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## The Effect of Loyalty Points, Tiered Membership, Gamification, and Free Shipping on Customer Retention: A Study of Loyalty Programs in Online Shopping Applications

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**Abstract:** This study investigates the effect of various marketing strategies on customer retention in online shopping platforms. Specifically, it examines the influence of loyalty points, tiered membership, gamification, and free shipping. The results indicate that loyalty points, tiered membership, and gamification do not have a significant impact on customer retention, suggesting that incentive programs based on point accumulation, membership status, or game elements alone are insufficient to drive repeat purchase behavior. In contrast, free shipping has a positive and significant effect, highlighting that direct economic incentives providing tangible benefits are more effective in fostering customer loyalty. These findings imply that e-commerce managers should prioritize strategies offering immediate economic value, such as free shipping, to increase repeat purchases. Additionally, traditional loyalty programs and gamification elements should be restructured or combined with tangible rewards and clearly communicated benefits to enhance their effectiveness in retaining customers. This study contributes to a better understanding of consumer behavior in online retail and provides practical guidance for designing retention strategies that align with customer preferences and motivations.

**Keyword:** Loyalty Points, Tiered Membership, Gamification, Free Shipping, Customer Retention.

### INTRODUCTION

The introduction contains a concise, concise, and clear research background; research The rapid development of digital technology and internet penetration in Indonesia has significantly transformed consumer behavior, particularly in online shopping. E-commerce platforms such as Tokopedia, Shopee, and Bukalapak provide easy access, a wide variety of products, and fast shopping experiences, making online shopping an integral part of modern consumer lifestyles (Fauzy & Ali, 2019; Hamdan, Ali, et al., 2023; Larasetiati & Ali, 2019;

Miao et al., 2013). However, consumers can easily switch between platforms, making customer retention a critical indicator of digital business success (Griffin, 2015).

Although many previous studies have examined consumer behavior in the context of online shopping, research specifically focusing on various aspects of loyalty programs remains limited (Al Hafizi & Ali, 2021; Ali et al., 2022, 2023; Della Fitriana et al., 2021; Fauzi & Ali, 2021; Hamdan et al., 2021; Hamdan, Imaningsih, et al., 2023; Hamdan, Yuliantini, et al., 2023; Permana et al., 2025; Syachrony et al., 2023). To retain customers, e-commerce platforms implement various strategies, including loyalty points, tiered membership, gamification, and free shipping. Loyalty points aim to encourage repeat purchases through reward accumulation, while tiered membership enhances customer exclusivity based on transaction levels. Gamification increases engagement through interactive experiences, and free shipping removes direct cost barriers for consumers (Chen et al., 2019). However, empirical findings remain mixed: loyalty points, tiered membership, and gamification do not always significantly affect retention, whereas free shipping consistently shows a positive impact.

These inconsistencies highlight the need for research that examines all four strategies simultaneously in a single empirical model to understand their relative contributions and interactions in influencing customer retention in Indonesia, as previous studies mostly focused on individual strategies or contexts in developed countries. This study aims to investigate how loyalty points, tiered membership, gamification, and free shipping affect customer retention on online shopping applications. The research objective is to test the effect of each strategy on customer retention. The novelty of this study lies in the simultaneous examination of the four strategies in a single empirical model, providing a comprehensive understanding of the effectiveness of digital marketing strategies for customer retention in the Indonesian e-commerce context.

This research is based on customer value and relationship marketing theories. Relationship marketing emphasizes that long-term relationships between companies and customers are influenced by various relational and functional incentives. Meanwhile, value creation theory states that customers tend to maintain relationships with companies that provide the best value in terms of benefits, experiences, and economic rewards.

### **Loyalty Points and Customer Retention**

Several international studies have shown that loyalty points can increase behavioral loyalty if designed with a reward structure that is valuable and clear to customers. Gupta & Lehmann (2003) stated that reward points relevant to consumer needs can increase repeat purchases. However, studies in some digital contexts have shown insignificant results because points earned do not directly impact purchasing decisions (Sharp, 2010). National studies also show varying results. For example, (Putri & Susanti, 2022) found that points programs have no significant effect on customer retention if customers are more motivated by other benefits such as discounts or free shipping. Based on this, the following hypothesis is proposed:

H1: Loyalty points can influence customer retention.

### **Tiered Membership and Customer Retention**

Liu-Thompkins & Hamilton (2012) found that tiered membership increases customers' perceived status in a retail context, but does not always have a strong impact on long-term retention. This is especially true if the benefits between tiers are not significantly different. In the Indonesian e-commerce context, strong empirical evidence supporting the effect of tiered membership on loyalty is still limited. Based on this, the following hypothesis is proposed:

H2: Tiered membership can influence customer retention.

### Gamification and Customer Retention

Hamari et al. (2014) in a literature review stated that gamification can increase user engagement, but its effect on long-term loyalty is less consistent. Other research shows that if gamification is not combined with economic rewards, the impact on purchase retention is relatively weak. Based on this, the following hypothesis is proposed:  
H3: Gamification can influence customer retention.

### Free Shipping and Customer Retention

Various studies have shown that free shipping promotions have a positive effect on repeat purchase behavior. Chen et al. (2019) stated that shipping costs are one of the strongest reasons consumers abandon purchases, so eliminating these costs can increase customer loyalty. Based on this, the following hypothesis is proposed:  
H4: Free shipping can influence customer retention.

Based on the discussion of the conceptual framework, which serves as the foundation for this study, the research model can be formulated and presented as follows.

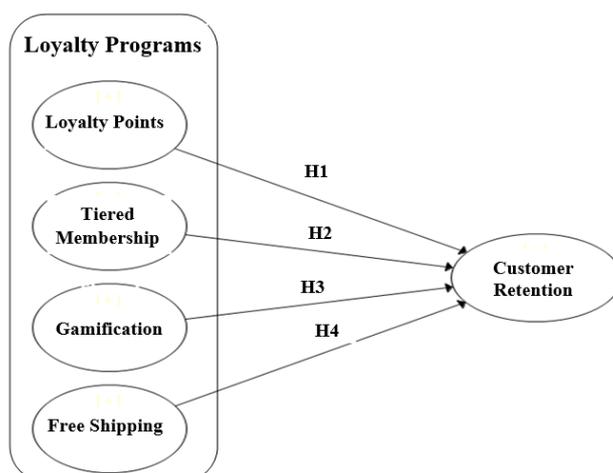


Figure 1. Research Model

## METHOD

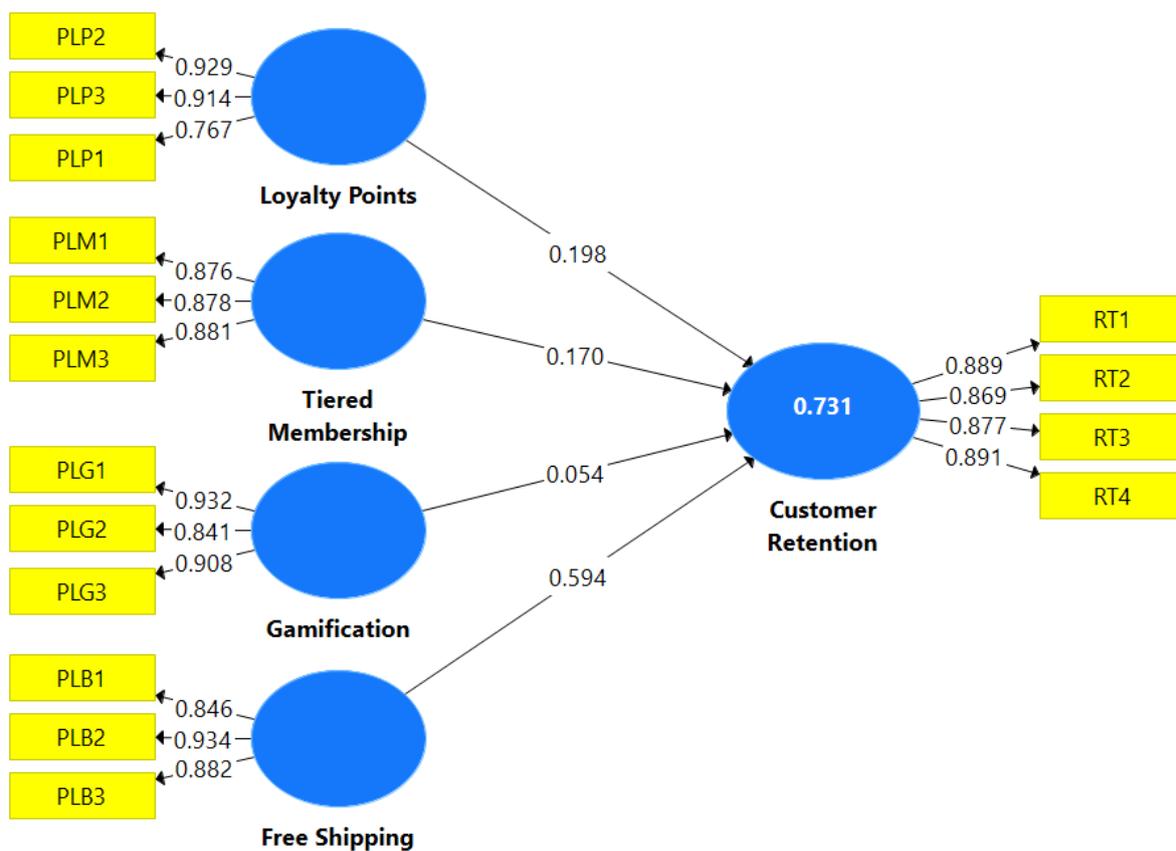
This study employs a quantitative approach with a survey method to examine the effects of loyalty points, tiered membership, gamification, and free shipping on customer retention in online shopping applications. The research model is causal-explanatory, and data is analyzed using PLS, which is suitable for testing complex relationships between reflective and formative constructs (Hair et al., 2022). The research population includes active users of e-commerce platforms in Indonesia who have participated in loyalty programs, which were determined through purposive sampling.

Data is collected via an online structured questionnaire using a 5-point Likert scale (1 = strongly disagree, 5 = strongly agree), adapted from validated instruments in prior studies. Measurement focuses on five variables: loyalty points, tiered membership, gamification, free shipping, and customer retention. The analysis follows a two-step PLS procedure: first, outer model evaluation ensures reliability and validity of constructs, while second, inner model evaluation tests the hypothesized relationships using path coefficients, R<sup>2</sup>, Q<sup>2</sup>, and VIF to

check multicollinearity (Hair et al., 2022). Hypotheses are tested via bootstrapping at a 95% confidence level ( $p < 0.05$ ), ensuring the results are statistically robust and meaningful.

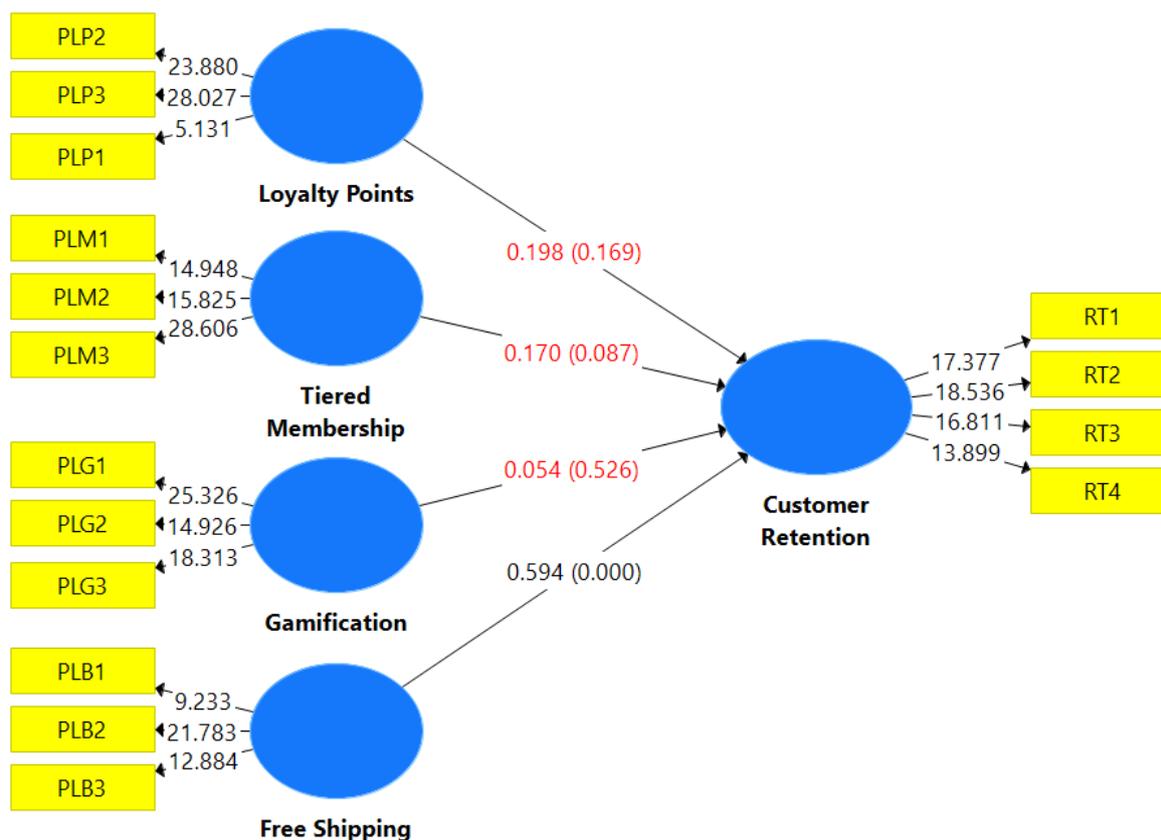
### RESULT AND DISCUSSION

The results of the outer model evaluation indicate that all reflective indicators have satisfied the recommended methodological criteria (Hair et al., 2022), as presented in *Figure 1*. Specifically, the factor loadings of all indicators exceed the threshold of 0.70, demonstrating adequate convergent validity. Furthermore, the AVE values are above 0.50, indicating that each construct explains more than 50% of the variance of its indicators. Discriminant validity was also assessed using the HTMT ratio, with all values falling below 0.90. This result confirms the absence of discriminant validity issues among the constructs. Overall, these findings suggest that all indicators exhibit satisfactory reliability and validity, and that each construct is consistently measured and empirically distinct from the others in the proposed research model.



**Figure 1. Outer Model Results**  
Source: PLS Algorithm Output

After the outer model met all required criteria, the next step in the PLS analysis was the evaluation of the inner model to assess the structural relationships among constructs. The VIF values for all constructs were below 3, indicating the absence of multicollinearity issues. The coefficient of determination ( $R^2$ ) of 0.731 reflects a moderate to strong explanatory power of the model. In addition, the  $Q^2$  value greater than 0 indicates that the model demonstrates predictive relevance. Finally, the path coefficients were tested at a 95% confidence level ( $\alpha = 0.05$ ), with the results presented in *Figure 2*.



**Figure 2. Outer Model Results**  
Source: Bootstrapping Output

Based on the outer model results presented in Figure 2, it can be interpreted that the empirical model in this study is consistent with the conceptual and hypothesized model developed for analysis. These findings indicate that the specified measurement model satisfies the required criteria, thereby justifying further structural model testing.

**1. H1: Loyalty Points → Customer Retention (Rejected)**

The first hypothesis assessed the effect of loyalty points on customer retention, but the results showed that loyalty points had no significant effect on customer retention. This indicates that point accumulation as a transactional incentive is not sufficient to encourage consistent repeat purchase behavior. This finding aligns with previous research, which states that points-based loyalty programs are only effective if they provide clear and relevant benefits to customers (Gupta & Lehmann, 2003). Furthermore, several national studies have noted that the effectiveness of points programs depends on customers’ perceptions of the immediate benefits (Putri & Susanti, 2022).

**2. H2: Tiered Membership → Customer Retention (Rejected)**

The second hypothesis assessed the effect of tiered membership on customer retention. The results showed that tiered membership structures had no significant effect on customer retention. This indicates that the differentiation of benefits between membership levels may not be perceived sufficiently by customers to influence repeat purchase decisions. Previous research also suggests that tiered memberships can lose effectiveness if the exclusive benefits at each level are not sufficiently compelling or communicated effectively (Liu-Thompkins & Hamilton, 2012).

### 3. H3: Gamification → Customer Retention (Rejected)

The third hypothesis tested the effect of gamification on customer retention. The results showed that gamification had no significant effect on customer retention. This indicates that game elements in online shopping platforms, while increasing initial engagement, do not necessarily drive long-term loyalty without tangible incentives supporting purchasing behavior. Some literature emphasizes that gamification is only effective when designed to intrinsically motivate user behavior and integrated with clear benefits (Hamari, Koivisto, & Sarsa, 2014).

### 4. H4: Free Shipping → Customer Retention (Accepted)

The fourth hypothesis tested the effect of free shipping on customer retention, and the results showed a significant positive effect. In the context of online shopping, shipping costs are one of the factors that most influence repeat purchase decisions. Offering free shipping directly reduces the psychological barrier associated with additional costs and enhances the customer's value experience. This finding is consistent with previous research showing that direct economic incentives such as free shipping are more effective in increasing customer loyalty than accumulation-based or game-based incentives (Ariely, 2008; Rahmawati & Hidayat, 2023).

## CONCLUSION

Based on the results of this study, it can be concluded that not all marketing strategies applied in the context of online shopping are effective in enhancing customer retention. Loyalty points, tiered membership, and gamification were found to have no significant effect on customer retention, indicating that incentive programs based on point accumulation, membership status, or game elements alone are insufficient to consistently drive repeat purchase behavior. In contrast, free shipping was found to have a positive and significant impact on customer retention, suggesting that direct economic incentives providing tangible benefits to customers are more effective than symbolic or experience-based incentives.

From a managerial perspective, e-commerce platform managers are advised to prioritize retention strategies that deliver immediate economic value to customers, such as free shipping, as this has been shown to increase the likelihood of repeat purchases. Meanwhile, loyalty programs based on points, tiered membership, and gamification should be restructured or combined with tangible, relevant incentives, such as special discounts, shopping vouchers, or instant rewards, to enhance their effectiveness in retaining customers. These strategies should also be supported by clear communication of program benefits so that customers perceive immediate value and are motivated to continue transacting on the same platform.

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