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participation in loyalty
programs

Virginie BRUNEAU,
Valérie SWAEN,
Louvain School of Management
Research
Institute

Pietro ZIDDA,
Université de Namur

Louvain School of Management Research Institute

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(president-ilsm@uclouvain.be)

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Virginie Bruneau, Louvain School of Management Research Institute

Valérie Swaen, Louvain School of Management Research Institute

Pietro Zidda, Université de Namur

Summary

While customers' enrolments in loyalty programs (LPs) keeps on rising, they merely participate. This research investigates what types of LP design will be more likely to increase two forms of participation depending on customers' initial loyalty level: card usage and point redemption. Results show that (1) hard rewards foster card usage (only for loyal customers) whereas soft rewards increase point redemption; (2) personalized communication has a positive effect on point redemption (only for loyal customers). Previous research showed mixed evidence of LP effectiveness on retailer's outcomes. Customer participation to LPs is certainly a major issue. This research contributes to previous literature on LPs by providing insights on how to keep customers active after enrolment.

Keywords : Loyalty programs, perceived benefits

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Corresponding author :

Virginie Bruneau

Center for Excellence CERMA

Louvain School of Management / Campus Louvain-la-Neuve

Place des doyens, 1

B-1348 Louvain-la-Neuve, BELGIUM

Email : virginie.bruneau@uclouvain.be

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ENHANCING CUSTOMER PARTICIPATION IN LOYALTY PROGRAMS

VIRGINIE BRUNEAU*

*Louvain School of Management Research Institute, Université catholique de Louvain, 1 place des doyens,
B-1348 Louvain-la-Neuve, BELGIUM virginie.bruneau@uclouvain.be*

VALERIE SWAEN

*Louvain School of Management Research Institute, Université catholique de Louvain, 1 place des doyens,
B-1348 Louvain-la-Neuve, BELGIUM valerie.swaen@uclouvain.be*

PIETRO ZIDDA

*Université de Namur, 8 Rempart de la Vierge, B-
5000 Namur, BELGIUM pietro.zidda@uclouvain.be*

While customers' enrolments in loyalty programs (LPs) keeps on rising, they merely participate. This research investigates what types of LP design will be more likely to increase two forms of participation depending on customers' initial loyalty level: card usage and point redemption. Results show that (1) hard rewards foster card usage (only for loyal customers) whereas soft rewards increase point redemption; (2) personalized communication has a positive effect on point redemption (only for loyal customers). Previous research showed mixed evidence of LP effectiveness on retailer's outcomes. Customer participation to LPs is certainly a major issue. This research contributes to previous literature on LPs by providing insights on how to keep customers active after enrolment.

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1. Introduction

The use of direct marketing has increased steadily over the last decades and the vast majority of companies use customer relationship management instruments (van Diepen, Donkers, and Franses, 2009). Loyalty programs (referred to as LPs hereafter) are a widely used customer relationship management tool and U.S. companies spend annually over \$50 billion on the development of LPs (Shaukat & Auerbach, 2011). Their objectives are threefold: acquiring more knowledge about customers (Kumar & Shah, 2004), creating loyalty by changing behaviours (Bolton, Kannan, and Bramlett, 2000) and establishing long term relationship with customers (Sharp & Sharp, 1997). From the customer's side, LPs keep on growing in popularity too. The number of LP

* Corresponding author.

memberships in the U.S. has more than tripled since 2000. This growth shows no signs of flagging, with an increase of 26% of LP memberships between 2012 and 2014 (Berry, 2015).

Yet, while customers' enthusiasm to enroll in these programs keeps on rising, their active participation is slowing down (Mauri, 2003). The proportion of active memberships among total memberships has dropped from 2010 to 2014, from 46% to 42% (Berry, 2013, 2015). Figures suggest that firms fairly well manage to acquire new LP members but that they are unable to make them actively participate in the program. Indeed, 42% of enrolled members are not active with the program; households are members of 29 LPs on average but are active in only 12 of them. In other words, they use less than half of their loyalty cards to earn rewards. While firms make considerable efforts to develop effective LPs, customers are acquiring new cards but do not use them. Without card usage and point redemption, firms hardly collect data and are unable to develop relationship strategies to make their customers more loyal. Many programs fail because customers fail to participate in relationship marketing programs (Ashley, Noble, Donthu, and Lemon, 2011).

Understanding how various features of LPs enhance active participation with loyalty programs is a critical question for their effectiveness. Program benefits drive consumers' choice to participate in a loyalty program (De Wulf, Odekerken-Schroder, de Canniere, and van Oppen, 2003). Loyalty program attributes are keys in customers' mind and influence their intention to participate in LPs (De Wulf et al., 2003). Previous empirical studies suggest that LP effectiveness depends on the program design (Demoulin & Zidda, 2008; Kreis & Mafael, 2014; Roehm, Pullins, and Roehm, 2002; Yi & Jeon, 2003).

In this research, we investigate the effects of the perceived benefits on participation behaviour in LPs. Our purpose is to investigate what types of LP design induces more active participation from LP members. With the help of a series of experiments, we examine to what extent some elements of the LP design have a positive (or negative) effect on the customer's participation. In line with Berry (2015), we consider participation as "using the program to earn rewards", that is we consider card usage and point redemption behaviours as forms of customer participation. This research contributes to a better understanding of the effects of the LP design on customer behaviour and intends to help managers to increase participation to their LPs.

2. Theoretical background

2.1 Loyalty programs

LPs can be defined as "structured marketing efforts which reward, and therefore encourage loyal behaviour" (Sharp & Sharp, 1997, p. 474). LPs comprise integrated systems of

marketing actions and communications that aim to increase loyalty by providing rewards (Meyer-Waarden, Benavent, and Castéran, 2013). LPs offer incentives (rewards) to customers based on evidence of loyalty (Meyer-Waarden, 2013). Academic research emphasizes the importance of having the right LP design to increase loyalty. LP design comprises the membership requirements, program structure, point structure, reward structure and program communication (Breugelmans et al., 2015). A large body of research has pointed out how different types of reward determine customer behaviour (e.g. Liu & Yang, 2009) but it remains unclear which LP design elements drive the customer's participation in an LP.

2.2 Perceived benefits

Perceived benefits of LPs refer to the perceived value customers attach to what the program can provide or do for members (Mimouni-Chaabane & Volle, 2010). Benefits customers obtain from LPs include utilitarian (monetary savings and convenience), hedonic (exploration and entertainment) and symbolic (recognition and social) benefits. This study focuses on the effects of monetary savings, exploration and recognition benefits.

2.2.1 Monetary savings and exploration benefits

Monetary savings benefits derive from financial advantages (Mimouni-Chaabane & Volle, 2010) and are considered as economic or hard rewards. Hard rewards usually offer tangible elements such as discounts, coupons, rebates or cash. Monetary savings benefits carry economic value in contrast to exploration benefits which do not have intrinsic money worth. Non-monetary rewards also named soft rewards provide exploration benefits such as new information and special treatment (Bridson, Evans, and Hickman, 2008; Dorotic, Bijmolt, and Verhoef, 2012). Hard rewards may be especially important in early stages of the relationship development (Peterson, 1995). Furthermore, customers already committed to the store are more likely to enrol in the LP (Demoulin & Zidda, 2009). Purchase frequency also plays a significant role in customer participation intentions (De Wulf et al., 2003). Customers with a low purchase frequency will be less likely to use their card in the program, no matter the LP design. Empirical evidence suggests that direct economic rewards are more effective than soft rewards on short-term loyalty (Keh & Lee, 2006; Yi & Jeon, 2003). Soft rewards have an emotional value and induce long-term emotional responses (Melancon, Noble, and Noble, 2011). Card usage behaviour represents a more rational short-term behaviour and will thus be fostered by hard rewards rather than soft rewards. Previous research found that LPs attract consumers because of the pleasure associated with collecting and redeeming points (Johnson, 1999). We can thus consider point redemption behaviour as a more long-term emotionally driven behaviour. It will tend to be stimulated by soft rewards. Therefore, we propose the following hypotheses:

H1: Customers' perceived monetary savings benefits (created by hard rewards) will induce higher levels of card usage than exploration benefits (created by soft rewards), only for loyal customers

H2: Customers' perceived exploration benefits (created by soft rewards) will induce higher levels of point redemption than hard rewards.

2.2.2 Recognition benefits

Customers derive recognition benefits from participating in LPs, they feel distinguished or treated better by the company (Mimouni-Chaabane & Volle, 2010). Prior research found that program communication could influence consumers' behaviour (Wiebenga & Fennis, 2014). Service firms increasingly use information technology to personalize communications, products and services (Ansari & Mela, 2003). Customers perceive customized offers as a sign of distinctiveness (Gordon, McKeage, and Fox, 1998; Mimouni-Chaabane & Volle, 2010). Learning more about customer's responses to personalization is of particular relevance (Shen & Ball, 2009). Personalization has a positive effect on customer's purchase behaviour (Gázquez-Abad, Cannière, and MartínezLópez, 2011) and is an important antecedent of loyalty (Ball, Coelho, and Vilares, 2006). Personalization also has a positive impact on commitment (Shen & Ball, 2009). Customers' response to personalization will however vary depending on their initial level of loyalty to the firm. Indeed, customers who have not yet been convinced of a firm's value proposition do not respond always favourably to personalized messages (White, Zahay, Thorbjørnsen, and Shavitt, 2008). Personalized messages may be perceived as too personal and customers may experience psychological reactance, a state arising in a person whose freedom is perceived to be threatened (Brehm, 1996). Thus, we hypothesize that:

H3: Personalized communication will increase card usage behaviour (H3a) and point redemption behaviour (H3b), but only for loyal customers.

3. Methodology and results

In order to test our hypotheses, we use a 2x2 full-factorial randomized design. Types of reward (hard vs. soft) and types of communication (personalized vs. non-personalized) are designed as between-subject variables. A total of 511 non-student participants (who range between 18 and 70 years old and among 70% are women) were recruited through an online survey platform. Each condition presented a different email sent through the LP of a wellknown Belgian grocery retailer. After eliciting their initial loyalty level with that particular retailer, each subject was randomly assigned to one of the four conditions. Each respondent was shown one of four emails. Reward type (hard vs. soft) was manipulated with the email content. In the "hard" condition, the email contained several price offers and coupons. In the "soft" condition, a cooking recipe was presented. In the personalized scenario, respondents had to imagine being "Virginie" (for female respondents) or "Pierre" (for male respondents) who loves Italian food and often buys pasta, asparagus, basil and

Italian cheese. The email shown was specifically addressed to “Virginie” or “Pierre”. In the personalized hard condition, the email showed special price offers on these Italian products. In the personalized soft condition, a culinary recipe containing the same products was shown. In the non-personalized scenario, the email was addressed to “Sir” or “Madam”. Before starting our analyses, manipulation checks for types of reward and personalization were performed. Perceived monetary savings benefits were higher in the hard condition and perceived exploration benefits were higher in soft condition (but only for the non-personalized scenario). This allows us only to analyse the effects of hard vs. soft in the non-personalized condition. The perceived levels of recognition benefits were higher in the personalized condition than in the non-personalized condition. All constructs were measured on 7-point agreement multi-item scales borrowed from the literature.

3.1 Effects of reward type

As shown in Fig. 1, an interaction effect occurs between reward types and loyalty levels ($F=7.79$, $p<.01$). Results show that hard rewards induce higher levels of card usage (hard=5.7 vs. soft=5, $F=6.14$, $p<.05$), but only for loyal customers, supporting H1a. As expected for H2, an increased level of point redemption behaviour is observed in the “soft” condition (hard=4.31 vs. soft=4.79, $F=7.19$, $p<.05$).

3.2 Effects of personalization

No support is found for H3a. The the interaction effect between card usage and loyalty level were not significant. Yet, consistent with H3b, the interaction is significant for point redemption ($F=5$, $p<.05$). Fig. 2 shows that for loyal customers, the point redemption level is higher in the personalized condition than in the non-personalized condition (perso=5.3 vs. non-perso=4.6, $F=13.49$, $p<.01$) but not significantly different for non-loyal customers.

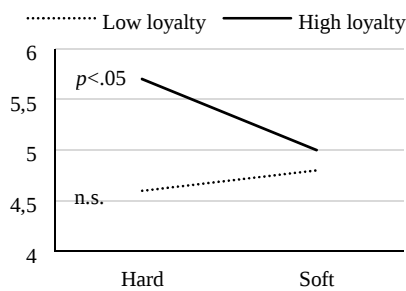


Fig. 1. Interaction effect for card usage.

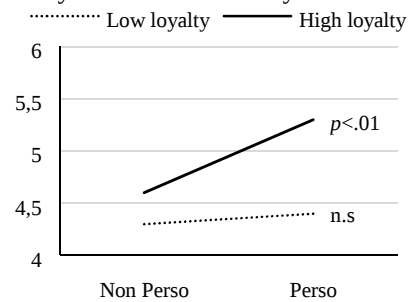


Fig. 2. Interaction effect for point redemption.

4. Discussion and conclusion

This study discusses the type of LP design managers should implement in order to foster customers' participation in LPs. Our research empirically investigates the effects of perceived benefits on customer's participation behaviour in LPs. Two factors (corresponding to distinct perceived benefits) were examined: Type of reward (hard rewards (monetary savings benefits) vs. soft rewards (exploration benefits) and type of communication (personalization (recognition benefits)). Findings suggest a variation in customers' participation in LPs according to the benefits they perceive and to their initial loyalty level. Two main findings contribute to a better understanding of the effects of LP design on the customer participation. First, in line with previous studies, results show that card usage is increased with perceived monetary savings, but only for loyal customers. Card usage behaviour depends upon customer's initial loyalty level. On the other hand, whatever the initial loyalty level, point redemption behaviour is increased with exploration benefits. Soft rewards have positive effects on customer's willingness to cooperate (Bridson et al., 2008; Drèze & Nunes, 2009).

Second, our findings suggest an interaction effect between personalized communication and customer's initial loyalty level. We did not find any significant results for card usage. Card usage behaviour depends more on the initial loyalty level than on the LP design. Yet, personalization increases redemption behaviour, but only for already loyal customers. Non-loyal customers are less receptive to personalized communication as it does not encourage them to participate more in the LP. It confirms previous studies stating that personalized communication is only effective when customers are already convinced by the company (Gázquez-Abad et al., 2011; White et al., 2008). Indeed, due to the "direct mail clutter" (van Diepen et al., 2009), mails calling for an immediate response from the customer can lead to a negative attitude and thus to no behavioural response.

The present study contributes to the wide range of studies about the effectiveness of LPs. Previous research showed mixed evidence of the capacity of LPs to change customer behaviours (Dorotic et al., 2012). Despite the very low rate of customer participation to LPs, few researchers have considered participation. Before studying the effects of LPs on loyalty or other outcomes, it is crucial to distinguish between active and non-active members. This study may also help managers to improve their decisions about LPs. Firms are spending considerable amounts of money and time to develop LPs aiming to change customer behaviours and increase their loyalty. This research adds to current knowledge by pointing out how to increase LP participation by providing some elements of the LP design that will be more likely to change behaviours. This research also provides some insights into how to keep customers active in the program after enrolment. Firms should use a variety of rewards and incentives differently targeted to groups of customers with different degree of loyalty since all LP members do not respond the same way to LP stimuli.

The present study is subject to a number of limitations, which represent avenues for future research. We use an experimental scenario approach to maximize internal validity. Additional empirical tests should extend our findings to field data in order to ensure external validity. Moreover, only some elements of the LP design are considered. Future research should investigate other elements of the LP design such as point structure or membership requirements to provide a more holistic view of the elements of the LP design that foster customer participation in LPs.

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