THE INFLUENCE OF CUSTOMER LOYALITY PROGRAM ON CUSTOMER PURCHASE BEHAVIOR: THE CASE OF ETHIOPIAN AIRLINES

A Thesis Submitted to the School of Graduate Studies of Addis Ababa University in Partial Fulfillment of the Requirement for the Degree Masters of Art in Marketing Management.

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Declaration

I, Sofia Arebo, declare that this work entitled "The Influence of Loyalty Program on Customer Purchas Behavior: The Case of Ethiopian Airline" is the outcome of my own effort and has not been presented for any degree in any other University and that all sources of materials used for the study have been dully acknowledged.

I have produced it independently except for the guidance and suggestion of the Research Advisor Dr. Getie Andualem. It is offered for the partial fulfillment of the degree of Masters of Arts in Marketing Management.

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Sofia Arebo

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Abstract

The goal of this study is to obtain a deep understanding of the impact of customer loyalty programs on customer purchasing behavior. This study was applied to the Ethiopian airlines. The study investigated the impact of independent variable; free ticket, priority service, free cabin upgrading, exclusive lounge access and additional baggage allowance, on the dependent variable: customer purchasing behavior. To achieve the objective of the study, a survey was conducted to collect data from the sample population. In total (395) questionnaires were distributed for passengers conveniently found in the airport and who are gold and silver Sheba mile program who could be conveniently reached by the researchers in Addis Ababa Bole International Airport. The participants had different social, educational, and occupational backgrounds. The researcher interviewed 10 purposely selected passengers and also analyzed literatures related to the issues in order to support the result obtained through questioners. The collected data was analyzed using frequency, mean standard deviation and Pearson's correlation. The findings clearly show: there is significant evidence of the effect of all loyalty programs on the customer purchasing behavior. The major influential factors are free ticket and priority service. Based on the findings, the researcher concluded that even if there the loyalty program has significant and positive influence on the purchasing behavior of the customers, the customers of the Ethiopian airlines are facing problems on the application of their privileges due to inconsistency, un-coordination and rigid rewarding system of the airline. For the identified problems the researcher recommended that the airline should conduct continues assessment on the effectiveness of the FFP and the expectations of its passengers.

Key words: Customer relationship management, customer loyalty, loyalty program, frequent flyer program, customer rewarding system, consumer buying behavior

CHAPTER ONE

1. INTRODUCTION

1.1. BACKGROUND OF THE STUDY

Customer loyalty is both an attitudinal and behavioral tendency to favor one brand over all others, whether due to satisfaction with the product or service, its convenience or performance, or simply familiarity and comfort with the brand. Customer loyalty encourages consumers to shop more consistently, spend a greater share of wallet, and feel positive about a shopping experience, helping attract consumers to familiar brands in the face of a competitive environment. (PR Loyalty solutions, 2012)

According to Diane (2015), today's consumers have access to an endless amount of information about the business environment, and research shows that they are ready and willing to stick with companies who go above and beyond to create fantastic customer experience.

Retaining customers is more profitable for a company than acquiring new ones as the cost of retaining existing customers is far less than the cost of acquiring others. Retaining customers not only helps in reducing marketing expenses, it also helps in improving business through increased customer purchases, cross-buying and up-buying. (Reichheld and Sasser, 1990).

As Diane (2015) discussed in her article customers feel like valued and respected when they are recognized which encourage a repeat purchase and belongingness. Even if businesses try to provide a flawless service, it's impossible for them to do so all the time as the service provision depends on many factors which can be both controlled and uncontrolled. Every business might risk offending customers with imperfect transactions which can drive customers away. They can still build meaningful relationships through recognition and incentives for the loyal customers.

Airlines use different customer retention programs, of which the loyalty programs are considered to be timely and are highly practiced by many airlines. Loyalty programs attempt to reward customers (and businesses) for sustaining such a relationship by providing clear incentives for patronage. In fact, successful loyalty programs can even accelerate the frequency of customer visits and volume of purchases, strengthening the connection. As discusses on Hanover Research, consumers are mostly influenced by terminology and perceptions of their importance in relation to others in a loyalty programs. Status-laden levels of membership (e.g., “Gold”) carry significant weight and importance. Customer loyalty programs seek three outcomes: enhancing the overall value- proposition of the product or service; to motivate buyers to make the next purchase of a product; and to support other aspects of the firm’s offensive and defensive marketing strategies. Customer loyalty means everything in the business world, and the formula for success doesn’t seem that difficult. While some companies have mastered the art, others lag behind. Predictability and performance may sound dull, but it keeps the customer coming back.

The goal of the customer loyalty programs is to get loyal customers. Customer loyalty programs are important tools for minimizing switching decisions among customers, and are used in all fields of retailing and consumer services. Customer loyalty programs reward customers in many different of ways for coming back, and are usually directed towards large group of consumers. (Tiina Jokinen, 2014)

The Ethiopian airline is one of the biggest airlines in Africa which was established 70 years ago. Currently it is flying more than 91 international destinations in the continent of Africa Europe, Asia, North and South America. It also has 20 Domestic destinations. Ethiopian has city and airport office at locations in which it operates and three hubs, Addis Ababa being the major one, Lome Togo and Lilongwe Malawi are the others. At other major international locations it is served by accredited and designated General Sales Agent (GSA). (Ethiopian Airlines, 2016)

The Ethiopian Airlines’ Sheba miles program is one of such programs organized in order to cope with the industry. Sheba Miles offers various membership Tiers that match the number of Miles or the frequency of travel an individual collects from flying within one calendar year which are Blue, Silver and Gold. Since the customers are aware of the business and its environment they are careful when choosing the best from the available. According to Wang (2002), the competition in today’s market is the competition of service which is the bases on the competition of customer satisfaction. As the services in the industry are very similar, the uniqueness for an airline is not a choice rather a mandatory. Sheba miles allow passengers to accumulate miles base on the distance they travel and the class they fly. It also entitle them to rewards such as tickets, upgrades to business class, access to executive lounges, additional free baggage allowance and many other privileges. The more they fly the higher the benefits. Since December 2011, Sheba Miles has a frequent flyer program partnership agreement with over 27 other airlines including all the Star Alliance member airlines and over 10 non-airline partners (hotels, restaurants, shopping centers etc…) where members have the privilege to earn and redeem miles whenever they use the services of these partners. As Ethiopian is a member of star alliance the Sheba Miles members can accumulate miles and get whatever privilege they deserve from the other star member airlines using their membership card. (Ethiopian Airlines, 2016)

Airlines which couldn't identify themselves in the minds of the customers ended up bankrupted or lost their identity by being acquired by other bigger airlines. Structurally, the airline industry is characterized by high fixed costs, cyclical demand for its services, intense competition, and vulnerability to external shocks. As a result, airlines have been more prone to failure than many other businesses, and the sector's financial performance has continually been very weak. Because the going concern value‖ of an airline is typically greater than the liquidation of the carrier, some restructure and emerge strong (e.g. United air) while others become acquired by a bigger airline (e.g. Continental air acquired by United) (Paul Stephen, 2012). According to a study by Jason Tolkin,(2010) Pan American World Airways (PanAm), Trans World Airlines (TWA), and Eastern Airlines filed bankruptcy, or liquidation. After introduction of FFP, airlines found that loyalty programs were often more profitable than other forms of marketing, such as comparing services, routes, and price.

Implementing a frequent flyer program is not enough for the expected success. Continuous assessment and study need to be done to evaluate and data must be collected and analyzed systematically for better performance and effectiveness. To the best knowledge of the researcher there is no data or research on the effectiveness of FFP done by the airline. As a result the study was conducted to assess the influence of loyalty program on customer purchase behavior.

1.2. STATEMENT OF THE PROBLEM

Many studies regard customer satisfaction as an invisible asset. It is not only an improvement for the development of the airline industry, but it can also be used in predicting for the operation quality and development of enterprises. To satisfy customers and build their loyalty are the basics for the improvement and development of an enterprise. In order to meet customers' expectation and beyond, understanding the customers' expectation in advance and taking effective methods is extremely important.

Facing increased competition, the legacy carriers, fighting to retain customers, introduced frequent-flyer loyalty programs (FFP) which reward customer loyalty with tickets, cabin upgrades, priority check-in, priority boarding, lounge access, and other benefits. Passengers can then redeem those miles for rewards such as free or discounted tickets and cabin upgrades. This is critical to brand loyalty as customers may choose airlines based on their award status with the airline rather than a slight price difference. (Jason Tolkin, 2010).

Therefore, this research will fill the literature gap by studying how the loyalty program/the frequent flyer program of Ethiopian Airline influence the purchase behavior of customers.

Despite the size of the loyalty program market, a major academic study concluded that there has been little empirical research on whether loyalty programs are viewed as valuable by members or the extent to which these programs contribute to retailer and brand loyalty. Among the criteria that can be used to evaluate a program's success are the impacts of loyalty programs on consumers' likelihood to shop at a particular store or use a given brand, continuation in a membership program, increased store/ brand usage, higher market share, increased sales, or higher profitability. (Barry Berman, 2006)

The airline business now a days operates in a tough competitive environment, difficult to cop up with the dynamism of the industry. The Sheba miles department of Ethiopian Airlines lacks a system to know how much difference the program brought for the airlines performance. Even though, this loyalty program is effective from the very beginning, there is no mechanism to evaluate the effectiveness and efficiency of the program. With this rational, this study has been focused on how loyalty program influence customer purchase behavior in ET.

1.3. RESEARCH QUESTIONS

The study tried to answer the following research question.

- What is the purchasing behavior of passengers before the enrollment for frequent flyer program?
- What are the factors that influence passengers to enroll in the program?
- What are passengers' expectations from the program?
- To what extent the FFP influence the purchase behaviors of passengers?
- Which of the FFP significantly influence customers purchase behavior?

1.4. OBJECTIVE OF THE STUDY

1.4.1. General Objective

The main objective of the study is to assess the influence of customer loyalty program on customer purchase behavior in the case of Ethiopian Airlines.

1.4.2. Specific Objectives

- To assess the purchase behavior of customers before their enrollment for the FFP.
- To identify factors that influence passenger to enroll in the FFP.
- To investigate the expectations of the passengers from the FFP.
- To examine the level of influence of FFP on the purchasing behavior of passengers.
- To identify which of the frequent flyer programs significantly influence purchase behavior.

1.5. SIGNIFICANCE OF THE STUDY

Since the Ethiopian Airlines is one of the biggest contributors for the economy it needs to work on the service delivery and customer retention. The airline is highly affected by the highly dynamic environment of the industry and the increasing operational costs. This study was to provide some insights and feedbacks from the passengers of the airline so that it can adjust and reform its service delivery and customer loyalty program.

The passengers of the airline benefit from the study as the airline can use the collected feedback to upgrade its services for the members according to their expectations. In addition, other airlines can benefit from the study to enhance their service provision according to market demand as it will be collected from the actual market.

Most importantly this study shows how evaluative research is important as a mechanism to test the effectiveness of implemented programs. It also shows the gap between the theoretical framework of the FFP and what is in passengers' mind and in the ground.

This research will have theoretical value by adding knowledge on loyalty program of Ethiopian Airlines by pointing out the influence it has on the purchasing behavior of customers.

This study can be a stepping stone and a reference for further studies that can be done on loyalty programs since there are a few numbers of studies done on the matter.

1.6. DEFINITIONS OF TERMS

Customer relationship management (CRM) refers to the principles, practices, and guidelines that an organization follows when interacting with its customers. From the organization's point of view, this entire relationship not only encompasses the direct interaction aspect, such as sales and/or service related processes, but also in the forecasting and analysis of customer trends and behaviors, which ultimately serve to enhance the customer's overall experience. (Investopedia, 2016)

Customer loyalty is both an attitudinal and behavioral tendency to favor one brand over all others, whether due to satisfaction with the product or service, its convenience or performance, or simply familiarity and comfort with the brand. (Business Dictionary, 2016)

Loyalty program is a rewards program offered by a company to customers who frequently make purchases. A loyalty program may give a customer advanced access to new products, special sales coupons or free merchandise. Customers typically register their personal information with the company and are given a unique identifier, such as a numerical ID or membership card, and use that identifier when making a purchase. (Investopedia, 2016)

A **frequent-flyer program** (**FFP**) is a loyalty program offered by an airline. Many airlines have frequent-flyer programs designed to encourage airline customers enrolled in the program to accumulate points (also called miles, kilometers or segments) which may then be redeemed for air travel or other rewards. Points earned under FFPs may be based on the class of fare, distance flown on that airline or its partners, or the amount paid. There are other ways to earn points. (Wikipedia, 2016)

Consumer buying behavior is the sum total of a consumer's attitudes, preferences, intentions, and decisions regarding the consumer's behavior in the marketplace when purchasing a product or service. (Shawn Grimsley, 2016)

1.7. SCOPE AND LIMITATION OF THE STUDY

1.7.1. Scope of the study

Even if Ethiopian has different types of customer retention programs, theoretically the study focus only on the airline's frequent flyer program which is Sheba miles. This program was mainly selected because, it is widely used and according to studies it is more effective in customer retention. As most of the Sheba mile program members are all over the world and it is difficult to access member passengers who couldn't be in Addis Ababa Airport at the time of data collection, the study was done only on passengers who can be found at Addis Ababa bole international airport who were waiting for their flights. From the total members of the program, the study mainly focus only on passengers who are on the higher levels/status of membership who are the Gold and Silver (who have a special privilege for being loyal) member passengers of Ethiopian Airlines as the study is to assess if their membership privilege has effect on their flight choice.

1.7.2. Limitation of the study

As the majority of the passengers are from non-English speaking countries, there was language barrier. The study was done using the data that was collected one time and in a short period of time due to time constraint

In addition, since the study only focuses on silver and gold members, its scope might be narrow to conclude the result. On the other hand the passengers who were willing to fill the questioners were waiting for their flights; because of this they might give their answer reluctantly and in a rush.

1.8. ORGANIZATION OF THE STUDY

The report is organized under five chapters. Chapter one includes the background of the study, problem statement, research questions, objectives of the study, significance of the study and scope and limitation of the study and also definitions of some terminologies. Under chapter two the literature review provides conceptual clarification on customer service, customer loyalty programs, the airline industry, Ethiopian airlines and also the FFP of Ethiopian airlines (Sheba miles). The following chapter, chapter three, the methodology for data collection, data analysis and data organization and interpretation is briefly discussed. On the forth chapter, the result of the study is discussed in depth. On the fifth and final chapter conclusion on the findings and recommendation are presented.

CHAPTER TWO

2. RELATED LITERATUR REVIEW

2.1. Chapter Overview

Under this chapter literatures which are related to the study and that can give insight will be review. These literatures that are discussed under this chapter include books, magazines, journals articles and the like that focus on customer relationship management, loyalty program, customer satisfaction and customers purchase decisions.

2.2. Customer Relationship Management

Customer relationship management is an independent variable that has a large influence on the relationship of a service providing business with its customers. “A relationship is composed of a series of episodes between dyadic parties over time”. Each episode in turn is composed of series of interaction. Episodes are time bound (they have a beginning and an end) and nameable. Episode such making a purchase, enquiring about a product, putting together a quotation, making a sales call, dealing with a complaints and playing a round of golf make up a relationship. Business relationships are made up of task and social episodes. Task episodes are focused on the business side of the relationship, whereas social episodes are not. Within each episode, each participant will act towards, and interact with, the other. The content of each episode is a range of communicative behaviors including speech, actions and body language. The parties within the dyad may have very different ideas about whether they are in the relationship. Buyers may think they are being tough and transactional. Sellers may feel that they have built a relationship. (F. Buttle, 2004).

The evolution of relationship marketing has been one of the most significant developments in marketing since the 1990’. (Chattananon *et al.*, 2008) RM emerged as a popular new paradigm in the 1980s, this happened, in part, as a result of a shift in focus from customer acquisition to customer retention (Chakravorti, 2006). Relationship marketing proposes that closer attention is paid to long term financial growth and other benefits or retained customers. (Heffernan *et al*, (2008). Although, relationship marketing has been heralded as an effective strategy to attract, maintain and enhance customer relationship. (Robert *et al*, 2003). While transactional marketing tries to make the sale and find new customers (Zineldein *et al*., 2007), or it's about acquiring customers, rather that retaining them, (Ward *et al*., 2005). Gronroos (1994) defines relationship marketing as follows: "Marketing is to establish, maintain, and enhance Relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by mutual exchange and fulfillment of promises". While, Zinkhan (2002) defines relationship marketing, "as an approach to establish, maintain, and enhance long-term associations with customers and other stakeholders." On the other hand, Copulinsky and Wolf (1990) define relationship marketing from a different prospective with emphasis on the role of the IT as a "process where the main activities are to create a data base including existing and potential customers, to approach these customers using differentiated and customer specific information about them, and to evaluate the life term value of every single customer relationship and the costs of creating and maintaining them."

RM can also be called one to one marketing, which shifts the focus of marketing exchange from transactions to relation with individual customers. The customers in the twentieth century wants to be an individual and wants to be acknowledged as individual by having his/her likes preferences known and acted upon. Business in every sector need to build individual relationship with customers based on what the customers wants, not on what the business want. Personalized customer communications and special preferences acknowledge that a special relationship exist between a company and each individual customer, this connects one person to another in a positive way, providing an aura of civility and pleasantness for every business experience. It is powerful motivator to repeat this experience again and again. (Sharp, 2003)

Customer relationship management has attracted the attention of both marketing practitioners and researchers over the last decade. Despite, or maybe due to, the attention drawn to the subject, a clear agreement on what CRM is and especially how CRM should be developed remains lacking. CRM is the values and strategies or relationship marketing with particular emphasis on customer relationships turned into practical application. (Peelen *et al*., 2006).

CRM is a strategy view of how to handle customer relationship from a company perspective. “The strategy deals with how to establish developed and increase customer relation from profitability perspective, based upon the individual customer needs and potentials. The basic underlying CRM is that the basis of all marketing and management activities should be the establishment of mutually beneficial partnership relation with customers and other partners in order to become successful and profitable”. (Ghavami *et al.*,2006).

“CRM is the integration of customer focuses in marketing, sales, logistics, accounting .i.e. in all parts of the organization operation and structure. Those are the activities a business performs to identify, qualify, acquire, develop and retain increasingly loyal and profitable customers by delivering the right products or services to the right customer through the right channel at the right time and the right cost” (Johansson & Storm, 2002). CRM can be best describes as an evolution of marketing from product or brand management to customer management. (Peelen, 2006).

Before positioning and investigating the components and the business philosophy of CRM. We must first develop our perspective of CRM for the purpose of this research. Hence, several researches have made attempts to define CRM. The definition of CRM adopted from different sources ranges from narrowing IT enabling solutions to a broadly and strategically approach to managing customer relationship.

The main question remains, is how the substantial effort needed to create the CRM actually pays off? In other words, how does the CRM create value in an organization? In fact, “CRM is not just a technology; it’s a philosophy for survival in the customer centric economy.” (Helm, 2002) Successful CRM implementation influences how much customers spend and how loyal they remain. According to Freeland (2003), CRM is still one of the best strategies for growing revenue and increasing market share, and that CRM offers richer opportunities for developing the customer franchise and increasing brand value than most companies have realized. In fact, for companies that seek to keep customer relationships strong and profitable, acquiring the right mix of CRM processes, work force management approaches and technologies is critical. (Hazbon, 2006)

Xu & Walton (2005), illustrated that, "the motivating factors for companies moving toward CRM technology are to improve customer satisfaction level, to retain existing customers, to improve customer life time value, to provide strategic information from the

CRM system and to attract new customers". (Zavareh, 2008)

The real value to a company lies in the value they create for their customers and in the value the customers deliver back to the company. According, it is important at mark that the value doesn't lies in more information and in more advanced technology. The value lies in the customer knowledge and in how the companies use that knowledge to manage their relationship. Knowledge is according to Newell (2000) the sole of CRM. Unfortunately, few companies are transforming the information to customer knowledge and therefore they miss the opportunities to provide value to their customers. However, applied in the right way, CRM is the tool that contributes to profit. If companies transforming the customer data into knowledge and then uses that knowledge to build relationship it will create customer satisfaction, acquisition, retention, loyalty, and decrease customer's loss. (Rahimi, 2008)

2.3. Customer Loyalty program

As the customer relationship management, customer loyalty program also has effect on customers' chose of a service provider. According to Reichheld (2001) loyal is about earning people's enthusiastic commitment to a relationship that will improve their lives over a long term. Customer loyalty shows a customer's positive attitude for the repeating buying behavior on certain product or service.

Loyal customers offer businesses a steady customer base, more frequent purchase cycles, higher profit margins, and a group of advocates who voluntarily market the firm to prospective customers (Buchanan and Gilles, 1990; Reichheld and Sasser, 1990; Rigby, Reichheld, & Schefter, 2002). For these reasons, academics have spent decades attempting to explain the mechanisms that affect consumers' loyalty, while practitioners have developed and applied numerous strategies focused on developing a loyal customer base. Among these efforts, one of the most significant and innovative breakthrough in loyalty management occurred in 1981, when American Airlines launched AAdvantage, the first contemporary customer reward program, with the goal of increasing repeat purchases. (McCall and Voorhees, 2010). Many studies provide limited snapshots into the potential benefits and risks of loyalty programs under a narrow set of conditions.

As Jason T. (2010) explained in his study, airlines enjoy a faithful consumer base while charging more for airfare; passengers seek to earn free tickets and other rewards. The frequent flyer loyalty programs will only increase in size as airline alliances grow.

Companies choose to implement these loyalty programs because they perceive in them a "win-win-situation" and also a "source of sustainable competitive advantage. While consumers often participate in competitors' loyalty programs, termed "polygamous loyalty," studies have suggested that "100 percent loyal buyers tend to be light buyers of the product or service."Thus, incomplete loyalty is not necessarily a disadvantage or an indication that the program has failed, as most consumers within one company's loyalty program will at least buy some of that company's product or service, even if they occasionally purchase a similar product or service from a competitor. Customer loyalty programs seek three outcomes: "to enhance the overall value- proposition of the product or service;" "to motivate buyers to make the next purchase of a product;" and to "support other aspects of the firm's offensive and defensive marketing strategies." To maximize the gains in these areas requires a deep understanding of how consumers view and use customer loyalty programs. (Hanover research, 2016)

The reward psychology described above points to a deep desire among consumers for a loyalty program that offers them a personal connection to the life style associated with their purchases. Kim Gordon, (2010) suggested that effective loyalty programs: do not abandon service: "Your best customers want personalized service and support that's accessible instantly often by phone", "Make communication a two-way street:" Use a variety of media to engage consumers in dialogue about the program, the brand, and their experiences, "Avoid loyalty turn offs:" Ensure an appropriate tone and frequency of communications, and maintain an open and welcoming program that enables all participants to achieve and redeem rewards, Treat customers as individuals: "They want you to learn their buying preferences and offer rewards they truly value…(For) deeper engagement."

Each of these characteristics focuses on a one-to-one relationship between the business and the consumer. This suggests that successful programs are flexible enough to accommodate the variety of needs among participants or target specific life styles associated with the products or services at the center of transactions. (Hanover Research, 2016)

There are also five best loyalty practices identified by Don Pepper on 2010. These practices are; insight: never waste an opportunity to gain additional customer insight; build information about a customer's individual needs to serve as a platform for increasing interactions, modularity: create a "plug-and-play" system that allows easy addition or subtraction of vendors, partners, and other relationships, openness: consider providing prizes that do not necessarily need to be redeemed from your company reward the customer without setting explicit limitations about prizes being confined by store products or services, simplicity: avoid setting too many restrictions (such as black-out dates or specific products as rewards) to ensure that any customer who achieves the reward can actually use it, relationships: do not manage the program around products, brands, and stores, but rather around individual customers. Segment the program's participants to understand their particular motivations this will allow for further improvements in the program and in the company's business. (Hanover Research, 2016)

Loyalty programs attempt to change the customer's choice process from operating in a spot market to operating in a multi period contractual (relationship) market. Loyalty programs are typically structured in tiers that are designed to reduce cost and provide firms with the flexibility to segment members within the loyalty program. Each of these dimensions of program structure can have a specific influence on consumers' evaluations of a loyalty program and its effectiveness. (Hanover Research, 2016)

According to researches the main drivers of loyalty program effectiveness can be categorized in to three main "buckets": the structure of the loyalty program, the structure of the rewards, and consumer fit with the loyalty program. The factors which influence customer loyalty include intrinsic value, customer satisfaction, consumer experience and corporate image. As Wan Tong (2015) explained, these factors are not only coming from the company itself, but also from its competitors, customers and social environment. In general, the factors can be divided into three categories. Corporate Brand awareness: Brand is used to identify a certain product or service with the others. It usually consists of words, mark, symbol, pictures and color. Brand represents the commitment of the enterprise and the characteristic of product. A recognized brand is the proof of good quality. So the brand is very helpful for the selling. For the customers, brand is easily to identify and recognized. Service quality: Service quality has more directly influences on customer loyalty. It is one of the key elements which may influence customer's behavior. Service quality decides whether the customer is loyal or not. Customer satisfaction: customer satisfaction as a judgment for the difference between the quality of the product or service and customer's own expectation. (Tong, 2015)

2.4. Customer satisfaction

Customer satisfaction is one of the basic variables that affect purchase decisions of the customer. Customer service started out as help offered at a desk at the back of a department store, and evolved with the invention of the telephone. In today's hyper-connected world, customer service is more than just the helpdesk agent that answers your questions when you call a specific number for help. It's grown to encompass every interaction that a customer has with a brand. It includes phone, email, chat, web forms, and social communications, as well as self-service support sites. And it happens before, during, and after a sale. Customer service is a key part of the promise that your brand makes to a customer. It's more than just providing answers. It's helping customers even when they don't know they need help. It's teaching them how to do more with your products. It starts with a smile and a friendly word, and finishes with sharing your expertise even when it has nothing at all to do with your products. (Salesforce.com, 2016)

Customer service is the provision of service to customers before, during and after a purchase. The perception of success of such interactions is dependent on employees "who can adjust themselves to the personality of the guest". Customer service is also often referred to when describing the culture of the organization. It concerns the priority an organization assigns to customer service relative to components such as product innovation and pricing. In this sense, an organization that values good customer service may spend more money in training employees than the average organization, or may proactively interview customers for feedback.

From the point of view of an overall sales process engineering effort, customer service plays an important role in an organization's ability to generate income and revenue. From that perspective, customer service should be included as part of an overall approach to systematic improvement. One good customer service experience can change the entire perception a customer holds towards the organization. (Salesforce.com, 2016)

Customer support is a range of customer services to assist customers in making cost effective and correct use of a product. It includes assistance in planning, installation, training, trouble shooting, maintenance, upgrading, and disposal of a product. These services even may be done at customer's side where he/she uses the product or service. In this case it is called "at home customer services" *or* "at home customer support".

Regarding technology products such as mobile phones, televisions, computers, software products or other electronic or mechanical goods, it is termed technical support. Customer service may be provided by a person or by automated means. (Salesforce.com, 2016) However, in the Internet era, a challenge has been to maintain and/or enhance the personal experience while making use of the efficiencies of online commerce. "Online customers are literally invisible to you (and you to them), so it's easy to shortchange them emotionally. But this lack of visual and tactile presence makes it even more crucial to create a sense of personal, human-to-human connection in the online arena."Recently, many organizations have implemented feedback loops that allow them to capture feedback at the point of experience. For example, National Express has invited passengers to send text messages whilst riding the bus. This has been shown to be useful, as it allows companies to improve their customer service before the customer defects, thus making it far more likely that the customer will return next time. Technology has made it increasingly easier for companies to obtain feedback from their customers. Community blogs and forums give customers the ability to give detailed explanations of both negative as well as positive experiences with a company/organization. (Salesforce.com, 2016)

Satisfaction is derived from the Latin satis (enough) and facere (to do or make). Thus, satisfying products and services have the capacity to provide what is being sought to the point of being "enough. "Two related words are satiation, which loosely means enough up to the point of excess, and satiety, which can mean a surfeit or too much of enough, as if to say that too much is necessarily undesirable. These terms illustrate the point that satisfaction implies a filling or fulfillment. (Masrujeh, 2009).

Clearly defining and understanding customer satisfaction can help any company identify opportunities for product and service innovation and also serve as a basis for performance appraisal and reward systems. It can also serve as the basis for a customer satisfaction surveying program that can ensure that quality improvement efforts are properly focused on issues that are most important to the customer. (Li, 2002)

Kotler (2009), defined satisfaction as a person feeling of pleasure or disappointment resulting from comparing a product perceived performance or out come in relation to his or her expectation. (Tse, 1988), describe satisfaction as "the consumers response to, and evaluation of the perceived discrepancy between prior expectation (and some other norm of performance) and the actual performance of the product as perceived after its consumption". This implies that if services provided is better than what is expected, the customers is satisfied, if services provided worse than the customer expectation, the customers is unsatisfied.

Scholars defined consumer satisfaction as the summary psychological state resulting when the emotion surrounding disconfirmed expectations is couples with the consumer’s prior feelings about the consumption experience. (Kumar, 1996)

Referring to the above definition, the concept of customer satisfaction is referring to a pleasurable fulfillment response, while dissatisfaction is un-pleasurable fulfillment response. The experience of some part of it component of the definitions allows the satisfaction evaluation to be directed at any or all elements of the customers experiences. This can include product, service, process and any other component of the experiences.

The most common way of operational sizing satisfaction is to compare the customer’s perception of an experience, or some part of it with their expectation. This in known as, the expectation disconfirmation model of customer satisfaction. Basically, the model suggests that if customers perceive their expectation to be met, they are satisfied. If their expectation is under performed, this is negative disconfirmation and they will be dissatisfied. Positive disconfirmation occurs when perception exceeds expectation. The customers may pleasantly surprise or even delighted. This model of customer satisfaction assumes that customers have expectations, and that they are able to judge performance. A customer satisfaction paradox has been identified by expectation disconfirmation researchers. At times, customer's expectations but the customer is still not satisfied. This happens when the customer's expectations are low. (Francis Buttle, 2004)

Customer satisfaction is a state of mind that a customer has about a company when their expectations have been met or exceeded over the life time of the product or service. The achievement of customer satisfaction leads to company loyalty and product repurchase. However, customers who are merely satisfied are only at the first stage and they can easily switch to other companies. At most customers range from being moderately satisfied to moderately dissatisfied, which means that most customer are essentially ambivalent in their loyalty to a particular business. These customers would likely defect in the presence of even a modest motivator; such as getting a better price or finding a more convenient store location. (Masrujeh, 2009).

The company needs to lunch various campaigns to have more communication with their customers, and provide services that reach their expectation which can upgrade the relationship to the next level and reach customer loyalty which consequently lead to more business performance. (Chi, 2005).

Improving customer relationships and increasing their loyalty isn't simply about managing interaction with customers better or targeting them better. It is about serving them in a fundamentally improved way. This generally requires changes outside the sales and marketing area, in order to redefine the customers experience with the organization in some meaningful way. (Calhoun, 2001).

Jamal and Naser (2003), found that if customers were satisfied with the services of the firm they will more likely to give more credit to this firm in compared to those firms they were not satisfied and hence less likely to engage in repeat purchases. Similarly, if the customers are satisfied with the services of the firm, then they will be more willing to engage in repeat purchases and develop their relationship with that firm. However, Satisfying customers is not enough to retain them because even satisfied customers defect at a high rate in many industries. Customers Behavior is mainly shaped by their needs and expectations. The desired outcome of expectations is getting what one anticipates from a service encounter as a consumer. Needs focus on obtaining what one seeks from life as a person, therefore the firm should understand that people strive to satisfy core needs in life at a level more fundamental and compelling than meeting their expectations as consumers. (Schneider, 1999)

Kotler (2009) pointed out that it is important to measure customer's satisfaction regularly through survey to determine customer's level of satisfaction. He said this is because firms may think that they are getting a sense of customer satisfaction through customer's complaints. However, in reality, 95 percent of unsatisfied customer's do not make any complaints, they just leave. As a result it is important for firms to make it easy for the customers to complain. Dissatisfied customers who usually complaints, about 54 to 70 percent will continue to do business again with the organization if their complaints are taken care of and resolved and may even be 95 percent if the complaints receive quick response and action.

2.5. Consumer buying behavior

According to many studies, the consumers purchasing/ buying decisions are affected by many factors. The totality of consumers' decisions with respect to the acquisition, consumption and disposition of goods, services, time, and ideas by human decision making units (over time).

Consumer researchers have studied the powerful role that emotions play in consumer behavior. Positive and negative emotions as well as specific emotions like hope, fear, regret, guilt, embarrassment and general mood scan affect how consumers think, and how much they enjoy an experience. Emotions like love sometimes describe how we feel about certain brand or possession. (Hoyer and MacInnis, 2008)

According to Pinki (2014) consumer buying behavior refers to the buying behavior of the ultimate consumer. Many factors, specificities and characteristics influence the individual in what he is and the consumer in his decision making process, shopping habits, purchasing behavior, the brand he buys or the retailers he goes. The purchasing decision is the result of each and every one of these factors. An individual and a consumer is led by his culture, subculture, social class, membership groups, family, personality, psychological factors etc. and is influenced by cultural trends as well as his social and societal environment. By identifying and understanding the factors that influence their customers, brands have the opportunity to develop a strategy, a marketing message (Unique Value Proposition) And advertizing campaigns more efficient and more in line with the needs and ways of thinking of their target consumers, a real asset to better meet the need to meet customers and increase sales. (Pinki Rani, 2014)

As Pinki Rani (2014) explained when purchasing any product, a consumer goes through a decision process. This process consists of up to five stages: problem recognition, information search, evaluation of alternatives, purchase decision post purchase behavior. Personality is the set of traits and specific characteristics of each individual. It is the product of the interaction of psychological and physiological characteristics of the individual and results in constant behaviors. It materializes in to some traits such as confidence, sociability, autonomy, charisma, ambition, openness to others, shyness, curiosity, adaptability, etc. While the self-concept is the image that the individual has or would like to have of him and he conveys to his entourage. For a successful consumer oriented market service provider should work as psychologist to procure consumers. By keeping in mind affecting factors things can be made favorable and goal of consumer satisfaction can be achieved. Study of consumer buying behavior is gate way to success in market. (Pinki Rani, 2014)

2.6. Customer loyalty program vs. Customer purchase decisions

Loyalty program can be define as a program that attract consumers to accumulate free rewards when they make repeat purchase with a firm and there after maintain relationship and generate return business (Helen, Chen and Vida, 2015). The key issue is to give the customer reasons to patronize your products rather than your counter parts.

According to Jeevananda (2011), the customer’s loyalty is one of the important tool or way for brand awareness. Marketers have to design loyalty programs and make it more communicable and meaningful for the customers. The right loyalty program benefits influence the customers’ decision on choosing a particular brand. They also need to make an effort to understand their customers’ expectations of benefits in the form of reward programs. Loyalty programs that seek to bond customers to a company or its products and services by offering an additional incentive pose an interesting dilemma. These schemes often attract wide spread customer interest and can influence purchase decisions. The author further explained that loyalty program is seen as primarily an attitude-based phenomenon that can be influenced significantly by customer relationship management initiatives such as the increasingly popular loyalty and affinity programs. The demand-enhancing potential of loyalty programs is more limited than might be hoped. Three different perspectives on loyalty help in understanding customer loyalty that encompasses customer brand commitment, customer brand acceptance and customer brand buying.

As per the studies on loyalty programs done by Helen, Chen and Vida, (2015) some like monetary rewards while others prefer luxury rewards when the effort required reaching a reward is high. The benefits of customer loyalty have been well established as enhancing profitability and business sustenance. In addition the study sited, customers are value-driven, and their perception on value is connected to their purchase decision. If the customer examines a particular loyalty reward program to be more useful than competing programs, it sounds reasonable to assume that he or she is more likely to participate in that program even if he is already a member of several other loyalty programs. For this reason, firms have to design their strategies around customers and focus on building brands to reap the fruits in future.

Loyal consumers are most typically satisfied; satisfaction does not universally translate in to loyalty. Satisfaction is a necessary step in loyalty formation but becomes less significant as loyalty begins to set through other mechanisms. Yi and Jeon, (2003) also suggest that, unlike a short-term promotional program, a loyalty program can focus its marketing efforts on loyal customers and avoid price competition with competitors. They also point out that price promotion is likely to elicit overstock problems and reward price-sensitive brand switchers rather than loyal customers. In addition, price promotion does not have a long-term perspective needed for nurturing customer loyalty. Unlike simple discounting and price promotions, the authors argue, customer reward programs not only enhance loyalty but can influence buying behavior in a positive way.

If a person made most purchases in a given product category from one supplier, regardless of the reason, the person was defined as loyal. As Kumar and Shah (2004) pointed out, “a majority of existing loyalty programs follow these measures to reward behavioral loyalty. That is, the more you spend with the company, the more rewards you earn".

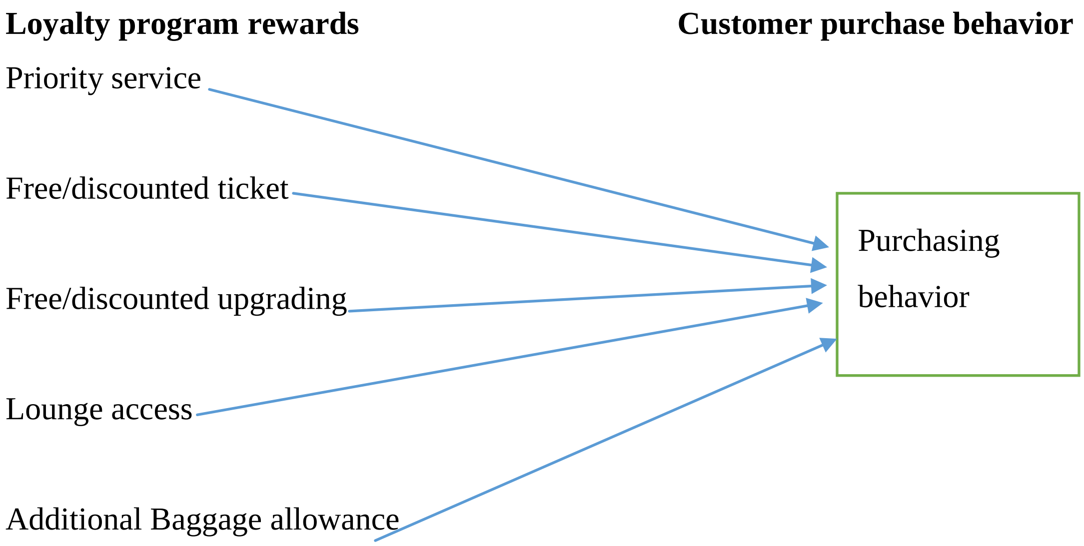
FFPs may seem that they were thought for every passenger; however they actually targeted the business travelers who fly very often. The rewards offered under the frequent flyer program are different than the ones distributed by the other sectors. Bonuses of the FFPs have multiple reward aspects. They might be benefited in to two different ways. Firstly they could be used for the free flights, hotel accommodations, car rentals and financial assistance. Secondly, these rewards can be used to receive exclusive services by the passengers. For instance, faster check-in process at the airport, admitting the luggage under the special security till they get loaded to the plane, superior reservation service, selecting your own seat. (Martin *et al*, 2008).

In the FFPs, members can earn scores for their each flight. The members are awarded these scores based on the length of the fight. As the flight range increases, they earn bigger scores. The purposes of the FFPs are to make the customers loyal toward the company and to prevent the customers flying with the competitor airway companies. FFPs dynamism many sectors such as hotels, car rental companies, banks and fuel stations. Airway companies go cooperation with all of these mentioned sectors. Moreover, airway businesses pioneered to those sectors to establish their own loyalty programs. (Martin *et al*, 2008)

Loyalty marketing, the act of increasing customer value by focusing efforts on your existing customers, can be a powerful driver of company growth. Research conducted by Bain & Co has shown that retailers with a loyalty program are 88percent more profitable, on average, than competitors without one.

2.7. Conceptual framework of the study

The conceptual framework indicates the crucial process, which is useful to show the direction of the study. In the framework, loyalty program was set as independent variable which includes free ticket, priority service, free upgrading, lounge access and additional baggage allowance. Purchase behavior was set as the dependent variable of this study.



Relationship between Loyalty program and Customer purchase behavior.

On the left on the figure there are the rewards of loyalty program which member passengers receive from the airline and on the right of the figure there is the customers purchasing behavior. The arrow in between represent the effect/influence of the rewards of the loyalty programs on the customers purchasing behavior.

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Service quality has more directly influences on customer loyalty. It is one of the key elements which may influence customer's behavior. Service quality decides whether the customer is loyal or not. (Tong, 2015)

Loyalty programs that seek to bond customers to a company or its products and services by offering an additional incentive pose an interesting dilemma. These schemes often attract widespread customer interest and can influence purchase decisions. (Jeevananda, 2011)

CHAPTER THREE

3. RESEARCH METHODOLOGY

3.1 Chapter Overview

In this chapter the research methodology used in the study is described. The geographical area where the study was conducted, the study design and the population and sample are described. The instruments used to collect the data and analyze the collected data are described.

3.2 Research Approach and Design

The main purpose of this study is to assess the influence of loyalty program on customers purchase decision. The study was done using descriptive and explanatory research design approach. Explanatory study was selected to show the relationship between loyalty program and customer purchase decision. On the other hand descriptive research design was selected to answer the research questions: the purchasing behavior of passengers before their enrollment for the FFP, what are the factors that influence passengers to enroll in the program and what do the passengers expect from the program. The study also was conducted using both qualitative and quantitative research approaches to identify and present the facts. The results obtained through qualitative approach were supported by the quantitative results.

3.3 Sampling Design

Sampling in general is a process by which a relatively small number of individuals or measures of individuals, objects or events are selected, analyzed in order to find out something about the entire population from which it was selected (Koul, 1984). It is practically difficult to include the entire Sheba miles members, as a result a total sample of 395 Sheba miles member passengers, who are on the levels of Gold and Silver, of Ethiopian airlines and also who are transiting and passing through Addis Ababa International Airport were selected from the total population.

3.3.1 Target Population

The target populations of the study were passengers of Ethiopian Airlines and members of Sheba miles program at the level of Gold and Silver who were passing through Addis Ababa airport. Target population of the study was classified in two groups for the purpose of mapping the influence on the members of the program. Currently, Ethiopian airlines have 7,985 Gold and 24,015 Silver and 660,622 blue member passengers globally (Ethiopian Airlines, 2016) As it's difficult to include all member passengers and also as the privileges of member passengers differs from level to level, the higher the level the better the privileges, the study mainly focused only on the Gold and Silver member passengers, which accounted a total of 32,000 member passengers as a total population for the study, to evaluate their choice drivers.

3.3.2 Sample size

From the total population of 32000, which was computed from 7,985 gold and 24,015 silver member passengers, a convenient sample of 395 member passengers, were selected in order to make the data workable and reliable.

To determine the sample size of the study, Solvin's formula which was formulated by Michael Solvin in 1960, used the sample size on the analysis of customer survey simplified sample size determination formula was used by assuming a 95 percent confidence level and P = .5 are assumed as follows; (WordPress, 2016)

$$\mathbf{n} = \frac{N}{1+N(e)^2}$$

Where,

n = sample size

N= total population size which is 7985+24015=32000

e= the level of acceptable error with confidence level of 95%, which is 0.05

n = $\underline{32000/(1+32000(0.05)2)}$

n = 395

From the total population Gold accounts for 25% while the rest 75% of the population are Silver.

Statistical presentation

Customer category	Total population	Percentage (%)	Sample size
Gold members	7985	25	99
Silver members	24015	75	297
Total	32000	100	395

3.3.3 Sampling techniques

A convenient sample consists of subjects included in the study because they happen to be in the right place at the right time (Polit and Hungler, 1993). The study was conducted using a convenient stratified proportional sampling technique. Convenient sampling was selected as the total study population members are from all over the world, the sample included only passengers who were found conveniently at Addis Ababa airport waiting for their flight. Stratified proportional sampling was selected as the population of the study who are members of the Sheba miles program are classified into three based on their membership status which is Gold, Silver and Blue. The study only included two of the higher levels which are Gold and Silver. Even if all the three levels have different benefits, the silver and gold members have better privileges.

3.3.4. Sources of data

The study used both the primary and secondary data. The primary data was collected through distributing structured and self-administered questionnaires to the selected passengers who are member of the Sheba mile program and interviewing 10 passengers purposely selected for the interview from both levels. The secondary data was obtained through reviewing books, prior studies and articles on the matter and public reports, publications and reports of the airline.

3.4 Methods of Data Collection

The study employed both primary and secondary data collection methods. The primary data was collected through distributing self-administered questionnaires and semi structured interview. Secondary data was collected by conducting document analysis.

According to Borge (1996) questioner is used extensively in research to collect information that is not directly observable. It helps to inquire information that is detailed. Open and close ended Self-administered questionnaires were designed and distributed to the sample population to answer the first three research questions. The questionnaires consist mostly of closed-ended questions and a few open-ended questions, as these provide more diverse detail. In the open-ended questions, the subjects were require to respond in writing, whereas closed-ended questions had options which will determined by the researcher. Open-ended questions were included because they allow subjects to respond to questions in their own words and provide their responses in more detailed manner. Closed-ended questions were included because they are easier to administer and to analyze. They are also more efficient in the sense that a respondent is able to complete more closed-ended items than open-ended items in a given period of time. The questioners were prepared in English. Semi structured interview were conducted to address the last two research questions of the study and triangulate the data gather from questioner. Document analysis was done on the airline's annual report, plans and statistics to triangulate data for analysis.

3.5 Methods Data Analysis and Presentation

The raw data collected through the distributed questioners was analyzed using descriptive and inferential statistical data analysis. The collected data was analyzed and the final report was produced through central tendency measurements (frequency and frequency distribution, percentage, comparison of mean, standard deviation). In addition to this, with the help of SPSS, tabular explanations are used to present the result.

Using the inferential statistical analysis using SPSS, correlation analysis was applied to obtain accurate information. Pearson’s correlation was used to determine the level and magnitude of association between customer buying decision and customers’ loyalty program. The information obtained by the SPSS was also further analyzed by triangulation. The data gathered from self-administered questioner was quantified and present in tabulation. This organized data was triangulated with the interview data, document analysis result and literature review according to the specific objective and research questions to draw conclusion and to pass some recommendations.

3.6 Validity and reliability

3.6.1 Validity

Content validity refers to the extent to which an instrument represents the factors under study. To achieve content validity, questionnaires will include a variety of questions on the factors affecting purchase decision and loyalty programs (Polit and Hungler, 1993).

Questions were developed based on information gathered during the literature review to ensure the validity of the data gathered and it can represent the ideas of the passengers. To maintain face validity on every step I consulted my advisor for any feedback and directions. In addition, before distributing the questionnaires it was evaluated by some airline staffs and also passenger. Content validity was further ensured by consistency in administering the questionnaires and all questionnaires were distributed to subjects by the researcher personally. The questions were formulated in simple language for clarity and ease of understanding. Clear instructions were given to the subjects.

3.6.2 Reliability

According to Polit and Hungler (1993) reliability is the degree of consistency with which an instrument measures the attribute it is designed to measure. The questionnaires which were distributed for members of the airline loyalty program and the document analysis have consistency.

Reliability was also ensured by minimizing sources of measurement error like data collector bias which was done by the researcher's being the only one to administer the questionnaires, and standardizing conditions such as exhibiting similar personal attributes to all respondents, e.g., friendliness and support. The physical and psychological environment where data was collected were made comfortable by ensuring privacy, confidentiality and general physical comfort. Respondents were requested not to write their names on the questionnaires to ensure confidentiality.

3.7. Research Ethics

To render the study ethical, the rights to self- determination, anonymity, confidentiality and informed consent had been observed.

The study was done by obtaining written permission to conduct the research study from the department of Marketing Management of Addis Ababa University School of Commerce and a verbal permission from the management of the Ethiopian Airlines who responsible on the matter.

Before completing the questioner subjects' consent was obtained and they were informed the use and contents of the questionnaires. Burns and Grove (1993) define informed consent as the prospective subject's agreement to participate voluntarily in a study, which is reached after assimilation of essential information about the study. They were given the right to voluntarily consent or decline to participate.

CHAPTER FOUR

4. FINDINGS AND DISCUSSIONS

Under this chapter, discussion of the study, interpretation & analysis of results, reviews of other scholars and interview results were used so as to substantiate the main research areas called “the influence of customers’ loyalty programs on customers purchasing behavior in the case of Ethiopian Airlines”. Therefore, throughout the discussion and analysis, descriptive and inferential statistics are used.

Descriptive analysis consists of central tendency measurements which are frequency and frequency distribution, percentage, cumulative percentages, comparison of mean, mode and standard deviation). In addition to this, with the help of SPSS, figures and tabular explanations are used.

4.1. Descriptive analysis

4.1.1. Biographic Information

The total number of questionnaires collected with sufficient responses for the questions presented was 395 which is equal to the planned sample size. To obtain this number a total of 437 questionnaires were distributed but from the total 24 of them were not completely filled and 15 of them were not returned.

Form the collected questionnaires few of the questions were not filled, so 0 was assigned for the missing values of unanswered questions.

According to the below table obtained from the distributed questionnaires, the age of majority of the respondents lie between 46-66 (35 percent) and 36-45 (27.5 percent) which implies that most of the frequent fliers of the airlines are young and active working group. As Kristiani (2013) said, Members with age beyond 48-52 dominated high-value segments of the frequent fliers group.

Table 4.1. Age of respondents

Age of respondents		Frequency	Percent
Valid	<26	12	3.0
	26-35	75	19.0
	36-45	109	27.6
	46-65	137	34.7
	>65	62	15.7
	Total	395	100.0

Source: self-survey 2016

As per the table below which shows the educational status distribution of the respondents, 39 percent (156) of them have first degree and 24 percent (95) of them are high school complete. The result shows that most of the Gold and Silver members are within the active and working force of society.

Table 4.2. Educational level of respondents

Educational level of respondents		Frequency	Percent
Valid	High school complete	95	24.1
	First degree	156	39.5
	Masters degree	111	28.1
	PhD	33	8.4
	Total	395	100.0

Source: self-survey 2016

As the results of the study which is presented in the below table show most of the respondents which accounts for more than 40 percent of the sample population are married and 33 percent of them are single.

Table 4.3. Marital status of respondents

Marital status of respondents		Frequency	Percent
Valid	Divorced	54	13.7
	Married	182	46.1
	Single	129	32.7
	Widowed	30	7.6
	Total	395	100.0

Source: self-survey 2016

4.1.2. Factors influencing passengers purchase behavior before their enrollment in the Frequent Flyer Programs (Sheba miles)

From the total respondents majority of the passengers choose an airline mainly based on the affordability (more than 34 percent), safety (more than 26 percent), and service quality (20 percent) of an airline before they joined the Ethiopian airlines Sheba miles program.

There are many issues that might have influence on travelers' decision to choose a particular airline. Some of them are such as cost of travel, availability of flight, comfort, etc. the importance of these determinants also varies from traveler. A recent research has found that the most important determinant when choosing an airline is price more than anything. (Ershad A, 2007)

Table 4.4. Choice factors before FFP

Choice factors before FFP		Frequency	Percent
	Safety	103	26.1
	Minimum connection	28	7.1
	Accessibility	17	4.3
Valid	Affordability	138	34.9
	Convenient route	30	7.6
	Service quality	79	20.0
	Total	395	100.0

Source: self-survey 2016

4.1.3. Factors that influenced passengers to join the Sheba miles program

A traveler's valuation of additional FFP points is aligned with the airlines' FFP point award schedules. FFP members, who have accumulated almost enough miles for a free trip, place a higher marginal value on additional points than those who are further away from the point's threshold. (Nathalie C and Christiaan B, 2011)

According to the result from the collected questionnaires and conducted interview majority of the Sheba miles program Gold and Silver members were influenced to join the program by the free tickets and priority services provided to member passengers. The effect of additional baggage allowance, free upgrading and lounge access on their enrollment was not insignificant. Customer loyalty can be encouraged by implementing an effective loyalty program. These incentives or rewards are aimed at strengthening the customer's relationship with the organization.

Table 4.5. Mean Comparison Report

	Priority service encourage to join FFP	Free ticket encourage to join FFP	Free upgrading encourage to join FFP	Lounge access encourage to join FFP	Additional Bag allowance encourage to join FFP
Mean	3.78	3.83	3.75	3.69	3.77
N	395	395	395	395	395
Std. Deviation	.975	.947	1.020	1.044	.959

Source: self-survey 2016

4.1.4. Expectations of members from the FFP

Every passenger expects something from the airline for being loyal to it. Every passenger's expectation differs from one to other. On the table below is shown the result from the data obtained through questionnaire distribution. According to the result almost 75 percent of members expect the airline to keep their information that they have provide when they joined the program safe. Like the data shows passengers equally expect to get recognition by the airline and also to get customized service. These passengers expect to get quality and timely service-especially for their loyalty. This idea was supported by the data collected through interview. The study done by Kim Gordon (2010) explains that best customers want personalized service. Customers' behavior is mainly shaped by their needs and expectations. The desired outcome of expectations is getting what one anticipates from a service encounter as a consumer.

Table 4.6. Mean Comparison Report

	Expect airline to keep info safe	Expect to get recognition by the airline	Expect to receive customized service
Mean	3.98	3.83	3.72
N	395	395	395
Std. Deviation	.883	1.061	1.089

Source: self-survey 2016

4.1.5. Customers purchase behavior

Customers purchasing behavior can be shown in different ways. The data obtained by the survey shows that significant number of member passengers agree on the idea of them flying more frequently, intend to fly more even willing to pay more for ET after their enrollment in the FFP. This also shows that their purchasing behavior has changed after the FFP. According to the data, the number of passengers who are neutral even disagree is no to be consider little. This also implies that the program needs revision.

Premium or true loyalty meets the highest amount of repurchase, behavioral concept, and highest emotional attachment to the brand, attitudinal concept (Backman & Crompton, 1991).

Like Jones and Sasser said customer loyalty is defined as a feeling of attachment or affection for a company’s products, services, and people. These feelings are obvious themselves in many forms of customer behavior. The final measure of loyalty certainly is share of purchases in the category. (Jones & Sasser, 1995) This idea supports the data in the below table which shows that the FFP can create positive feelings and attachment.

Table 4.7. Mean Comparison Report

	I fly more after FFP	Consider ET as first choice	I intend to fly more on the next few years	I have positive emotional relation with ET	I would pay more for the service I am receiving from ET
Mean	3.62	3.80	3.74	3.74	3.31
N	395	395	395	395	395
Std. Deviation	1.016	.925	.956	1.009	1.113

Source: self-survey 2016

4.2. Explanatory Analysis

4.2.1. The influence of the Sheba miles program on the passengers purchasing behavior

Table 4.8. Influence of Sheba miles

		Frequency	Percent
Valid	Neutral	7	1.8
	Agree	156	39.5
	Strongly Agree	232	58.7
	Total	395	100.0

Source: self-survey 2016

As the above table shows, the rewards of the Sheba miles program highly influence passengers purchasing behaviors. According to the data obtained through the distributed questioners more than 98 percent of the respondents agree that the program highly influence their purchasing behavior. The rest near to 2 percent of them had a neutral stand when no one passenger disagrees on the influence. This show that there is no question on the influence of the Sheba miles program on the passengers purchase behavior.

4.2.2. Factors that significantly influence customers purchase behavior

Every frequent flyer program has its own rewarding system which encourages or influence passengers to stay loyal to an airline. Accordingly Ethiopian airlines have different rewarding systems which are Free/discounted ticket, Priority service, Free/discounted cabin upgrading, Exclusive lounge access and Additional baggage allowance.

Table 4.9. Mean comparison

		Free ticket	Priority service	Free upgrading	Lounge access	Additional baggage allowance
N	Valid	395	395	395	395	395
	Missing	0	0	0	0	0
Mean		3.67	4.18	3.70	3.95	3.65
Std. Deviation		.693	.750	.788	.918	.882

Source: self-survey 2016

i. Free/Discounted ticket

Passengers who could accumulate enough miles can redeem and purchase a ticket in any cabin whether it is in business or economy. According to the below table most of the respondents which accounts to more than 64 percent agree that the free ticket reward of the airline encourages them to stay loyal. On the other hand 30 percent of them had a neutral stand on the effect of providing a free ticket on their purchase behavior. No matter how simple the program concept, how diverse the partner network, how advanced the consumer insight, how targeted the campaigns or how friendly the call center staff: if members can't book their flight reward tickets or get an attractive reward alternative, then the mileage currency and the program itself become simply a waste of time and effort all round. (Dominic Hofer, 2008)

Table 4.10. Free ticket

		Frequency	Percent
Valid	Disagree	20	5.1
	Neutral	121	30.6
	Agree	223	56.5
	Strongly Agree	31	7.8
	Total	395	100.0

Source: self-survey 2016

ii. Priority service

Priority check-in really has become a hot topic since the introduction of more stringent security measures at airports. One of the main concerns voiced by regular business travelers is the length of check-in queues and time. FFP carried significant weight in determining which carrier to use. The research showed that the most significant benefits of the FFP was the ability to use priority check-in. (Ershad Ali, 2007)

As the below table shows 84% of the respondents agreed that the priority service provide for the frequent flyers by the airline encourages them to stay loyal for the airline. Based on the interview with some of the frequent flyers the priority service provided to them at the check in, boarding, baggage delivery and many other places creates a hassle free travel for them and they felt like they are being taken care of. On the other had the interviewed member passengers also agree on the existence of priority service and that they get the service frequently but it doesn’t have consistence and there is no coordination at implementing the services. Service quality has more directly influences on customer loyalty. It is one of the key elements which may influence customer’s behavior. Service quality decides whether the customer is loyal or not. (Tong, 2015)

Table 4.11. Priority service

		Frequency	Percent
Valid	Disagree	12	3.0
	Neutral	45	11.4
	Agree	196	49.6
	Strongly Agree	142	35.9
	Total	395	100.0

Source: self-survey 2016

iii. Free/Discounted cabin upgrading

Even if more than 67 percent of the respondents agree that the free /discounted cabin upgrading encourages them to stay loyal, 26 percent of them don’t see the difference on the effect of free/discounted upgrading.

Table 4.12. Free/Discounted upgrading

		Frequency	Percent
Valid	Strongly Disagree	8	2.0
	Disagree	15	3.8
	Neutral	105	26.6
	Agree	225	57.0
	Strongly Agree	42	10.6
	Total	395	100.0

Source: self-survey 2016

iv. Exclusive lounge access

In Addis Ababa airport, there are two exclusive loungers for the frequent flyers of the airline. As it is shown in the below table 75percent of the respondents agreed that access to the exclusive lounges encourages them to stay loyal. More than 16 percent of the respondents don’t see the influence of exclusive lounge access on their purchase behavior.

Table 4.13. Exclusive lounge access

		Frequency	Percent
Valid	Strongly Disagree	6	1.5
	Disagree	25	6.3
	Neutral	66	16.7
	Agree	185	46.8
	Strongly Agree	113	28.6
	Total	395	100.0

Source: self-survey 2016

v. Additional baggage allowance

The below table shows that the additional baggage allowance provide for the silver and gold members of the Sheba miles program has influence on more than half of the respondents. Even if more than 60 percent of the respondents agree, close to 27 percent of them don’t see effect on their behavior while more than 10 percent of the passengers disagree on the effect.

Table 4.14. Additional baggage allowance

		Frequency	Percent
Valid	Strongly Disagree	3	.8
	Disagree	41	10.4
	Neutral	107	27.1
	Agree	186	47.1
	Strongly Agree	58	14.7
	Total	395	100.0

Source: self-survey 2016

4.3. Correlation analysis

The study used Pearson correlation coefficient to determine the relationship between the purchasing behavior of passengers and the rewards of frequent flyer program/Sheba miles. According to Kothari (2004), the Pearson correlation coefficient is a simple but widely used measure of the degree of relationship between variables.

According to the below table, all of the frequent flyer programs have positive significant influence on the customer purchasing behavior. Besides the result of the survey, the data obtained from the interview and literature review showed that customers purchasing behavior is influenced by the entire Sheba miles program, especially free ticket and priority services. All forms of loyalty programs attempt to increase a customer's total purchases from the firm through offering additional discounts, rebates, or free goods when a consumer's purchases exceed a given level. There are a number of potential benefits to a well run loyalty program beyond increased loyalty, lower price sensitivity, and stronger attitudes towards brand and retailers. According to the results of the data obtained from the distributed questioners, conducted interview and literature review, all the Sheba miles program packages are effective. Most of the respondents agree that the free ticket and upgrading, priority service lounge access and additional baggage allowance that are provided by the Ethiopian airlines are plus on its well-connected network, its alliance with big and influential airlines and airlines alignments in the world. Most of the interviewed member passengers also agreed on the lack of consistency on the airline service provision which sometimes affect their satisfaction. Loyalty programs that seek to bond customers to a company or its products and services by offering an additional incentive pose an interesting dilemma. These schemes often attract widespread customer interest and can influence purchase decisions. (Jeevananda, 2011)

Correlations

		Passenger purchasing behavior	Free ticket	Priority service	Free upgrading	Lounge access	Additional baggage allowance
Passenger purchasing behavior	Pearson Correlation	**1**	**.285****	**.174****	**.227****	**.119***	**.137****
	Sig. (2-tailed)		.000	.001	.000	.018	.006
	N	395	395	395	395	395	395
Free ticket	Pearson Correlation	**.285****	1	-.063	.258**	-.012	.066
	Sig. (2-tailed)	.000		.209	.000	.818	.190
	N	395	395	395	395	395	395
Priority service	Pearson Correlation	**.174***	.063	1	-.058	-.015	.046
	Sig. (2-tailed)	.001	.209		.254	.763	.366
	N	395	395	395	395	395	395
Free upgrading	Pearson Correlation	**.227****	.258**	-.058	1	.006	.115*
	Sig. (2-tailed)	.000	.000	.254		.901	.022
	N	395	395	395	395	395	395
Lounge access	Pearson Correlation	**.119***	-.012	-.015	.006	1	.039
	Sig. (2-tailed)	.018	.818	.763	.901		.435
	N	395	395	395	395	395	395

Additional baggage allowance	Pearson Correlation	**.137****	.066	.046	.115*	.039	1
	Sig. (2-tailed)	.006	.190	.366	.022	.435	
	N	395	395	395	395	395	395

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

Source: self-survey 2016

CHAPTER FIVE

5. SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1. Summary

The study was intended to investigate the influence of loyalty program on passengers purchasing behavior in the case of Ethiopian airlines based on the questionnaire consisting of 398 passengers who are Silver and Gold members of the Sheba miles program of the airlines.

The results of the descriptive analysis indicate that affordability and safety are the basic criteria to choose an airline before their enrollment in Sheba miles program. Free ticket and priority service provided to member passengers influenced them to join the program (mean of 3.83 and 3.78 respectively).

The correlation and interview results and showed that there is a positive and significant relationship between all factors of loyalty program and customer purchase behavior. Especially free ticket and free upgrading have major influence on the purchasing behavior of the passengers (where r=0.285 for free ticket, and r=0.227 for free upgrading).

5.2. Conclusion

This study was conducted to find out the influence of loyalty program on customers purchasing behavior in Ethiopian Airlines. According to the conceptual framework presented. The study shows that the Sheba miles program has influence passengers to enroll in the FFP and fly Ethiopian more frequently, and encourage member passengers to fly more and stay loyal to the airline.

Passengers who are not members of any airline loyalty program choose their flights mainly based on affordability and safety of the airline which are found to be basic criteria for passengers to choose an airline. Price is considered as the most important measurement of repurchase intentions (Oh, 2000)

All the rewards of the Sheba miles program influence passengers to enroll in the program. The major factors influencing passengers to enroll in the program are free ticket allowance and priority services. Besides the two factors, additional baggage allowance and free upgrading have significant influence on passengers' enrollment in the program. When passengers enroll in the Sheba miles program, they expect to get recognition and customized services from the airline and most importantly they expect the airline to keep their personal information safe.

The rewards of the Sheba miles program have positive and significant influence on the purchasing behavior of the member passengers. These programs encourage repeat buying and improve retention rates by providing incentives for customers to purchase more frequently and in larger volumes. (Lewis, 2004)Free ticket and upgrading and priority service mainly influence the purchasing behavior of the customers of the airline.

The interviewed passengers listed the problems they are facing regarding the Sheba miles. From the listed problem inconsistency, un-coordination, information dissemination problems and also rigid reward system were frequently mentioned. Performance inconsistency is highly sensitive for customers from customers perspective, this is critical because customers experience variation, highly affect customers satisfaction. For sales and services organizations with a high degree of direct employee-customer interaction, substantial variability in the customer experiences they create represents a significant threat to the sustainability of the enterprise. In the not so little mind of customers, consistency is absolutely essential for delivering a world class customer experience. (Fleming, 2006)

Loyalty programs need to be designed with more targeted rewards, differ according to different
groups of members based on their value, and they need to provide greater value at higher customer value tiers, by rewarding best customers to encourage higher spending levels. In order to do that the organization needs to understand their customer's needs and behaviors, by creating customer profiles with relevant data on customer interactions to have a complete picture of a customer's preferences. (Ray, 2015)

5.3. Recommendation

The study shows that well formulated loyalty programs have significant influence on retaining even attracting new customers which can be considered to be competitive advantage for the firm. In order to make its loyalty program successful Ethiopian airlines needs to understand what customers' needs are. In addition to what the customers need they also need to see what the market offers to the customers.

Airlines can enhance the role of their frequent flyer programs in building productive relationships by enhancing their quality. Their quality can be enhanced by customizing the facets and usage of the program on a 1to1 basis to match the needs of each valued customer." (Bondar *et al*, 2008)

Some of the suggestions that the passengers given as most important things that airlines should do in order to improve relationships with their customers are communication, honesty, better experience. Ethiopian can build customer engagement and relationship strength through high levels of commitment, trust and alignment.

In order to stay being the best airline to its frequent flyers, Ethiopian airlines should conduct continuous assessment on the performance of the Sheba miles and its environment. Besides the inside assessment the airline need to study its competitors and their loyalty programs. Not only does an airline need strong relationships with its customers, but it also needs stronger relationships than those of its competition with the same individuals. Otherwise, customer loyalty may be at risk. (Bondar, 2008) Understanding their customers' expectations in an effort to maintain the quality of service their passengers demand is not a choice on the current business environment.

The rewarding system of the Sheba miles should be somehow flexible for the elite members of the program as they are more committed to the airline than the rest of the passengers.

Ethiopian airlines should work on its accessibility to its frequent flyers so that they can accumulate and redeem their mile easily and whenever they need. Loyalty programs increasingly allow consumers to manage their card accounts online, redeem or transfer reward points, and select between various reward options.

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Appendix I

ADDIS ABABA UNIVERSITY

SCHOOL OF COMMERCE

DEPARTMENT OF MARKETING MANAGEMENT

This questionnaire is designed to gather information on "the influence of customer loyalty program on the customer purchasing behavior in case of Ethiopian Airlines". The purpose of the study is to fulfill a thesis requirement for the Masters of Marketing Management at Addis Ababa University. Your highly esteemed responses for the questions are extremely important for successful completion of my thesis. The information that you provide will be used only for the purpose of the study and will be kept strictly confidential. You do not need to write your name. Finally, I would like to thank you very much for your cooperation and sparing your valuable time for my request. Please tick one to show how much you agree or disagree.

Biographic data

1. Age

   Below 25 ☐ 25-35 ☐ 36-45 ☐ 46-65 ☐ Above 65 ☐

2. Membership status?

   Silver ☐ Gold ☐

3. Educational status

   High school complete ☐ First degree ☐ Master's degree ☐ PhD and above ☐

4. Marital status

   Single ☐ Married ☐ Divorced ☐ Widowed ☐

5. How did you choose an airline before you joined the Sheba miles program?

   Airline Safety ☐ Availability of Shorter Connection time ☐

   Accessibility of the airline ☐ Affordability of the prices of air tickets ☐

   Availability of convenient Routes ☐ High Service quality ☐

6. Which of the Sheba miles program influenced you to join the program

Priority service ☐ Free ticket ☐ Free upgrading ☐

Exclusive lounge access ☐ Additional baggage allowance ☐

7. **Expectations of passengers from the Sheba miles program**

No.	Expectation	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
1	I trust keep my personal information which I give for the loyalty program safe.					
2	I expected to get recognition by the airline					
3	I expected to get customized service					

8. Passengers' purchase behavior

No.		Highly Disagree	Disagree	Neutral	Agree	Highly Agree
1	I fly more frequently on ET since I joined the program.					
2	I consider ET my first choice when planning a trip.					
3	I intend to fly ET more in the next few years.					
4	I have a positive emotional relation to the Ethiopian airlines.					
5	I would pay more than competitors' prices for the service I am receiving from ET.					

9. Factors that significantly influence customers purchase behavior

No.	Factors	Highly disagree	Disagree	Neutral	Agree	Highly agree
	Free/Discounted ticket					
1	I use my miles to buy air ticket.					
2	The mile I used for the new ticket was fair.					

3	The free/ discounted ticket offered by the airline loyalty program encourages me to stay loyal to the airline					
	Priority service					
1	I always get priority for check-in and boarding					
2	I always get priority for courtesy upgrading					
3	I always get priority baggage delivery and reservation					
4	The priority service provided by the airline to loyal customers encourages me to stay loyal					
	Free/Discounted Upgrading					
1	I have had a chance to get a courtesy upgrade.					
2	I had upgraded my air ticket using my mileage					
3	The business class service was worth being loyal for.					
4	The free/ discounted upgrading encourages me more to stay loyal to the airline					
	Exclusive Lounge access					
1	I always use the Sheba miles lounge in Addis Ababa.					
2	The lounge is comfortable and convenient.					
3	I find everything what I want in the lounge					
4	The lounge is up to my standard.					
5	The exclusive lounge access provided by the airline encouragers me to stay loyal to the airline					
	Additional baggage allowance					
1	I receive additional check-in baggage allowance for being Gold/Silver members.					
2	The additional check-in baggage allowance provided by the airline is satisfactory					
3	The additional carryon and check-on baggage allowances provide by the					

	airline encourages me to use the airline more					
Influence of the program						
1	The program met my expectation.					
2	The program influences my purchasing behavior.					

10. Have you notice any problem applying your Sheba miles privileges?

If yes, please specify

11. What do you think the airline should do to maintain your loyalty?

Appendix II

Interview Questions

1. Why did you choose to be a Sheba miles member instead of other airline Frequent flyer program?
2. Are you happy with the service you are receiving as loyal customer of the airline? Why?
3. Did the Sheba mile program meet your expectation?

a. If no why?

4. Do you think the program has influence on your purchase behavior?

   Could you please tell us how?
5. Have you notice problems in implementing your FFP? If any, what did you observe?
6. What do you think is very important to stay loyal for the airline?
7. As very important/ premium customer the ET, what do you suggest to improve the service regarding FFP?