



# Consumer learning as a determinant of a multi-partner loyalty program's effectiveness: A behaviorist and long-term perspective<sup>☆</sup>

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## ABSTRACT

In this article, we argue that a loyalty program's effectiveness depends on how the consumer learns to use its rules. The proposed theoretical framework was tested on the behavioral trajectories of 1380 individuals observed over a four-year period. The tendency of customers to spend more over four years became increasingly pronounced as they learned how to accumulate loyalty points and asked for these to be redeemed. This finding suggests that a loyalty program's effectiveness does not depend on the program alone. To obtain the loyalty behaviors, firms should take specific measures to help their customers familiarize themselves with the program's rules.

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## 1. Loyalty programs: learning versus automatic reflexes

A key question facing firms is knowing whether their loyalty programs do in fact produce the intended results. Despite the efforts of researchers to provide an answer to this question, the results obtained are still very mixed. Thus the pioneering study by Sharp and Sharp (1997) reveals a low impact of loyalty programs on buying behavior. Moreover Mauri (2003) and Allaway et al. (2006) show that a high proportion of a loyalty program's members do not remain loyal to it. Other studies, however, draw more positive conclusions. Some loyalty programs enhance customer retention (Verhoef, 2003), increase their share of wallet (Verhoef, 2003; Meyer-Waarden, 2007) and prolong the duration of the relationship (Meyer-Waarden, 2007).

Such divergent findings have reinforced researchers' skepticism and given rise to a succession of questions: "Do rewards really create loyalty?" (O'Brien and Jones, 1995), "Do customer loyalty programs really work?" (Dowling and Uncles, 1997), "Do reward programs build loyalty for services?" (Keh and Lee, 2006), "Do loyalty programs really enhance behavioral loyalty?" (Leenheer et al., 2007), "Brand loyalty programs: Are they shams?" (Shugan, 2005). Such questions seem to attribute the effectiveness of programs to the programs themselves and ignore the nevertheless determining roles of the customers using them.

In this paper we shall look at the specific case of multi-partner loyalty programs. The question of the effectiveness of loyalty programs has often been raised in relation to proprietary loyalty programs that involve only one retailer. Consumer loyalty to the program then implies loyalty to the retailer. The effectiveness of multi-partner programs, in which the same program is applied by several partner retailers, has been less often considered (Lara and Madariaga, 2007). In this second case, the consumer's loyalty to the program does not necessarily entail loyalty toward each of the partner retailers. Indeed the consumer distributes his expenditure and points redemption among the different partners. Although these programs have become much more widespread (e.g., <http://www.interraproject.org/about-us/communities/>), they are only advantageous to a retailer if the accumulation of rewards in terms of the whole program has a positive effect on the purchases made and rewards obtained by the consumer at that particular retailer. It is important to understand the processes linking these two learning levels.

In this study we make three contributions that distinguish it from those of our predecessors:

- (i) The first contribution is to change how we think about a program's effectiveness. We propose approaching the effectiveness of loyalty programs not only on the basis of their "a priori" effects and their "a posteriori" results, but according to the way in which each participant learns how to use them.
- (ii) The second contribution is a behaviorist conceptual and theoretical framework that takes account of the interactions between the user and the program. Operant learning, which makes behavior dependent on its consequences, is currently used to explain how reward programs work (Foxall, 1997; Taylor and Neslin, 2005; Liu, 2007). However, the authors continue to view

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perceptual and cognitive processes as the main factors influencing the programs' effectiveness (Taylor and Neslin, 2005; Keh and Lee, 2006; Wirtz et al., 2007). We propose re-adopting the behaviorist theory of operant learning, while linking a program's effectiveness to the manifest behaviors of its users (Skinner, 1965). By "behaviors", we understand all behaviors that the program gives rise to in users: not only buying behavior, but also loyalty point accumulation and redemption behaviors, which structure their learning about the program.

- (iii) The third contribution concerns the methodology used for modeling the learning process. The need to take account of the long term for measuring the effects of loyalty programs is frequently mentioned in the literature (Kopalle and Neslin, 2003; Taylor and Neslin, 2005; Liu, 2007). The latent growth curve models that we use place the emphasis on people's behavioral trajectories over a number of years, rather than their immediate responses on a specific occasion.

The paper is organized as follows. In the second part, we show that the evolving literature leads us to rethink the effectiveness of loyalty programs both as a result and as all the psychological processes that give rise to it. In the third part, we look at the diversity of reward schemes and the psychological theories able to explain them. In the fourth part, we offer a behaviorist and dynamic theoretical framework capable of understanding the learning processes involved in a loyalty program bringing together several partner retailers. In the fifth part we empirically test the hypotheses underpinning this model. Finally, we conclude with a discussion of possible future research and the managerial lessons to be drawn from this study.

## 2. The effectiveness of loyalty programs as result and process

Measuring the performance of loyalty programs involves making two choices. The first concerns the concept to be adopted for assessing performance. The second is a question of how to envisage this concept. Assessing loyalty programs is simply one specific instance in the measurement of marketing activities. By "activities", researchers mean the tactics of operational marketing rather than the underlying strategies (Rust et al., 2004; O'Sullivan and Abela, 2007). Because loyalty programs are levers of operational marketing, measuring their performance becomes a key issue. But this is not a straightforward task, since three dimensions of the performance of a marketing action are currently offered in the literature.

A first dimension of performance is adaptability. This expresses the degree of fit of the action to the marketing environment. The second dimension is efficiency. This measures the relation between the results of an action and the means used to implement it (Clark, 2000; Morgan et al., 2002). Lastly, the third dimension is effectiveness, which expresses the match between the results obtained and the results expected from the marketing action (Clark, 2000; Morgan et al., 2002). Effectiveness, however, seems to be the generally preferred aspect of performance. It represents the most significant dimension for managers when they assess the performance of their marketing programs (Clark, 2000). But researchers also use it to measure the performance of loyalty programs (Sharp and Sharp, 1997; Wirtz et al., 2007; Liu, 2007; Leenheer et al., 2007).

Although effectiveness has become a generally agreed criterion for measuring the performance of loyalty programs, there are at least two other ways of viewing this. In the one, effectiveness is measured at the end of the marketing operation (Clark, 2000). A loyalty program is then effective if it produces the expected results. In the other, effectiveness is measured as the marketing operation takes place. It is assimilated to a process that aims to optimize the results of the operation (Kahn and Myers, 2005). From this

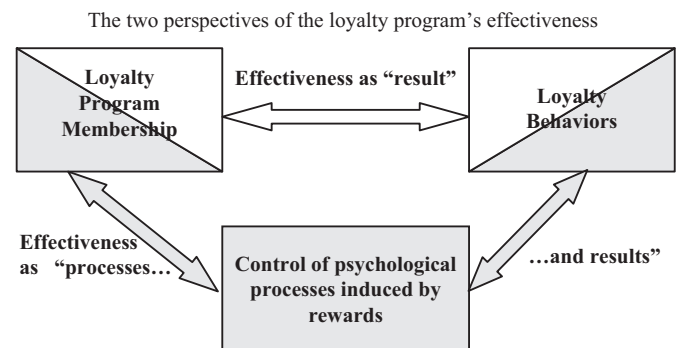


Fig. 1. The two perspectives of the loyalty program's effectiveness.

standpoint a loyalty program is effective if the monitoring and control of its functioning enables the best results to be obtained (Fig. 1).

Within the perspective of effectiveness seen as a "result", researchers leave aside the way in which the loyalty program operates and simply make sure that the targeted objectives are attained. Their methods are based on three types of comparison (Liu, 2007): comparison of the results of firms or brands using a loyalty program and the results of those that do not use them (Sharp and Sharp, 1997; M gi, 2003; Leenheer et al., 2007); comparison of the buying behavior of customers belonging to loyalty programs and the behavior of those who do not (Bolton et al., 2000; Verhoef, 2003); and comparisons between the behavior of people belonging to a loyalty program, from one period to the next (Lal and Bell, 2003; Taylor and Neslin, 2005). These comparisons are intended to show whether or not a loyalty program has an effect on users' buying behavior. They provide no explanation as to the causes of any differences that may be noticed.

In the conception of effectiveness viewed as a process and a result, researchers focus their attention on the functioning of the loyalty program. They are interested in the psychological processes liable to influence users' behavior. Thus Taylor and Neslin (2005) point to the psychological pressure of loyalty points on the user. Keh and Lee (2006) examine the link between rewards and the user's buying behavior. Wirtz et al. (2007) look at the effect on the user's buying behavior of the program's attractiveness and switching costs to another program. Nevertheless, while these studies situate effectiveness within the program's functioning, it is still the program that, through its intrinsic properties, is the main source of effectiveness. It seems to us to be important to change this view of things, by showing that a program's effectiveness also has extrinsic causes. It depends on what the user does with it.

## 3. Which psychological theory best accounts for reward schemes?

Researchers locate the main sources of the effectiveness of loyalty programs in the reward schemes accompanying them. But two aspects of the question are of particular interest: on the one hand, how customer loyalty is rewarded, and on the other, what kind of responses elicit such rewards. These two aspects are closely linked, since customer responses vary according to the type of reward (Dowling and Uncles, 1997).

### 3.1. The varied effects of reward schemes

A loyalty program is defined as an integrated system of marketing operations with the aim of making customers subscribing to it more loyal (Leenheer et al., 2007). Such operations involve offering rewards to customers according to the frequency and volume of

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