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Does a loyalty program change what we feel and do

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Does a loyalty program change what we feel and do

Abstract

In the wake of XXI Century we can witness the expansion of loyalty programs in various industries: from frequent purchase consumer goods and services (e.g. hotels, airlines, banking) to business-to-business specialties (e.g. producers of animal pasture). Due to mixed results of loyalty initiatives published so far, managers are looking for a successful program recipe. In line, academics try to analyze the phenomenon and propose solutions to help marketers improve the results.

The aim of the article is to provide further insight into effects of loyalty programs. Building on Rosenbaum and colleagues work, we investigate the impact of loyalty program on intention to repeat purchase in transaction-prone context (Rosenbaum et al. 2005).

In the article, we analyze the differences that exist between members of loyalty programs and non-members. By examining interrelationships between variables we find that non-communal, point-based programs might in fact economize relationship. Thus our results support concerns raised by Stauss and colleagues in their exploratory study (Stauss et al. 2005).

Keywords: loyalty program, effects, attudinal, intentions

Track: Consumer Behaviour

Loyalty programs

Companies introduce loyalty programs to create new or strengthen existing bonds with their customers. These marketing activities trigger substantial investments – for example, only in the USA companies spent around \$1,2 billion in 2003 (Wharton School 2006). Nevertheless, their effectiveness is still an open question.

In general, a loyalty program can be defined as a set of activities sponsored by a company, which is directed at building customer loyalty through supporting program members (Rosenbaum et al. 2005).

Loyalty program is also often defined as a structural company effort which is to build up attitudinal and behavioural bonds between a customer and a supplier (Sharp and Sharp 1997). Other authors have developed the definition by underlining differences in potential effects of loyalty programs (i.e. affective and behavioural) that exist due to different types of programs. Recently, Rosenbaum et al. proposed to distinguish between communal and non-communal programs, whereas the former should drive mainly affective loyalty (i.e. strengthen psychological and/or sociological bonds) and the latter modify buying behaviour (Rosenbaum, Ostrom et al. 2005). Point-based programs are prevalent in many industries (Benavent and Crié 2000), mainly these characterized by frequent transactions made by the same entity (e.g. in retail). Point-based programs are usually non-communal in nature, because collecting points and claiming rewards is done by a single individual.

Effects of loyalty programs

One can enumerate various potential (and expected) business effects of a loyalty program, with higher propensity to repeat purchase or an increase in company's share in category being probably on the top of the list e.g. (Turner and Wilson 2006; Wirtz, Mattila et al. 2007).

However, we argue, that for any loyalty program to be a true loyalty one, attitudinal and relational performance should also be evaluated and measured (Kwiatkiewicz 2007).

Behavioural outcome

The most commonly used measure of buying behaviour is Share of Wallet (SOW) because it reflects actual sales potential for a company (Leenheer, van Heerde et al. 2006; Keiningham, Cooil et al. 2007). Kumar and Reinartz advocate using additional measures: Share of Category Requirement (SCR) and Share of Wallet versus Size of Wallet. The authors suggest that SCR perform better when spending level across customers does not vary much. In case of considerable heterogeneity in spending levels one should observe share-of-wallet because customers tend to remember the amount spent more than purchase frequency (Kumar and Reinartz 2005, p. 148).

Attitudinal outcome

For attitudinal measurement companies usually employ satisfaction research. Sometimes satisfaction level is considered to be a proxy of the loyalty level. However, recent studies show that loyalty and satisfaction are two different, though interrelated, variables (Bennett and Rundle-Thiele 2004; Curasi and Kennedy 2002)

In recent years many research was devoted to another attitudinal measure: intention to give positive word-of-mouth (Reinartz and Kumar 2002).

The recommendation proneness level is often considered as a proof of the customer's strong attachment to brand, and a source of additional revenues for a company (Gwinner et al. 1998; Kumar et al. 2007), and in consequence of this, the propensity to recommend has an impact on increasing the company's value (Reichheld 2003).

In our study we use all four measures: satisfaction, intention to recommend, share of requirements and total spending.

Hypotheses

For sustainable development a company needs both short and long-term marketing support. Short-term marketing effects are reflected in customer behaviour (e.g. response rate for a promotion). Long-term marketing effects are usually difficult to capture, however they may be estimated by analyzing customer preferences and changes in attitudes towards focal brand.

There is growing evidence which suggest that to measure customer loyalty one should adopt a multidimensional approach as measuring only one dimension (usually behavioural outcome) can be misleading (Reinartz and Kumar 2002).

In our article we concentrate on variables which reflect attitudes and behaviour, namely intention to recommend (word-of-mouth, from hereafter referred to as RE variable), share-of-category requirement (SCR) and total spending (TS). We analyze both SCR and TS because we have no prior knowledge of heterogeneity in spending for individual petrol buyers.

As we have noted at the beginning of the paper, more and more companies invest huge amount of money into loyalty programs. It would be unwise to do so should there be no positive outcome of such investments. Thus we argue that loyalty program membership should moderate short- and long-term (i.e., adequately behavioural and attitudinal) outcome.

In line with approach proposed by Keiningham and colleagues we relate attitudinal antecedents with attitudinal consequences and behavioural antecedents with behavioural outcome (Keiningham et al. 2007).

First, we hypothesize that intention to recommend is influenced by overall satisfaction. That is, a customer would not be willing to recommend a petrol station he/she is not satisfied with. A loyalty program should than boost satisfaction level (providing constant satisfaction/recommendation ratio) or increase willingness to recommend (if satisfaction is at the same level). Thus:

H₁: Overall satisfaction correlates with intention to recommend positively and stronger for members than non-members

In the article we focus on individual petrol buyers. The research context is important because it shapes structure and strength of loyalty program effects (Bove and Mitzifiris 2007; Kwiatek 2007; Reinartz and Kumar 2003; Reinartz and Kumar 2002).

Petrol stations are characterized by following: transaction-prone and low-involvement setting, accompanied by homogenous product. It is also worth noting that at least in Poland retail petrol distribution is saturated with loyalty programs, with 5 out of 6 biggest chains running one. Thus we expect that through constant customer exposition to such “promotions”, loyalty programs will influence behaviour more than attitude. As we have noted before, due to lack of a priori spending distribution we formulate two hypotheses:

H_{2a}: Repurchase intention correlates with SCR stronger than with RE in members group

H_{2b}: Repurchase intention correlates with TS stronger than with RE in members group

As there are no major differences between chain petrol stations in our study, we cannot assume that a loyalty program will influence repurchase intent directly or through mediators, as positive attitude (satisfaction and intention to give positive word-of-mouth) or behavioural attraction (SCR, TS).

Measurement

In line with Bove and Mitzifiris (2007) and Keiningham and colleagues (Keiningham et al. 2007) we measured SCR directly on a four-point scale (0-25%, 26-50%, 51-75%, 76-100%), by asking drivers about the proportion of fuel purchase they allocate to petrol station with a loyalty program (Bove and Mitzifiris 2007).

Monthly spending on petrol (TS) was measured as a product of customers spending per purchase and number of purchases (so the scale is continuous). Following Keiningham et al. and Johnson and Gustafsson (2000, p. 81) reasoning and guidelines attitudinal variables were

measured on seven-point scales: overall satisfaction level („not at all satisfied” to absolutely satisfied”) propensity to recommend (from „not at all likely” to „very likely”). Repurchase intent (subjective probability of switching) was also measured on a seven-point scale.

Sample

We used direct interview method to collect data. The interviews were conducted in Poznan (one of the biggest polish cities) on different days and at different times of day within a three-week period, by trained interviewers targeting every third car driver tanking fuel at the petrol station. The proper study was preceded by a pilot study to check comprehension of questions used. In the end, the questionnaire consisted of 28 questions, including six background questions. It was assumed that the survey would be more reliable when conducted during fuel purchase of the people who actually make decisions about the choice of the given station. Moreover they should be more willing to answer survey questions due to *idle time* during filling up. In total 310 questionnaires were completed and analyzed.

Not surprisingly, most of respondents were men (77,4%, $n=240$). Less than 17% of the sample refueled a company car. We checked for kind of car (i.e. private or company) as purchase pattern may be biased if one who buys (petrol) is not the one who pays for it.

More than a half of survey respondents participated in loyalty programs on petrol stations (55,5%, $n=172$).

Results and discussion

We observe rather high values for attitudinal variables: with average overall satisfaction score being 5,58 (*median=6*) and repurchase intent 5,40 (*median=6*). The results suggest that survey respondents concentrated their purchases on one petrol station. We also find considerable heterogeneity in spending levels (table 1), which would suggest TS to be more reliable measure than SCR.

Table 1. Descriptive statistics for variables

	mean	Median	standard deviation
SCR	76%	88%	18,55
RE	4,44	5	2,247
SA	5,58	6	1,00
TS	355	312,5	263,6
LO	5,40	6	1,59

The aim of the article is to present differences between members and non-members of a loyalty program, so we present them separately.

Table 2. Correlation matrix for non-members

Variable	SCR	RE	SA	TS	LO
SCR	1	0,088	0,136	-0,13	0,211*
RE	0,088	1	0,239**	0,186*	0,104
SA	0,136	0,239**	1	-0,078	0,336**
TS	-0,13	0,186*	-0,078	1	0,089
LO	0,211*	0,104	0,336**	0,089	1

* $p<0,05$; * $p<0,01$, two-sided.

Table 3. Correlation matrix for loyalty program members

Variable	SCR	RE	SA	TS	LO
SCR	1	0,216**	0,092	0,102	0,12
RE	0,216**	1	0,340**	0,183*	0,165*
SA	0,092	0,340**	1	0,046	0,210**
TS	0,102	0,183*	0,046	1	0,274**
LO	0,12	0,165*	,210**	0,274**	1

* $p<0,05$; * $p<0,01$, two-sided.

As expected, correlation between satisfaction and willingness to recommend is stronger in the loyalty program members group. Thus we find support for hypothesis H₁. For non-members, intention to repeat purchase correlates with satisfaction and share of requirements. Correlation coefficient is higher in non-members group than in the whole sample ($r=0,270$, $p<0,01$). For loyalty program members we find, that apart from satisfaction, repurchase intention correlates with intention to recommend but correlation is stronger for TS (table 2 &3). Thus we conclude that hypothesis H_{2a} should be rejected but we cannot reject H_{2b}.

It seems to support the notion from Kumar and Reinartz that with high heterogeneity in spending, expenses are better remembered than frequency of visits. We find evidence to support Stauss et al. findings from their exploratory study on German transport market: loyalty programs that reward customers for their expenditures can in fact economize relationships (Stauss et al. 2005).

Research limitations and directions for further research

Results presented in the paper come from a cross-sectional study. Thus we cannot be sure if the differences between groups are due to impact of a loyalty program. Results from Rosenbaum and colleagues suggest that in transactional context there might be no difference in psychological predisposition to loyalty (Rosenbaum et al. 2005). Also, in our study we found no significant differences in demographics between members and non-members. Nevertheless, one should be conscious in generalizing the results as the data come from one industry. Another potential shortcoming of this study might be common method bias as we used a single questionnaire to measure all constructs of interest (Bove and Mitzifiris 2007).

We would like to encourage other researchers to examine further to distinguish causality in loyalty programs, i.e. *what, when and to what extent* changes in customer feelings and behaviour when a loyalty program is introduced.

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