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"Make me feel special": Are hierarchical loyalty programs a panacea for all brands? The role of brand concept

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A B S T R A C T

Despite extant literature, the most effective structure of loyalty programs is still heavily questioned among researchers. Building on the congruence principle, we examine the moderating role of brand concept. Our findings reveal that for symbolic brand concepts, customers perceive hierarchical loyalty program structures (which classify customers into tiers according to spending levels or other purchase activities) to be more congruent; this perception increases firm loyalty intentions. However, for functional brand concepts, customers perceive hierarchical and linear loyalty programs structures as equally congruent. Also for symbolic brand concepts, program structure appears as the most important feature in ensuring perceived congruence between a program and a brand, ahead of program benefits. These findings have important theoretical and managerial implications.

1. Introduction

The number of loyalty program memberships in the United States reached 3.3 billion in 2015, a growth rate of 26% compared with 2013 (Colloquy, 2015). In the United States alone, companies spend more than $2 billion on loyalty programs every year (Cap Gemini, 2015). Such widespread use justifies the practical and academic interest in determining how such programs influence consumer behavior (Demoulin and Zidda, 2008; Meyer-Waarden, 2015; Pandit and Vilches-Montero, 2016). Most recent work has focused on hierarchical loyalty program (HLP) structures, which consist of patterns of classes or tiers that customers reach by spending certain amounts and engaging in other purchase activities (Drèze and Nunes, 2009; Eggert et al., 2015; Steinhoff and Palmatier, 2016; Wagner et al., 2009). This work highlights the superiority of HLP structures, compared to linear structures (i.e., loyalty programs without tiers), in fostering feelings of status (Drèze and Nunes, 2009) and increasing member loyalty (Bijmolt et al., 2011; Drèze and Nunes, 2011; Kopalle et al., 2012).

Notwithstanding the widespread acceptance of these insights, favoring HLP structures over linear structures could be questioned (Breugelmans et al., 2015). First, hierarchical structures can severely damage the quality of the customer–firm relationship in case of customer status demotion (i.e., losing one's superior position because of a decrease in expenditures, Wagner et al., 2009) and may trigger feelings of unfairness (Steinhoff and Palmatier, 2016). Second, as a wide range of brands are using these programs, important questions arise: Are some brands more likely to benefit from the use of a hierarchical structure instead of a linear one? Is fit between the brand and the type of loyalty program structure (hierarchical vs. linear) necessary to ensure firm loyalty?

Indeed, according to the brand-as-a-person metaphor literature, consumers consider their brands animate persons and may assign human personality traits to them (Aaker, 1997; Aaker et al., 2004). One extension of this literature is to think of brands as meaningful relationship partners (Davies and Chun, 2003; Fournier, 1998). Consumers' brand interactions involve reciprocity and feelings of trust and commitment, as in interpersonal relationships. Moreover, brands as partners promise long-term satisfaction and seek to obtain consumers' loyalty. Given that a brand is "someone we can have relationships with" (Davies and Chun, 2003, p. 58), brand meaning on the one hand and relationship marketing actions on the other hand must be in line (Bolton et al., 2004; Roehm et al., 2002). Yet brands can convey functional or symbolic-oriented meaning. Symbolic brands, such as Rolex, are primarily positioned with an abstract concept of self-enhancement (e.g., dominance, prestige, uniqueness), whereas functional brands, such as Timex, are positioned on utilitarian and problem-solving benefits (e.g., durable, resistant, ease of use) (Monga and John, 2010; Torelli et al., 2012a). Of particular importance then is the nature of brand concept (i.e., the general unique and abstract brand meaning) derived from basic consumer needs and firms' marketing activities

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(Park et al., 1986, 1991). Brand concept can, consciously or unconsciously, activate customers' needs and affect their evaluation and decision processes (Torelli et al., 2012a).

This is why, building on the congruence principle, we suggest that perceived congruence (LP/B) between brand concept (functional vs. symbolic) and program structure (hierarchical vs. linear) is important in enhancing loyalty to the firm. The findings, from an experiment in the banking sector (n = 221) and a survey in the hotel industry (n = 329), show that the principle of congruence is supported only for symbolic brand concepts: Consumers believe a hierarchical structure is more congruent with a symbolic brand concept than a linear structure is. For a functional brand concept, consumers judge hierarchical and linear structures as equally congruent with the brand concept, which enhances firm loyalty. We also find, with regard to the symbolic brand concept, that program structure is the main antecedent of LP/B perceived congruence, ahead of program benefits.

These findings make three main contributions. First, this article theoretically extends the relevance of brand concept to the loyalty program field and empirically demonstrates the intricate connection between brands and relationship marketing strategies in general. Hence, research should systematically account for brand differences when analyzing loyalty programs effectiveness. Second, the findings enrich brand concept/congruence literature by showing that, with regard to loyalty programs, a functional brand concept is more flexible than a symbolic brand concept, since the brand can adapt to both linear and hierarchical program structures. Third, the findings enrich prior work on loyalty programs by adding LP/B perceived congruence as a critical boundary condition to the program effectiveness. From these contributions, we derive concrete practical recommendations concerning program structure designs in a way that matches brand concept.

2. Conceptual background

2.1. Loyalty programs: a shift in focus from linear to hierarchical structures

Literature on loyalty programs is abundant; it focuses on the effect of loyalty program membership on purchase behavior (e.g., Meyer-Waarden, 2008), customer retention (e.g., Verhoef, 2003), attitudinal loyalty (e.g., Pandit and Vilches-Montero, 2016), perceived benefits (e.g., Mimouni-Chaabane and Volle, 2010), preference for type of reward (e.g., Kivetz and Simonson, 2002), and program profitability (e.g., Wansink, 2003). Early literature investigates the effectiveness of a special type of loyalty program structure—the linear structure—in which there are no tiers and all members enjoy the same benefits. More recently, loyalty program researchers have begun to question the effectiveness of such a structure (e.g., Bijmolt et al., 2011) and advocate for a hierarchical design in which members get assigned to patterns of classes or tiers, according to their spending and other purchase activity criteria. Such structures support a better allocation of the company's resources. Seminal work by Drèze and Nunes (2009) on hierarchical structures shows that the number and degree of exclusivity of tiers affects perceptions of status, regardless of a program's rewards. The most effective design offers three tiers and allows only a few customers to be in the top tier. Follow-up literature provides empirical evidence that hierarchical structures increase customer motivation and loyalty (Drèze and Nunes, 2011; Kopalle et al., 2012). Customers increase their purchases to remain in the same tier or move to the next tier; they experience negative feelings when they lose their status (Wagner et al., 2009). Hierarchical structures also foster feelings of gratitude among target customers (Steinhoff and Palmatier, 2016). Positive results occur when progress within the hierarchy is earned or voluntary rather than endowed (Eggert et al., 2015). To trigger feelings of elevated status, the program must fit with the industry type (Arbore and Estes, 2013) and be directed at the right audience (Melnyk and van Osselaer, 2012). For example, Arbore and Estes (2013) show that the number and size of tiers affect perceived status only in exclusive industries (e.g., airline industry); the effect does not apply to non-exclusive industries (e.g., supermarkets). Melnyk and van Osselaer (2012) find that men respond more favorably than women to hierarchical structures that foster feelings of status if that status is visible to others.

Overall, the findings from previous literature suggest that a hierarchical structure produces positive outcomes. However, though some boundary conditions have been established (e.g., gender, industry type), there is a need for deeper investigations of moderating variables that might hinder the effectiveness of hierarchical structures. Notably, industry type (Arbore and Estes, 2013) is an important but insufficient moderator; many industries comprise a variety of brands that feature both symbolic and functional brand concepts (e.g., hotels, clothing, airlines). As a result, consumers encounter self-image and problem-solving brands within the same industry. Such situations have not been researched fully. We aim to fill this void by examining the moderating effect of brand concept, according to the theory of congruence.

2.2. Congruence with brand concept as a loyalty-driving factor

The brand concept positions brands in consumers' minds by categorizing them according to their *functional* or *symbolic* benefits (Jin and Zou, 2013; Monga and John, 2010; Park et al., 1991). The distinction between symbolic and functional brand concepts is rooted in the classification of consumer needs (Lanseng and Olsen, 2012; Park et al., 1986). It also stems from the implementation of a particular set of product attributes (e.g., quality, price, performance), benefits (e.g., convenience, prestige, uniqueness), and specific marketing tactics (e.g., logos, slogans, style and tone of the communication, choice of the distribution channels) dedicated to conveying a particular brand abstract meaning (Park et al., 1986; Torelli et al., 2012b).

A symbolic brand concept fulfills the needs of self-expression and self-enhancement (Bhat and Reddy, 1998; Park et al., 1986). Consumers choose symbolic brands to convey their status, communicate their self-image, and reinforce their social identification (Jin and Zou, 2013; Keller, 1993). For example, the Ferrari brand is described on the brand website (http://corporate.ferrari.com/en/about-us/brand) in terms of "inimitable style, Italian luxury, exclusivity, [and] source of inspiration". A functional brand concept instead emphasizes problem-solving benefits (Jin and Zou, 2013; Park et al., 1986), such that the brand satisfies practical and rational needs (Bhat and Reddy, 1998). For example, General Motors describes the Chevrolet brand primarily as offering "affordable and fuel-efficient cars, trucks and SUVs" (http://www.gm.com/shop-for-a-vehicle/our-brands/chevrolet.html). Symbolic brand concepts are more abstract than functional brand concepts, which have associations tied to tangible attributes and product category (Monga and John, 2010; Park et al., 1991).

Park et al. (1986) recommend that firms design marketing programs consistent with their chosen brand concept. Consumers judge marketing actions according to the degree to which those actions are compatible with the consumers' knowledge about the brand (e.g., benefits, attitudes, beliefs). This fit, or match, between a brand and a firm's actions, constitutes congruence (Fleck et al., 2012). The theoretical foundation underlying the congruence principle is cognitive dissonance theory (Festinger, 1957), which highlights the mental stress that people experience when they hold contradictory ideas at the same time (e.g., eating a high-fat doughnut while dieting). Because dissonance between contradictory ideas produces discomfort, people constantly seek consistency between their expectations and reality and prefer situations in which the elements seem to fit well together (Festinger, 1957). Marketing literature contains ample empirical support for the congruence principle in various marketing activities, such as sales promotion, relationship investments, brand extensions, and sponsorship (Aaker et al., 2004; Chandon et al., 2000; Park et al., 1991; Roehm et al., 2002). For example, Chandon et al. (2000) find that for high-equity brands, sales promotions are more effective if the benefits match the product type: Monetary promotions are more (less) effective for a utilitarian