditure). As for redemption behaviour, usage frequency and numbers of credit cards showed significantly positive effects. This study has important implications for both scholars and credit card issuers. Consumers' responses towards loyalty programmes need more evidence from developing markets and companies should dedicate more resources to understand the involvement process of their targets, as well as the design of programmes.

Keywords: loyalty programme; credit card; reward programme; involvement; India

Introduction

Consumer loyalty is considered an important key to organisational success and profit (Oliver 1997), and practitioners increasingly refer to the 'lifetime value' of customers as a form of equity. Customer loyalty programmes focus on the firm's existing customer base with the intention of building long lasting relationships and to strengthen commitment and create 'velvet handcuffs' that bond the customer to the brand (Dowling and Uncles 1997). Customer loyalty programmes are also promoted to not only retain existing customers, but to attract new ones. Loyalty programmes are seen as crucial to achieving the relationship marketing goal of increased customer loyalty (Wendlandt and Schrader 2007).

The effects of loyalty programmes on consumer purchase behaviour have been studied with mixed results (Dowling and Uncles 1997; Meyer-Waarden 2008). A recent study by Liu (2007) focused on understanding the long-term impact of loyalty programmes on consumer purchase behaviour and loyalty found that loyalty programmes do not change the purchasing behaviour of heavy users, in contrast to

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the increased purchase behaviour exhibited by consumers who were light users. Studies have also been carried out on the importance of rewards vis-à-vis the profile of the consumers (e.g. Lara and De Madariaga 2007). Liu and Yang (2009) studied the impact of loyalty programmes under different conditions of market saturation, market share and category expandability, and found that the saturation effect disappears when the product category is highly expandable. Some key loyalty-marketing trends have already been identified and explored in detail (Capizzi and Ferguson 2005).

As in other financial sector industries, loyalty reward point programmes have been running in the credit card market for several decades. Liu and Yang (2009) cite the *Visa USA Research Services* (2006) report that in the credit card industry, half of general purpose credit cards offer a reward programme. However, despite the maturity of customer loyalty reward programmes in this industry, multiple credit card ownership may also have led to neutralisation of individual reward programmes (Mägi 2003). Reflecting this concern, academic research has expressed doubts about the value of such loyalty programmes to firms as well (e.g. Dowling and Uncles 1997; Shugan 2005). Several scholars have also expressed the view that delayed rewards in a loyalty programme have a significantly different impact on customer loyalty (e.g. Leenheer and Bijmolt 2008). According to Bolton, Kannan, and Bramlett's (2000) research, credit card users who belong to loyalty programmes spend more using their cards than non-members, but they are not more likely to retain their accounts over time, i.e. the programmes increase usage but do not appear to build loyalty. Several studies point to the backlash of mismanaged loyalty programmes e.g. Fournier, Dobscha, and Mick (1998) suggest that if such programmes are not properly managed, they may yield opposite results due to negative reactions from target consumers, possibly due to a limited choice of redemption options on the part of the consumer (Brehm 1972).

Past research has dealt with issues related to characteristics of rewards and their impact, especially on customers' loyalty. However, most studies concerning credit card point-reward programmes have been conducted in developed countries. With almost every credit card company (and bank) now offering a point-based reward programme (Worthington, Stewart, and Lu 2007), these have been assumed to be an effective mean of attracting credit card customers and somewhat effective at building their loyalty (Uncles 1994; Geller 1997). With regard to redemption of points by credit card users, Liu and Yang (2009) suggest that the value of the reward may be related to customer-level characteristics,¹ such as their demographics, shopping orientation, future orientation, variety seeking, and price sensitivity. Programme design may include cash value, aspirational value, varieties of options, brand-reward congruence and reward forms (cash versus free product).

However, there is limited empirical research that explores whether credit card reward point programmes enhance customer loyalty in emerging markets. Moreover, there is little extant understanding of the degree to which credit card users actually value reward point programmes and redeem their points later. The current study aims to fill this research void and provides empirical evidence that current credit card reward point programmes in India are not valued by customers due to such features as delayed rewards and card users' low perceived value of the rewards. This study follows the logic of 'Introducing to customer loyalty programme → Involvement in loyalty programme → Attitudes toward loyalty programme → Loyalty to credit card'. To be specified in this paper, we proposed consumers' involvement to be the

main mechanism for the effects of credit card reward programmes in immature markets.

The concept of involvement has received widespread attention in the marketing domain and is suggested to take an important role in the attitude – behaviour relationship (Kokkinaki and Lunt 1997). Credit card is an innovative payment means for most Indian consumers. Consumers need to be educated to experience consuming with credit card. Low customer involvement and a lack of positive attitude towards the programmes may be the key problem for credit card companies that established customer loyalty programmes and are trying to attain and maintain customers. The study empirically shows that redemption behaviour in credit card reward point programmes is associated with the number of cards used by consumers and the frequency of card usage. Other loyalty metrics, such as average amount spent on cards and the use of cards as preferred mode of payment, were also insignificant in our sample. This research supports the findings of Liu (2007) about Chinese credit card users, that reward point programmes do not impact the purchasing behaviour of credit card users. The implications of this study include managerial insights on how customer involvement could be increased by reducing cognitive and time costs in seeking information on reward point redemptions, increasing positive attitude towards reward programmes by increasing their perceived value, making redemption more flexible, and making information search faster and more convenient.

Literature review

Customer involvement

Customer involvement consists of his/her perceived relevance of a particular activity that is based on inherent needs, values and/or interests (Zaichkowsky 1985) and may consist of characteristics of the person, the situation and/or the stimuli (Bloch and Richins 1983; Zaichkowsky 1986). Involvement may consist of a cognitive (or utilitarian) motive and/or an affective motive (Park and Young 1986), suggesting that it is essentially a motivational construct and depends on person's values and needs (Zaichkowsky 1986). In the context of the current study, involvement of a consumer in seeking information about credit card reward point programmes can be conceptualised as a motivation to process related information as suggested by several scholars in the past (e.g. Bloch and Richins 1983; Burnkrant and Sawyer 1983). Petty and Cacioppo (1986) refer to 'felt involvement' as involvement related to message processing (Greenwald and Leavitt 1984) and response involvement (Houston and Rothschild 1978).

Customer loyalty programmes

Customer Loyalty Programmes are now thought to have been among the most successful marketing tools of the 1990s and they have received considerable attention in both trade and academic journals. Loyal customers are considered an asset to the business, as relative costs of customer retention are substantially less than those of acquisition (Fornell and Wernerfelt 1987). The first loyalty programmes appear to have been the 'trading stamp programs', popular in parts of the USA during the late 1950s and 1960s. Typically, customers received one stamp for every 10 cents of purchase and could redeem these for merchandise at specifically established

redemption centres (Liu 2009). Trading stamps became so popular in some areas that 'stamp saturation' drove retailers to offer three- and four-times the normal award of stamps. In the early 1980s, airlines added frequent flier programmes with points accumulated on the basis of miles flown and redeemable for free flights (Wansink 2003). Frequent flier programmes have been existing for over 25 years and have dramatically changed the pricing and marketing programmes of what was essentially a commodity business (Varien 1999). During this period, loyalty programmes became popular in other service industries, such as hotels, rental car agencies, department stores, and credit cards.

Loyalty programmes usually provide rewards based on cumulative purchases and are an explicit attempt to enhance customer retention and to increase product usage. They also serve to attract new customers with the promise of additional benefits (Liu 2009). They encourage repeat buying and thereby improve both retention rates and 'share of wallet' from regular customers (Lewis 2004). Bell and Lal (2002) suggest two major reasons for the success of frequent shopper programmes: (1) reduced price competition and therefore higher margins and profits due to switching costs faced by customers and (2) reduced marketing expenses by focusing attention on retaining loyal customers and capturing an increasing share of their wallet.

Consumers are motivated to participate in such programmes because, fundamentally, they like to get something for nothing (Uncles 1994). Past research has tried to assess the effectiveness of loyalty programmes in creating true customer loyalty. The findings show that such programmes are more suitable for products and services with high margins or ones that a customer will invest in heavily over a long period of time (Wansink 2003). Point-based reward programmes, the specific focus of this paper, also work well for products and services that are typically not unique (Geller 1997), e.g. video rentals, groceries or car washes. Rothschild and Gaidis (1981) suggested that consumers have 'deal-loyalty' rather than loyalty to core products or vendors; in such cases, once the loyalty programme is withdrawn there is a decline in consumer loyalty.

Although a few researchers (e.g. Sharp and Sharp 1997; Keh and Lee 2006; Liu 2007) reached conclusions that doubted the effect of reward point programmes, most research results show them to be beneficial to a wide range of businesses. Many organisations have clearly benefited from the implementation of customer loyalty programmes. Other research has concluded that structuring of the point system may also have an impact on a person's readiness to redeem the prize. If the point structure is too high and seemingly non-attainable, consumers may end up ignoring the reward system (O'Brien and Jones 1995; Van Osselaer, Alba, and Manchanda 2004).

Credit card reward programmes

Credit card reward programmes have become increasingly popular with banks and credit unions because they provide an extra incentive for consumers to choose one financial services provider (and its credit card) over another. In 2007, more than 85% of US households participated in at least one reward programme, including credit card and airline frequent flyer programmes (Liu and Brock 2009). There are essentially three types of reward programmes for credit card users: point-based, cash back and airline miles with some cards offering combinations of these. The current research focuses on point-based programmes. Benefits of reward points from using a

credit card are dependent on the programme selected by the customer, but can include free flights, free accommodation, electronic equipment, vouchers and gift certificates for major retailers, magazine subscriptions, passes to theme parks, and even tax reduction (Liu and Brock 2009). Inspection of a large number of both point-based and cash back credit card reward programmes reveals that point-based reward cards tend to yield a slightly higher percentage return to the card holder. But despite their higher returns some people still find the redemption procedure of point-based rewards to be too much trouble – instead preferring the simplicity of automatic cash back credit (Liu 2009). For example, unlike cash back cards, point-based reward cards usually require card holders to keep track of their points and submit requests when they qualify for point redemption. Point-based rewards usually expire if not redeemed within a fixed time period. Furthermore, the rate of return (‘redemption ratio’) of some point-based reward programmes varies considerably, depending on what is redeemed. Compared to the complexity of point-based reward programmes and the implicit need for customers to manage their accounts, customers with cash back credit cards automatically get a portion of their purchases back as statement credits or cash back checks after a certain period of time.

Indian credit card industry

The early 1990s witnessed a quantum growth in the Indian credit card industry. Not surprisingly, credit cards have found greater acceptance and usage in major metropolitan cities of India. In 2009, the total number of credit cards in India was estimated to be 24.4 million (Schulz 2009). Fourteen major banks and financial institutions comprise the market for credit card products and services in India². ICICI Bank (a private domestic bank) held the top position with more than 3.5 million ICICI card holders in India, followed by Citibank and Standard Chartered Bank with 2.5 million and 1.9 million card holders, respectively. In addition, SBI, HDFC and HSBC were aggressively pursuing market share gains. Many banks have issued various reward programmes with respect to the point calculations and the redemption options on the Indian market. For every bank, redemption of points varies drastically and every bank offers an entire list (catalogue) of the numerous items available according to the various points earned (Table 1).

With increasing numbers of credit card issuers and increasing competition, several Indian banks, in both public and private sectors, are entering into joint ventures with international brands such as MasterCard and Visa (Mukherjee 2006). Increased competition has helped accelerate growth of the Indian credit cards market, one result of which is more options for Indian customers. The joint efforts of credit card companies has also helped in increasing the overall acceptability of plastic and hence their product’s usage (Hindu Business Line 2003). According to Visa, the largest credit card type in India³, India is one of the fastest growing markets worldwide, and is estimated to be the fourth largest market in the Asia Pacific region⁴ (The Economic Times 2006; Liu 2009). The number of Visa cards grew by 77% compounded annually between 2003 and 2006 (Mukherjee 2006). The increasing number of credit card users in India reflects that a ‘buy now, pay later’ philosophy is on rise among Indian consumers. Compared to other countries India is still full of potential. For example, the retail sales volumes (RSVs) generated by using credit cards in India – 5.37 billion USD in 2006 – were comparatively lower than in other countries in the region⁵. The potential credit card market in India was

Table 1. Major credit card point reward programs issued in Indian market.

Banks	Points earned	Examples of redemption options
SBI		
SBI Platinum Card	2 points for every Rs. 100 spend normally 10 points for every Rs. 100 spent on dining, departmental store and abroad	Whirlpool Microwave Oven 20C, Points + Pay: 750 + 6990/- Titan Gift Voucher Rs. 500/- Points: 2300
SBI Gold & More Card	1 point for every Rs. 100 spend normally 10 points for every Rs. 100 spent on departmental store and grocery	Dominos Gift Voucher Rs. 500/- Points only: 2200
HSBC		
HSBC Classic	1 Reward point for every purchase of Rs. 250	Oxford Advanced Learner- 1600 points
HSBC Gold card	1 Reward point for every purchase of Rs. 100	
HSBC Platinum card	2 Reward points for every purchase of Rs. 150	Cafe Coffee Day voucher worth Rs. 250/- 1000 points
HSBC Premier card	2 Reward points for every purchase of Rs. 100	
CITIBANK		
Citibank Rewards Card	1 for Rs. 125 spend normally 10 for Rs. 125 spent on apparels and department stores	Baskin Robins GV Rs. 200, Points: 600
Silver	1 for Rs. 200 spend normally	Tata Sky Recharge GV Rs. 500, Points: 1250
Gold	1 for Rs.150 spend normally	Titan GV Rs. 100, Points: 200
Platinum	1 for Rs.125 spend normally	Shoppers Stop GV Rs. 250, Points: 250
Titanium	1 for Rs.150 spend normally	Leather Travel Wallet, Points: 750
HDFC		
Gold	1 Reward Point for every Rs. 150 for spends up to Rs. 20,000 per statement cycle. For incremental spends above Rs. 20,000 in a statement cycle, earn 50% more Reward Points i.e. 1.5 Reward Points per Rs. 150	Arrow Voucher worth Rs. 500 (Points: 3150) Shoppers Stop voucher of Rs. 500 (Points: 3300) Reebok Voucher worth Rs. 500 (Points: 2640)
Silver	1 for Rs. 200	
STANDARD CHARTERED		
Gold Card	1 Reward point for every Rs. 125/- spent in India and Rs. 80/- spent abroad	LCD Television, 65000 points Samsung printer, 19000 points

estimated to reach \$30 million by 2012, while the debit card market was estimated to reach \$130 million (Mukherjee 2006). Although smaller than the US, continental Europe or Britain, the Indian credit card market has vast potential. Banks are

increasingly attentive to the potential of the second largest population base in the world (1.2 billion people, United Nations 2009). Furthermore, an integral part of credit card use in developing countries is the number of places where the cards can be used (e.g. hotels, department stores, shopping malls, restaurants, supermarkets). The hotel industry in India grew 15% per year between 2004 and 2009 (Hospitality India 2011)⁶ and the blooming development of related industries has helped the popularity of credit cards to grow. To sum up, fast growth of credit card numbers in India will be expected with increasing personal income and the rapidly growing number of middle-income families⁷, liberal norms for acquiring more card customers, a changing consumer mindset⁸, rapid growth of related industries, and better distribution of the intermediaries (ex: more promotions and infrastructure).

Development of hypotheses

Exploratory study

Since there is limited research on the success of loyalty programmes and redemption behaviour of credit card users in emerging markets such as India, exploratory qualitative interviews were conducted with 15 Indian credit card users in two major cities (Ahmadabad and Mumbai) in India in August 2009, to understand the phenomenon and aid in development of hypotheses. Respondents were recruited based on their self-reported usage of credit cards (light user/heavy user), levels of involvement with reward programmes and attitudes towards them. Each interview lasted between 25 and 35 minutes. Respondents were asked to recall the reward point programmes on their credit cards and whether they were using any of them. Based on the degree of recall and redemption of reward points, they were then asked whether they liked the programme, whether it induced them to use their card more often and whether it made them feel loyal to the credit card issuer. Questions were related to attributes of credit card point-based reward programmes and participant behaviours towards and attitudes about them, such as (1) the length of credit card use, (2) average usage rates, (3) preferences for making purchases using credit cards versus cash and the reasons behind such preferences, (4) awareness of additional features of reward programmes available with their cards, (5) redemption of reward points, (6) reasons behind not redeeming reward points and (7) general attitudes towards credit card incentive programmes. Similar questions were also deemed necessary for exploratory investigation in Liu's (2009) research. The interview sessions were conducted in Hindi or English, and recorded. Quotes are translated to English in this paper. Throughout, the study material, except for the interviews, was either developed in English or translated to English, using the standard translation and back-translation procedure (Brislin 1980).

The study found that most credit card users had low levels of involvement with credit card reward point programmes, as reflected by their low levels of awareness of the programmes and modest levels of positive attitudes towards them. Only a few respondents (2 out of the 15 interviewees) had ever actually redeemed their reward points, and few had ever tried to find out the details of the programmes offered by their credit card institutes. Some users expressed dissatisfaction with the product brands when it came to redeeming the points, as they perceived these brands itself to be of low quality. Others thought the process of redemption was cumbersome and time consuming. Almost all users self-reported that reward points did not influence their credit card loyalty or usage, although other service factors on the card did.

Thus, they did not use their cards to accumulate reward points; in contrary, only after using them for a certain time they realised that they had accumulated reward points. In this context, they perceived the products that they could redeem as freebies or as bonuses.

In one of the interviews with the Indian credit card users, Ms Priyanka, a 26-year-old student, brings out her low involvement with the reward programme when she mentions that, 'I am aware. I think I have about 294 points. But I don't know what it means' She then lengthily explains how she would choose to redeem her reward points:

I simply won't buy anything because I have some points. I will see the utility value of the item. The buying should be left on us. This should be the option. The second option will be if I need something and if I can buy using those points, I will buy. If it is something totally unrelated to those points I won't buy Sometimes there is a discount going on in the stores. But it is not applicable for these vouchers.

Similarly, Mr Pankaj, a 24-year-old businessman suggests that he may be too busy to get involved with the programme:

But I don't pay much attention on them (reward points). I don't even remember how it is converted and reimbursed. Once I called the Call Centre to find this out. I was told that some log-in, etc. I don't remember where the user ID is lying.

Mr Sanjay, a 28-year-old freelancing communication expert, suggests the following motive for the cards' reward point programmes:

The main purpose for introducing such reward point scheme is they want people to buy continuously . . . by this way people may come into paying interest at one stage. There are people who have money, use the card, pay regularly and have the advantage of the reward points too.

A male heavy credit card user, 45-year-old, who had redeemed his reward points three times, mentions that: 'The reward point scheme should be allowed on each and every product that the customers want to buy and not the particular brand or product'

Mr Gupta, a 47-year-old male credit card user and senior manager in a bank, explains his preference of staying loyal to his credit card company:

I would like to stick to a particular bank and may have two cards from the same bank. To be plain, I like the Citibank service. It has been very good for me. Considering my experience with the ICICI, and the Citibank service becomes important for me.

Mr Venkat, a 29-year-old male student in Ahmadabad clearly explains his priorities:

I use cards for convenience. I don't really care what reward points I get. I use a card which is accepted everywhere. When I use a card and the billing is good, there is no undercutting, there is no hidden cost, and I am glad for that. Reward points are above all this. It is like a hygiene factors and motivating factors. Reward points could be a motivating factor for somebody. But I look at hygiene factors in using the credit card.

These qualitative interviews with credit card users helped to identify three important variables impacting customers' loyalty: involvement with the reward programme, preference for using the card as payment mode (instead of cash) and

attitude towards the reward programme. Redemption policy is considered being one type of possible and important added value for Indian consumers because some consumers would like to adopt redemption once they understand the whole process and perceive potential values.

Customer involvement and customer loyalty

Customer involvement in a point structured reward programme is driven by several aspects such as the point reward threshold, which is an important aspect of point-structured reward programmes (O'Brien and Jones 1995). Liu and Yang (2009) suggest that if the point threshold for a reward is perceived to be too high, it may be considered unattainable by consumers and may thus be deemed inconsequential, and as a result, customer involvement is likely to be low. O'Brien and Jones (1995) suggest that important considerations in the point structure of a reward programme include the reward ratio⁹, the variety of reward redemption options and the aspirational value of rewards. Van Osselaer, Alba, and Manchanda (2004) found that with the point threshold remaining the same, the way points are issued over every purchase impacts customer choices and hence involvement is likely to vary with each of these factors. In addition, branded rewards have been found to be more effective than unbranded rewards; this effect is moderated by consumer involvement (Roehm, Pullins, and Roehm 2002; Yi and Jeon 2003; Kivetz 2005). Generally, most studies have shown the positive correlation between product involvement and brand loyalty (Olsen 2007). In the context of this study, it is hypothesised that since involvement entails motivation to act towards different aspects of a reward point programme, credit card users would be likely to exhibit higher involvement with a credit card reward point programme if they perceive greater benefits in the programme. Customer usage loyalty is conceptualised as consisting of preferring the card as a mode of payment, frequent card usage and volume, number of cards used, and number of redemptions. Although some of our interviewees showed low level of involvement in reward programmes, they decided to use the same bank's card continuously once they had considerable knowledge about the bank cards and loyalty programmes. Based on the review of literature and the in-depth interviews, the following hypotheses are put forward:

- H1a: Credit card users' involvement with the reward point programme is positively associated with credit card usage frequency.
- H1b: Credit card users' involvement with the reward point programme is positively associated with the amount charged to the credit card.
- H1c: Credit card users' involvement with reward point programmes is positively associated with the number of credit cards used.

Attitude and involvement

Attitude towards a stimulus refers to the degree to which a customer may have a positive or negative assessment of a stimulus. Theories of reasoned action and planned behaviour suggest that attitude is a key determinant of customers' behavioural intentions (Fishbein and Ajzen 1975, 1980). Although behaviours are also driven by subjective norms among other factors, Eagly and Chaiken (1993)

indicate that for the most part, attitude plays a much greater influence. Park and Young (1986) have suggested various mechanisms through which attitudes and customer involvement are associated and this hypothesis is tested again in the current study. Our previous interviewees explained their neutral attitudes towards the reward programmes because of a lack of knowledge about the meaning of points and the procedure of redemption. It is therefore posited that:

- H2: Credit card users' involvement with reward point programmes is positively associated with their attitude towards it.

Reward point redemption and consumer loyalty

Within our exploratory research, some Indian consumers mentioned their redemption behaviour though some of them had little idea of this mechanism. Their complaints about the redemption options mean that they care about this programme and hope to earn something from free if they maintain their usage. Goyal (2004) concluded that developing promotional themes that focus on information about the value-added features of a particular credit card (e.g. the reward point collection and redemption policy) will induce Indian customers to select and use that card more. Liu and Brock (2010)'s research indicated that consumers' redemption activity is significantly positively influenced by the awareness of the reward point programmes offered. Also, as mentioned, customer loyalty could be represented by some behavioural variables suggested by Oliver (1997). Thus, the following hypotheses were proposed:

- H3a: Credit card users' reward point redemption behaviour is positively associated with credit card usage frequency.
- H3b: Credit card users' reward point redemption behaviour is positively associated with the amount charged to the credit card (expenditure).
- H3c: Credit card users' reward point redemption behaviour is positively associated with the number of credit cards used.

Research method

Data collection

Data was collected by administering an online survey between September and October 2009. The questionnaire was first pretested online with 10 actual respondents and positive feedback was provided by almost all respondents. With the full sample, the population consisted of all credit card users in India, and sampled on a convenience basis. Online convenience sampling is appropriate for the research design since most of the credit card holders in developing countries are higher educated and are higher income individuals with internet access. Most are professionals or business owners, who use their computers and the internet frequently (Liu 2009). Moreover, the sampling method is justified given that the purpose of this study is initial theory building rather than generalisation. Respondents were emailed the online survey Uniform Resource Locator (URL) using personal email addresses, in addition to common email addresses such as mailing lists and e-groups. Valid respondents needed to own at least one primary card credit for the past six months, and they were asked to fill credit card

information for verification (with a promise of confidentiality and protection) to strictly control the online survey quality. Ultimately, 125 (different from respondents in previous exploratory interview) valid responses were received after having sent two reminders. The entire data collection was finished within one month. Therefore, late response was not deemed to be a problem.

Sample characteristics

Most of the respondents were male (95.2%). Half of them were married, and most of the married couples (60%) have at least one child. Eighty per cent of respondents were aged 21 to 35. Regarding credit card usage, the majority reported having more than one credit card (64%). About half of the respondents said they would use the credit card more than five times per month. About one-third (38%) of respondents reported never having redeemed their credit points. The grossly unbalanced gender distribution of respondents is due to a highly patriarchal Indian society; most buying decisions in households are actually made by the husband (Kotler et al. 2009); most of the Indian women only use an add-on card¹⁰ affiliated with their husbands' primary card, due to traditional habits. This is at least partly the reason why most of those who have primary credit cards in India are men. Table 2 provides the characteristics of the respondents.

Measures

Customer involvement with reward programme

This research involves the development of a unique measure of customer involvement, since in the context of reward programmes, there were no extant measures. A review of the extant conceptualisation of involvement led to three important aspects of customer involvement in any activity related to loyalty programmes: time involvement, efforts and cognitive involvement. A five-item measure was developed and pre-tested with qualified reliability (Cronbach alpha = 0.790) (Table 3).

Our conceptualisation of involvement is consistent with that of several other researchers in similar settings in the financial services sector, e.g. it has been suggested that willingness to switch, and confidence to search for the best products are probably the best indicators of customer involvement, since it may be motivated by customer dissatisfaction (Rothschild 1984; Aldlaigan and Buttle 2001). Therefore, the five listed items that we use as measures are consistent with this line of thought, since time, cognitive and effort involvement is likely to be higher for customers who are less likely to switch and more satisfied with credit card services. Houston and Rothschild's (1978) and Kapferer and Laurent's (1985) dimensions of involvement consisted of interest (similar to concern in items 1 and 3), product-level differentiation, conspicuous purchase, and confidence to make good purchases (similar to concern in items 2, 4 and 5). Similarly, the dimensions of customer involvement suggested by Bloch and Richins (1983) and by Zaichkowsky (1985, 1986) were personal interests, product-level differentiation and situational factors. Foxall and Pallister (1998) compared Zaichkowsky's (1985) personal involvement inventory scale (PII) with Mittal's (1989) purchase decision involvement scale (PDI) and found that in a financial service context rational involvement is more dominant than emotional involvement.

Table 2. Respondent characteristics ($N = 125$).

Variable	Percentage (%)	
Gender	Male	95.2
	Female	4.8
Marriage	Single	50
	Married	50
Number of children of married family	0	34
	1	48
	2 or more	18
Age	Less than 21*	3
	21 to 25	23
	26 to 30	33
	31 to 35	24
	36 to 40	7
	41 to 45	5
	More than 45	5
Number of credit cards owned	1	36
	2	29
	3	19
	4 or more	16
Frequency of credit card use (monthly)	1 to 2 times	17
	3 to 5 times	33
	More than five times	50
Monthly consumption by credit card (in Rupees**)	Less than 1000	5
	Between 1000 to 2000	9
	Between 2000 to 3000	19
	Between 3000 to 4000	8
	More than 4000	59
Redemption of credit card reward points	Redeemed reward points once	28
	Redeemed reward points two times	14
	Redeemed reward points three times	3
	Redeemed reward points more than three times	17
	Never redeemed the reward points	38

Note: *The minimum age requirement for credit card application is 21 years for most of the banks in India. However, some banks accept applications from younger people; **1 US dollar = Rs. 47.

Attitude towards reward programmes

An attitude measure was developed for this study using three items (I am aware of the credit card loyalty points on my credit card; I like the loyalty point programme on my credit card; I consider the reward point scheme on my credit card to be suitable for me). The Cronbach alpha reliability was 0.661.

Customer credit card loyalty

Customer loyalty towards reward programmes was measured in four different ways:

- Number of credit cards used (all respondents had reward point programmes on their credit cards).
- Frequency of credit card use.
- Average monthly expenditure on the credit card.

Table 3. Scale items of credit card program involvement.

I am very concerned about my credit card reward point scheme
I spend a lot of time thinking about my credit card reward point scheme
I am worried about how to redeem my credit card reward point scheme
I make lot of efforts to learn about my credit card reward point scheme
I spend a lot of time to seek information about my credit card reward point scheme.

- Use of credit cards as a preferred mode of payment (over cash) using two items (I prefer using a credit card over cash; I try to use my credit card as much as I can). The Cronbach's alpha reliability was 0.907.

Results

First, when all other variables in the study were controlled, the number of credit cards used was significantly correlated to involvement of the customer with the reward programme on his/her card/s ($r=0.242$; $p=0.018$); thus H1c was accepted. However, customer involvement with the reward programme was not significantly correlated with frequency of card use ($r=-0.077$; $p=0.454$), thus rejecting H1a; expenditure using cards ($r=-0.031$; $p=0.765$), thus rejecting H1b; and preference to use cards over cash ($r=-0.148$; $p=0.147$) as well.

Attitude towards reward programmes and involvement were found not to be significantly correlated at $p < 0.1$, thus rejecting H2. The number of cards used was found not to be significantly correlated with attitude towards the reward programme either ($r=0.155$; $p=0.131$). This suggests that credit card users increase their involvement with reward programmes without any change in their attitudes towards them. This is plausible since attitude change may happen over time.

Moreover, controlling the participants' attitudes about, and involvement in, the reward programme, the study tested the correlation between number of credit cards and average frequency of use and average amount spent using the card. The number of cards was significantly correlated with frequency of card use (0.326 ; $p=0.001$), but not significantly correlated with the average expenditure using credit cards (0.196 ; $p=0.053$). Controlling other pertinent variables, the number of cards used by customers was not significantly correlated with the preference to use cards over cash ($r=0.131$; $p=0.203$). Therefore, empirical evidence suggests that the number of cards a customer holds does not impact his/her preference to use cards over cash, nor the total amount spent using the cards, but does increase the frequency of card use.

To explore more deeply the role of customer involvement, the analysis then tested partial correlations with number of redemptions. However, results were not significantly ($r=0.092$; $p=0.373$) after controlling other variables. Meanwhile, when controlled for other variables, the number of redemptions in a reward programme was not significantly associated with the number of credit cards ($r=0.237$; $p=0.200$), thus rejecting H3c; significantly correlated to the frequency of use ($r=0.333$; $p=0.001$), thus accepting H3a; not significantly correlated to average expenditure using cards ($r=-0.053$; $p=0.614$), thus rejecting H3b; and not significantly correlated to the preference to use cards over cash ($r=0.057$; $p=0.585$).

Conclusions

When considering designing the various elements of a customer loyalty programme, rewards are considered to be the most important element. There are recent studies suggesting that consumers react negatively to loyalty reward programmes, although most of the evidence is of anecdotal nature (e.g. Fournier, Dobscha, and Mick 1998), except for some qualitative studies (O'Malley and Prothero 2004). However, despite researchers being on the lookout for strong empirical evidence, there are very few empirical studies that provide an unambiguous picture about customer loyalty programmes (e.g. Dowling and Uncles 1997; Meyer-Waarden 2007). This study adds further empirical evidence to suggest that customer loyalty programmes are often elusive, with little impact on customers' repeat purchase behaviour, change in their attitudes and other desired behaviours from the card issuer's perspective.

Low customer involvement engendered from rewards perceived as being either too high to be practically unattainable or of too low value will modify the consequential results with respect to loyalty reward programmes (e.g. O'Brien and Jones 1995; Liu and Yang 2009). This study also suggests some possible underlying reasons after introducing the concept of involvement. Several hypotheses were tested and results indicate that customer involvement does not play an important role in the point structure of credit card reward programmes with Indian customers. Most credit card users in the study had a very low involvement with their reward point programme. This is also likely to be reflected by relatively modest levels of attitude towards the programmes. Involvement does not directly affect customer loyalty in terms of frequency of card use and total amount spent using credit cards. That card issuers may not be targeting promotions, which encourage card holders to use their card more frequently (perhaps due to a cultural norm of frugality throughout India), is also an important reason. Other reasons include lack of customers' awareness of these rewards or the redemption process and the efforts required to redeem the points.

This study adds growing empirical evidence to the effect that customer loyalty programmes are probably much more complex than previously thought. Customers are looking for a variety of factors in the loyalty programmes and expect to perceive the redemption rewards as free. Companies need to understand the relevance of increasing customer involvement with reward programmes in order to make them more successful. This study provides qualitative as well as quantitative empirical evidence to justify how and why customers tend to exhibit low involvement with reward points programmes.

The Indian market is witnessing economic development and a growing middle-class. However, India is a relatively high context society. Communication between individuals is characterised by focus on non-verbal cues, more implicit than explicit (Cohen 1991), and displaying trust towards people in ways different from those in low-context cultures. Indian consumers are more risk averse (Lewicki and Bunker 1996), which impacts their economic rationality (Bazerman 1994) towards assessing costs and rewards associated with their behaviours (Doney, Cannon, and Mullen 1998).

Credit card usage is seen with some suspicion, also because Indian culture tends more towards a savings culture than a consumerist one. The present financial crisis includes many stories of people who borrowed large amounts of money and are now struggling to repay their loans due to a salary reduction or the loss of livelihood.

These have helped instil a more cautious consumer attitude in deciding whether to apply for or use a credit card. In fact, only 56% of the cards in India are active compared to 80% and 75% in Australia and Singapore, respectively (Mukherjee 2006). Although India is a huge potential market, credit card providers must become more innovative and responsive to get the continued patronage of clients. Loyalty programmes are one way of encouraging continuous use and increased use of credit cards.

Credit card usage as a proportion of total retail expenditures in India is one of the lowest in the world. Part of this is due to cultural traditions in a country, which frowns on spending beyond one's means and where savings are highly encouraged. However, with the current economic boom in India and its growing young population, the popularity of credit card usage has been on the increase. The potential is high since even among the rich, only 28% have a credit card, compared to 90% in Hong Kong and 87% in Australia. With the low penetration rate of credit card usage in India, the high number of credit card providers, who are eager to enter this market, will do well to consider the lessons gained from this study with respect to Indian consumers' attitudes and their behaviour towards loyalty programmes.

Among other things, credit card issuers are encouraged to provide Indian consumers with greater education on the benefits of using the cards. This education should probably include the safety, convenience and ease of transactions for consumers who use credit cards. More importantly, this education should include how credit cards address mismatches in short-term cash flow. It is also important that consumers are highly informed on the technicalities of their loyalty programmes. Many would not even know that the programmes exist. Rewards from the loyalty programmes should provide real value to credit card users. In some instances, consumers are discouraged by the low quality of products being given in the programmes. Savings from cheap gifts will surely be counterproductive in the long run and may even cause the discontinuation of card use.

Despite the above-mentioned managerial implications, the point is that loyalty reward programmes should be designed to meet consumers' needs, lest they be perceived as inconsequential. The first test of a customer loyalty programme is whether customers are involved with it, since low customer involvement is the first early warning signal of impending programme failure. Credit card companies need to dedicate resources that consider the importance of various aspects of their reward programmes, such as how to associate reward points with usage volume, how to communicate programme features, the reward ratio, variety of reward redemption options, and other features. A common mistake can be to assume that any reward is fine since it is likely to be perceived as a freebie and would thus be eagerly sought by card users.

Limitations and further research

This study has examined the point-based reward programmes used in the Indian credit card industry and results should not be considered to relate to other industries or countries. The conclusions might be applied to other reward point programmes in different industries by widening product categories in future research. Also, due to the limited sample size in this study, caution is important in generalising the results to the greater Indian population, as it is extremely diverse. These results are essentially for theory building and it is for further studies to see if results are

generalisable, and for example whether a difference exists between male and female credit redemption behaviours. Furthermore, because loyalty programmes and point-based reward programmes differ in their objectives, design and execution across industries, future research might analyse effectiveness of programmes based on these attributes.

We did not analyse the antecedents of low involvement. One likely contributing factor to low involvement is the time lag between initiating the redemption process and actually receiving products for which points have been redeemed. Delayed gratification reduces their involvement. Involvement is also likely to be low due to the intricate nature of reward point programmes. Furthermore, there is an issue of trust; most of the in-depth interviewees expressed wariness of credit card issuers and the reasons for their giving away free merchandise. Interview results also suggested that most customers were loyal to their credit cards since they valued other services provided by the card issuing banks, rather than the reward point programme. An interesting area for further investigation would involve comparing deal-prone customers to service-oriented customers in comparing their involvements with reward programmes and resulting redemption rates. The study also found that older customers tend to have more cards, which in turn was associated with a higher level of involvement.

Instead of delayed gratification, companies might consider timing the rewards with different time-lags for different customer segments in ways that increase their involvement and the value they perceive in the offer. Involvement is also likely to be low due to the intricate nature of reward point programmes, and the credit card companies should consider ways to make their programmes easy and convenient for consumers to use. Otherwise, consumers might consider that the reason companies offer reward programmes is more to recruit new customers than to provide a genuine reward for frequent use of the card. An interesting topic for further research would be to determine the various motives of credit card issuers with respect to reward programmes.

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Notes

1. Customer involvement is also related to customer-level characteristics although it is not tested in Liu and Yang's research. Customer involvement consists of his/her perceived relevance of a particular activity that is based on inherent needs, values and/or interests (Zaichkowsky 1985), and may consist of characteristics of the person, the situation and/or the stimuli (Bloch and Richins 1986; Zaichkowsky 1986). A definition and detailed description of involvement are found in the 'Development of Hypothesis' section of this paper.
2. The 14 major banks are: ABN Amro, HDFC, ICICI Bank, Axis Bank, SBI, Bank of Baroda, Canara Bank, Citibank, HSBC, Deutsche Bank, Amex, Barclays Bank, Standard Chartered and Kotak Mahindra.
3. There are three major types of credit card system: Visa, MasterCard and American Express. Visa's market share in India (by purchase volumes) is 70% against MasterCard. If the American Express card is included, market share of Visa would be about 64%–65%.
4. India is estimated as the fourth largest market (12 million cards) of Visa in Asia Pacific area (in terms of number of cards) after Japan at 85 million cards, South Korea at 50 million cards and China at 20 million cards.

5. Credit card RSVs in the region for 2006 included \$129 billion in Korea, \$103 billion in Japan, \$75 billion in Australia, \$25 billion in Taiwan, and \$20 billion in Hong Kong. (The Economic Times 2006).
6. This figure would have increased in 2010, when Delhi hosted the Commonwealth Games. The hotel industry in India had a supply of 110,000 rooms in 2009 with a shortage of 150,000 rooms fueling hotel room rates across India. To overcome, this shortage, the Indian hotel industry is adding about 60,000 quality rooms, all of which would be ready by 2012. Since 2004, the Indian government has approved 300 hotel projects, nearly half of which are in the luxury range.
7. Danes and Hira (1990) showed that middle-income families actually used credit cards more than families of higher income.
8. Canner and Cyrnak (1986) showed that the major reason for credit card use was convenience, and this factor was positively correlated with income, age and relative financial liquidity. In contrast, a liberal attitude toward borrowing is related to the use of revolving credit (Canner and Cyrnak 1986).
9. Taking a cash reward program for example, a consumer who spent 100 dollars by using credit card, could obtain 3 dollars in cash back rewards, i.e. the reward ratio is 3%.
10. 'Add-on' card is the official name issued by Reserve Bank of India. The detail can be checked through <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=2627&Mode=0>

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