Journal of Business Research xxx (2015) xxx–xxx

Contents lists available at ScienceDirect

Journal of Business Research

The effect of loyalty program fees on program perceptions and engagement☆

Christy Ashley [a], Erin A. Gillespie [b], Stephanie M. Noble [c,*]

[a] The University of Rhode Island, 7 Lippitt Road, Kingston, RI 02881, United States
[b] Elon University, Martha & Spencer Love School of Business, Elon, NC 27244, United States
[c] The University of Tennessee, Haslam College of Business, Knoxville TN 37996-0530, United States

ARTICLE INFO

Article history:
Received 30 January 2014
Received in revised form 1 September 2015
Accepted 2 September 2015
Available online xxxx

Keywords:
Loyalty programs
Fee-based loyalty programs
Denominations of accrual
Numerosity
Expectancy-value,
Loyalty program structure

ABSTRACT

Retailers may introduce loyalty program enrollment fees for several reasons, including to offset the costs of the program. The principle of commitment-consistency and sunk cost effects, which suggest consumers who pay a fee-paying consumers have a higher value to the firm and exhibit behavioral loyalty, while the zero-price effect predicts the opposite. Three studies show: consumers who pay to participate in a loyalty program have more favorable attitudes, more positive evaluations of value for the money and benefits than non-paying members (Study 1); and altering the wording of denominations of accrual can affect willingness to join fee-based programs (Studies 2 and 3). The results suggest a boundary effect to the numerosity heuristic. Presenting reward credit accumulations in higher numbers may be advantageous when program fees are high, since it shifts the focus of processing from the fee to the rewards. However, standard units may be more favorable when program fees are low.

1. Introduction

According to BusinessWeek, 90% of Americans participate in at least one loyalty program (McKee, 2007) which offers benefits in exchange for repeat patronage to an organization (Rust, Zeithaml, & Lemon, 2000). Consumer participation in loyalty programs also benefits firms, since a loyalty program can "accelerate the loyalty life cycle, encouraging a 1st- or 2nd-year customer to behave like the company's most profitable 10th-year customer" (Yi & Jeon, 2003, p. 230). Firms gain data that helps them customize offerings and optimizes their strategies.

Firms are interested in maximizing the return associated with loyalty programs. In an effort to cover some program costs, some service providers have moved from free to fee-based loyalty programs (Gaffney, 2008). Examples include AMC Theatres Stubs Program, REI Membership, Ruth's Chris FOS Diner Rewards, AirAsia BIG Loyalty Program, Amazon.com, and Barnes & Noble.

The extant literature suggests fee-based loyalty programs may be evaluated differently from free programs. However, most of the existing research emphasizes free programs and post-enrollment outcomes, including store loyalty and program recommendations. Less is known about the evaluation of fee-based programs and the role of fee-based loyalty program medium (like points, stamps, or visits) in the decision to initially join the loyalty program.

We contribute to our understanding of fee-based loyalty programs using three studies. First, we address conflicting predictions about whether consumers who pay fees have more favorable evaluations and self-reported purchase behaviors than consumers who join loyalty programs for free (Study 1). Second, we investigate ways to increase the likelihood that consumers will enroll in a fee-based program (Study 2). Study 3 investigates the effect of the fee and medium (how credits toward rewards are tracked) on engagement in fee-based loyalty programs in a controlled, experimental setting.

The paper aims to answer the following research questions:

(1) How do loyalty program fees change consumer perceptions?
(2) How does the loyalty program structure interact with loyalty program fees to affect customer engagement?

Following the theoretical background, hypotheses are developed. Study 1 aims to demonstrate how consumers evaluate fee-based programs, but does not suggest how to increase enrollment in such programs. Therefore, we utilize the expectancy-value theory and previous work on reinforcers as a conceptual framework for Study 2 to show how retailers can change program structure to increase initial engagement in fee-based loyalty programs. Specifically, we look at how the wording of denominations of accrual can affect fee-based program enrollment intentions. A participant in a loyalty program accumulates denominations of accrual (e.g., stamps, points, dollars) to attain a reward.

☆ The authors would like to thank Charles Noble and Carol Esmark for their thoughtful suggestions on earlier versions of the manuscript.
* Corresponding author.
E-mail addresses: christyashley@uri.edu (C. Ashley), egillespie2@elon.edu (E.A. Gillespie), snoble@utk.edu (S.M. Noble).

http://dx.doi.org/10.1016/j.jbusres.2015.09.001
0148-2963/

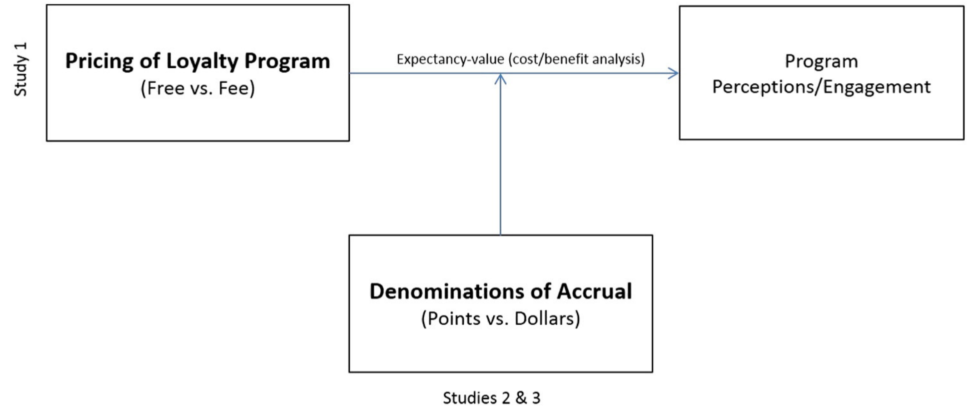

Fig. 1. Overview of studies.

Study 2 varies what the customer accumulates versus the price of the fee-based program to understand how program structure can influence value judgments that affect intentions to engage in fee-based loyalty programs. Study 3 aims to replicate the results of Studies 1 and 2 in a different, controlled context. The results are followed by a general discussion, including limitations and directions for future research. See Fig. 1.

Thus, the manuscript contributes as it sheds light on how loyalty program structure affects enrollment decisions. It extends the literature on medium maximization, which suggests that consumers focus on maximizing points, but did not separate immediate purchase decisions (an enrollment fee) from future reward accumulation. Third, we identify the size of initiation fee as a moderator that affects the relationship between points and willingness to pay a loyalty program enrollment fee. The results suggest that there may be a boundary condition to the use of the numerosity heuristic, and that consumers may prefer to see rewards tracked using simpler terms or the default unit (1 point = 1 dollar spent) when programs are less expensive or free to join.

2. Theoretical background

Expectancy-value theory provides a theoretical framework for understanding consumer decisions to join and engage in fee-based loyalty programs. Expectancy-value theory's basic tenet is that individuals engage in behaviors that they perceive to be most likely to yield valued rewards based on an analysis that benefits exceed costs (Smith & Vogt, 1995; Wigfield & Eccles, 2000). It suggests that commitment-consistency and sunk cost effects can affect the way the consumer evaluates costs and benefits. The existing literature suggests that consumers prefer attitudes and behaviors that are consistent with past choices (Swann, Stein-Seroussi, & Giesler, 1992; Cialdini, 2001). For example, consumers may use observations of their previous behaviors, like paying to enroll in a loyalty program, to make inferences about their attitudes toward the firm that offers the program (Bem, 1967).

Loyalty program structures vary dramatically and can affect consumers' purchase frequencies and volumes (see Bijmolt, Dorotic, & Verhoef, 2010). Previous research examines loyalty program tiers (e.g. Drèze & Nunes, 2009), reward timing (e.g. Yi & Jeon, 2003), reward type (e.g. Melancon, Noble, & Noble, 2011), reward value (e.g. Kivetz, 2003), behavior before and after redemptions (e.g. Nunes & Drèze, 2011), and the redemption policy of rewards (e.g. Smith & Sparks, 2009). Less is known about the structural component of a program fee.

Another structural component is the accumulation of credits toward the award, or the medium used to track purchase behavior (e.g. points, dollars, purchases). The medium used to track progress toward a reward does not have any value on its own, but can be traded for a desired outcome (Hsee, Yu, Zhang, & Zhang, 2003). Consumers should focus their decisions on the relationship between effort and the end outcome, but sometimes they attempt to maximize the effort to medium return (medium maximization) (Hsee et al., 2003). The nominal medium presents an illusion of advantage, an illusion of certainty, or an illusion of linearity (Van Osselaer, Alba, & Manchanda, 2004; Nunes & Drèze, 2006).

The numerosity heuristic, where people focus on numbers rather than the units in which the quantity is represented, leads to errors in estimation that affect how we make progress toward goals and how we perceive things. People generally prefer larger numbers and larger numbers can affect consumer perceptions (e.g. Nejad & Onay, 2014; Hsee et al., 2003; Bagchi & Li, 2011). However, Lembregts and Pandelaere (2013) note that standard units can be easier to process than large numbers, so it is important to understand the role of medium numerosity in decisions to engage in fee-based loyalty programs.

Behavioral learning theory, which suggests primary and secondary reinforcers direct decision making, is also relevant (Rothschild & Gaidis, 1981). Primary reinforcers, such as money, have intrinsic utility. Secondary reinforcers, such as tokens, coupons, and trading stamps earned with purchases, have no such utility and must be converted (Rothschild & Gaidis, 1981). Studies 2 and 3 examine how the medium used affect intentions to engage. We hypothesize how these theories affect fee-based loyalty program evaluation.

3. Hypotheses development

Anecdotal reports suggest that consumers who pay fees to participate in loyalty programs are high value customers (e.g. Tuttle, 2011). Considering expectancy-value theory and the principle of consistency with previous commitments, consumers who have made a greater commitment to a loyalty program should have more favorable attitudes toward a loyalty program. Therefore, consumers who invest an enrollment fee in a loyalty program are more likely to report favorable attitudes toward the program than consumers with a lower commitment who enrolled for free. Similarly, signaling theory suggests that programs with higher fees signal higher quality or value (Zeithaml, 1988). Thus, fee investment should increase loyalty program usage. The sunk cost effect (Thaler, 1980) suggests a similar pattern: consumers who pay to enroll consider return on the past investment as a benefit, so they are loyal to maximize the benefits of the program. As a result, we anticipate that consumers who have invested a fee into a loyalty program will exhibit greater behavioral loyalty toward the program.

We expect the increased investment into the loyalty program to change the way fee-based consumers evaluate the benefits of membership and the overall value (gives vs. gets) associated with program membership. The increased investment should result in a more thorough analysis of whether the program is good or bad (Wigfield & Eccles, 2000). Simonson, Carmon, and O'Curry (1994) suggest that consumers may infer negative associations when prices are low or when products are free. Moreover, consumers are likely to evaluate

Please cite this article as: Ashley, C., et al., The effect of loyalty program fees on program perceptions and engagement, *Journal of Business Research* (2015), http://dx.doi.org/10.1016/j.jbusres.2015.09.001