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Research note

# Spillover Effects of Service Failures in Coalition Loyalty Programs: The Buffering Effect of Special Treatment Benefits

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**Abstract**

Coalition loyalty programs are on the rise, yet few studies investigate the impact of service failures in such programs. Using data from a retail context, the authors show that a program partner deemed responsible for a service failure suffers negative customer responses. However, customers' perceptions of the benefits of the coalition loyalty program buffer these consequences. Perhaps most importantly, when customers perceive the program's special treatment benefits as low, direct and indirect spillover effects occur, such that a service failure by one program partner has a negative effect on customer loyalty toward the program itself.


*Keywords:* Service failure; Spillover effects; Buffering effect; Coalition loyalty program

A growing number of companies have introduced customer loyalty programs featuring planned reward schemes related to customers' purchase histories to build commitment and loyalty (Keh and Lee 2006; Taylor and Neslin 2005; Vogel, Evanschitzky, and Ramaseshan 2008; Yi and Jeon 2003). However, not all firms introduce their own loyalty programs. Coalition loyalty programs bring together an assembly of partners across a broad range of retail and service sectors (Heinen 2003; Moore and Sekhon 2005). For example, the U.K.-based Nectar scheme comprises 16 companies and offers the country's largest loyalty program (Blair and Braselton 2007). In the United States, coalition loyalty programs are gaining popularity in the airline and hospitality industries, where they have grown by 13 percent and earn $10 billion (Pandit 2009). Whereas research confirms that single-firm loyalty programs motivate customer loyalty and strengthen customer–firm relationships (Bolton, Lemon, and Verhoef 2004; Meyer-Waarden 2007; Mimouni-Chaabane and Volle 2010), only few studies have explored the outcomes of coalition loyalty programs (Dorotic, Bijmolt, and Verhoef 2012).

Furthermore, in service sectors—known for the heterogeneity of their offerings and the near-inevitability of failures (Bitner, Booms, and Tetreault 1990; Grewal, Roggeveen, and Tsiros 2008)—coalition loyalty programs may suffer uniquely from service failures. Lemon and von Wangenheim (2009) identify positive spillover effects from usage behavior and customer relationship management efforts at one focal program partner on cross-buying from other program partners. In turn, the cross-buying behavior at the other program partners also reinforces the service usage at the focal program partner. It seems plausible that negative perceptual effects might similarly spill over from customer relationship failures at one focal program partner to coalition partners. Research on customer relationships shows that close customer–firm relationships can buffer the negative effects of service failures (Evanschitzky, Brock, and Blut 2011; Sajtos, Brodie, and Whittome 2010). Currently unknown is whether this buffering effect holds for relationships between a customer and a coalition loyalty program, such that perceived program benefits provide a buffer against negative consequences for other partners.

In response to this, our study addresses two related issues. First, we assess whether the special treatment benefits offered by coalition loyalty programs buffer the negative effects of service failures on customers' loyalty toward the individual company

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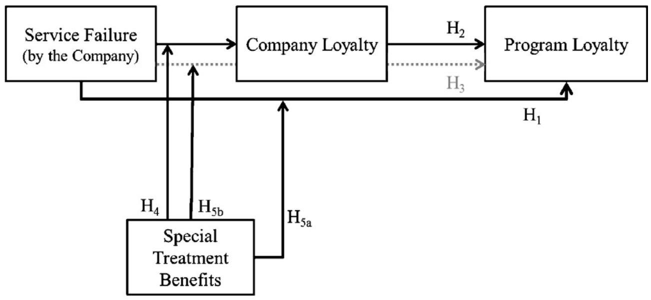


Service Failure by the Company = service failure caused by a company that is a partner in the coalition loyalty program

Company Loyalty = customer loyalty toward the company that is responsible for the failure (and is a partner in the coalition loyalty program)

Program Loyalty = customer loyalty toward the coalition loyalty program

Fig. 1. Conceptual framework: direct and indirect effects of a service failure by the company on program loyalty and moderating effects of special treatment benefits.

that caused the service failure. Second, we investigate whether these treatment benefits also might buffer the negative effect of service failures on loyalty toward the coalition programs as a whole.

We use retail customer survey data to provide empirical insights into the scope and impact of service failures and their potential spillover effects on coalition loyalty programs. The results contribute to research into the relational ties among program partners in coalition loyalty programs. We identify spillover effects after service failures and outline how these effects can be mitigated by customers' positive evaluations of the program's benefits. Our findings show that being a member of a well-perceived loyalty program can help retailers buffer against some of the negative consequences of service failures.[3]

## Conceptual framework and hypotheses development

To investigate the effectiveness of loyalty programs in the context of service failures by one partner in a coalition loyalty program, we develop a conceptual framework (Fig. 1). We propose that the service failure induces the customer to penalize both the service provider responsible for the failure (hereafter "company") and the coalition loyalty program that is represented by the company. However, we also predict that the perceived special treatment benefits accrued through a coalition loyalty program buffer some of these negative consequences for the company and the coalition loyalty program. We base our hypothesis development on the general effect of service failures on customers' attitudinal outcomes.

Service failures often evoke strong emotional responses and influence service evaluations (Bitner, Booms, and Tetreault 1990). Specifically, customers who experience service failures draw on their past experiences (Tax, Brown, and Chandrashekaran 1998) and reassess their relationship with the company (Aaker, Fournier, and Brasel 2004). In particular, service failures negatively affect customer satisfaction (Hess 2008; Smith, Bolton, and Wagner 1999) and customer loyalty in terms of word of mouth (Weun, Beatty, and Jones 2004), repurchase intentions (Maxham and Netemeyer 2002), and switching behavior (Keaveney 1995). In line with prior research, we therefore predict that service failures have negative effects on customer loyalty toward the company in a coalition loyalty program (company loyalty).

Moreover, due to spillover effects, a service failure by one program partner may have negative effects on customer loyalty toward the coalition loyalty program itself (program loyalty). Spillover effects refer to a change in a customer's evaluations of one object (i.e., the company responsible for the failure) that causes a change in that same customer's evaluation of another object (i.e., the coalition loyalty program). Spillover effects are theoretically grounded in information integration theory (Anderson 1981), which describes how attitudes form and change in response to the integration of new information with existing attitudes, cognitions, or thoughts. When confronted with new information, people integrate existing knowledge from various sources to make an overall judgment. If the new information is highly favorable, highly unfavorable, or very important, it strongly influences the resulting judgment.

Because coalition loyalty program partners are often mentioned within the context of the program, and the program presentation often includes the names of all affiliated partners, customers' judgments of the program and of each partner are likely interrelated. Within coalition loyalty programs, a spillover effect of consumer evaluations can occur in three ways: (1) customer attitudes toward the loyalty program can spill over to a company; (2) customer attitudes toward one company can spill over to another company; or (3) customer attitudes toward one company can spill over to the loyalty program itself. In our study, we focus on the latter. This occurs, for example, if customers receive new information about one company in the program, integrate this new information with existing attitudes toward the program, and then reassess their overall judgment of the coalition program on the basis of this new information.

Prior research into spillover effects tends to address brand alliances and portfolios, mostly in consumer goods settings. Lei, Dawar, and Lemmink (2008) explore associations between parent brands and subbrands in portfolios and reveal that the magnitude of spillovers is a function of both the strength and the direction of the brand associations. Simonin and Ruth (1998) show that customers' attitudes toward a brand alliance influence their attitudes toward the partner brands. Studies also confirm spillover effects for alliance partners, with differing outcomes. Negative attitudes toward misbehaving companies can spill over to negative attitudes toward partner brands (Votolato and Unnava 2006), and positive quality evaluations of one partner can result in beneficial gains for other service partners, or grave consequences if one partner's service quality is substandard (Bourdeau, Cronin, and Voorhees 2007).

Research on spillover effects in the context of coalition loyalty programs is sparse. Evanschitzky et al. (2012) show that company loyalty and program loyalty are two distinct types

[3] We do not explicitly address the buffering effect of other proactive and reactive service recovery strategies; further research should investigate the interaction of service recovery efforts and program benefits.