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Antecedents to loyalty point redemption: Implications for customer equity management☆

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ABSTRACT

This study examines the determinants of member customers' decision to redeem versus accumulate loyalty program (LP) points by focusing on the effects of the different transaction channels (online versus offline) and the demographic information of member customers. This study finds that transactions that occur through online channels and those made by younger customers demonstrate a greater tendency of redeeming LP points as opposed to accumulating them. This study also finds that online channels show a moderating role by mitigating the demographic effects on member customers' point redemption behavior. These findings allow LP providers to predict future LP point balances by analyzing their main transaction channels and the demographic profiles of member customers.

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1. Introduction

Customer equity is critical to a firm's long-term success as customer equity is certain to be the most important antecedent of the long-term value of the firm (Kim, Park, Kim, Aiello, & Donvito, 2012). Firms try to optimize customer equity by retaining existing customers or attracting new customers (Kim, Ko, Lee, Mattila, & Kim, 2014; Sun, Kim, & Kim, 2014). One of most effective tools for customer equity management is a loyalty program (LP), which is a long-term marketing tool that rewards customers' repetitive purchases to enhance their loyalty and boost firms' profitability (Zhanga, Ko, & Kim, 2010). Under LPs, member customers are entitled to either discounts on current purchases through the redemption of LP points or the allotment of LP points for future purchases through the accumulation of LP points.

Running independent LPs entails high fixed costs. Hence, many practitioners shift their focus to partnership loyalty programs (PLPs), which function as a platform through which member companies share. Unlike the members of independent LPs, the member customers of PLPs can redeem or accumulate PLP points at all member stores. Representative examples of PLPs include Air Miles in Canada, T-Point in Japan, Payback in Germany, Nectar in the United Kingdom, and OK Cashbag in Korea (O'Brien & Jones, 1995).

Redemption versus accumulation is the central decision that LP/PLP member customers make, and understanding the point redemption behavior of member customers is critical for the success of LPs/PLPs because the redemption of LP/PLP points implies two contrasting effects on LP/PLP providers. On one hand, the redemption of LP/PLP points suggests that member customers are utilizing the benefits of their membership. Such cases could result in the long-term success of LPs/PLPs through enhanced customer loyalty. On the other hand, most LP/PLP providers recognize membership point balances as a liability and retain a certain portion of such balances as an allowance for debts. In this respect, substantial and unpredictable redemptions made by member customers can increase the costs for LP/PLP providers. Thus, maintaining a desirable membership point balance by predicting the redemption and accumulation patterns of member customers is a key to the success of LPs and PLPs.

Although understanding the mechanism underlying member customers' decision to redeem versus accumulate LP/PLP points is essential for the success of LP/PLP providers, this issue has received scant attention in prior literature. For instance, the existing literature on LP mostly focuses on the impact of LP on (1) customer loyalty, such as behavioral loyalty (Meyer-Waarden, 2007; Noble, Esmark, & Noble, 2014) and attitudinal loyalty (Gomez, Arranz, & Cillan, 2006; Meyer-Waarden & Benavent, 2006); and on (2) the financial performance of firms (Lee, Capella, Taylor, Luo, & Gabler, 2014; Taylor & Neslin, 2005).

Although not directly examining LP/PLP point redemption decisions, the previous literature on coupon redemption behavior is relevant to member customers' decision to redeem versus accumulate LP/PLP points in the sense that both coupons and LP/PLP points are used as a way to promote sales. These studies investigate the determinants

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of consumers' coupon redemption behavior with a focus on the demographic (Chiou-Wei & Inman, 2008; Kwon & Kwon, 2007; Levedahl, 1988), socioeconomic (Demoulin & Zidda, 2009), and psychological (Bawa & Shoemaker, 1987; Lichtenstein, Netemeyer, & Burton, 1990) drivers of coupon redemption. In particular, demographic characteristics have been investigated mainly for profiling purposes in this line of literature.

This study fills the gap in the literature by investigating the determinants of the point redemption behavior of LP/PLP member customers by focusing on the type of transaction channel (i.e., online versus offline) and demographic variables (e.g., age, gender, and income). This study is based on customer-level demographic and transaction data on the OK Cashbag (hereafter referred to as OCB) program, a major PLP in Korea. OCB member customers (hereafter referred to as member customers) are entitled to receive points that are determined as a fixed portion of their purchase amounts from an OCB affiliate member stores (hereafter referred to as member stores). A member customer who purchases at a member store can simply accumulate or redeem points. An interesting characteristic of the OCB program is that both online and offline stores are members of this program, thus enabling us to compare member customers' point redemption behavior between online and offline transaction channels. By contrast, previous studies on coupon redemption behavior focus on coupon redemption made either in an online (Chiou-Wei & Inman, 2008) or an offline setting (Kwon & Kwon, 2007). This study also examines how the type of transaction channel and demographic variables both independently and jointly determine the accumulation versus redemption decision of member customers.

Using both binary logit and group logit models, this study finds that member customers are more likely to redeem LP points through online channels than through offline channels. This study also finds that younger member customers demonstrate a greater tendency to redeem points rather than accumulate them. Finally, this study finds that the online channel mitigates the effect of the demographic information of member customers.

These findings carry managerial implications in three major aspects. First, LP providers can strategically choose their main channel on the basis of the finding that member customers are more likely to redeem LP points through online channels than through offline channels. Second, member customers have different propensities to redeem LP points depending on their demographic characteristics; hence, LP providers should take differentiated approaches to improve the effectiveness of their respective programs for different demographic groups. Finally, findings on the interaction effect in this study suggest that LP providers can proactively control the impact of the demographic characteristics of their member customers by changing the main transaction channel of their LPs.

2. Theoretical foundations and hypotheses

This section builds hypotheses on how the type of transaction channel and demographic variables shape the accumulation versus redemption decision of member customers. Given the limited prior literature on the determinants of the decision to spend LP points, this research draws mainly upon previous studies on the drivers of coupon redemption and deal proneness in constructing the hypotheses. This analogy is used based on the similarity between coupons and LP points in that they are both used as a way to promote sales.

2.1. Online versus offline channels

As member customer can redeem OCB points in both offline and online channels, the OCB program provides a unique empirical context in which one can compare the propensities to redeem points under different transaction channels. Relationships are tightened between retailers and consumers in both online and offline retail environments (Chae, Ko, & Han, 2015; Ortinau, Babin, & Chebat, 2013). This study focuses on the

ease of redemption and the accessibility of information in building the hypothesis on the effect of channel type on the propensity to redeem LP points.

Since coupons and LP points are similar ways of promoting sales, relevant insights and implications about LP point redemption behavior can be obtained from the customer behavior associated with coupon redemption and deal proneness. Previous studies on sales promotions that use coupons indicate that the increased inconveniences of visiting offline stores, as reflected in travel distance, lower coupon utilization (Chiou-Wei, 2004; Chiou-Wei & Inman, 2008; Demoulin & Zidda, 2009). This finding implies that an online setting of LP would provide a more direct and convenient setting for consumers to redeem points compared with an offline setting. In addition, Kwong, Soman, and Ho (2011) report that consumers are more likely to redeem than accumulate LP points when they can easily access information on the benefits they can enjoy through redemption. An online channel facilitates an effective infrastructure and user-friendly interface for enhancing customer expertise in efficient shopping by providing various functions and information in real time (Chiou-Wei & Inman, 2008; Strähle, 2013). Promotion redemption in an offline channel is lower than that in an online channel (Zhang & Wedel, 2009). Therefore, LP member customers are more likely to redeem points in an online setting than in an offline setting, given that redeeming and recognizing the benefits of redemption are easier in the former than in the latter. Hypothesis 1: The propensity to redeem points is higher in online transactions than in offline transactions.

2.2. Income

This study considers how the income level of LP member customers shapes their propensity to redeem LP points. Numerous studies on promotions report a positive relationship between coupon proneness and the income of customers (Bawa & Shoemaker, 1987; Kwon & Kwon, 2007; Levedahl, 1988). Regarding this positive relationship, a stream of literature explains that shoppers with high income tend to purchase expensive products that offer extensive deal opportunities and are thus likely to take advantage of such opportunities (Levedahl, 1988). An alternative explanation is that high-income consumers are highly efficient shoppers who possess broad knowledge and great ability to collect, process, and organize market information (Kwon & Kwon, 2007; Levedahl, 1988). In the retail environment, the goal of shopping is not only to acquire the right products but also to find the right products with better deals. Therefore, wealthy customers equipped with high levels of such knowledge are able to plan and utilize deal opportunities. Hypothesis 2: The propensity to redeem points is higher for high-income member customers than for low-income member customers.

2.3. Age

Age has a significant influence on consumer behavior, with older consumers displaying preferences that are different from those of younger consumers (Fay, 1993). Therefore, this study also hypothesizes the relationship between the age of LP member customers and the propensity to redeem. Conventional wisdom suggests that young people are readily exposed to new technologies and trends through their early adopter peers. They are thus able to become more comfortable with new products or promotions. Venkatesh and Agarwal (2006) find that the ease of use is more important to older consumers than to younger ones. The previous literature examines the relationship between age and the acceptance of a new promotional channel or method (Chiou-Wei & Inman, 2008; Demoulin & Zidda, 2009). Demoulin and Zidda (2009) argue that customers' perceived complexity of a new loyalty card negatively influences their likelihood to adopt the new loyalty card. The OCB program is a PLP, which is a relatively new type of LP. Its members could perceive PLP to be rather complicated because of its extensive alliance network. Therefore, for members to fully utilize this

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