



Accumulation versus instant loyalty programs: The influence of controlling policies on customers' commitments[☆]



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ABSTRACT

Loyalty reward programs play an important strategic role attracting and retaining customers. Surprisingly, reward redemptions receive minimal research attention. Despite widespread reward program offerings, evidence suggests customers increasingly abandon them due to controlling (restrictive) redemption policies, such as blackout dates. The present study considers controlling redemption policies' effect on consumer commitment levels for accumulation-based and instant loyalty programs across social and economic award types. A 2 (low/high controlling) $\times$ 2 (accumulation/instant program) $\times$ (social/economic rewards) design tests hypotheses informed by cognitive evaluation and rational choice theories. Results show firms employing accumulation programs with highly controlling policies should highlight their social rewards (e.g., a hotel with blackout dates on redeeming rewards would want to highlight their special lounges or dining areas); whereas, low controlling policies work best when offering financial rewards (e.g., free upgrades or percentages off). In instant programs, the type of reward generally does not influence consumers' commitment levels.

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1. Introduction

Loyalty programs offer customers benefits in exchange for repeat patronage to an organization (Rust, Zeithaml, & Lemon, 2000). These programs are commonplace in the United States. The average household belongs to approximately twelve loyalty programs, and companies spend over \$1 billion on them annually (Ferguson & Hlavinka, 2007; Kumar, 2008). Loyalty programs take many forms, including so-called affinity or frequency programs in which customers receive rewards for repeat patronage—measured by accrued points, stamps, or other related methods (e.g., frequent flier miles). Alternatively, customers may receive immediate patronage benefits (e.g., a 10% discount on the entire purchase when joining a hotel's program). Kivetz (2005) uses the terms “effort” versus “no effort”, respectively, to describe these program types. The study uses accumulation and instant loyalty programs—more common terminology.

Rewards can be economic (e.g., free products when purchasing a certain number) or social (e.g., preferential treatment) (Jones, Reynolds,

& Arnold, 2006; Mimouni-Chaabane & Volle, 2010). Previous studies suggest social rewards build a sense of community and an emotional connection to an organization, creating more loyalty than economic rewards (Rosenbaum, Ostrom, & Kuntze, 2005). However, the literature does not address effectively how reward types impact commitment levels (e.g., continuance and affective commitment) across different loyalty program types (accumulation versus instant), a seemingly important issue.

While the difficulty of redeeming some loyalty program rewards (e.g., frequent flyer miles) receives considerable discussion in the practitioner literature (Maynard & Dash, 2005), the topic generates little academic study. Redemption policies range from highly controlling (e.g., blackout dates and restrictions as to when the reward can be used) to not controlling (e.g., 10% off any item, anytime). Research on coupon redemption policies shows controlling policies negatively influence repeat patronage and product evaluations (Forehand, 2000; Graham, 1994) but little information is known about whether this relationship holds true for loyalty programs.

The limited extant research on redemption issues in loyalty programs focuses on descriptive studies outlining consumers most likely to redeem rewards and redemption rates (e.g., Smith & Sparks, 2009), reward attractiveness at redemption time (Ashley, Noble, Donthu, & Lemon, 2011; Noble & Phillips, 2004), different redemption behavior types (Smith & Sparks, 2009), redemption prizes (Kivetz & Simonson, 2002), and ease of use and the understanding of redemption policies (Melancon, Noble, & Noble, 2011; O'Brien & Jones, 1995). Understanding loyalty programs, and redemption policies in particular, is important because companies such as airlines report financial losses due to their loyalty programs, and

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they openly admit making their redemption policies more stringent to control these losses (Maynard & Dash, 2005).

The study's purpose is to show how loyalty program type (accumulation versus instant) and reward type (social versus economic) affect controlling policy on commitment to the organization offering the loyalty program. Using a combination of cognitive evaluation theory (CET) (Deci & Ryan, 1985) and rational choice theory (Herrnstein, 1990), the first and second studies examine continuance commitment. How committed do customers feel to an organization based on the benefits/rewards level they have with an organization and their fear of losing their investment if they leave? The third study investigates affective commitment. How committed is a customer to an organization based on emotional bonds created between the organization and customer? Taken together, this work extends knowledge of redemption issues. Study results show when redemption policies in loyalty programs negatively or positively influence commitment and which of three hypothesized underlying mechanisms explain these results.

2. Literature review and hypotheses

2.1. Social rewards in accumulation loyalty programs

Accumulation programs require the participant to collect points. Controlling policies restrict point redemption for participants. How these restrictions are perceived by the customer varies depending on whether the reward is social or economic. CET helps explain what likely occurs when the reward is social in nature with low and high controlling policies. Social reward benefits implying special treatment and personalized attention for customers. They are similar to internal rewards discussed in CET because social rewards typically enhance intrinsic motivation and reinforce enjoyment in participation through little added extras making the consumer feel good (Melancon et al., 2011). According to CET, restrictions on social rewards cause an individual to focus less on the affective or emotional commitment to an organization, and refocus on achieving the reward (i.e., increased continuance commitment to the company to obtain the reward) (Deci & Ryan, 1985). CET suggests social rewards in the accumulation program have higher continuance commitment when policies are controlling rather than not. Three plausible underlying mechanisms cause a positive effect of controlling policies in social programs.

2.2. Underlying mechanisms

First, when social reward based program's monetary value is uncertain, customers look for information to reduce uncertainty (Cheema & Patrick, 2008). Redemption policies which are controlling in nature may add an element of precision and certainty (i.e., information) regarding when an individual can and cannot redeem the reward and the reward's value. Social reward programs' controlling redemption policies may adequately inform an individual about their investments/rewards with the organization, strengthening continuance commitment.

A second plausible explanation deals with the reward's rarity. A social reward gives the customer special and exclusive treatment giving the perception the reward is rare. If a controlling redemption policy is added to a social program, customers likely perceive the rewards as more rare and heighten an individual's commitment level. Obtaining unique rewards is something one does not want to miss (Cialdini, 2001). Similarly, controlling policies creates a sense of exclusiveness making social rewards more effective by creating a sense of community (Rosenbaum et al., 2005).

Finally, the third plausible explanation comes from reactance theory (Brehm, 1966) which posits people react against attempts to control their behavior or threatens their freedom of choice (i.e., a customer's ability to achieve the reward). Customers feeling reactance are motivated to regain their threatened freedom and to increase their preference

for the threatened behavior. Controlling redemption policies should elicit more reactance than no controlling policies. Reactance and, hence, commitment to the organization could explain why high controlling policies positively affect commitment levels. Individuals react more strongly to threats to social rewards because they are more unique to organizations. Economic rewards center on saving money which is the same at any organization. Social rewards are unique because they connect individuality to customers.

2.3. Economic rewards and accumulation loyalty programs

Accumulation programs, which offer easy conversion into financial dollars (e.g., the points needed for a 10% off reward), should show a different result for economic rewards. These dollars become customer investments. Rational choice theory assumes people behave rationally in their choices and behavior. Essentially, people prefer more of a good rather than less to maximize utility (Herrnstein, 1990), suggesting a negative impact of high controlling policies which limit reward use maximization. The stated differences in economic and social rewards will not cause a controlling policy to have a positive effect on continuance commitment for economic rewards. Withholding a reward or controlling redemption policies equate to a punishment (Dickinson, 1989). This interpretation follows existing literature which finds putting restrictions on monetary rewards to be hurtful to program providers (Dowling & Uncles, 1997; Rothschild & Gaidis, 1981). Thus, economic rewards should relate to higher commitment when no controlling aspects to the policy exist compared to highly controlling accumulation program policies.

2.4. Instant loyalty programs

Last, the same results are not expected for instant programs. These rewards are not seen as investments to the customer. Accumulation programs require the participant to collect points. Introducing a controlling policy restricts participants' point use. Participants interpret restricted point use as a failure and causes negative reactions (Deci & Ryan, 1985) as is hypothesized with economic rewards; or the restriction positively influences commitment as hypothesized with social rewards. Instant program rewards appear independent from a task and freely given (Deci, Koestner, & Ryan, 1999) reducing controlling policies and reward type impact. While the participant desires the reward, instant programs do not require participant action and organizations will not see significant differences in commitment across variables as accumulation programs do. Because no impact on an instant program commitment exists, the underlying mechanisms will not be significant. The prior discussion informs the following hypothesis.

H1. An interaction occurs between program type, reward type, and controlling nature of the redemption policy on commitment to the organization, such that there is (a) a negative effect of the controlling policy on continuance commitment in accumulation programs with economic rewards, (b) a positive effect of the controlling policy in accumulation programs with social rewards, and (c) no effect of controlling policies or reward type in instant programs.

3. Study 1: accumulation versus instant loyalty programs on continuance commitment in a coffee shop context

The first study tests for differences in consumers' continuance commitment levels in accumulation versus instant programs across social/economic rewards and differing controlling policies.

3.1. Methodology

3.1.1. Subjects

Subjects ($n = 335$) were non-faculty employees of a large southeastern university in the United States. The respondents' mean age

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