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Leveraging loyalty programs to build customer–company identification☆

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ABSTRACT

This study proposes that loyalty programs lead to customer–company identification (CCID) formation. The empirical results show that non-financial benefits from loyalty programs can promote CCID by inducing customers' feelings of status and belonging in a company-initiated community. Relationship marketers interested in building customer identification with loyalty programs therefore should design proper non-financial investment portfolios to strengthen and confirm customers' feelings of status and belongingness.

1. Introduction

Companies employ loyalty programs to reward and encourage repeat patronage (Henderson, Beck, & Palmatier, 2011; Leenheer, van Heerde, Bijmolt, & Smidts, 2007). The rewards or benefits of a loyalty program can be either financial/economic (Mimouni-Chaabane & Volle, 2010) or non-financial/social (Gwinner, Gremler, & Bitner, 1998). The ultimate goal of such programs is to increase consumer spending in their particular store (Leenheer et al., 2007; Mägi, 2003) and to capture a greater share of customer wallet (Evanschitzky et al., 2012).

The effectiveness of loyalty programs, however, is inconclusive and research debates their worth (see Shugan, 2005). Henderson et al. (2011) suggest that a firm focus on the financial rewards of loyalty programs is one reason these programs fail to maintain customers long term, and that future research should focus on non-financial benefits (e.g., status, habits, and relationships). Research identifies customer–company identification (CCID) as an effective sociological mechanism through which loyalty programs can build and maintain relationship-based customer loyalty (Leenheer et al., 2007). This mechanism provides a natural overlap of the gaps in CCID research and the need for more focused research on the benefits of loyalty programs. In the context of loyalty programs, non-financial benefits provide customers with a basis for developing a deeper relationship and identity with the company, specifically, CCID.

CCID represents "the primary psychological substrate for the kind of deep, committed, and meaningful relationships that marketers are increasingly seeking to build with their customers" (Bhattacharya & Sen, 2003, p. 76). CCID leads to favorable outcomes such as loyalty, share of wallet, positive word of mouth, and willingness to pay (Ahearne, Bhattacharya, & Gruen, 2005; Homburg, Wieseke, & Hoyer, 2009; Netemeyer, Heilman, & Maxham, 2012). Customer identification solidifies the linkages of customers and their identities to the focal company's image, brands, employees, and even the in-group of other customers. CCID is therefore an important facet of the customer–company relationship which keeps customers connected to a company, and is a key indicator of relationship equity (Rust, Zeithaml, & Lemon, 2000).

The body of literature examining the drivers of CCID has limited application in loyalty program research. A review of the literature on CCID, summarized in Appendix 1, finds that the antecedents to CCID are located at the customer, company, and product levels. This review identifies three gaps. First, scant research examines the antecedents of CCID. The foundational work on company identification (e.g. Bergami & Bagozzi, 2000; Bhattacharya, Rao, & Glynn, 1995; Bhattacharya & Sen, 2003) focuses on the attributes of the focal organization for identification but does not explore the perceived benefits customers receive from identifying with the organization or its programs as drivers of CCID. Second, few studies investigate marketing practices (other than CSR) and their effects on CCID. Finally, the marketing programs that consumers directly participate in have more direct benefit to CCID than an overall evaluation of the firm. To that end, the literature is limited with regard to the social benefits consumers receive from a particular and regular interaction with the firm.

To address these gaps in loyalty program and CCID research, this study tests a theoretical model focusing on the development of CCID

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within the context of a consumer loyalty program. Grounded in social identity theory (Tajfel & Turner, 1986), a relationship equity framework (Rust et al., 2000) and the literature on loyalty programs (e.g., Henderson et al., 2011), this research examines how non-financial rewards in loyalty programs contribute to CCID. The findings make several contributions to the literature. First, the authors demonstrate that specific marketing programs can influence CCID. In particular, loyalty programs that offer non-financial benefits, such as (1) personal recognition, (2) preferential treatment, and (3) exploration experiences, prove effective at strengthening customer identification. Second, this research demonstrates that feelings of status and belonging mediate the relationship between loyalty program benefits and CCID. This finding not only reveals the working paths of loyalty programs towards CCID formation, and confirms the efficacy of loyalty programs as an important driver of relationship equity. Third, the findings provide evidence of the efficacy of non-financial loyalty program benefits. Substantively, this finding sheds light on how managers can maximize the impact of loyalty programs — that is, by highlighting the social benefits of participation.

2. Theoretical background

2.1. Social identify theory

Social identity theory focuses on how individuals perceive themselves in reference to their standing in social groups, as well as the status of those groups in comparison with other social groups (Tajfel & Turner, 1979). Tajfel (1972, p. 292) formally defines social identity as "the individual's knowledge that he belongs to certain social groups together with some emotional and value significance to him of this group membership." Social groups help individuals define who they are and, through membership, confirm their identity to themselves and others.

Central to social identity theory is the belief that individuals seek "distinctiveness" for both themselves and their groups (Turner, 1975) and are motivated to attain a positive self-concept as "individuals strive to achieve or to maintain positive social identity" (Tajfel & Turner, 1979, p. 16). Ashforth and Mael (1989) propose that social identity theory is relevant in the study of relationships between individuals and organizations. Membership in a loyalty program creates an in-group environment that induces distinctiveness and favoritism based on the connection, treatment, and benefits embodied in a loyalty program.

2.2. CCID

The concept of CCID is grounded in social identity theory. The extension into organizational contexts emerges as individuals develop organizational identification through a sense of connectedness with an organization, such that they begin to define themselves in terms of the focal organization (Mael & Ashforth, 1992). Just as formal organizational members (e.g., employees) identify with employers, customers do so in the form of CCID (Bhattacharya & Sen, 2003; Bhattacharya et al., 1995).

The link between the customer and the company is a stronger, more enduring customer–company bond than organizational commitment (Bhattacharya & Sen, 2003). To produce a psycho-social bond, the customer must find the company identity attractive and the development of identification helps him or her satisfy basic self-definitional needs, including a desire for self-enhancement achieved by expressing a positive self-concept to the outside world (Tajfel & Turner, 1986). A customer identifies with a company if doing so increases feelings of self-worth through enhanced connections and social standing.

Achieving identification also demands effective communication of the company's identity. Bhattacharya and Sen (2003) propose leveraging product offerings, corporate social initiatives, channel partners, and employees to communicate company identity. Subsequent empirical research for example, affirms that salesperson attributes help convey a company's identity (Netemeyer et al., 2012).

2.3. Loyalty programs

Customer loyalty programs constitute integrated systems of marketing actions that reward loyal customer behaviors with incentives and benefits, financial or non-financial (Sharp & Sharp, 1997). These benefits work together to influence customers' buying habits, enhance perceptions of social status, and improve relationships with the company (Henderson et al., 2011). Financial benefits (Mimouni-Chaabane & Volle, 2010) are necessary in many cases to attract customers to join the program. Yet financial benefits alone create the risk of retaining unprofitable customers and losing customer loyalty if competitors offer *better* financial benefits (Evanschitzky et al., 2012). Therefore, loyalty programs also offer non-financial benefits, such as fraternization, friendships, and personal recognition (Gwinner et al., 1998). The sociological nature of these non-financial benefits may drive customer–company bonds when the programs communicate positive, attractive company identities (Bhattacharya & Sen, 2003). Loyalty programs that offer varying benefits across customer groups may also help customers self-categorize and facilitate identification (McMillan & Chavis, 1986).

Considering these characteristics, this study focuses on non-financial loyalty program benefits that can help extend customer relationships beyond immediate transactions (Kivetz & Simonson, 2002; Nunes & Drèze, 2006). Because non-financial benefits offer opportunities for social interactions with other customers, economic-based customer relationships can transition into more socially based, reciprocal relationships (Palmatier, Dant, Grewal, & Evans, 2006). The delivery of non-financial benefits also facilitates unique, innovative interactions with customers, which can enhance CCID (Cardador & Pratt, 2006).

2.4. Relationship equity and loyalty programs

Relationship equity refers to the tendency of a customer to stick with a brand or a company over and above perceived value and brand effects (Rust et al., 2000). Along with value equity and brand equity, relationship equity is a key driver of customer loyalty intentions and switching costs (Rust, Lemon, & Zeithaml, 2004; Vogel, Evanschitzky, & Ramaseshan, 2008). In the practice of relationship marketing, customer–company connections are evolving from a transaction based relationship to a more socially based relationship (Palmatier, Dant, et al., 2006). CCID, a deeper relationship between the customer and the company, represents a new path to build and maintain relationship equity (Bhattacharya & Sen, 2003). Recent studies confirm that CCID plays a central role in relationship equity management (e.g. Bagozzi, Bergami, Marzocchi, & Morandin, 2012; Homburg et al., 2009).

Loyalty programs are important marketing tools in relationship equity (Rust et al., 2000). For example, a loyalty program may be an effective lever of relationship equity if it delivers additional value from membership, special recognition, emotional connections, a sense of community, and knowledge learning (Rust et al., 2004). More specific examples of these values include personal recognition by employees, meetings among customers, and familiarity with the company's employees (Vogel et al., 2008). These insights reveal that a company can leverage its loyalty program to build and manage CCID through a deliberately designed portfolio of program benefits.

2.5. Conceptual model

This study utilizes the framework of relationship equity to explore the formation of CCID in the context of customer loyalty programs. The conceptual model presented in Fig. 1 focuses on the three non-financial benefits identified by Rust et al. (2000) as useful in building relationship equity: (1) personal recognition, (2) preferential treatment, and (3) exploration experience. First, personal recognition benefits accrue when customers meet new people or are recognized by others through the use of a loyalty program (Gwinner et al., 1998). Personal recognition reflects the benefits of a special recognition program and

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