



The influence of customer loyalty program design on the relationship between customer motives and value perception



Henning Kreis*, Alexander Mafael¹

Freie Universität Berlin, School of Business and Economics, Marketing Department, Otto-von-Simson-Str. 19, D-14195 Berlin, Germany

ARTICLE INFO

Article history:

Received 26 June 2013

Received in revised form

28 March 2014

Accepted 12 April 2014

Available online 20 May 2014

Keywords:

Customer loyalty programs

Customer value

Customer motives

ABSTRACT

Despite the strong use in marketing practice, the effectiveness of loyalty programs is still heavily questioned among researchers. In our study we present an empirically tested framework that views customer loyalty programs (CLPs) with their differing designs as a moderating tool in a means-end relationship between customer motives and value. By disentangling customer value perceptions of loyalty programs we contribute to the remaining question of the efficacy of CLPs and set the road for further research. Our results support the argument that CLPs can be an effective tool and are not only something that adds to the value of a product or service, but rather creates value by itself. However, this is only the case for programs that target prevailing customer motives and hence provide a higher level of perceived value.

© 2014 Elsevier Ltd. All rights reserved.

1. Introduction

Consumer choice is a process that is determined through various factors. For this reason, researchers investigate how durable preference schemes emerge and why certain customers are loyal to one firm and others defect to other companies or switch between brands (Evanschitzky et al., 2011). As a result, companies are in constant search of tools that have the ability to build loyal customers. Customer loyalty programs (CLPs) have emerged as one of the most important and prevalent instruments for companies aiming for effective loyalty management. Based on the overall assumption that the membership in CLPs will encourage customers to stay with one brand, retail chain, or product, CLPs have been introduced in various industries (Rosenbaum et al., 2005).

The number of CLPs in business and consumer markets is growing steadily, along with the number of consumers joining these programs (Smith and Sparks, 2009). In the U.S., the average number of memberships per household is 18 (Hlavinka and Sullivan, 2011). Of these 18 memberships, however, on average only 8.4 were actively used. Hence, while CLPs are a popular tool for customer retention and companies invest large amounts of money to make their CLPs attractive to customers, not every member seems to value the programs offerings. A large body of research has pointed out how loyalty programs may only be successful in building loyalty if they actually contribute to

customer value perception and that in turn increases in value drive customer loyalty (Yi and Jeon, 2003). Recent research shows that accounting for CLP design is a viable approach to explain controversies concerning the usefulness of CLPs for value creation (Evanschitzky et al., 2011; Kumar and Shah, 2004). We argue that in order for a CLP to provide value it needs to match its design elements to members' individual motives. Therefore this research examines different CLP designs and their fit to customer motives for CLP participation. CLP design elements may include rules of entry, number of firms included in the program, and usually some kind of benefit for program members. For example, the long-term effects of a CLP that centers around price discrimination (e.g. multi-partner loyalty cards) differ from those of a community based program where customer events are the main focus of the CLP. Research shows that the fit of an individual's motives with a CLP can influence the evaluation of the CLP (Kivetz and Simonson, 2002) but it remains unclear how consumers' response to different CLP designs depends on their personal disposition and what perspective is best suited to understanding why some CLPs perform and others do not.

One way to approach this question is pointed out by Bolton et al. (2000), who suggest that customer motives for loyalty program participation and the perceived value of a specific CLP are linked to each other. Consumers' motives can act as a cognitive driver of subsequent behavior and have a strong influence on the way we attain our goals, hence increasing the perceived value of the decision to partake in a CLP (Wyer and Xu, 2012). Despite this knowledge, a drawback of empirical publications on CLPs so far is the focus on singular CLPs and, consequently, on singular design elements. We address this gap in two empirical studies that

* Corresponding author. Tel.: +49 30 838 54460; fax: +49 30 838 54557.

E-mail addresses: henning.kreis@fu-berlin.de (H. Kreis), alexander.mafael@fu-berlin.de (A. Mafael).

¹ Tel.: +49 30 838 52047; fax: +49 30 838 54557.

answer to two specific research questions: (1) How do customer motives for loyalty program participation and perceived value relate to each other (Study 1)? (2) Does a fit between CLP design and customer motives lead to higher perceived value (Study 2)? To the best of our knowledge, this study is the first to systematically study the impact of different CLP designs on perceived value. Our research enables practitioners to better understand their customers' motive structures as well as the value perceived from certain CLP designs.

The structure of this paper is as follows. We conduct a review of the literature on customer motives for CLP participation, perceived value and CLP design and develop our research framework. Two studies test our predictions and their results are discussed and evaluated. The hypotheses are tested on two different levels. On the first level, three hypotheses test the relationships between different motive categories and perceived value dimensions in a multiple group structural equation model (study 1). On the second level, we extend our findings by focusing on the interaction effect between motive strength and CLP design on perceived value (study 2). We conclude with a general discussion of our findings and line out limitations to our approach as well as implications for further research and for practitioners in the loyalty field.

2. Literature review

2.1. Customer motives and value perception

According to [Jacoby and Kyner's \(1973\)](#) seminal definition of the loyalty construct, loyalty is viewed as the outcome of a cognitive evaluation process. Thus if the objective is to understand how CLPs can support customer loyalty, one must start with an understanding of the prerequisites that drive customers' participation in CLPs ([Gwinner et al., 1998](#); [Gómez et al., 2012](#)). In this context CLPs can act as facilitators for the creation of value. While the motives for CLP participation represent consumers' needs related to loyalty programs, perceived value embodies the overall assessment of the utility of the CLP to satisfy those needs. While early work by [Katz \(1960\)](#) proposed several motive categories, successive research has come to the consensus that there are two main motive categories dominant in driving human behavior: *utilitarian motives* and *symbolic motives* ([Dorotic et al., 2012](#)). Utilitarian motives are primarily instrumental or functional and best addressed by clear, tangible benefits. In the CLP context, means targeting utilitarian motives can be monetary advantages ([Bolton et al., 2004](#); [Peterson, 1995](#)). In more detail, utilitarian motives in the CLP context consist of customers' motive to *save money*, e.g. through rebate systems and price discrimination ([Prelec and Loewenstein, 1998](#)) or customers' motive to *attain rewards*, e.g. through the redemption of accumulated reward points ([Wirtz et al., 2007](#)). Such motives are primarily centered on financial advantages and are an influential driver of loyalty program participation ([Mägi, 2003](#)). Symbolic motives, on the other hand, are related to needs for self-esteem and social approval and more related to intangible benefits ([Mimouni-Chaabane and Volle, 2010](#)). In more detail, symbolic motives in the CLP context focus on elements of CLPs that provide the customer with a possibility to enhance social self-concept ([Sweeney and Soutar, 2001](#)). On the one hand, these needs are covered by the motive *affiliation*, which centers on those elements of a CLP facilitating the experience of a relationship with the company, as well as to other consumers of the same product ([Gwinner et al., 1998](#); [Muniz and O'Guinn, 2001](#)). On the other hand, the longing for recognition by the company, especially in comparison to other customers, expresses itself in the desire for *superiority* ([Beatty et al., 1996](#)).

While it is important to consider customers' motives to participate in a CLP, it is also necessary to connect these motives to actual value perception that results from fulfilling these motives. A CLP can act as an influential tool during the evaluative value-estimation process of a decision and in order to be an effective instrument for loyalty development, a CLP should be perceived as valuable by customers ([O'Brien and Jones, 1995](#)). They emphasize that the variety of existing CLP designs lead to a blurred perspective on perceived value. To ensure a more detailed understanding of perceived value from CLPs it is important to consider how motives and perceived value are connected. To achieve this distinctive approach, it is necessary to understand customer value not only as an overall assessment of utility ([Woodruff, 1997](#)), but as a multidimensional, heterogenic concept that is influenced by customer motives ([Polo and Sesé, 2009](#)). Following this logic, we distinguish between three dimensions of value – economic, psychological and interaction value.

Economic value relates primarily to utilitarian, instrumental benefits. This dimension has been termed most influential on perceived value in the loyalty context ([Mägi, 2003](#); [Peterson, 1995](#)). Benefits stem mainly from financial advantages, such as price reductions, reward point schemes and special offerings to CLP members. Clearly, economic value is connected to utilitarian motives, e.g. *saving money* and *attaining rewards*. *Interaction value* and *Psychological value* deal with “[...] the utility a customer derives from a product's ability to enhance social self-concept” ([Sweeney and Soutar, 2001:211](#)), and therefore can be connected to symbolic motives. Interaction value derives from a product or service used or shared with others ([Sheth et al., 1991](#)), including a social component that makes the consumption of a product or service even more valued. As a strong driver of human behavior, interaction value is especially determined through the motive *affiliation*. Some customers feel that they want to belong to a community of like-minded customers or have a closer relationship to the company because they feel the urge to belong ([Barnes, 1994](#); [Baumeister and Leary, 1995](#)).

Whereas interaction value puts a strong emphasis on the degree of interplay with either other customers or the company itself, psychological value does not require this social component. Therefore, the motive *superiority* has an important influence on the perception of psychological value. As for *superiority*, some customers get excitement and content from the knowledge that they are treated better than other customers. These customers feel appreciated because of the better treatment they get from the company and derive value from this experience ([Crosby, 1991](#); [Gwinner et al., 1998](#); [Drèze and Nunes, 2009](#)).

2.2. Customer loyalty program design

Empirical studies on CLPs focus on various definitions and types of CLPs. There has been an effort to develop systematic typologies for CLPs that allow for a classification of different prototypical programs in the market. [Dowling and Uncles \(1997\)](#) classify different types of CLPs according to the type of reward given and the timing of the reward. Other typologies are based on the consideration that the main objective of a CLP should be to provide the customer with a benefit to maintain the relationship with the company. Practitioners ([Gaughan and Ferguson, 2005](#)) distinguish the benefits of CLPs into two broad classes: hard benefits (such as monetary rewards) and soft benefits (such as recognition or belonging). Similarly, [Furinto et al. \(2009\)](#) distinguish CLPs according to their reward structure. CLPs with monetary-based rewards provide members of the CLP with direct economic advantages as opposed to non-members. Such rewards can be in the form of price discrimination ([Zhang et al., 2000](#)) or bonus points used as currency ([Dreze and Nunes, 2009](#)). Programs

Download English Version:

<https://daneshyari.com/en/article/1029043>

Download Persian Version:

<https://daneshyari.com/article/1029043>

[Daneshyari.com](https://daneshyari.com)