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Effects of loyalty program rewards on store loyalty

Lars Meyer-Waarden *

University Toulouse 1 Capitole, CRM CNRS, IAE School of Management & EM Strasbourg Business School-HuManiS (EA 7308), France

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ABSTRACT

This investigation examines consumers' preferred loyalty program (LP) designs across two retail contexts, grocery retailing and perfumery, with varying degrees of personal involvement. The research employs in-store full profile conjoint analysis by using the following attributes: timing of the reward, reward compatibility with the store's image, and tangibility.

Our research reveals that the underlying effects of reward types on preferences and intended store loyalty differ depending on the level of consumers' personal involvement. In sectors with high personal involvement, compatibility with the store's image and intangible rewards increase LP preference and loyalty intentions. The time required to obtain the reward (immediate/delayed) has no impact. In sectors with low personal involvement, immediate and tangible rewards increase LP preference and loyalty intentions. Compatibility with the store image has no impact.

1. Introduction

Many firms use customer relationship management instruments, such as loyalty programs (LPs), as key marketing activities for customer information collection. LPs are vastly popular—for example, 90% of Europeans and 90% of U.S. shoppers own at least one loyalty card (Ferguson and Hlavinka, 2009). In 2010, the number of LP memberships in the United States exceeded 2.1 billion memberships, growing by 16% from the previous year despite the worldwide recession (Hlavinka and Sullivan, 2011). For example, research estimates that the U.K. pharmacy chain Boots invested 30 million British pounds in the launch of its Advantage Card LP (Temporal and Trott, 2001), and the U.K. retailer Tesco has spent an estimated 60 million pounds to operate its Clubcard LP (Bijmolt et al., 2010).

Despite their popularity, existing research challenges the efficacy of LPs because, in many cases, they offer rewards that fail to increase loyalty (Leenheer et al., 2007; Liu, 2007; Meyer-Waarden, 2007; Meyer-Waarden and Benavent, 2009). Fewer than half of LP members report that the programs add value, and the impact of LPs on customer patronage lags behind most companies' expectations (Ferguson and Hlavinka, 2009). Yet rewards should offer value (Bridson et al., 2008; García Gómez et al., 2012; Roehm et al., 2002). Overall, increasing the benefits and decreasing the costs of using LPs increase loyalty (Demoulin and Zidda, 2008). Nevertheless, heterogeneity in responsiveness exists across customer segments and industry sectors, as effectiveness depends on market characteristics. Therefore, this study contributes to research by assessing the following questions that remain insufficiently investigated (Bijmolt et al., 2010, pp. 207, 239): (1) Which type of reward creates customer value and enhances LP members' patronage intentions? and (2) What is the moderating role of personal involvement on LP effectiveness?

To contribute to a better theoretical and empirical understanding of the effects of rewards, we propose a conceptual framework that examines how rewards affect LP preferences according to three key variables that have insufficiently or not been empirically investigated (Blattberg et al., 2008). Each of the variables have been studied before, but no one has had all of them within the same study: (1) reward (in)tangibility, (2) compatibility with the image of the firm that offers the LP, and (3) time necessary to obtain rewards timing (immediate vs. delayed). We propose that their relative impact on LP preference and loyalty intentions varies depending on consumers' personal involvement in the product category (Yi and Jeon, 2003). This study thus examines how different aspects of rewards affect preferences of a LP: type of rewards (tangibility and compatibility) and timing of rewards. We conduct conjoint analysis in a French grocery retailer and a perfumery store. After presenting the results, we conclude with a discussion, managerial implications, and avenues for further research.

* Correspondence address: 2, rue du Doyen-Gabriel-Marty , F-31000 Toulouse, France. Fax: +33 5 61 63 56.
E-mail address: meyerwaarden@gmail.com

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2. Theoretical background

2.1. Loyalty programs and loyalty

The American Marketing Association refers to loyalty programs as ‘continuity incentive programs offered by a firm to reward customers and encourage repeat business’. Prior literature uses different terms, including reward programs, frequency reward programs, frequent-shoppers programs, and frequent-flier programs.

We adopt the term loyalty program (LP) to encompass all these terms and various program designs that contain the following characteristics (Blattberg et al., 2008; Leenheer et al., 2007): LPs consist of integrated, structured and ruled (based on collection and redemption rules) systems of marketing actions that aim to encourage enduring repeat purchases and increase the cost of switching by providing short- and long-term incentives (Meyer-Waarden, 2008). These rewards refer to any abstract (e.g., convenience, hedonic, novelty, social recognition, self-esteem) or concrete (e.g., economic savings, miles, points, discounts) stimuli that trigger consumers' internal cognitive responses (Vesel and Zabkar, 2009; Drèze and Nunes, 2011; Kwong et al., 2011; Tietje, 2002). Usually, LP members are rewarded with discounts, goods, services, personalized offers and tailored marketing efforts, or preferential treatment (Meyer-Waarden, 2013). To induce sustainable effects on members' loyalty, LP participation and rewards should increase cost of switching (Bijmolt et al., 2010) and enhance “true loyalty”, that is increase behavioral (e.g., cross purchases, repeat purchases, mean basket size; Ehrenberg, 1988) and attitudinal (relationship building through positives attitudes, trust, attachment; Morgan and Hunt, 1994) loyalty. A LP rewards members for their loyalty on the basis of their past, current or future value to the firm, which is usually done through the accumulation of some form of LP currency based on purchase behavior. Rewards thus help create perceived value and satisfaction; improve economic decision-making and motivation.

2.2. Loyalty program perceived value and preference

Perceived value created is the relationship between the consumer's perceived benefits in relation to the perceived costs of receiving a good or a service, and represents a positive emotional response (e.g. such as subjective feelings of pleasure or hedonic enjoyment) as well as a source of satisfaction and motivation, because the rewards fulfill a desire or a goal (Holbrook, 1996; Bagchi and Li, 2011).

A buyer who commits to an LP considers the costs and efforts required (e.g., membership fees, provision of personal information to the firm, switching costs, transportation, changes to purchase behavior) and compare these costs with the reward value. The influence of LPs on member loyalty is contingent on the LP design (Keh and Lee, 2006). Specifically, LP design affects enrollment and loyalty. If the reward values are higher than the costs, the consumer decides to join the LP and change or increase behavioral and attitudinal loyalty. The nature and preference of rewards are thus decisive with regard to consumers' motivation to adopt and use the LP as well as to change behavior and attitudes.

In this respect, two key analyses variables are recommended (Blattberg et al., 2008; O'Brien and Jones, 1995): (1) reward types, including tangibility and compatibility with the firm's image, and (2) reward timing. Yi and Jeon (2003) also suggest considering the moderating role of personal involvement. Each of the variables has been studied before, but no one has had all of them within the same study. We thus propose a conceptual model with three stages (see Fig. 1). The first and second stages examine how reward schemes (e.g. timing tangibility, compatibility of rewards) affect first customers' rewards preferences of the LP and second loyalty intentions. The third stage investigates the moderating role of personal involvement.

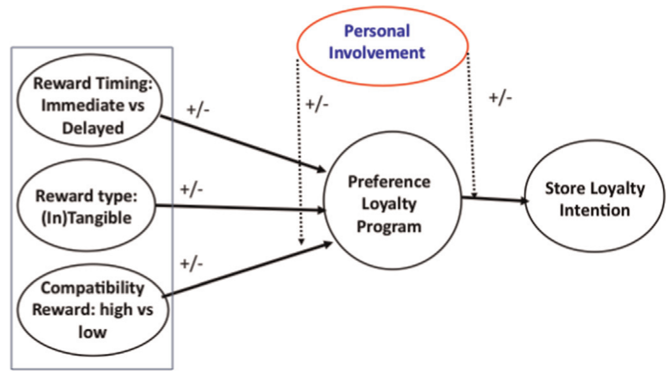

Fig. 1. Conceptual framework.

3. Conceptual framework and hypotheses

3.1. Conceptual framework

Customers' value perception is a necessary condition for developing brand loyalty through LPs (O'Brien and Jones, 1995). Retailers attempt to meet a wide range of requirements by offering an array of rewards that cover different dimensions to increase the preference of an LP (Meyer-Waarden, 2013). Both Roehm et al. (2002) and Dowling and Uncles (1997) suggest that three elements of the LP determine its preference and thus can strengthen or weaken positive associations with the brand, resulting in increased or reduced loyalty: (1) tangibility, (2) compatibility with the firm's image, and (3) reward timing. However, scant empirical research has compared these elements.

Transaction theory (Thaler, 1983) explains the value derived by a customer from a LP exchange, which consists of two drivers: Acquisition utility represents the economic gain or loss from the transaction realized within the LP. Transaction utility is associated with purchase within the LP and represents the pleasure (or displeasure) of the financial deal per se.

3.1.1. Tangibility of the reward

Reward tangibility depends on the relative level of abstraction. Tangible or hard benefits include monetary incentives (e.g., discounts, vouchers), whereas intangible or soft rewards provide psychological, relational, emotional, and functional benefits (e.g., preferential treatment, elevated sense of status, services, special events, entertainment, priority check-in; Arbore and Estes, 2013; Drèze and Nunes, 2009). Tangible rewards (e.g., free hotel stays, tickets) may be provided as rewards, but some research suggests that these forms of acquisition utility have an impact on short-term behavior but limited effects on relationship quality (Yi and Jeon, 2003). Many programs now increase the customers' transaction utility, which includes such intangible rewards as privileged access to websites and members-only newsletters. Empirical evidence suggests that tangible rewards are preferred to intangible ones and create higher loyalty intentions (likelihood that a consumer will purchase a particular product or service in the future (Keh and Lee, 2006; Yi and Jeon, 2003). Thus

H1. The (a) preference of an LP (b) and store loyalty intentions are