

Do customers become loyal to the loyalty programs or to the brand?

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*Do customers become loyal to the loyalty programs or to the brand?*

**Abstract**

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Many academic studies have examined the effectiveness of loyalty programs. However, one of the important issues is to know if these loyalty programs improve brand loyalty or loyalty to the loyalty programs. In this research, we focus on the process of construction the two facets of loyalty, and their relative effect on the customer's attitude, as a multidimensional concept, including the preference, the intention and the resistance to persuasion. The study is conducted with a sample of customers loyalty programs (153 in the exploratory phase and 284 in the confirmatory phase), *via* an *access* panel, demonstrate that each facet has its antecedents and effects. Loyalty to the loyalty programs is predictive of brand loyalty. It confirms that the impact of brand loyalty on preference, and intention is higher than that of loyalty to the loyalty programs. Otherwise, two facets of loyalty do not lead to the resistance to counter-persuasion.

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**Keywords:** Brand loyalty; Loyalty programs; Attitudinal consequences.

## Introduction

Loyalty programs have become one of the main tools of customer relationship management. Many companies, banks and insurance companies have set up their loyalty programs and have recorded a large number of participants (Berry, 2013). Their motivations were to identify, to reward and to retain profitable customers (Kumar and Reinartz, 2012). In the United States, this number has increased by 25% between 2008 and 2010 due to co-branded loyalty cards (McKinsey & Co., 2013).

Marketing research confirms that they reinforce customer loyalty by developing a favourable attitude towards the program (Drèze and Nunes, 2009). However, they have distinguished, as consequences of the development of these programs, two facets of loyalty: brand loyalty and loyalty to the loyalty programs (Yi and Jeon, 2003, Kang et al., 2014). Indeed, the reward systems can develop loyalty to the programs more than brand loyalty (Meyer-Waarden, 2007, Bijmolt et al., 2010), as suggested by Doroctic et al., (2012) « *Do customers become loyal to the reward or to the brand?* ». Empirical studies on the effectiveness of loyalty programs have focused on short-term effects, including repeat purchases, and have not studied long-term effects, which refer to customer's attitude (Kopalle et al., 2012; Bijmolt et al., 2010).

To that end, we are interested to study the process of constructing the two facets of loyalty and their effects on customer's attitude. We propose to answer these two research questions: 1) How are constructed brand loyalty and loyalty to the loyalty programs? 2) What is the relative effect of the two facets of loyalty on the customer's attitude? We measure attitude from its different dimensions: preference, intention and resistance.

The purposes of this research are, on the one hand, to enrich the concept of loyalty according to its object, and to improve the comprehension of mechanisms of loyalty programs, on the other hand, to provide managers the efficiency levers of the loyalty programs in order to integrate them in a "real" customer relationship management strategy.

The following paragraphs present the relevant literature review, the research hypotheses, the research method, and the major results. Finally, the limitations and the views of the research.

### 1. Literature review

«*Loyalty program = Brand loyalty or loyalty to the programs ?* » Rosenbaum et al., (2005).

In relationship marketing, some authors suggest that customer's loyalty is constructed from the basic determinants of the relationship quality: satisfaction, trust and attachment (Morgan and Hunt, 1994). Other authors suggest that loyalty is the consequence of loyalty practices based on loyalty programs (Bijmolt et al., 2010, Leenheer et al., 2007). However, the effects of these loyalty programs have been questioned that they can increase loyalty to the loyalty programs more than brand loyalty. Indeed, each facet of loyalty according to its object (brand, product, store or relational program) follows a specific process.

#### 1.1 Brand Loyalty

«*Brand loyalty: myth or reality ?*» (Dawes et al., 2015). Since the 1920s, researchers have tried to define loyalty, to measure it, to control it and finally they request the reality of its existence. Oliver (1999) has defined it as «*a deeply held commitment to rebuy a preferred product/service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behaviour*».

In social psychology, loyalty is an ideological concept that is explained by many theories (motivation, attachment, preference, etc.). In relationship marketing, several theories have explained loyalty as satisfaction (Oliver, 1980 and 1993), commitment and trust (Morgan and Hunt, 1994), then emotional attachment (Lacoëuilhe, 2000), and finally brand identification (Bergami and Bagozzi, 2000). They have resulted to explain the construction of loyalty according to a process that forms a relational chain: perceived quality -> perceived value ->

satisfaction -> trust -> attachment (Aurier and N'Goala, 2010). Recent studies have investigated the dynamic character of loyalty over time (Frisou, 2004, Dawes et al., 2015). However, the main determinants of the relationship quality "satisfaction, trust and attachment" are the strongest theories that explain brand loyalty in the relational thesis (Palmatier et al., 2007).

### **The effect of brand loyalty on the customer's attitude**

In marketing literature, the customer's attitude refers to the preference (theories of Azjen and Fishbein, 1980). Some research has developed the analysis and has attributed it a multidimensional character, which includes the affective, cognitive, and conative dimension (Raden, 1985; Petty et al., 1995). In the continuity of this research, we will consider attitude, as a multidimensional concept, a consequence of loyalty. In the relational thesis, the effects of loyalty are affective (positive word-of-mouth), cognitive (resistance to counter-persuasion) and conative (loyalty intention) (Zeithaml, 1996, Keh and Lee, 2006; N'Goala, 2010).

### **2.2 Loyalty to the loyalty programs**

Loyalty can also be a consequence of loyalty practices *via* loyalty programs (Bijmolt et al., 2010, Leenheer et al., 2007). The construction of a favourable attitude towards the program is explained by some effectiveness factors of loyalty programs. Some researchers have explained this effectiveness by reward structure (Drèze and Nunes, 2009); others have been interested in the perceived benefits (utilitarian, hedonic and symbolic) (Mimouni-Chaabane and Volle, 2010). Some studies have focused on perceived value (Yi and Jeon, 2003), and others have analyzed the topic from membership's motivations (Meyer-Waarden and Benavent, 2006). Certainly, the effectiveness of these programs is not limited to a reward structure but exceeds it to personalization and differentiation of the relationship (Meyer-Waarden, 2015). All these advances have improved the comprehension of the loyalty program's mechanisms.

However, in order to understand if the development of these programs can increase loyalty to the loyalty program more than brand loyalty, we focus on the antecedents of each facet of loyalty, as well as their effects on the customer's attitude.

### **3. Preliminary study and research hypotheses**

The review of literature helps us to understand the process of construction of the two facets of loyalty. The aims of the qualitative study were to appreciate: 1) their motivations and barriers to participating in these programs, 2) their perceptions of the reward system. We have realized 21 semi-directive interviews with the members of loyalty programs that have allowed us to complete the simplified model (Appendix 2) (figure 1). We present a brief reading of the research hypotheses to be tested during the quantitative study:

- **The antecedents of brand loyalty** : The hypotheses (H1, H2, H3, H4) respectively present the positive impact of satisfaction, trust, attachment and brand identification on brand loyalty (Morgan and Hunt 1994, Oliver 1999, Bergami and Bagozzi 2000, N'Goala, 2010).

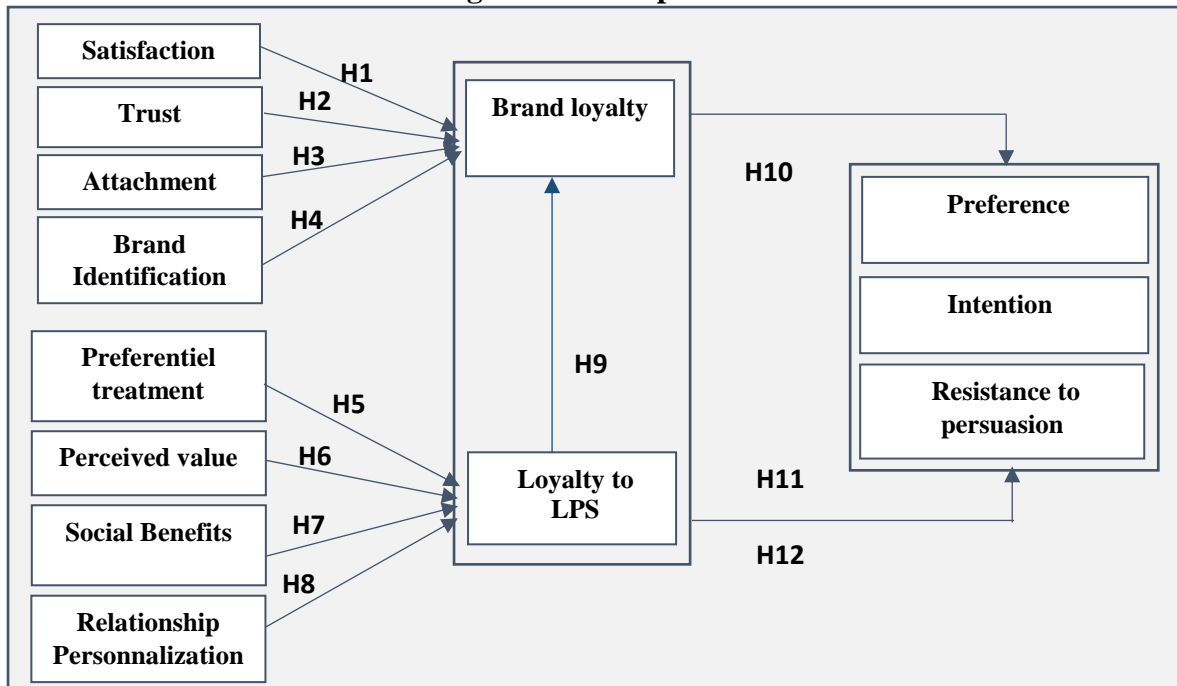
- **The antecedents of loyalty to the loyalty program** : The hypotheses (H5, H6, H7, H8 and H9) respectively present the positive impact of the preferential treatment, the perceived value, the social benefits, the relationship personalization and the loyalty to the loyalty program on the brand loyalty (Hennig-Thurau et al., 2002, Yi and Jeon, 2003, Mimouni-Chaabane and Volle, 2010, Homburg et al., 2005, Palmatier et al., 2007).

We measure the affective dimension of the attitude «preference» from «word-of-mouth» (WOM), the conative dimension «intention» as «loyalty intention» and the cognitive dimension «resistance» with «resistance to counter-persuasion».

- **The consequences of the two facets of loyalty on customer's attitude**

The hypotheses (H10, H11 and H12) present that the influence of loyalty to the loyalty programs is superior to that of brand loyalty respectively on dimensions of the attitude: preference, intention and resistance to persuasion.

**Figure 1: Conceptual model**



## 2. Methodology

**Data description and participants:** The data was collected online from an *access* panel "Toluna QuickSurveys<sup>1</sup>" (153 complete questionnaires in the exploratory phase and 284 in confirmatory phase). We have focused on the bank loyalty programs (Filigrane program for the SG bank and Advantage program for the LCL). Both banks have been offering their loyalty programs for more than 15 years. The construction of measurement scales was based on existing scales that were developed in a bank context or in research on loyalty programs (Appendix 1).

**Psychometric quality of the constructs:** An exploratory factor analysis with oblique rotation (oblimin) was applied. The results obtained are satisfactory (appendix 1): The factorial contributions of the different items are all significant (between 0.76 and 0.92). The average AVE variances of each construct are all greater than 0.5 (between 0.65 and 0.83) which confirms a very satisfactory convergent validity of the different constructs. The reliability coefficients ( $R\hat{\theta}$ ) are also very significant (between 0.85 and 0.93).

**Test the research model structure:** The method of SEM has allowed us to test the model. Since the model is complex, we split it to :

1) Antecedent and effects of brand loyalty: the results obtained are satisfactory: 1) Absolute indices (Chi2 norm/ sign= 3.00 /p= 0.00) (X2= 1008.09, DL= 332, SRMR= 0.046; RMSEA= 0.0085. 2) Incremental indices (CFI= 0.924, TLI= 0.913, NFI= 0.892).

2) Antecedent and effects of brand loyalty: the results obtained are acceptable: 1) Absolute indices (Chi2 norm / sign= 2.41 /p= 0.00) (X2= 1007.32, DL= 417, SRMR= 0.075; RMSEA= 0.071). 2) Incremental indices (CFI= 0.937, TLI= 0.930, NFI= 0.898).

## 3. Result and discussion

**The construction of brand loyalty:** The hypotheses H1, H2, H3 and H4 have been validated (appendix 3). Brand loyalty is the consequence of the variables (satisfaction, trust, attachment, and brand identification). However, the effect of emotional attachment is very low. The brand identification has a stronger contribution to the construction of loyalty than the other variables.

<sup>1</sup> Credit units were offered by AFM-TOLUNA partnership.

This is in line with the results of Aherene et al., (2005) who have validated that brand identification has more impact than satisfaction on brand loyalty. This concept promises a «gold relationship» (Haumann et al., 2014). In addition to the study of Palmatier et al., (2007), the new determinants of customer relations are «Satisfaction, Trust and Brand Identification».

**The construction of loyalty to the loyalty programs:** the study confirms that the perceived value of the reward is the main determinant of a loyalty program's success (hypotheses H5, H6 and H8 are validated). The relationship personalization, with «empathy» dimension, and the preferential treatment develop a favourable attitude towards the program and the brand. However, hypothesis H7 is rejected: the social benefits have no effect on the preference for the program. These results are in line with those of the literature (Yen and Gwinner, 2003, Bridson et al., 2008, Drèze and Nunes, 2009, Steyn et al., 2010), which confirm the positive effect of emotional benefits (privileged status, gratitude, recognition... etc.) on program's satisfaction, brand loyalty and performance of the company. Indeed, this study demonstrates empirically that the effectiveness of these programs is not reduced to a reward system, but exceeds it to relationship personalization and preferential treatment (like gifts, additional services...).

**The relative effect of the two facets of loyalty on the customer's attitude:** the study highlights the important role of brand loyalty to maintain the customer relationship (appendix3). The effect of brand loyalty on preference (word-of-mouth) and intention (loyalty intention) is greater than loyalty to the loyalty program on these two variables (hypotheses H10, H11 are rejected). On the other hand, the two facets of loyalty do not lead the customer to resist to the opportunism (hypothesis H12 is rejected).

**The comprehension of loyalty concept according to its object:** this research aims to contribute to enriching this theory with a simplified conceptualization of its construction. In the case of banks, the cognitive aspect is more decisive because brand attachment has no effect on brand loyalty and takes a social identity's facet. The construction of loyalty to the loyalty programs follows an emotional process. The two facets of loyalty do not have the same effects.

**Brand loyalty or loyalty to the loyalty programs ?** In addition to the studies of Suh and Yi (2012); Sunny Hu et al., (2010) and Yi and Jeon (2003), we confirm that loyalty to the loyalty program is an antecedent of brand loyalty (H9 is validated). On one hand, a reward system can not redirect the interest of customers to the reward or develops reward loyalty more than brand loyalty. We can not reject other contributions either: some loyal customers are not necessarily loyal to their cards (Mauri, 2003), and loyal customers to reward are not necessarily loyal to the brand (Evanschitzky et al., 2012). On the other hand, if the determinants of the relationship quality are not sufficiently controlled by managers, brand loyalty may decrease over time.

**In terms of managerial contributions,** this research identifies the effectiveness factors of loyalty programs. Loyalty strategies can be successful to maintain and to develop customer relationship under certain conditions: «Retain a customer» in the bank case start by building a trusting relationship, creating a sense of belonging to the bank. These efforts can be joined to a defensive strategy through loyalty programs, which should not be reduced to a transactional reward system, but to a relational program that can be integrated into a customer relationship management strategy. A program, which offers both differentiated treatments through exclusive benefit and individualized attention to make the relationship more interactive and cooperative.

#### **4. Limitations and perspectives of research**

This research has improved the comprehension of loyalty concept according to the object. The study has focused only on the two objects (the brand and the loyalty program), it would be interesting for future researches to focus on «the loyalty product». The context of this research was limited to the bank case; it would also be interesting to replicate the study to other contexts as air sector, distribution or to compare two sectors of the thoughtful and current purchase.

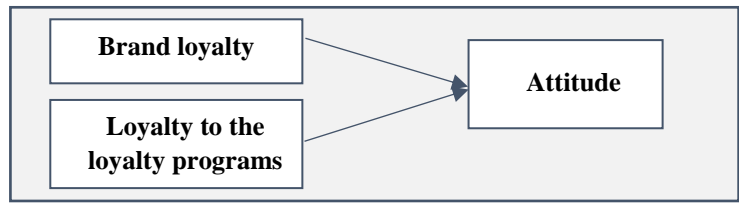
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**Appendix 1: Concepts, Scales, Means, Psychometric quality of measurement scales**

| Construit                               | Scales  | Fiability (AFC) | Validity (AVE) | Cronbach Alpha |
|---|---|-----------------|----------------|----------------|
| <b>Satisfaction</b>                     | Oliver (1997)   | <b>0.92</b>     | <b>0.83</b>    | <b>0.932</b>   |
| <b>Trust</b>                            | Morgan and Hunt (1994)                                      | <b>0.91</b>     | <b>0.72</b>    | <b>0.914</b>   |
| <b>Attachement</b>                      | Lacoeuilhe (2000)   | <b>0.87</b>     | <b>0.70</b>    | <b>0.894</b>   |
| <b>Brand Identification</b>             | Homburg et al. (2009)                                       | <b>0.882</b>    | <b>0.71</b>    | <b>0.893</b>   |
| <b>Brand loyalty</b>                    | Yi and Jeon (2003)  | <b>0.89</b>     | <b>0.72</b>    | <b>0.900</b>   |
| <b>Word-of-mouth</b>                    | Zeithaml et al., (1996)                                     | <b>0.88</b>     | <b>0.71</b>    | <b>0.920</b>   |
| <b>Loyalty intention</b>                | Keh and lee (2006)  | <b>0.91</b>     | <b>0.79</b>    | <b>0.758</b>   |
| <b>Resistance to counter-persuasion</b> | N'Goala (2010)  | <b>0.85</b>     | <b>0.668</b>   | <b>0.880</b>   |
| <b>Preferentiel treatment</b>           | Items Hennig-Thurau et al., (2002) ; Palmatier et al (2007) | <b>0.878</b>    | <b>0.70</b>    | <b>0.890</b>   |
| <b>Perceived value</b>                  | Yi and Jeon (2003) From classification of O'Brien (1995)    | <b>0.904</b>    | <b>0.65</b>    | <b>0.901</b>   |
| <b>Social benefits</b>                  | Hennig-Thurau et al., (2002)                                | <b>0.92</b>     | <b>0.75</b>    | <b>0.944</b>   |
| <b>Relationship personalization</b>     | Bauman et al (2005) (Parasuraman et al, 1990)               | <b>0.90</b>     | <b>0.705</b>   | <b>0.926</b>   |
| <b>Loyalty to the loyalty programs</b>  | Yi and Jeon, (2003)   | <b>0.93</b>     | <b>0.81</b>    | <b>0.933</b>   |

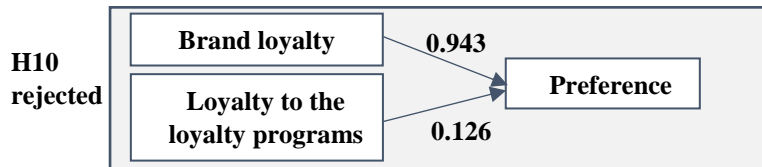
**Appendix 2 : Simplified conceptual model**



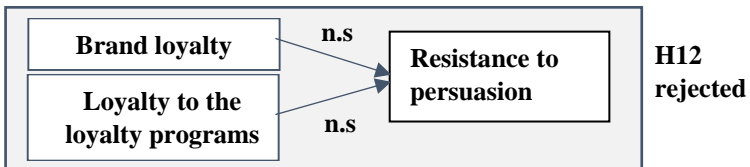
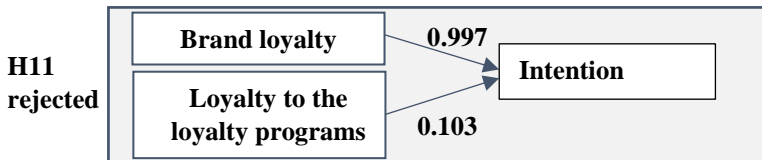
**Appendix 3 : Results of quantitative study**

|  | Regression coefficient (Beta) | C.R    | Signif. | Hypothesis       |
|--|-------------------------------|--------|---------|------------------|
| <b>H1</b> Satisfaction -> Brand loyalty                  | 0,204                         | 6,141  | 0.000   | <b>Validated</b> |
| <b>H2</b> Trust -> Brand loyalty                         | 0,284                         | 6,984  | 0.000   | <b>Validated</b> |
| <b>H3</b> Attachment -> Brand loyalty                    | 0,098                         | 2,955  | 0.003   | <b>Validated</b> |
| <b>H4</b> Identification -> Brand loyalty                | 0,527                         | 12,129 | 0.000   | <b>Validated</b> |
| <b>H5</b> Preferential treatment -> Loyalty to LPs       | 0.175                         | 4.37   | 0.000   | <b>Validated</b> |
| <b>H6</b> Perceived value -> Loyalty to LPs              | 0.861                         | 10.83  | 0.000   | <b>Validated</b> |
| <b>H7</b> Social benefits -> Loyalty to LPs              | -0.100                        | -2.76  | 0.006   | <b>Rejected</b>  |
| <b>H8</b> Relationship personalization -> Loyalty to LPs | 0.203                         | 5.57   | 0.000   | <b>Validated</b> |
| <b>H9</b> Loyalty to LPs -> Brand loyalty                | 0,588                         | 10,787 | 0.000   | <b>Validated</b> |

LPs (Loyalty Programs)



Measurement scale of preference the WOM "word-of-mouth"



Measurement scale Resistance to counter-persuasion"

Measurement scale of intention "the loyalty intention"