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On the impact of loyalty cards on store loyalty: Does the customers' satisfaction with the reward scheme matter?

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Abstract

Most customers hold several loyalty cards of competing retailers. Past studies looking into the impact of card ownership on store loyalty showed mixed results. We postulate that loyalty cards are effective only when customers value the rewards associated with them. We investigated to what extent the satisfaction with loyalty card rewards affects the effectiveness of loyalty card programmes in the food retail sector. From the analyses of survey data within the framework of store choice models, we confirm that loyalty card owners are more store loyal. More precisely, we show that when holders are satisfied with the reward scheme of the loyalty card programme, they are more loyal and less price sensitive than unsatisfied card holders.

Keywords: Loyalty card; Store loyalty; Satisfaction; Store choice

1. Introduction

Loyalty schemes are part of defensive marketing strategies which aim to retain existing customers. They are common practice in many industries such as the airline (frequent flyer programmes) and food retail industries. Retailers use loyalty cards to identify and to reward their customers for their loyalty. More precisely, loyalty cards enable companies to acquire knowledge about and develop a better relationship with their customers.

In this research, we are mainly interested in the success of loyalty programmes. We investigate to what extent customers' satisfaction towards loyalty card rewards affects the effectiveness of loyalty card programmes in the food retail industry. In the next section, we briefly present the well-known store loyalty concept and synthesize the studies evaluating the effectiveness of loyalty programmes. The third and fourth sections propose, respectively, the research hypotheses and methodology. We then present our results. The paper is concluded with a discussion of the results, formulation of some managerial recommendations and research tracks.

2. Customers' store loyalty: an overview

2.1. Loyalty concept

It is now widely acknowledged that the loyalty concept includes two dimensions: the behavioural dimension (e.g., repeated purchases in the same store) and the affective dimension (e.g., preference, attitude and commitment towards the store) (Bon and Tissier-Desbordes, 2000; Dick and Basu, 1994; Jacoby and Chestnut, 1978). Dick and Basu (1994) suggest that loyalty is the result of a more favourable attitude and a repeat purchase behaviour. The sustainable or true loyalty only exists when consumers very frequently repeat purchases or visit the same store and when they have a favourable attitude or a high preference for the store. Because of its ease of measurement, researchers mostly used the behavioural approach in evaluating the impact of loyalty cards on store loyalty.

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2.2. Loyalty programmes and their effectiveness

Loyalty programmes are packages of actions or benefits offered to customers in exchange for repeat purchases (Palmer et al., 2000). The loyalty programmes' success relies on the fact that people appreciate receiving rewards.

Several empirical studies conducted in various industries have assessed the impact of loyalty programmes on behavioural loyalty measures. The results are, however, mixed. A study of the Australian Fly Buys programmes revealed that only two of the six loyalty programme participants demonstrated excess loyalty deviations, which had also been observed for loyalty programme non-members (Sharp and Sharp, 1997). By analysing the loyalty card diffusion in a grocery retail chain, Benavent and Crié (1998, 2000) showed that the number of cards distributed had a positive but weak effect on the average basket, the number of items bought, the store traffic, the total sales and the margin rate. At an individual level, however, the basket size appeared to increase just after the loyalty card acquisition but decreased during subsequent periods. Such as sales promotion in general, the loyalty card revealed to have a short-term effect only. Similarly, Passingham (1998), Liebermann (1999) and Mägi (2003) did not show any convincing effect of loyalty cards on consumers' shares in grocery retail chains (i.e., share of wallet and share of visits). Conversely, Meyer-Waarden (2006a) found that loyalty programmes have a positive impact on customers' lifetime and share of wallet. Frequent shopper programmes seem to have a positive effect on sales not only during the programme (Drèze and Hoch, 1998; Lal and Bell, 2003; Lewis, 2004) but also in the long run (Taylor and Neslin, 2005).

Several reasons were put forward to explain these mixed results. The first one is an imitation effect according to which in a competitive market the initiator of a loyalty programme will inevitably be imitated. Indeed, a current strategy that managers use in such markets consists in observing which competitors' strategies are successful and reproducing them in their own company (Dowling and Uncles, 1997). That leads to an annihilation of the expected effects and an increase of the company's costs (Uncles, 1994). Moreover, even if a loyalty card has a positive effect on behavioural measures of loyalty, this effect is only weak and transitory (Uncles, 1994; Dowling and Uncles, 1997; Benavent and Crié, 1998; Mägi, 2003; Meyer-Waarden and Benavent, 2003).

Similarly, Sharp and Sharp (1997) explain this inefficiency by a card saturation within the retail market. Considering the great number of companies proposing such programmes, consumers can easily think that it is very easy for them to acquire points, and going to competitors has only little incidence on their collection of points. Consequently, the effects of loyalty schemes may cancel out each other (Mägi, 2003). Loyalty cards indeed appear to be most effective when the customers do not hold competitors' cards (Mägi, 2003; Meyer-Waarden, 2006a). In this regard, two trends of thought clash (Wright and Sparks, 1999). According to the first, it is unlikely that with the increasing number of cards in circulation consumers still agree to keep cards due to a lack of physical space to carry them. This trend thus predicts the end of loyalty cards in the long term. The second trend stipulates that loyalty programmes, even if they are numerous, do not cancel out themselves. It suggests that programmes are different from each others and that it is the quality of the programme that makes the difference. Consequently, several programmes can cohabit very well in the marketplace without creating a saturation phenomenon or a failure, provided that retailers supply their customers with various types of loyalty cards and induce them to use their cards, because it is precisely usage that brings customers added value (Wright and Sparks, 1999). Several authors state that loyalty cards must provide value to their holders (Mauri, 2003; Yi and Jeon, 2003; Meyer-Waarden, 2006b). Mauri (2003) showed that card schemes are powerful because of their promotional inducements. Cardholders are loyal to their card if they use the promotional inducements. Indeed, customers use their card if the reward is worth it and if they visit the store quite frequently (Mauri, 2003). In the same way, Dowling and Uncles (1997) stress that loyalty programmes are often badly designed or too complicated. They require great cognitive efforts on behalf of the customers and so are frequently rejected. They recommend rather to offering rewards that are immediate and that have a direct relationship with the products bought. Keh and Lee (2006) demonstrate, however, that when customers are satisfied with the store, they favour delayed direct rewards (of higher values) to immediate, direct rewards whereas dissatisfied customers prefer the latter rather than delayed, direct rewards.

To summarize, these research studies highlight the importance of setting up a loyalty programme that enables retailers to differentiate themselves from their competitors. The card must offer sufficient advantages so that customers want to adopt and use it. Moreover, the reward scheme must motivate customers to modify their purchase behaviour and their attitude, their preference with respect to the store chain. Given this, our main research question is: Does the satisfaction with loyalty card rewards impact on store loyalty?

3. Hypotheses

Several studies have examined the relationship between satisfaction and loyalty with the store and concluded that there is a positive bond between these two constructs (Bloemer and de Ruyter, 1998; Sivadas and Baker-Prewitt, 2000; Yu and Dean, 2001). Customer satisfaction towards a store is a post-experience, subjective evaluation of the extent to which this store answers or even exceeds the customer's expectation (Bloemer and de Ruyter, 1998). The satisfaction thus relies on the comparison