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# What do customers get and give in return for loyalty program membership?



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## ABSTRACT

A successful loyalty program (LP) represents the firms' investment in long-term relationships with their customers. However, to be effective LPs must be perceived as valuable by customers. The purpose of this study is to examine the different types of value customers derive from LP membership and examine the relationship between program value, loyalty to the program, and loyalty to the brand (firm). Further, we examine the effect of program and brand loyalty on behavioral responses, including share of wallet, share of purchase, word of mouth, and willingness to pay more. The moderating effect of program customization and the duration of the customer's LP membership on the relationship between loyalty to the program and loyalty to the brand is also studied. Using a sample of 628 respondents drawn from the two largest stand-alone retail loyalty programs in Australia we find that LP value consists of six primary constructs which drive loyalty. Specifically, we find that value in the form of reward attractiveness, knowledge benefit, and required effort impacts LP members' perceived experiential benefits, which in turn impact program loyalty; while value derived from group belongingness and disclosure comfort drive brand loyalty. We also find that program loyalty influences brand loyalty; and program and brand loyalty together induce positive customer behaviors. However, program loyalty has a negative impact on a customer's willingness to pay. Our findings highlight the impact of multiple program value elements on customer loyalty, extending the literature by clarifying the relationships among program value, attitudinal loyalty, and behavioral loyalty. Practically, our findings suggest how managers can better design and implement their LPs to build customer loyalty.

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## CHINESE ABSTRACT

一个成功的忠诚度计划代表了公司对客户长期关系的投资。但是，要做到有效，这些计划必须得到客户的珍视。本研究旨在考察不同类型的有价值的客户从忠诚计划会员资格中所获得的东西，同时检审该计划的价值、对该计划的忠诚度及对品牌（公司）的忠诚度之间的关系。此外，我们还研究了计划和品牌忠诚度对行为反应（包括钱包份额、购买份额、口碑相传及愿意支付更多）所产生的影响。其他的研究内容包括，忠诚计划的定制和客户长期会员身份的持续时间对计划和品牌的忠诚度之间关系所产生的调节效果。对来自澳大利亚两个最大的独立零售商的忠诚度计划的628位受访者进行了抽样调查，我们发现忠诚度计划的价值是由驱动忠诚的六个主要因素构成的。然而，计划忠诚度对客户的支付意愿则会产生负面影响。我们的研究结果强调了多个计划价值因素对顾客忠诚的影响，通过澄清计划价值、态度忠诚和行为忠诚之间的关系而做了进一步的文字说明。实际上，我们的研究结果表明了管理者应如何更好地设计和实施其忠诚度计划，以建立客户忠诚度。

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## 1. Introduction

An estimated 90% of U.S. consumers are enrolled in at least one loyalty program (McKee, 2007). This vast participation is driven primarily by the rewards offered to customers for their repeat purchases (Daryanto et al., 2010). Rewards vary across loyalty programs, but

most involve collecting points for each dollar spent with the firm. For example, the CVS ExtraCare Reward Program, which has a staggering 50 million members, returns 2% on purchases in coupon form and offers \$1 to spend in-store for every two prescriptions purchased (Euromonitor International, 2009). Another loyalty program, FlyBuys Australia has 10 million cardholders and offers 1 point for every AUD\$1 spent in-store. A successful loyalty program can also generate substantial revenue. For example, Tesco's has 13.5 million members and is estimated to generate US\$200 million annually in added sales for the firm (Euromonitor International, 2009).

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The ubiquity of loyalty programs (LPs) has made them a seeming “must-have” strategy for organizations. Hence, it is not alarming that most retailers have introduced LPs to remain competitive (Euromonitor International, 2009). While promising to help build customer loyalty for those organizations (Uncles et al., 2003), increase customer share (Leenheer and Bijmolt, 2008; Verhoef, 2003), and collect customer information, not every program succeeds. Safeway had to withdraw its ABC loyalty card to save the organization US\$75 million annually (Meyer-Waarden, 2007), and Coles Myer (Australia) terminated its discount card to save the company up to AUD\$200 million a year (Wade, 2002). Shaw’s, the U.S. supermarket chain, recently replaced its LP with a “card-free” saving scheme offering low prices to all customers, because the LP failed to help it gain a competitive advantage over its competitors (Tuttle, 2013). These failures underscore the challenges that firms face when they seek to ensure that a LP has value for customers but entails a reward system and structure that is financially viable for the firm.

Successful LPs represent firms’ investments in long-term relationships with their customers (De Wulf et al., 2001) and augment the firms’ core offerings (Bolton et al., 2000; Liu, 2007). Through LPs, firms can enhance customers’ purchase utility by providing value-added elements, such as financial incentives, a sense of belonging (Rosenbaum et al., 2005), and anticipation of future rewards (Dowling and Uncles, 1997). Understanding the customer’s perception of the value offered by a LP is imperative to its success, because for a LP to be effective, it must be perceived as valuable by customers (Yi and Jeon, 2003). Yet the value customers derive from a LP, relative to what they forgo, is not well understood. Nor do we know whether the value resulting from being a member of a LP drives loyalty to the program itself or loyalty to the brand (firm), or how these factors affect subsequent behavioral responses, such as increased share of wallet or word of mouth.

Accordingly, with this study we seek to address recent calls in LP literature e.g. Henderson et al. (2011) and Dorotic et al. (2012) for better understanding of the drivers of LPs effectiveness by specifying the value that customers derive from LP membership; examining the relationships among program value, loyalty to the program, and loyalty to the brand (firm); and identifying the effects of program and brand loyalty on behavioral responses, including share of wallet, share of purchase, word of mouth, and willingness to pay. We also examine the moderating effect of program customization and customer’s program membership duration on the relationship between loyalty to the program and loyalty to the brand. The research framework was tested using data from a representative Australian sample in the retailing industry. Respondents were drawn from the two largest stand-alone LPs in Australia retail market (more details in section 2.6 and section 4.1).

## 2. Literature review

### 2.1. Loyalty program value

Modern firms suffer from increasingly undifferentiated offerings and low switching costs, such that LPs have emerged as an important tool for customer retention and building sustainable customer loyalty through enhanced relationships (Liu, 2007; Uncles et al., 2003). For example, financial incentives, program rewards, and access to exclusive services create attractive value propositions for customers and have crucial roles in enhancing customer loyalty (Berry, 1995; Liu, 2007). LPs also represent the firm’s investment in the exchange relationship, in that they offer additional value in return for repeat purchases and loyalty (Morais et al., 2004). However, extant research into LP value remains rather ambiguous and divergent (Henderson et al., 2011; Xie and Chen, 2013). Most studies adopt a firm, rather than customer, perspective (Mimouni-Chaabane and Volle, 2010), examining how LP performance depends on the program

design (Kim et al., 2001; Roehm et al., 2002), reward structure (Van Osselaer et al., 2004), or program management (Bagchi and Li, 2010; Liu and Yang, 2009; Palmer et al., 2000). Relatively few studies examine LP value from the customers’ perspective, even though the seller and the buyer both must view an exchange as beneficial for the relationship to succeed (Berry, 1995). Moreover, many studies use a unidimensional lens, focusing on either a general value perception (Henderson et al., 2011; Leenheer et al., 2007; Yi and Jeon, 2003) or the monetary value of a reward (Henderson et al., 2011), such that they overlook other indicators of value. We argue that the value customers derive from membership in an LP must be viewed from a multidimensional perspective that includes both economic benefits and nonmonetary, psychological benefits for those customers.

Evidence in support of existing conceptualizations of customer-perceived program value also is limited (Henderson et al., 2011). Prior studies propose several value constructs but without validating them (Dowling and Uncles, 1997; O’Brien and Jones, 1995), and simplistic views persist, despite calls for more holistic analyses of LP value (Henderson et al., 2011). In conjunction with insights derived from the literature (see Table 1), we conducted several focus group interviews to explore the factors that comprised LP value. This process led us to posit that LP value consists of six constructs: reward attractiveness, knowledge benefit, experiential benefit, group belongingness, disclosure comfort, and required effort. We now examine the influence of these value constructs on customer loyalty.

### 2.2. Attitudinal and behavioral loyalty

The impact of LP membership on behavioral loyalty measures such as share of wallet (Wirtz et al., 2007), purchase frequency (Bolton et al., 2000), and cross-buying quantity (Hughes, 2003) is well established; less is known about the link between LP membership and attitudinal loyalty (Gomez et al., 2006; Kim et al., 2009). Scholars assert that measuring customers’ loyalty strictly on the basis of their purchase behavior is misleading (McKee, 2007), because behavioral loyalty may be driven by short-term incentives (Dick and Basu, 1994) rather than loyalty to the brand or firm. For example, customers might be dissatisfied with a store but shop there for convenience, which indicates behavioral but not necessarily attitudinal loyalty (McKee, 2007). Reichheld (2003) also notes that truly loyal customers exhibit repeat purchase behavior, supported by a strong internal disposition toward the brand, whereas customers who make repeat purchases without any emotional bond are susceptible to defection (Dick and Basu, 1994). Thus focusing solely on repeat or frequent shoppers creates the risk that the firm neglects truly loyal customers (McKee, 2007). When customers are both repeat buyers and have strong positive attitudes toward the firm, they should be less vulnerable to defection (Uncles et al., 2003). In turn, research must examine the simultaneous impact of LP value on both attitudinal and behavioral loyalty, which has been largely neglected in prior literature (Dorotic et al., 2012; McCall and Voorhees, 2010).

### 2.3. Attitudinal loyalty: program or brand (firm)

Attitudinal loyalty cultivated through LP membership might be directed toward the program or the brand (Dowling and Uncles, 1997; Taylor and Neslin, 2005). Program loyalty refers to a customer’s favorable attitude toward the LP, driven primarily by program incentives (Evanschitzky et al., 2012; Yi and Jeon, 2003). Brand or firm loyalty is a psychological commitment between the customer and the brand (Yi and Jeon, 2003). According to behavioral learning theory, program rewards provide positive reinforcement of customers’ purchase behavior, conditioning them to continue using the LP (Sheth and Parvatiyar, 1995). However, such conditionally loyal customers do not necessarily develop a favorable association with

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