

A virtuous circle: the relationship between Loyalty and Loyalty programs in Brazilian retail

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## **A virtuous circle: the relationship between Loyalty and Loyalty programs in Brazilian retail**

The present study aimed to evaluate the role of consumer loyalty regarding the membership and use of Loyalty Programs (LP) in the context of Brazilian retail. A systematic literature review allowed to identify the main factors that influence LP's adoption by both managers and consumers. Consumer loyalty emerged as a central factor in the LP debate. The study adopted a phenomenological approach interviewing 11 LP's participants. Results indicated that there is a cyclical relationship between loyalty and membership in the LP. In other words, a behavioral loyalty must exist a priori to guarantee the consumer's membership and use of brand's LP. Also, personalization of offers and rewards leads to repurchases and increases the switching costs. Implications for marketing managers help to frame the LP type appropriate for the retail target audience, the use of offer personalization and extensive communication to increase participant's engagement with LP.

**Keywords:** *loyalty programs, loyalty, retail.*

**Track:** *Relationship marketing*

## 1. Introduction

Previous studies had indicated the Loyalty programs (LP)' importance for improving the company's performance involving, among other factors, customer retention, increased purchase frequency and increased market share of companies (Bolton et al., 2000; Verhoef, 2003; Daams, Gelderman and Schijns, 2008; Zeithaml, Lemon, and Rust, 2001). Nevertheless, there is no consensus in the literature regarding the LP's effects of PFM. The studies show contradictions (Maity and Gupta, 2016), are dispersed in different areas of research, apply different measurement methods, and assess different variables. As highlighted by Dorotic, Bijmolt and Verhoef (2008), in general, studies do not have access to LP's costs and, in addition, indirect effects of the programs are the central measure, turning conclusion about their effectiveness even more complex.

A Global Nielsen Loyalty study (2016) on the LP's performance including Brazil, demonstrated that the three most valuable LP benefits are economic: discounts, refunds and free products. Once the economic incentives are removed, the customer's repeat purchase behavior would cease to exist (Downling and Uncles, 1997). However, in another study carried out by Accenture (2017) 33 countries including Brazil, 71% of respondents say that these programs do not generate loyalty. Corroborating these market data, different academic studies in recent decades question the LP's ability to generate positive effects. Dowling and Uncles (1997) pose a skeptical profile of LP performance, drawing a scenario in which the LP has a scarce probability to altering consumer behavior, as well as a company's market share. Still, according to the authors, in general, LP are constructed as a defense strategy against competition and represent a high cost for an organization.

In Brazil, according to the Brazilian Association of Loyalty Market Programs (ABEMF, 2020) in the third quarter of 2020, there was an increase of 22.9% in the associated LP's revenue. The retail segment accounts for the larger share of this market in Brazil - 88.9% in 2018 (ABEMF, 2018). According to Nielsen (2017), Brazilians are most engaged in LP in Latin America with the highest reported membership among retailers (53%). Therefore, the country is behind mature regions such as Europe (66% of market share) and especially the United States (84% of market share).

Considering the Brazilian LP expansion in retail market associated with the vast academic debate on the subject, with a notable lack of consensus on the LP's efficiency, there is a clear opportunity to expand the existent knowledge on LP and its effect on consumer loyalty, in special for markets in development such as Brazil.

In this means, the present research aimed to investigate the role of loyalty in the consumers membership to LPs in Brazilian retail. Additionally, a literature review was employed to identify the main findings regarding LP effectiveness and its main outcomes.

Neither companies nor consumers fully understand the benefit and opportunities that the PF might offer (Dorotic et al., 2012). Therefore, the present study proposes explore the phenomenon conducting an in-depth investigation excluding from the analysis the so-called coalition multi-brand programs focusing on the own-branded LP in the Brazilian retail. Additionally, the research seeks to provide contributions to the LP managers, enabling them to better fit their program to the consumer's profile enhancing behavioral loyalty.

## **2. Literature Review**

### *2.1 Loyalty programs and loyalty*

LP is one of the relationship marketing instruments (Verhoef, 2003) that coordinates marketing actions based on customer affiliation and cumulative purchases, aiming to increase the participant's loyalty by repurchasing (Sharp and Sharp, 1997; Leenheer, Van Heerde, Bijmolt and Smidts, 2007). As a main characteristic, LP has a permanent nature unlike other marketing initiatives.

LP operates the customer decision-making, making them switch from the short-term view (or short-sighted) for a dynamic view which includes multiple periods (Lewis, 2004). In other words, LP makes customers to plan their purchase decisions in a systematic way, based on the points accumulations which transforms the brand-costumer relationship.

From a business perspective, there are different motivations for launching a LP such as competitive environment, data collection, and the effects on marketing and sales performance. According to Dowling and Uncles (1997), LP adoption by firms is mainly based on competitive decision adopted as an innovation/differentiation strategy to ensure competitive advantage and deflating competition, or a defensive strategy to compete with a concurrent program as seen in the airlines sector. In this means, LP can strategically be adopted to enhance competitive barriers (Liu, 2007) and reduce competition by creating switching costs (Singh, Jain and Krishnan, 2008), preventing customer churn.

Firms can also profit from data insights from LP management that might operate as a formal marketing system that leads the customer to share their data, as it sees clear benefits doing this (Lacey and Sneath, 2016). Nunes and Dreze (2006) highlight the firm's digitalization in recent decades providing cost reduction to capture and maintain data base. In

addition, LP allows analytical and behavioral knowledge of consumer behavior that might incur in the following effects: share of wallet increase, drive additional purchases, avoid customer evasion, and generate profit.

According to Lacey and Sneath (2016), LP can then act as an alternative solution to mass marketing initiatives, as it allows for more precise stimuli for targeted consumers. Recognizing the profitability among potential customer segments allows the company to become more profitable (Zeithaml et al., 2001). In this sense, personalization had become a key marketing tool to improve sales performance (Barreto, Crescitelli and Figueiredo, 2015), generate positive effect on loyalty in association with satisfaction and trust (Ball, Coelho and Vilares, 2016), creates a switching cost, as a personalized service is more difficult to replace and encouraging complementary purchase or increasing spending (Dorotic et al., 2012).

## *2.2 Loyalty and purchasing behavior*

Among the multiplicity of variables addressed in studies on LP efficiency, the loyalty construct assumes centrality as direct effect (Dowling and Uncles, 1997; Yi and Jeon, 2003; Noordhoff et al. , 2004; Turner and Wilson, 2006; Liu, 2007; Suh and Yi, 2012; So, Danaher and Gupta, 2015; Maity and Gupta, 2016; Gupta, Gupta and Shainesh, 2018) but also indirect, when the literature addresses antecedents such as commitment, satisfaction and perceived value or loyalty consequences such as increased purchasing behavior, retention, share of wallet and word of mouth (Lewis, 2004; Meyer-Waarden, 2008; So, Danaher and Gupta, 2015) . Three categories – loyalty, purchase intention, share of wallet – have great intersection, especially when behavioral loyalty is cofractionated with purchasing intention (Dick and Basu, 1994). Previous studies that identified LP impact on purchase intention also addressed behavioral loyalty and, consequently, share of wallet, which is sometimes applied as a measure for loyalty (Leenheer et al., 2007).

While Gomez, Arranz and Cillan (2016) conclude that LP has no effect on changing behavioral and attitudinal loyalty, other studies indicated that behavior change may actually happen, but only among customers who have not reached a plateau brand consumption (Lal and Bell, 2003; Liu, 2007). The most loyal and high-spending customers tend to more easily redeem LP rewards, without necessarily increase purchase. In this means, LP would function more as a competitive barrier (Bolton et al, 2000), then a trigger for increase in sales.

Both in the managerial and academic fields, there is the concern regarding the loyalty effect towards only to LP and not to the brand. Therefore, previous studies indicated a positive

consumer relationship with LP leads to a positive relationship with company's brand as well (Yi and Jeon, 2003; Kang, Alejandro and Groza, 2015; Gupta et al., 2018).

### **3. Method**

We opted for a phenomenological approach that allows understanding the phenomenon based on its meaning for the participants (Creswell and Poth, 2016). To analyze the PF phenomenon from the perspective of its participants, three-dimensional categories was taken from the literature review to guide the field work, namely: (a) personalization; (b) rewards; (c) loyalty. A semi-structured open-question script was first applied with two LP's managers acting in retail market in 2019, in person and via videoconference. Their responses were key to adjust the instrument to the market reality and to the consumer perspective on LP.

The participants were convenient recruited also using the snowball approach. The interviewees shall be LP's members for at least one brand-owned program for more than six months. Due to the Covid19 social restrictions, the interviews were conduct using virtual call platform during 2020 and 2021, with the participants approval for ethical research term including permission for recording and transcription. The final sample were composed by 11 participants (5 men, 6 women) with the average age of 30 years old. A hermeneutic interpretive approach was adopted following Thompson (1997)'s three stages: (1) patterns of meanings in the discourse of a single consumer interviewed; (2) identify the patterns of meaning among the various respondents; and (3) develop management recommendations from the analyzed narratives.

### **4. Results**

#### *4.1 LP profiles and personalization*

Most of participants mentioned to be members of supermarkets' LP. These LP have specific characteristics such as: a) the use is made mostly by an app accessed in the costumer smartphone; b) high frequency of use that can vary from one access per month to weekly use, and c) customers might have one or more supermarkets' LP, but only one it's most used.

The LPs design was hybrid, where the vast majority are composed of a mix of monetary and non-monetary rewards as well, direct, and indirect, immediate, and late benefits.

The process to redeem the reward occurs inside the supermarket during the shopping for goods. The customers identify the discounts announced in the shelves and activated them

using the app, before going to the cashier. After using the app for several rounds, it will pop up the discounts available for the consumer's most purchased products, allowing a more personalized experience using the PL's app.

Most of the participants received email marketing informing LP's promotions. Therefore, another part assumed not to subscribe for this marketing tools for considering it an unpleasant communication due its frequency and lack of personalization. In both scenarios, however, the LP's app assumes the mediator role in the dialogue between company and customer, as stated by one of the interviewees: “[...] *I only know what happens in LP if I access the app and not for being impacted by other media*” (participant 3).

Participants perceive and value the personalized offers when accessing the LP's app. The fact that they receive discounts on products related to their consumption profile boosts their purchasing behavior. The benefit becomes relevant and increases the feeling of gain, as declared by one of the participants: “*They know me, so they know how to sell better off for me*”. (Participant 2). Yet, most of the interviewees mentioned not received any personalized communication outside the LP's app.

#### *4.2 Rewards*

The results indicated that different reward types provide distinct impacts into the customer-brand-LP relationship. From the interviews we categorized two types of rewards: (1) **Monetary, direct and immediate reward** – in the long term the discount generates an opportunity sense increasing the probability of enlarge the shopping basket. Also, participants abandon the comparative research behavior keeping repurchasing. In this means, the presented results validated the rewarded behavior in which behavioral learning or reinforcement of brand attachment occur after accessing the reward (Taylor and Neslin, 2005), and, at the same time, customer retention avoiding evasion to competitors (Dick and Basu, 1994; Liu, 2007; Singh et al., 2008). (2) **Non-monetary, indirect and late reward** – in this case, the reward corresponds to exchange points for products or services. The prizes consist of high-quality perceived items, in general by luxury cuisine brands, such as pots, bowls, pans, knives. Such behavior was identified by Kivetz and Simonson (2002), where the more hedonic and luxury the prize greater the reward seek behavior. Also, this mechanism conducts to client's expenses increase, including categories not usually purchased, as way to accelerate the reward redeem. This process is known as ‘point pressure’ (Taylor and Neslin, 2005), with a short-term effect with an attractive late indirect reward.

### 4.3. Loyalty

To understand the LP importance for the consumer purchasing decisions as well for brand loyalty, a hypothetical scenario was included in the interview script. Respondents were asked to imagine a scenario in which their LP would be interrupted anyhow, and they had to report their behavior after this situation towards the LP's retail.

Results could be grouped into two categories: (1) **Change in purchasing behavior:** part of the interviewees reported that, in the LP absence, there would be a reduction in the brand's purchase either by reducing the frequency or by opening to competitors. The situation highlights that the rewards are keen to keep consumer returning to the store and out from the competitors. For the participant, it is more comfortable to stay, in a scenario where the PF is perceived as benefit guarantor. This process is very evident in the following report: "I think that today I have a sense of familiarity with the brand that prevents me to change, what would require a lot of energy. [...] yet I have tolerance for problems there (participant 6). (2) **Remain with the brand:** most of the interviewees stated that they would remain buying in the store despite the LP discontinuity. The reasons are backed in the literature loyalty antecedents as reported by the participants such as perceived quality, satisfaction (expressed mainly by shopping experience) and convenience.

In the first case, it's evident the LP role to shield consumers from competitors offers. In the second case, it is possible to infer that brand loyalty precedes LP's membership based on loyalty predecessors as discussed in prior literature. In this case, the choice for the retailer comes first based on purchase decision process: convenience, quality, price, diversity. Then, the LP becomes a catalyst for purchasing behavior, generating positive effects in frequency, volume, value, that is, effective gains for share of wallet.

Based on the participants reports, it's clear that the LP membership has a carry on mechanism for increase in purchasing behavior, in this means, affecting the behavioral loyalty in the following ways: a) Purchase of unplanned products when the LP participant decides to buy items that he did not plan because he sees the opportunity to pay less, in the case of the discount, or to accumulate more points and reach the prize redeem, b) larger purchases - acquire a higher volume of items that would already be in the basket to take advantage of a discount valid at the time of decision, c) Purchase of new categories - which were previously consumed at competing retailers to access benefits based on purchases repetition (eg, points accumulation) and d) Replacement of brands, in which the customer accepts to buy a product from a brand that is different from his/her habit due to the discount benefit applied.

Additionally, interviewees were asked to evaluate their relationship with the LP's retail brand based on loyalty model proposed by Maity and Gupta (2016): (a) probability of repurchase; (b) probability of frequency increase – evaluating behavioral loyalty; and (c) probability of brand recommendation – evaluating attitudinal loyalty.

Behavioral loyalty is easily identified in all respondents who have a shopping routine at the LP's retailer, intense or not, declaring the chance of repurchase to be high. As previously analyzed, the LP is responsible for the increase in future expenses, the main measure of behavioral loyalty. It was possible to identify that, in general, participants with positive responses regarding the intention to increase the purchase frequency (they intend to increase, have already increased, or reached a plateau), have an intense use of the LP recognizing its value, which reinforces the LP's influence on purchasing behavior. Attitudinal loyalty is characterized by a positive attitude in the customer-brand relationship, but not necessarily in relation to the LP. Most of the participants do not see the LP as way to establish bonds with the retail brand. In general, respondents stated that they would recommend the brand, yet this action is not necessarily linked to the LP membership but to other retailer attributes such as quality and convenience.

## **5. Conclusion**

This study contributes to the PL's literature by identifying, from the customer's perspective, the LP's performance in a specific context, in the Brazilian retail segment. In summary, the study was able to identify that LP can foster behavioral loyalty, by increasing participant purchases at different levels and that it increases the switching cost and resistance to competition, due to rewards. At the same time, and responding to the main objective of the research, it was identified that loyalty is a predecessor factor to the success of LP and, then, the LP itself is an accelerator of loyalty, thus establishing a cyclical relationship between loyalty and the LP membership.

Managerial implications emerged from this research should emphasize the LP role as a powerful instrument to affect customer's purchase decision and promote loyalty. In this means, it is keen that the retailer's operation and marketing functions create precedent conditions for the LP to exercise its role. The results also indicated that share of wallet and PL's loyalty might be enhanced through personalization mechanisms such as offers based on historical purchases; relevant social and psychological rewards; effective communication through direct channels such as email marketing and direct messages.

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