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behaviors in loyalty programs:  
scale development and  
validation.

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# **Louvain School of Management**

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#### **Summary**

Customer engagement is increasingly gaining attention among practitioners and academics. Although loyalty programs (LPs) are frequently used to engage customers in relationships, no previous research considered engagement in LPs. Current measures of engagement do not adequately capture the customers' LP engagement. Across three studies, this research conceptualizes LP engagement as six behavioural manifestations towards the LP and develops a scale to measure them. While previous research on LPs only considered behaviours such as card usage or point redemption to study customer engagement, our study shows that these behaviours do not seem to be good indicators of the level of the customer's engagement.

**Keywords :** loyalty program; customer engagement ; scale development.

**JEL Classification:** M31

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## **MEASURING CUSTOMERS' BEHAVIORS IN LOYALTY PROGRAMS: SCALE DEVELOPMENT AND VALIDATION.**

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Customer engagement is increasingly gaining attention among practitioners and academics. Although loyalty programs (LPs) are frequently used to engage customers in relationships, no previous research considered engagement in LPs. Current measures of engagement do not adequately capture the customers' LP engagement. Across three studies, this research conceptualizes LP engagement as six behavioural manifestations towards the LP and develops a scale to measure them. While previous research on LPs only considered behaviours such as card usage or point redemption to study customer engagement, our study shows that these behaviours do not seem to be good indicators of the level of the customer's engagement.

*Keywords:* loyalty programs, customer engagement, scale development.

### **1. Introduction**

Customer engagement has emerged as a prominent construct in recent years and is increasingly gaining attention among practitioners and academics. To engage customers in relationships, loyalty programs (LPs) have become an inescapable tool. Nowadays, LPs not only offer monetary incentives but also incorporate the social aspects of the relationship with their members, through various forms of personalized communication. Consumers' enthusiasm to enrol in these programs keeps on growing over the last years. From 2012 to 2014, total LP enrolments in the United States increased by 26 % (Berry 2015). But customers do not participate to the programs they enrol in. The proportion of 'active' memberships among total memberships has dropped from 2010 to 2014, decreasing from 46% to 42% (Berry 2015). Figures suggest that firms fairly well manage to acquire new members with their LPs but that they are

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unable to engage customers in relationships with their programs. Whereas the improvement of customer engagement has become one of the main objectives of LPs, much remains to be understood about customer's engagement in LPs. To the extent of our knowledge, no definition or measure of customer engagement towards LPs exists. Our research questions are "What is customer loyalty program engagement and how to measure it?" We offer two main contributions. First, we theoretically contribute to the emergent literature on engagement by providing a scale for measuring customer loyalty program engagement. Second, we offer a tool for assessing customer's responses to LPs that is novel to the domain of loyalty programs. We offer thus firms a way (i) to assess their LP members' engagement and (ii) to better manage their LP in order to enhance customer engagement in a relationship.

## **2. Theoretical background**

Although engagement remains an emergent rather than mature theme in the academic literature, a considerable conceptual and descriptive work on engagement across various marketing fields exists. However, there are gaps as to what engagement in general means in marketing research. Researchers agree with the fact that customer engagement reflects the relationship between a consumer and a focal object. Whereas all definitions characterize a form of relationship between the customer and a focal object, it is interesting to note that marketing researchers have difficulty in agreeing on the exact nature of the concept. Some view engagement more as a state of mind while others consider it as a customer's activity or behaviour. We propose that engagement involves more than a motivation and that it is characterized by activities with respect to the focal object. We define engagement as the customer's active presence beyond purchase in a relationship with the firm.

The main and initial purpose of LPs is to reward and encourage loyal behaviour (Sharp & Sharp 1997). But it is well known that solely foster on loyal behaviour does not lead to sustainable loyalty. Long term and true loyalty occurs when repeated purchases are the result of positive feelings (Day 1969; Oliver 1999). LPs meant to build true loyalty must move beyond monetary rewards and build incentives to engage customers in long-term relationships. Gaining customer engagement has become one of the most important goals of LPs. Although LPs have acquired an important position in the marketing mix of many firms, which in turn has resulted in the invasion of loyalty cards in customers' wallets, empirical evidence on their potential impacts is mixed. Some research showed positive effects of LPs (e.g. Bolton et al. 2000; Keh & Lee 2006; Leenheer et al. 2007; Lewis 2004; Liu 2007) while other studies showed no or mixed effects. It is necessary to understand both part of the two-way relationship to understand the effectiveness of loyalty programs (Meyer-Waarden & Benavent 2009). In other words, besides the firm's point of view (e.g., LP design), it is fundamental to understand customers' active presence in the relationship with LPs. Some research has considered customers' activity with LPs. To assess program loyalty, Evanschitzky et al. (2012) evaluated the card usage of the customers. Similarly, other researchers studied the customer reward redemption behaviour to evaluate the

effectiveness of LPs (Bridson et al. 2008; Dorotic et al. 2012). But, in the vast majority of the studies, the authors compare cardholders and noncardholders, that is only LP membership is taken into account to evaluate their effectiveness. No distinction is made between engaged and non-engaged customers. Effectiveness of LPs is assessed based on all program members without taking into account the fact that some customers may be members but never participate in the program. Because many LPs fail to perform as expected, an alternative approach to understand their effectiveness is needed. We propose that engagement towards LPs will be a good proxy of the customer's engagement towards the firm and subsequently, towards loyalty. In line with the definition of customer engagement, we define customer's LP engagement as the customer's behavioural presence in the relationship induced by the firm's LP. The customer engagement towards the LP is a component of the customer entire engagement in the relationship with the firm as it comprehends only the presence in the relationship built through the LP. Please provide a shortened running head (not more than eight words) for the title of your paper. This will appear with page numbers on the top right-hand side of your paper on odd pages.

### **3. Methodology and results**

We rigorously undertook the scale development procedure proposed in the literature. First, 22 in-depth interviews were conducted to collect qualitative data. Content analysis of the responses revealed that LP engagement includes six different behaviours. The most spontaneous behaviour is the proactive use of the card. Respondents stated that spontaneously thinking about using their card when passing the cashier includes behaviour. The second behaviour reported by the individuals is the fact that they do some effort to redeem their points to get their benefits. When they have achieved a certain goal, they will do the necessary deed to receive their reward. The third behaviour described by respondents is adapting their purchase behaviour to receive more loyalty points. They said being active when buying more or other products in order to get more advantages from the program. The fourth behaviour includes chatting about the program. Respondents stated that activity includes also spreading the word and talk about their program. The fifth behaviour described by respondents is the fact that they are receptive to LP's stimuli. For them, opening a communication (e-mail, brochure, flyer,...) linked to the program and take some time reading it, represents also engagement in the LP. The last behaviour reported is proactively search for information. For respondents, proactively keeping informed about the program represents also engagement. Following, researchers read through the transcripts and generated a pool of 44 items describing LP engagement that need be further investigated in a quantitative study. An online survey involving 383 respondents across several retail industries was conducted to test the pool of items. A factor analysis with Promax rotation was run to address eventual correlations among the dimensions. The analysis revealed six factors with eigenvalues greater than 1. An iterative process (Hair et al. 2010) lead the removal of items with low communalities ( $<0,5$ ), low factor loadings ( $<0,5$ ) or high cross-loadings ( $>0,3$ ). The factor analysis with the remaining 24 items resulted in a six-structure solution accounting for 66,9% of the total variance. The results

of the exploratory factor analysis are summarized in Table 1. Following, a validation dataset involving 692 respondents was collected to run a confirmatory factor analysis. The six-factor structure identified with the first study was tested using maximum likelihood estimation.

| Items                                                                                                                 | Card usage   | Red-<br>eeming<br>points | Adapt<br>purchase<br>behavior | Chat        | Recept-<br>ivity | Search<br>for<br>infor-<br>mation |
|-----------------------------------------------------------------------------------------------------------------------|--------------|--------------------------|-------------------------------|-------------|------------------|-----------------------------------|
| I present my loyalty card at the cashier when he/she asks for it                                                      | <b>-.854</b> | .191                     | .007                          | .020        | -.083            | .076                              |
| I wait for the cashier to ask for my card before presenting it to him/her                                             | <b>-.755</b> | .051                     | .025                          | .037        | -.178            | .087                              |
| I present my loyalty card at the cashier, even when he/she doesn't ask for it                                         | <b>.748</b>  | .077                     | .094                          | .092        | -.208            | .088                              |
| I forget to take out my loyalty card when I make my purchases in this store (reverse)                                 | <b>-.746</b> | -.054                    | .047                          | .074        | -.119            | .027                              |
| I spontaneously think to take out my card when I'm paying for my purchases*                                           | <b>.707</b>  | .146                     | .032                          | .073        | -.118            | .150                              |
| When I receive a reward to use with my next purchase, I do an effort to return to this store to benefit from it       | <b>-.048</b> | <b>.920</b>              | -.067                         | .000        | .054             | -.179                             |
| I do what I need to redeem my loyalty points and receive the reward                                                   | .057         | <b>.661</b>              | -.070                         | .017        | .181             | .056                              |
| When I reach a certain point threshold, I go specifically to this store to get my reward                              | <b>-.024</b> | <b>.652</b>              | .141                          | .026        | -.085            | .161                              |
| I am ready to buy other products than I have planned to get more advantages offered by the program                    | <b>-.011</b> | .003                     | <b>.923</b>                   | .002        | .036             | -.087                             |
| I am ready to buy other brands than I have planned to get more advantages offered by the program                      | .045         | -.021                    | <b>.875</b>                   | .007        | -.101            | -.065                             |
| I am ready to buy more products to get more advantages offered by the program                                         | <b>-.023</b> | -.048                    | <b>.813</b>                   | -.045       | .056             | .108                              |
| When I am disappointed by the program, I talk about it to my entourage                                                | .078         | -.005                    | -.050                         | <b>.866</b> | -.144            | -.041                             |
| If I'm satisfied with the program, I recommend this program to my entourage                                           | .005         | .051                     | .000                          | <b>.859</b> | .119             | -.137                             |
| Whatever the experience (positive or negative) with the loyalty program, I talk about my experience with my entourage | <b>-.025</b> | -.067                    | -.026                         | <b>.794</b> | -.013            | .154                              |

| Items                                                                                                                               | Card<br>usage | Red-<br>eeming<br>points | Adapt<br>purchase<br>behavior | Chat         | Search<br>for<br>Receipt infor-<br>-ivity mation |              |
|-------------------------------------------------------------------------------------------------------------------------------------|---------------|--------------------------|-------------------------------|--------------|--------------------------------------------------|--------------|
| I try to convince my entourage to become a member of this programme when there is an interesting offer                              | -.108         | .061                     | .071                          | <b>.688</b>  | .080                                             | .052         |
| When I receive a communication linked to the program (an email, a brochure, a flyer, ...), I throw it straight to the bin (reverse) | -.080         | -.013                    | .072                          | .000         | <b>-.842</b>                                     | .107         |
| When I receive a communication linked to the program (an email, a brochure, a flyer, ...), I open it                                | .027          | .080                     | .051                          | -.012        | <b>.828</b>                                      | -.008        |
| When I receive a communication linked to the program (an email, a brochure, a flyer, ...), I take some time to read it              | -.020         | .048                     | .021                          | .017         | <b>.710</b>                                      | .229         |
| I look for information about the loyalty program (on Internet or in the store)                                                      | -.050         | -.071                    | -.026                         | -.015        | -.106                                            | <b>.922</b>  |
| I closely follow the evolution of my loyalty points*                                                                                | .042          | .188                     | -.122                         | -.116        | -.172                                            | <b>.868</b>  |
| I keep up the news concerning this program*                                                                                         | .000          | -.052                    | .004                          | .067         | .065                                             | <b>.810</b>  |
| In the store, I take the new magazines or leaflets with information about the program*                                              | .024          | -.366                    | -.015                         | .064         | .141                                             | <b>.750</b>  |
| I keep informed about the offers of this program                                                                                    | -.023         | .160                     | .110                          | -.074        | .167                                             | <b>.616</b>  |
| When I receive an offer as a program member, I am curious and I look for more information                                           | -.009         | .097                     | .028                          | .070         | .058                                             | <b>.613</b>  |
| <b>Cronbach's alpha</b>                                                                                                             | <b>0.825</b>  | <b>0.710</b>             | <b>0.811</b>                  | <b>0.827</b> | <b>0.750</b>                                     | <b>0.864</b> |

Model identification was achieved and the fit indices suggest that the model adequately represents the input data (CFI=0.95, TLI=0.944, RMSEA=0.052, SRMR=0.047). All indices exceeded the recommended threshold levels (Bagozzi & Yi 1988). Standardized item-to-factor loadings and average variance extracted, Cronbach's alpha were evaluated and met the satisfactory threshold levels to address reliability, convergent and discriminant validity. To establish nomological validity, we examined how well the LP engagement behaviours relate to LP satisfaction and loyalty. Satisfied and attitudinal loyal customers towards the LP, will be more likely to participate to the LP's offerings. LP engagement is thus expected to be positively correlated with LP satisfaction and LP loyalty. Correlations between the six engagement behaviours and LP loyalty and satisfaction were statistically significant, positive and moderate or high in size (ranging from .26 and .53). The measures thus correlated in a manner predicted by theory, supporting nomological validity. Furthermore, we investigated how LP engagement behaviours are related to engagement with the firm. In line with our definition of engagement, high and positive correlations between the six behaviours are expected. However, in contrast with this, card usage is has

a, though statistically significant ( $p < 0.10$ ), very low correlation ( $r = 0.081$ ) with engagement (towards store or brand). The engagement behaviours that are the most highly correlated with engagement are searching for information ( $r = 0.442$ ) and chatting about the program ( $r = 0.423$ ). Major headings should be typeset in boldface with the first letter of important words capitalized.

#### 4. Discussion and conclusion

An important contribution of this study is to propose a new measure customer's responses to LPs. Previous studies measured customer's behaviours with LPs only as card usage or point redeeming (Bridson et al. 2008; Evanschitzky et al. 2012). But while improving engagement with LPs has become an important goal, this study showed that these behaviours seem to be bad predictors of engagement. The current study extends on previous research by measuring LP engagement through six different behaviours. It represents a step forward in measuring the effectiveness of LPs. Low LP engagement could be a possible explanation for the mixed evidence of LP effectiveness shown in previous studies. This research also contributes to the emerging but limited body of research on customer engagement. Previous research developed some scales to measure engagement that are not satisfactory to measure LPs. Existing scales of community engagement measure participation activities in the community (Hall-Phillips et al. 2015; Raïes et al. 2015). Consumer brand engagement scales measure interactions with brand or firm that are not adaptable to LPs as they measure the presence in the relationship with the firm but don't measure specific behaviours with LPs. We provide a new scale that is conceptually different from previous scales and helps to understand better engagement with LPs. This research has some important managerial implications too. Firms spend vast amounts of money developing LPs intending to engage customers in relationships. Hence, firms focus on LP enrolments rather than LP engagement. Thanks to the LP engagement scale, practitioners will be able to monitor the entire response set of customers to their LPs, evaluate the effectiveness and subsequently increase engagement. There are limitations to this research that can be addressed in the future. With regard to generalizability, research is needed to establish the measure's relevance and validity in other contexts. Second, in the present study, LP engagement has been studied at one particular point in time. But engagement is an iterative process, not stable over time. Additional research should study LP engagement in a longitudinal research. Finally, further research should investigate what the effect of the six different behaviours on the firm's outcomes are. To conclude, LP engagement should motivate new research on LP effectiveness as it provides new helpful insights into the customer's responses to LPs.

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