Journal of Retailing and Consumer Services 25 (2015) 71–80

Contents lists available at ScienceDirect

Journal of Retailing and Consumer Services

journal homepage: www.elsevier.com/locate/jretconser

Reward me, charity, or both? The impact of fees and benefits in loyalty programs

C. Clifton Eason [a,*], Mark N. Bing [b], Jack Smothers [c]

[a] Marketing, Brock School of Business, Samford University, 800 Lakeshore Drive, Birmingham, AL 35229, USA
[b] Management, School of Business Administration, University of Mississippi, 236 Holman Hall, University, MS 38677, USA
[c] School of Business & Engineering, University of Southern Indiana, 8600 University Boulevard, Evansville, IN 47712, USA

ARTICLE INFO

Article history:
Received 8 May 2013
Received in revised form
2 January 2015
Accepted 6 April 2015
Available online 18 April 2015

Keywords:
Loyalty programs
Altruism
Purchase intent
Intent to increase purchasing

ABSTRACT

This research examines the effects of loyalty program annual fees (no fee vs. $10 fee in Study 1, and no fee vs. $10 vs. $25 fee in Study 2) and benefit structures (self benefit, altruistic benefit, and combination self/altruistic benefit in both Studies 1 and 2) on intentions to join a loyalty program (LP) and future spending if one is willing to join the LP. Using random assignment in a between-subjects research designs and general linear modeling analyses in two different studies, this research finds that an annual fee does decrease consumers' intentions to join an LP but may also increase the future spending intentions of customers who join a fee-based LP. Furthermore, a benefit structure that shares the reward with both the customer and a charity of his or her choice is found to be an appealing option. Thus, offering a fee-based LP that provides benefits to both the user and a charity could increase a retailer's profitability and competitiveness through additional revenues, differentiation, and image enhancement.

1. Introduction

Customer loyalty programs (LPs) have become a focal point in both popular media and scholarly research outlets due to their potential for increasing customer purchase intentions, customer loyalty, and subsequent firm performance (Clay, 2012; Pirsch et al., 2007; Ruf et al., 2001; Simpson and Kohers, 2002). However, while some studies have shown that LPs have a positive influence on company choice among customers (Bolton et al., 2000) and their purchasing volume (Taylor and Neslin, 2005), others have yielded mixed results or no evidence to support the value of LPs to organizational performance (e.g., Leenheer et al., 2007; Meyer-Waarden and Benavent, 2006). Furthermore, little is known about the characteristics that make LPs attractive or unattractive to customers (Kivetz, 2003).

While it is intuitive that customers value financial rewards such as discounts or cash back on purchases, research has shown that true customer loyalty is based upon the formation of a relationship with the organization (Nunes and Drèze, 2006). Thus, it is imperative that managers design LPs that resonate with consumers at an emotional and attitudinal level in order to induce more than just financially induced repeat patronage. Accordingly, the purpose of this study is to examine two characteristics of loyalty programs, specifically fees and benefit structures, to determine if there is a design which is most likely to attract LP members while also maximizing their future spending intentions.

In practice, LPs have been steadily increasing in popularity. Ferguson and Hlavinka (2007) report that there are over 1.3 billion individual loyalty program memberships in the U.S. – meaning the average American household has 12 loyalty program memberships. Yet, despite the widespread enrollment, managers are often unimpressed by the outcomes of their LPs. First, less than 40% of LP memberships are actively used (Ferguson and Hlavinka, 2007). Second, firms bear significant costs related to administering LPs, such as promoting their awareness, increasing customer enrollment, data storage and maintenance, along with the economic cost of the rewards themselves. When considering these expenses relative to any financial or other gains from the programs (e.g., increased customer loyalty), it is not surprising that many companies have discontinued their LPs altogether (Nunes and Drèze, 2006).

With this study, we contribute to the LP and customer relationship literature by examining a variation on traditional LP formats. As opposed to benefits that accrue solely to the customer, we evaluate consumer responses to "rewards" that benefit a third party – namely, a charity. Additionally, we introduce a new construct to the marketing literature: intent to increase purchasing (IIP). Whereas the traditional purchase intention construct assesses if someone is likely to maintain his or her relationship with a firm, our variant provides additional, meaningful information to

* Corresponding author.
E-mail address: ceason@samford.edu (C.C. Eason).

http://dx.doi.org/10.1016/j.jretconser.2015.04.001
0969-6989/

the manager. Specifically, IIP allows us to examine if the stimuli of interest may lead to customers actually *increasing* the amount they spend at the firm. The IIP measure is particularly valuable in the context of LP research where firms are not only interested in attracting and maintaining customers but also in generating more value from those customers by inducing greater spending among them (Ferguson and Hlavinka, 2007; Nunes and Drèze, 2006).

To accomplish these stated objectives, we first review extant research on loyalty programs, and provide an overview of relevant theories, specifically those of corporate social responsibility and social exchange theory. Based on our review of the literature and the theoretical framework, we formulate hypotheses regarding the impact fees have on customers' intentions to join an LP, as well as their future purchasing intentions. We then test, using general linear modeling (GLM) analyses, these hypotheses in two separate studies. Study 1 uses a 2 (no fee vs. $10 fee) × 3 (beneficiary structure of charity only, purchaser only, or their 50/50 combination) random assignment between-subjects research design, whereas Study 2 incorporates a 3 (no fee, $10 fee, $25 fee) × 3 (beneficiary structure of charity only, purchaser only, or their 50/50 combination) random assignment between-subjects research design. Next, we examine the results of our analyses and discuss the theoretical and managerial implications of the findings. We conclude with a discussion of the research's limitations and directions for future research.

2. Conceptual development

2.1. Loyalty programs (LPs)

The value of loyal customers has long been recognized by researchers and understood by practitioners. Zeithaml et al. (1996) indicate that firms with a loyal customer base are able to sell products at a premium relative to their competitors. Sirohi et al. (1998) found that revenues generated by loyal customers continue to grow the longer the customers remain loyal to the store. Thus, loyal customers will not only pay a premium price for products, they will continue to purchase more over time as long as the loyalty is maintained. Omar (1999) maintains that store loyalty is the single most important cornerstone in retail marketing success. Considering these perspectives on loyalty, it is not surprising that LP customer membership has proliferated in recent years as stores attempt to engender loyalty in their customers (Ferguson and Hlavinka, 2007).

The term "loyalty program" encompasses a variety of marketing tactics such as discounts, gifts, exclusive deals, faster service, and advance notice of sales. These types of customer-focused initiatives have received considerable attention in the marketing literature over the past 15 years, yielding a number of meaningful observations regarding the impact of LPs. For instance, LP members prefer (1) small, guaranteed rewards over larger, non-guaranteed rewards (Kivetz, 2003), and (2) a 3-tier program over a 2-tier program and the "top" tier can be expanded without impacting members' perceptions of that tier's prestige (Drèze and Nunes, 2009). Kivetz et al. (2006) found that customers accelerate purchasing as they near the earning of a reward, and Ryu and Feick (2007) found that rewards increase word-of-mouth product referral likelihood. The aforementioned studies make a strong case for some of the potential benefits of LPs and can help practitioners design programs that simultaneously address customer desires and the goals of the firm.

2.2. Fees and likelihood of joining

The decision to join an LP can be explained under the framework of social exchange theory (SET), which maintains that people engage in relationships subsequent to a subjective cost-benefit analysis (Blau, 1964). Generally speaking, when a consumer considers joining an LP, he/she weighs its perceived costs against the perceived benefits. Benefits, such as those provided by an LP, may come in a variety of forms, such as the discounts or faster service that were noted previously. Meanwhile, the costs of an LP are found in areas such as the enrollment process (e.g., time costs), account maintenance (e.g., monitoring the LP account balance), and expending effort to accumulate rewards (e.g., making purchases), along with privacy concerns (Noble and Phillips, 2004).

Furthermore, some LPs have a fee associated with membership, which may make LP costs even more salient in the minds of consumers. De Wulf et al. (2003) suggest that an LP with a fee would be less attractive to consumers than an LP without an annual fee, ceteris paribus. Without a fee, an LP could be perceived as "all benefit and no cost."[1] In other words, one would expect that an offer to receive purchase-based rewards at no *direct* cost to the consumer would be welcomed by many patrons who commonly make purchases at that particular retailer. Consistent with De Wulf et al. (2003), we posit that as costs of an LP increase relative to the expected benefits, consumers will become less likely to join an LP. Therefore, we hypothesize the following:

H_1. Ceteris paribus, consumers are less likely to join a loyalty program that has an annual fee in comparison to a loyalty program without an annual fee.

We do not present this hypothesis under the illusion that this is an undiscovered relationship or novel idea. Rather, we use the introduction of a fee so that we may measure *the extent* to which a fee influences participation in an LP. In other words, once we know the magnitude of a fee's negative impact on joining, we can use it as a baseline against which we can evaluate the extent to which benefit structure may moderate or offset this negative impact.

2.3. Fees and intent to increase purchasing (IIP)

Purchase intentions are often measured in marketing research to assess the value of a particular marketing strategy, such as sales promotions or loyalty programs (Bloemer and Odekerken-Schröder, 2007; Mittal and Kamakur, 2001; Wu et al., 2008). These intentions are typically measures of customers' expectations of a continuation of the relationship with a particular firm. While that is certainly a valuable metric, we believe it is also meaningful to determine if, when customers do expect to continue a relationship, they also intend to *increase* their spending with the firm in the future. This is particularly salient to our study, as we examine how LP fees and benefit structures influence customer intentions to increase spending. To date, this variant of the traditional purchase intention construct appears to have received little attention in the marketing literature.

An annual fee in an LP can be viewed as a sunk cost. Kwak and Park (2008) investigated sunk cost effects in consumer decisions and found that consumers who incur a prior cost in regard to an upcoming event are more likely to attend the event that those who do not incur a prior cost. Notably, they found that this sunk cost effect was consistently derived from anticipated regret from consumer inaction. Thus, returning to the logic of SET, if a person were a member of an LP with a fee, that person might seek to improve the balance of the relationship by obtaining benefits that, by comparison, make the cost seem smaller. In the context of a

[1] Indirect costs, such as the amount of time it takes to enroll in the LP, would still be present.