Journal of Business Research 91 (2018) 144–158

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Are loyalty program members really engaged? Measuring customer engagement with loyalty programs

Virginie Bruneau[a,*], Valérie Swaen[b], Pietro Zidda[c]

[a] Université catholique de Louvain, LouRIM, Center for Consumers and Marketing Strategy (CCMS) & Université Libre de Bruxelles (ULB), Solvay Brussels School of Economics and Management (SBS-EM), Belgium

[b] Université catholique de Louvain, LouRIM, Center for Consumers and Marketing Strategy (CCMS), Belgium & IESEG School of Management (LEM-UMR9221), France

[c] University of Namur, Namur Digital Institute (NADI-CeRCLe), Center for Consumers and Marketing Strategy (CCMS), Belgium

ARTICLE INFO

Keywords:
Loyalty programs
Engagement
Scale development
Hierarchical scaling

ABSTRACT

In a quest to engage customers in long-lasting relationships, many firms rely on loyalty programs (LPs). They do fairly well in acquiring new members of LPs, but firms often fail to engage them in the long term. This article seeks to understand what engagement in LPs is, how to measure it, and how it relates to company engagement. With four studies, the authors conceptualize LP engagement as six behavioral manifestations: proactively using cards, redeeming points, adapting purchase behavior, being receptive to information, sharing information, and searching for information. The 20-item scale proposed to measure these behaviors provides a viable, novel tool for determining customers' LP engagement. Whereas previous research on LPs mainly considers card usage or point redemption behaviors as proxies for customers' LP engagement, the current research shows that these behaviors are insufficient indicators of the actual level of engagement in LPs.

1. Introduction

Consumer brand engagement generates substantial interest, especially considering the high costs of customer acquisition and shifts toward analytics and data-driven marketing; approximately 60% of companies rank customer engagement as their top priority (Bluewolf, 2013), and managers cite it as critically important (Tierney, 2013). Academic interest in customer engagement also has accelerated (Brodie, Ilic, Juric, & Hollebeek, 2013; Hollebeek, Glynn, & Brodie, 2014), offering a general definition of consumer engagement as an active presence in the relationship (de Villiers, 2015; Kumar & Pansari, 2016; Raïes, Mühlbacher, & Gavard-Perret, 2015). By deploying marketing resources to engage customers in relationships, firms can achieve greater sales, more positive word of mouth, lower transaction costs, and better financial outcomes (Angulo-Ruiz, Donthu, Prior, & Rialp, 2014; Beatty, Mayer, Coleman, Reynolds, & Lee, 1996; Palmatier, Scheer, Houston, Evans, & Gopalakrishna, 2007). Engagement also induces greater marketing productivity (Sheth & Parvatiyar, 1995), is a good predictor of customer loyalty, and likely enhances profitability (Dwivedi, 2015; Kumar et al., 2010; Pansari & Kumar, 2016; Vivek, Beatty, Dalela, & Morgan, 2014). In turn, it offers a promising means to predict and explain important customer behaviors (Hollebeek, Glynn, & Brodie, 2014).

To improve customer engagement, firms frequently turn to loyalty programs (LPs), which offer both monetary incentives and social and interactive benefits, through the customer–company relationship. In the United States, companies spend more than $50 billion annually on LPs (Shaukat & Auerbach, 2011). Customers continue to enroll in more programs; between 2012 and 2014, total LP enrollments in the United States increased by 26% (Berry, 2015). However, after they join, many customers never engage, such that the proportion of active members dropped from 46% to 42% between 2010 and 2014 (Berry, 2015). Although U.S. households belong to an average of 29 LPs, they use cards to earn points and rewards in only 12 (Berry, 2015). France shows a similar pattern: 60% of consumers possess 3–10 loyalty cards, but they use only half of their cards (Passebois, Trinquecoste, & Viot, 2012). These data suggest that firms effectively acquire new members but remain unable to engage customers in relationships based on LPs.

Furthermore, we note a general lack of understanding about what customer engagement with LPs means. Both practitioners and scholars recognize that engaging customers in relationships is a central program objective (Berry, 2015; Sharp & Sharp, 1997), but well-developed measures do not exist. When assessing the effectiveness of LPs, researchers typically use behavioral signals, such as card usage or point redemption (Bridson, Evans, & Hickman, 2008; Evanschitzky et al., 2012). However, considering firms' substantial efforts to build social

* Corresponding author at: Place des Doyens 1, bte L2.01.01, B-1348 Louvain-la-Neuve, Belgium.
E-mail addresses: virginie.bruneau@ulb.ac.be (V. Bruneau), valerie.swaen@uclouvain.be (V. Swaen), pietro.zidda@unamur.be (P. Zidda).

https://doi.org/10.1016/j.jbusres.2018.06.002
Received 20 February 2017; Received in revised form 30 January 2018; Accepted 4 June 2018
0148-2963/

bonds (e.g., contacting customers personally), card usage or redemption might not be sufficient to describe engagement in LPs, as confirmed by research that shows that card usage and repeat purchases cannot lead to relationships (Berry, 1995; Henderson, Beck, & Palmatier, 2011). Thus, we note a clear need to understand and measure various facets of customer engagement attained through LPs. In their review, Breugelmans et al. (2015) call explicitly for academic efforts to find metrics to measure consumers' engagement in LPs. In response, this article proposes a formal definition of customer LP engagement, develops a reliable and valid measure, and tests its link with company engagement.

In turn, this study extends existing research in three main ways. First, it contributes to engagement literature by offering a new conceptual perspective that moves beyond existing perspectives, by considering a set of hierarchically ordered dimensions. Engagement is not only multidimensional but also comprises several behaviors that vary in the degree of consumer effort they demand. Thus, not all dimensions have the same probability of occurring; some LP engagement behaviors (e.g., proactive card usage) are "easy" and likely to be executed, whereas others (e.g., adapting purchase behavior) are less frequently executed because they are more effortful. Second, the valid, reliable scale for measuring LP engagement supports differentiated assessments of customers' behavioral responses to LPs. Previous engagement literature has provided some general multidimensional engagement scales, but they do not capture the full complexity of LP engagement. For example, scales that measure customer participation in a company's activities at a general level do not indicate the specific responses that companies try to induce with their LPs (e.g., proactive card usage, point redemption, responses to LP communication). Third, the proposed measure gives LP researchers and managers a tool to capture the entire set of consumer responses, beyond their card usage or point redemption behaviors. These commonly used behavioral metrics for LP engagement do not necessarily lead to the desirable ultimate outcome: company engagement. Therefore, this research offers LP managers a means to assess program members' engagement, manage those members more appropriately, and realize the program's potential to invoke more customer–company engagement.

2. Theoretical background

2.1. Loyalty programs

Many different terms describe LPs, including reward programs, relationship marketing programs, and loyalty cards. We use the term "loyalty program" to encompass all these forms and conceptualize LPs as various marketing incentives (e.g., reward cards, gifts, tiered service levels, dedicated support contacts) designed to engage customers in long-lasting relationships (Henderson, Beck, & Palmatier, 2011).

Relationships demand interdependence between partners (Hinde, 1979); to build dependence, firms seek to enhance value at a low cost (Ashley, Noble, Donthu, & Lemon, 2011). Then customers weigh the benefits and costs, together with their expectations, to decide whether to engage in a relationship (Steinhoff & Palmatier, 2016). In this process, value must be enhanced for both partners, and reciprocity and gratitude can encourage relationships (Palmatier, Jarvis, Bechkoff, & Kardes, 2009). Therefore, in addition to economic incentives, modern LPs include social aspects, such as recognition, special treatment, personalized communications and offerings, personal invitations to special events, personalized price coupons, or customized newsletters. By moving past economic incentives, these LPs rely on personalization and customization to build relationships with members.

Despite the important role of LPs in companies' marketing mixes, and the growing numbers of loyalty cards in customers' wallets, empirical evidence about their impact on loyalty remains uncertain. Some studies reveal positive effects (Keh & Lee, 2006; Lewis, 2004; Liu, 2007); others show no or mixed effects (Mägi, 2003; Meyer-Waarden & Benavent, 2009; Sharp & Sharp, 1997). To assess their effectiveness, previous studies investigate program-related factors and designs (Noble, Esmark, & Noble, 2014; Yi & Jeon, 2003; Zhang & Breugelmans, 2011), customer-related factors such as purchase behaviors or customer traits (Liu, 2007; Mägi, 2003), and competition-related factors (Liu & Yang, 2009; Mägi, 2003). But assessing the effectiveness of LPs also requires considering relevant two-way relationships (Meyer-Waarden & Benavent, 2009) and moving beyond an exclusive focus on the company's perspective. There is a clear need to address customers' relational responses, in the form of LP engagement, and identify their active presence (or not) in the relationship.

2.2. Engagement

Before building a definition of LP engagement, it is important to understand how engagement has been conceptualized more broadly. Engagement is an emergent research topic, yet considerable conceptual and descriptive work described it in various marketing fields (Bijmolt et al., 2010; Hall-Phillips, Park, Chung, Anaza, & Rathod, 2016; Raïes, Mühlbacher, & Gavard-Perret, 2015; Sprott, Czellar, & Spangenberg, 2009). Practitioners generally cite the interaction between customers and the company, such that a customer is engaged if she or he participates in the company's offerings (Berry, 2015). But in academic literature, no such consistent definition of engagement exists, as illustrated in Table 1, though even across these varied definitions, a common theme suggests that it reflects a *relationship* between a consumer and some focal object, such as a brand (Bowden, 2009; Dwivedi, 2015; Hollebeek, 2011; Hollebeek, Glynn, & Brodie, 2014; MSI, 2010; van Doorn et al., 2010), the brand's offerings (de Villiers, 2015), brand communities (Algesheimer, Borle, Dholakia, & Singh, 2010; Bijmolt et al., 2010), community members (Brodie, Ilic, Juric, & Hollebeek, 2013), companies (Kumar et al., 2010), organizations (Patterson, Yu, & de Ruyter, 2006), the organization's offerings (Hall-Phillips et al., 2016), websites (Abdul-Ghani, Hyde, & Marshall, 2011), firm (Kumar & Pansari, 2016; Pansari & Kumar, 2016), or visual objects (Cian, Krishna, & Elder, 2014).

A closer examination of Table 1 reveals further differences and contradictions in these conceptualizations of engagement. In particular, regarding the nature of the construct, some authors define engagement as a state of mind or psychological propensity to be in a relationship, whereas others consider it a customer behavior or activity. Brodie, Hollebeek, Jurić, and Ilić (2011); Brodie, Ilic, Juric, and Hollebeek (2013)) regard engagement as a psychological state; Bowden (2009) calls it a psychological process. But other authors describe it as active interactions (Kumar et al., 2010), behavioral manifestations (Bijmolt et al., 2010), or active participation (Vivek, Beatty, & Morgan, 2012). With regard to the dimensionality of the construct, many definitions regard engagement as multidimensional, combining cognitive, emotional, and behavioral perspectives. Holistic definitions acknowledge all three dimensions (Brodie, Ilic, Juric, & Hollebeek, 2013; Hollebeek, 2011; Hollebeek, Glynn, & Brodie, 2014; Mollen & Wilson, 2010; Patterson, Yu, & de Ruyter, 2006). But some researchers view engagement as unidimensional (Abdul-Ghani, Hyde, & Marshall, 2011; Algesheimer, Dholakia, & Herrmann, 2005; Baldus, Voorhees, & Calantone, 2015; van Doorn et al., 2010). A third difference relates to a dynamic perspective on engagement. Very few authors consider its dynamic facet, but some argue that engagement is an iterative process, characterized by fluctuating intensity levels (Brodie, Hollebeek, Jurić, & Ilić, 2011; Hollebeek, Glynn, & Brodie, 2014). The process might be viewed as a series of aggregated engagement states, which are individual and context dependent and which may be observed at different levels of intensity or complexity at different points in time (Brodie, Hollebeek, Jurić, & Ilić, 2011).

For this research, following van Doorn et al. (2010), we define *customer engagement* toward a company as customers' behavioral manifestations toward that company, beyond purchase, resulting from