How do perceived benefits of loyalty programs translate into company loyalty?

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Abstract

Gaining customer loyalty is an important goal of marketing, and loyalty programs are designed to help in reaching it. This research investigates how do perceived benefits of loyalty programs (i.e., monetary savings, special treatment and social benefits) translate into company loyalty. Highlighted in the context of perfumery chain, our findings show that program loyalty and customer loyalty mediates the relationship between perceived benefits of LPs and company loyalty. Furthermore, program loyalty is an important driver of share of wallet (SOW). The findings have important implications on how managers of perfumery chains can effectively design their LP rewards to improve customer loyalty.

Keywords: perceived benefits of LPs, program loyalty, perfumery.

Track: Relationship Marketing

1. Introduction

In business practice and as a focus of marketing research, LPs have become very popular. In the United States, companies spend about $ 1.2 billion per year in loyalty programs Berry, 2013). In France, Carrefour devotes around € 80 million of its annual marketing expenditure the management of its loyalty program (Meyer-Waarden et al., 2013). In the United Kingdom, the Tesco distributor spends approximately £ 60 million on the management of its loyalty program (Bijmolt et al., 2010). At the same time, millions of consumers are joining and receiving rewards from loyalty programs (Smith and Sparks, 2009). These statistics confirm that LPs are still of interest for both academics and practitioners, despite the existing speculations that customer LPs have reached maturity and may, in fact, be coming to the end of life (Capizzi and Furguson, 2005). Yet despite of the existence of a lot of literature on loyalty program effectiveness, little is known about the processes that intervene in the relationship between perceived benefits of LPs and customer loyalty, including the role of satisfaction (Bridson et al., 2008), which is a necessary step in loyalty formation (Oliver, 1999), and little is known about the relationship between program loyalty and company loyalty (Dorotic et al., 2012). Thus the purpose of the current study is to bridge this gap, given the growing interest in LPs.

2. Theoretical background

2.1. Perceived benefits of loyalty programs

A loyalty program is an integrated system of marketing actions that aims to reward and encourage customers' loyal behavior through incentives (Kang et al., 2015, p. 465). Several categorizations of the perceived benefits of LPs are mentioned in the literature. Three categories of LPs benefits: utilitarian benefits, hedonic benefits and symbolic benefits are generally identified in the literature (Mimouni-Chaabane and Volle, 2010, Bijmolt et al., 2010, Stathopoulou and Balabanis, 2016). Meyer-Waarden (2007) distinguished also three types of LPs benefits such as economic, psychological, and sociological rewards. Evanschitzky et al. (2012) considered the perceived value (economic in nature), special treatment (i.e., gifts, privilege offers or personalised services) and social (i.e., fraternization, development of friendships, and personal recognition) benefits as the three major antecedents of programme loyalty. So we will take these tree benefits as input when building our model.

2.2. Loyalty program, program loyalty and customer loyalty

As the name suggests, the raison d'être for a loyalty program is clearly to enhance customer loyalty. However, this can range from encouraging repeat purchase to developing hard-core advocates of the store (Bridson et al., 2008). Yi et Jeon (2003) conceptualise customer loyalty into company loyalty and program loyalty. They define program loyalty as having a positive attitude toward the benefits of the loyalty program, whereas they understand company loyalty as having a positive attitude toward the company. Several researchers suggest that members of LPs can develop distinct attitudes towards programs themselves and toward the retailers (eg, Dorotic et al., 2012, Evanschitzky et al., 2012, Kang et al., 2015, Kim et al., 2013, Dowling et Uncles, 1997). Indeed, Dowling and Uncles (1997) argued that customers who realize the importance of a loyalty program will show greater consideration for the program, and that will result in a more positive attitude towards the program. In this sense, loyalty to the program can be a step in the process of forming brand loyalty (Kim et al., 2013).

Some researchers suggest that receiving rewards through the exchange of loyalty points creates a deep feeling (attitudinal loyalty) towards the distributor (Smith and Sparks, 2009). Others argue that a company can increase customer satisfaction and loyalty by improving the perceived attractiveness of its loyalty program (Wirtz et al., 2007). Based on data collected from a sample of 405 clients, Bolton et al. (2000) found that loyalty program participants compared to non-participants tend to ignore negative experiences with the business (decline in quality of service) and are less sensitive to the price attractiveness that competitors may have. Meyer-Waarden (2007) found that grocery loyalty programs have a positive influence on customer's lifetime duration. In contrast, Kang et al. (2015) found no direct links between LP benefits and company loyalty; the link was rather indirect through program loyalty.

2.3. Customer satisfaction

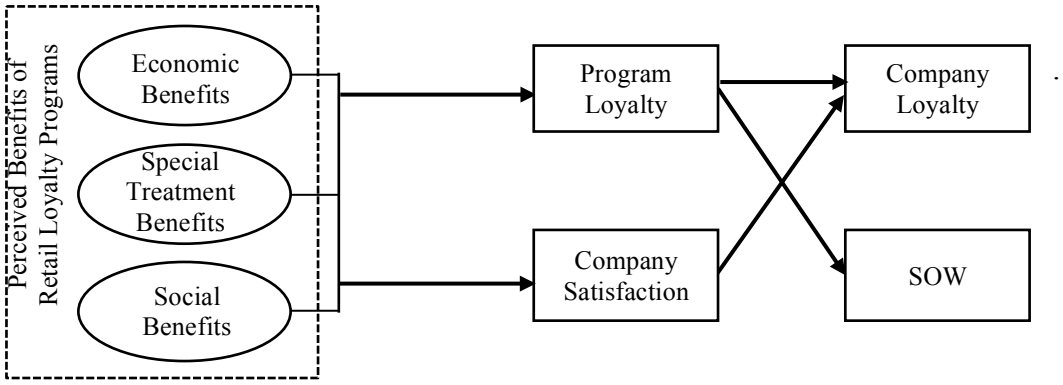
Some authors link loyalty to company's ability to surprise, delight, and provide pleasant emotions to customers (e.g., Jones and Sasser, 1995). Anderson et al. (1994, P. 54) define satisfaction as "an overall evaluation based on the total purchase and consumption experience with a good or service over time". This definition highlights the evaluative nature of satisfaction whereby the consumer determines wether a product, brand or store meets their expectations. Although earlier studies defined satisfaction as transaction specific product episodes (Oliver, 1980), considering conceptualisation of satisfaction in this way might be so restrictive when we come to investigate the link between satisfaction and loyalty (Hambourg et Giering, 2001). An important advantage of taking the overall experiences or cumulative satisfaction construct over a more transaction-specific view is that it is better able to predict

subsequent behaviours and economic experience (Bridson et al., 2008). In the context of this study, satisfaction refers to the customer's satisfaction with the retailer or the store.

2.4. Conceptual model

The conceptual model and research hypotheses seen in Fig. 1, follow a loyalty formation framework used in prior research literature (e.g., Bridson et al., 2008; Yi et Jeon, 2003). This study investigates the effect of loyalty programs perceived benefits on customer loyalty, additionally examining the potentially mediating process of program loyalty and store satisfaction in the development of company loyalty.

Figure1: Conceptual framework



3. Hypotheses development

3.1. Building program loyalty

Yi et Jeon (2003) define program loyalty as having a positive attitude toward the benefits of the loyalty program. Evanschitzky et al. (2012) demonstrated that perceived value, special treatment benefits and social benefits are the main predictors of program loyalty. These authors found that perceived value (which is economic in nature) was the major predictor of program loyalty. Mimouni-Chaabane et Volle (2010) found that among the five benefits offered by loyalty programs, those based on monetary saving, most predicted program loyalty. Kang et al. (2015) found that financial benefits were positively related to program loyalty. Gwinner et al. (1998) demonstrated that special treatment benefits are perceived by customers as important determinants of program loyalty. Evanschitzky et al. (2012) found a direct but less significant impact between special treatment benefits and program loyalty. The sense of community created by loyalty programs gives customers a feeling of belonging, a sense of importance and integration and enhance customers levels identification with the company (Kang et al., 2015). Several researchers found that social benefits were significantly

related to program loyalty (eg, Mimouni-Chaabane and Volle, 2010, Evanschitzky et al., 2012, Kim et al., 2013, Kang et al., 2014). On these grounds, we assume:

H1: Perceived loyalty programs benefits (economic gains (a), special treatment (b) and social benefits (c)) are positively related to **program loyalty**

Kang et al (2014) have highlighted the existence of a positive and significant relationship between loyalty to the program and loyalty to the brand. Thus, we postulate:

H2: Program loyalty is positively related to company loyalty

3.2. Building customer satisfaction

Some researchers underline the complex relationship between customer satisfaction and brand loyalty (Bloemer et Kasper, 1999). However, cumulative satisfaction (the accumulation of positive consumer experiences) with the service offered is a determining variable in the loyalty formation, as it is positively related to trust and commitment, key variables of loyalty (Zeithaml, 1988). However, it is asserted that the relationship between the tow variables is asymmetric in nature whereby satisfaction can be manifested in the absence of loyalty (Oliver, 1999). In the context of loyalty programs, many researchers doubt of their ability to generate customer loyalty, but it is possible that rewards of these programs lies first in their impact on customer satisfaction (Bridson et al., 2008). Therefore,

H3: Perceived loyalty programs benefits (economic gains (a), special treatment (b) and social benefits (c)) are positively related to **customer satisfaction**

Bridson et al (2008) demonstrated the role of satisfaction as a mediator in the relationship between loyalty program rewards and customer loyalty. It is further hypothesized that:

H4: Company satisfaction is positively related to company loyalty

3.3. Consequences of program loyalty on share of wallet (SOW)

Share-of-wallet is a measure of how shoppers divide their purchases across competing stores or companies. Kang et al. (2014) demonstrated a significant link between program loyalty and share of wallet. Similarly, Evanschitzky et al. (2012) found that program loyalty was significantly related to the share of wallet. For their part, Wirtz et al. (2007) found that customers attracted by the program tend to increase their share of wallet regardless of their degree of attitudinal loyalty to the brand. In addition, Taylor and Neslin (2005) argued that customers with high program loyalty should manifest positive feelings about the program, resulting in higher levels of repurchase and share of wallet. On the basis of the above, we can formulate the following hypothesis:

H5: Program loyalty is positively related to share-of-wallet

4. Methodology

4.1. Sample

The study was conducted in the specific context of loyalty programs of a major perfumery chain, located in the Ile-de-France region. The perfumery selected is located in highly competitive environments where loyalty would be of great importance. Various stores in the Paris region were chosen to collect data from a sample of 288 loyalty card participants. Respondents were randomly invited during their shopping trips on the checkout of stores to complete our formal structured questionnaire. The participants were filtered through the question "Are you member of the loyalty program of company X?" and the questionnaire was administered to those consumers responding in the affirmative. Indeed, in order to survey different consumers' profiles and thus achieve greater representativeness, we have multiplied days, hours and stores' location as the composition of shoppers may vary according to these parameters.

4.2. Measure

This study used established measures with five-point Likert type scales (1 = "strongly disagree," 5 = "strongly agree"), unless otherwise noted. To ovoid confusing program loyalty questions with company loyalty ones, each measurement item clearly referenced either the program or the company. For each latent variable, we have adapted an existing scale, or grouped a set of items from previous research. To assess the perceived benefits of LPs, we considered a three-dimensional measurement scale (Evanschitzky et al., 2012). The measure of economic benefits used a three-item scale from Meyer-Waarden et al. (2013). To measure the special treatment benefits, we adapted a scale with three items: the first item from Meyer-Waarden et al. (2013), others from Evanschitzky et al. (2012). Social benefits relied to three-items scale from Mimouni-Chaabane and Volle (2010). Program loyalty and company loyalty were measured using both scales of Yi and Jeon (2003). To measure of company satisfaction, we adapted a scale with three items from Mimouni-Chaabane and Volle (2010) and Bolton & Lemon (1999). Share-of-wallet indicates preference; for it's measure we used a ratio scale from (Evanschitzky et al., 2012), indicating the percentage of a respondent's purchases and his share of visit from the retailer (Wirtz et al., 2007).

5. Results

5.1. Measurement model

Confirmatory factor analysis (CFA) on the LP benefits constructs verified convergent factor validity and unidimensionality. To ensure internal consistency and unidimensionality in the model, a CFA was performed on all constructs. The measurement model provided a good fit (χ^2/df=1.80, χ^2= 334.13, df = 185, p = 0.000; CFI = 0.96; TLI = 0.95; GFI = 0.90; SRMR = 0.06; RMSEA = 0.05). The psychometric properties of each latent construct are presented in Table 1. The results indicate sufficient reliability and validity. All Cronbach's alpha (α) and composite reliability (CR) were above 0.7, in support of the reliability of multi-item scales (Bagozzi & Yi, 1988). All average variance extracted (AVE) values were greater than 0.5, and the AVE for each construct was greater than the squared correlation with any other construct, indicating sufficient convergent and discriminant validity (Bagozzi & Yi, 1988; Fornell & Larcker, 1981).

Table 1

Measures and reliability

Variable/items	(Cronbach's α) / Std. loading	CR	AVE
Economic benefits (*loyalty program of this firm…)*	(0.84)	0.84	0.80
Is the best means to reduce the purchase amount	0.71		
The advantages it proposes are with a great monetary value	0.89		
Allows me to make substantial economies	0.81		
Special treatment benefits (*As I am a member of this loyalty program…)*	(0.76)	0.76	0.72
It makes me feel as if the firm is paying more attention for me than other customers	0.71		
I get discounts or special deals that most customers don't get	0.74		
They do services for me that they don't do for most customers	0.72		
Social benefits (*As I am member of loyalty program X…)*	(0.88)	0.88	0.85
I feel I share the same values as the retailer X	0.87		
I feel close to the retailer X	0.81		
I belong to a community of people who share the same values	0.87		
Program loyalty	(0.86)	0.88	0.84
I like the proposed loyalty program more so than other programs	0.90		
I have a strong preference for the proposed loyalty program	0.92		
I would recommend the proposed loyalty program to others	0.69		
Company satisfaction	(0.86)	0.87	0.83
I am happy with the efforts this firm is making towards regular customers like me	0.80		
I am satisfied with the relationship I have with this firm	0.90		
My overall satisfaction with this firm is good	0.79		
Company loyalty	(0.87)	0.87	0.79
I like retailer X more so than other retailers	0.81		
I have a strong preference for retailers X	0.88		
I give prior consideration to retailer X when I have a need for a product of this type	0.72		
I would recommend this firm to others	0.76		
Share of wallet	(r = 0.70)	-	-
How often do you buy xyz-products at retailer X compared to other retail stores?(%)	0.92		
Of each 10 times you buy xyz-products, how many times do you select this retailer?	0.74		

5.2. Structural model and hypothesis testing

The results confirm the hypothesis. Table 2 contains the estimated path coefficients, t-values, and R-square values of each dependent construct. In particular, LP benefits explain 45% of the variance of program loyalty, with standardized path coefficients of 0.28 for H1a, 0.26 for

H1b, and 0.25 for H1c that support the positive relationships among economic, special treatment, and social benefits and program loyalty. Also, LP benefits explain 25% of the variance of customer overall satisfaction, with standardized path coefficients of 0.24 for H3a, 0.23 for H3b, that support the positive relationships among economic, special treatment benefits, and program loyalty. However, H3c was rejected (no relationship between social benefits of LP and customer satisfaction). Combined, both program loyalty and customer satisfaction explain 57% of the variance of company loyalty, with program loyalty ($\beta = 0.65$, $p < 0.001$) having a far stranger effect than customer satisfaction ($\beta = 0.16$, $p < 0.001$). Thus, H2 and H4 are accepted. Finally, program loyalty explains 24% of the variance of share of wallet, with standardized path coefficients ($\beta = 0.40$, $p < 0.001$) for H5, supporting the positive effect of program loyalty on share of wallet.

Table 2
Structural model coefficient

		Coefficient	t- Value	R^2
Programme loyalty				0.45
H1a	Economic benefits	0.28	3.71***	
H1b	Special treatment benefits	0.26	2.86**	
H1c	Social benefits	0.25	3.66***	
Company satisfaction				0.25
H2a	Economic benefits	0.24	2.82**	
H2b	Special treatment benefits	0.23	2.25*	
H2c	Social benefits	0.11	1.50	
Company loyalty				0.57
	Program loyalty	0.65	9.53***	
	Company satisfaction	0.16	3.42***	
Share of wallet				0.24
	Program loyalty	0.40	6.28***	
Control variables				
Nbr competitive LPs ⟶ Company loyalty		-0.18	-4.18***	
Nbr competitive LPs ⟶ SOW		-0.25	-4.5***	
Age ⟶ Company loyalty		-0.07	-1.81	
Age ⟶ SOW		-0.01	-0.27	
Gender ⟶ Company loyalty		0.00	0.21	
Gender ⟶ SOW		0.12	2.19*	

6. Conclusion and discussions

The study findings can help perfumery managers on how to design their LPs rewards effectively when targeting different types of customers. Balancing economic, special treatment (emotional), and social benefits is another important measure of loyalty programs' effectiveness. Specifically, perfumery managers should focus firstly on both economic (e.g., an efficient point system in which consumers can redeem points in both vouchers and

products, discounts), and special treatment rewards (e.g., prestige or recognition, exclusive treatment) given their significance to both company satisfaction and program loyalty. However, they don't have to neglect social benefits (e.g., being part of a community of members, being recognized in or being familiar with the store), given their direct impact on program loyalty. The present study also demonstrated that program loyalty has a positive effect on both company loyalty and share of wallet, so perfumery managers have to distinguish program loyalty from company loyalty to better assess the role of LPs and avoid overestimating the effects.

Whilst the present study fulfilled its aim of investigating the relationship between loyalty program attributes, store satisfaction, program loyalty, and company loyalty, it was subject to a number of limitations, which represent avenues for future research. Firstly, our model has been tested in the context of perfumery. Therefore, caution should be taken in generalizing the results to other contexts. It would then be interesting to replicate the model in other contexts, such as grocery retailing, airlines and hotels. Second, the present study considers declarative (attitudinal) data at a given time; however, a longitudinal approach would be advised for future studies as both loyalty and satisfaction do not develop instantaneously. Finally, a third limit is related to a possible bias in the consistency of respondents' responses. Indeed, at the checkout, customers are often in a hurry, which means that some respondents can adapt their last answers to the questionnaire according to what they consider consistent with their first answers (Feldman and Lynch, 1988). Such a bias could lead to stronger relationships between variables than they could actually be.

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