

How to build an effective loyalty program ? (Case of banks)

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Abstract

Loyalty programs have become among the main tools for Customer Relationship Management. Academic research has long debated their effectiveness. Whereas, one of the main issues in relationship marketing is to identify areas for improvement in order to be able to integrate them into a Customer Relationship Strategy.

The aim of this research is to highlight the keys for building an effective loyalty program. To this end, two studies were conducted. The first one is an exploratory qualitative study with 21 customers, and the second one was an empirical study carried out with a sample of customers who are members of a banking loyalty program in France (153 in the exploratory phase and 284 in the confirmatory phase), *via* an *access* panel. These studies demonstrate, on the one hand, the role of levers : the reward structure, social benefits, personalization of the relationship and preferential treatment in the effectiveness of these programs. On the other hand, they show the effect of these levers on the new concept of loyalty to the loyalty program, on brand loyalty and on its other consequences.

Keywords: Loyalty programs; Brand loyalty; Consequences of loyalty.

Track : Relationship Marketing

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Introduction

In the United States, the number of loyalty program members has reached 3.8 billion (colloquy, 2017). In Europe, 60% of retailers have adopted loyalty programs (Bombaij et al, 2022).

According to Bond (2019), customers have an average of 14.8 loyalty programs but only 6.7 are active. In the other hand, companies spend trillions of dollars on these loyalty programs (Melnyk and Bijmolt, 2015). Confronted with this, some of them chose to terminate their programs or rebuild them (Melnyk and Bijmolt, 2015).

In the academic literature, several studies have debated the effectiveness of loyalty programs and their effect on behavioral and attitudinal loyalty (Auteur, 2019). Moreover, from a database of 429 effect sizes, published between 1990 and 2020, solid evidence on the effectiveness of these programs has been demonstrated (Belli et al, 2021). This effectiveness, however, depends on both characteristics such as : program structure, reward, etc, and the sector concerned (Belli et al, 2021 ; Meyer-Waarden, 2007 and 2012 ; Mimouni-Chaabane and Volle, 2010 ; Blattberg et al., 2008).

Currently, research is still questioning their sources of effectiveness (Meyer-Waarden et al., 2023; Chen et al., 2021; Belli et al, 2021). To this end, we ask the following questions: What are the determinants of success of these loyalty programs? And how to build an effective loyalty program?

The aim of this research is, first of all, to identify the determinants of success of these loyalty programs based on academic literature and the qualitative exploratory phase. Then, to demonstrate on the basis of a quantitative study, from a sample of 283 people, the effect of these variables on the effectiveness of loyalty programs, in particular on attitudinal loyalty.

This research provides two main contributions : From the theoretical point of view, the enrichment of the theory of loyalty by introducing the concept of « loyalty to the loyalty program », and the demonstration of the determinants of loyalty program effectiveness ; from the managerial point of view, the identification of the levers for building an effective loyalty program.

1. Framework

Loyalty programs (LPS) constitute one of the pillar tools for increasing repeat purchases and managing customer relationships (Chen et al., 2021). Moreover, several studies have debated the sources of effectiveness of loyalty programs, in particular their effect on brand loyalty (Meyer-Waarden et al., 2023).

1.1 Loyalty programs

According to the American Marketing Association (2020), loyalty programs can be defined as « *A continuous incentive package offered by a retailer with the aim of encouraging and rewarding the customers to ensure they maintain a long relationship with them* ».

The consequences of loyalty programs on brand loyalty

Several companies set up loyalty programs in order to build a relationship of trust with their customers. To this end, it is important to know what has been demonstrated in the academic literature on these programs.

According to Meyer-Waarden (2023 and 2008); Lakshman et al., (2021); Koo, Yu and Han, (2020), Magatef and Tomalieh, (2015) and Palmatier et al., (2009), loyalty programs provide several benefits to the company :

- Lower costs incurred to launch similar products ;
- Loyal customers are less price sensitive ;
- Loyal customers spend more time with their business ;
- Loyal customers are more likely to recommend the company's products to their friends;
- Loyalty programs provide more information to customers about the firm's products ;
- Customer relationship management makes the relationship more profitable ;
- Loyal customers are likely to make cross-purchases ;
- They help reinforce the sense of belonging to the firm.

The determinants of success of a loyalty program

A loyalty program includes systems of personalized marketing actions and marketing communications that offer tangible rewards (discounts, vouchers or gifts) or intangible rewards (personalized service, status or information) (Bombaij and Dekimpe, 2020 , Meyer-Waarden, 2007, Steinhoff and Palmatier, 2016).

Research has shown that the effectiveness of these loyalty programs depends on: 1) the structure, 2) the reward, 3) the reward delivery, 4) the enrollment type (Bombajj & Dekimpe, 2020; Kim & Coll., 2021; Belli et al., 2022). Some researchers have explained it based on the conditions of membership, the structure of the points, the communication around the program (Drèze et Nunes, 2009 ; Leenheer et al., 2007). Others have demonstrated that it is the result of perceived benefits, whether utilitarian, hedonic or symbolic (Mimouni-Chaabane and Volle, 2010). Social benefits refer to customer recognition which is manifested by the sense of consideration and distinction granted to loyal customers (Reynolds and Beatty, 1999). Some studies have focused on perceived value (Yi and Jeon, 2003), and others have approached the subject based on membership motivations or purchasing orientation (Meyer-Waarden and Benavent, 2006).

Certainly, the effectiveness of these programs is not reduced to a reward structure but goes beyond that to become a personalization of the relationship (Meyer-Waarden, 2015). All of these advances have made it possible to improve the comprehension of the mechanisms of these programs (Auteur, 2019).

1.2 Brand loyalty

Since the 1920s, researchers have tried to understand loyalty, define it, measure it and control it to finally question the reality of its existence (Auteur, 2019). Oliver (1999) defined it as: *“a deep commitment to purchase the product or service one prefers consistently in the future, despite influences and marketing effects that may induce changes in brand”*.

Indeed, loyalty is a multidimensional concept which is made up of behavioral loyalty and attitudinal loyalty (Auteur, 2016). Thus, attitudinal loyalty refers to the positive attitude that customers have towards the brand (Oliver, 1999). It is the result of a positive evaluation of the brand based on previous experiences (Brakus et al., 2009; Liu-Thompkins & Tam, 2013); Loyalty can also be the consequence of loyalty strategies *via* loyalty programs (Bijmolt et al., 2010; Leenheer et al., 2007).

2. Preliminary study and research hypotheses

The contribution of the literature made it possible to understand the sources of effectiveness of these programs, the qualitative exploratory phase carried out by semi-directive interviews with 21 customers who are members of the loyalty program of the two banks, allowed us to build

the integral model. The research hypotheses to be tested during the quantitative study are as follows:

- **The antecedents of loyalty to the loyalty program**

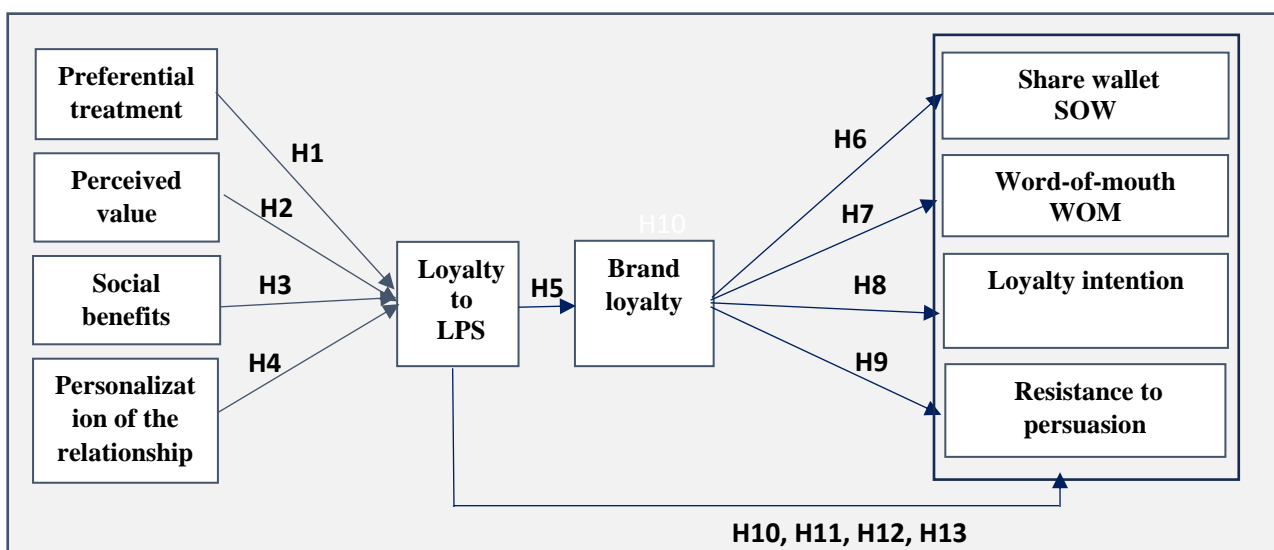
The hypotheses (H1, H2, H3, H4) respectively present the positive influence of preferential treatment, perceived value, social benefits, personalization of the relationship to loyalty to the loyalty program. The hypothesis H5 present the positive effect of loyalty to the loyalty programs on brand loyalty (Hennig-Thurau et al., 2002; Yi and Jeon, 2003; Mimouni-Chaabane and Volle, 2010; Homburg et al., 2005; Palmatier et al., 2007 & 2016, Evanschitzky et al., 2012, Kang et al., 2015; Belli et al., 2021).

- **The consequences of program loyalty and brand loyalty**

The hypotheses (H6, H7, H8) present the positive effect of brand loyalty, namely the share-of-wallet, word-of-mouth, and loyalty intention. The hypothesis H9 present the negative effect of brand loyalty on resistance to counter-persuasion (Babakus and Yavas, 2008; Choi et al., 2014; Das, 2014; N'Goala, 2010).

The hypotheses (H10, H11, H12) also present the positive effect of loyalty to loyalty program on the share-of-wallet, word-of-mouth, and loyalty intention. The hypothesis H13 present the negative effect of loyalty to the loyalty programs on resistance to counter-persuasion (Haverila et al., 2022; Steinhoff and Palmatier, 2016; Kang et al., 2014).

Figure 1. Conceptual model



3. Methodology, data collection and construction of scales

The construction of the measurement scales was based on existing scales which were preferably developed in a banking context or in loyalty programs research (Appendix 1). The questionnaire was pre-tested with 19 respondents to ensure a good understanding of the questions. Data were collected online from a “Toluna QuickSurveys” *access* panel (153 complete questionnaires in the exploratory phase (pre-test) and 284 in the confirmatory phase).

The sample, the selection criteria are: 1) be a customer of one of the two banks (LCL or Société Générale), 2) be a member of the bank's loyalty program (Filigrane for SG and Avantage for LCL), 3) be a customer of this Bank in France. Data were collected online from a “Toluna QuickSurveys”¹ *access* panel for the pre-test and for the final sample.

Psychometric quality of constructs

An exploratory factor analysis with oblique rotation (oblimin) was launched on the two samples. The results obtained at the end of the two phases are completely 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 (i.e. between 0.65 and 0.83) which confirms a very satisfactory convergent validity of the different constructs. The reliability coefficients (Rhô) are also very satisfactory (between 0.85 and 0.93).

Test of the structure of the research model

The structural equation method allowed us to test the connections of the model. The results obtained are satisfactory: 1) Absolute indices (normalized Chi2 / sign = 2.41/p = 0.00) (Or Chi2 <3 and p < 0.05) (X2 = 1007.32; DL = 417; SRMR = 0.075; RMSEA = 0.071). 2) Incremental indices (CFI = 0.937, TLI = 0.930, NFI = 0.898), are greater than 0.9 with the exception of the NFI which is closer.

4. Result and discussion

The results of this research confirm the positive effect of perceived value, personalization of the relationship and preferential treatment on program loyalty (validation of hypotheses H1, H2 and H4) (Appendix 2). This is in line with the research contributions of Hennig-Thurau et al., (2002); Yi and Jeon, (2003), Bridson et al., (2008), Steinhof & Palmatier, (2016) and Belli et al., (2021). A favorable perception of the value of the reward is therefore at the origin of an effective program as suggested by Steinhoff and Palmatier (2014). This confirms that loyalty

¹ Credit granted as part of an AFM-TOLUNA partnership.

programs integrated into a customer relationship management strategy must offer more than a rewards system but rather personalization of the relationship and preferential treatment.

Furthermore, social benefits have no effect on this variable (hypothesis H3 is rejected) which is unlike other studies (Gwinner et al., 1998; Hennig-Thurau et al., 2002; Mimouni-Chaabane and Volle, 2010) having confirmed their positive effect on program loyalty.

Our research also confirms the positive effect of loyalty to the loyalty program on brand loyalty (validation of hypothesis H5). This result is in line with the results of Yi and Jeon (2003). Knowing that some studies have argued that a loyalty program can develop loyalty to the loyalty program more than brand loyalty (Melnik and Bijmolt, 2015), However, we cannot reject the contribution of Evanschitzky et al., (2012) who explain that customers loyal to the loyalty program are not necessarily loyal to the brand. Our study confirms that loyalty to the loyalty program is the common thread towards loyalty to the brand.

Added to this is the fact that brand loyalty has a positive effect on the share of wallet (validation of H6), unlike loyalty to the loyalty program which has only an effect on this variable via brand loyalty (rejection of H10). Relative to the other hypotheses, brand loyalty, as well as loyalty to the loyalty program, have positive effects on loyalty intention and word-of-mouth (validation of hypotheses H7, H8, H11 and H12). This confirms the theoretical contributions obtained in other research (Johnson et al., 2006; Keh and Lee, 2006; N'Goala, 2010).

On the other hand, brand loyalty and loyalty to the loyalty program have no effect on resistance to counter-persuasion. This result is identical to that obtained in other studies on customer relations in the banking context (N'Goala, 2010).

On a managerial level, this research provides to managers the keys for developing an effective loyalty program that must be integrated into a Customer Relationship Strategy. It should be structured into two types of rewards: 1) tangible (discounts, gifts, etc.) and 2) intangible (personalization of the relationship and preferential treatment). A favorable perception of the rewards offered by the program helps to improve customer satisfaction with these programs. This research highlights the role of brand loyalty. As such, this program is effective only if the company initially has a healthy and satisfying relationship with the customer.

5. Limitations and research perspectives

This research improved the understanding of the mechanism for building an effective loyalty program. However, it presents certain limitations which will naturally be the subject of future

research. This is apparent in the case of the limitation of research to the banking sector, instead of extending it to other sectors such as : airline, mass distribution, etc. Also, a comparative study of two purchasing sectors of a considered and current nature will be another contribution to this research. Finally, other levers of developing effective loyalty programs that could have contributed to this study have not been included such as the clarity of the rules, the exclusivity of the reward, the delivery time of the reward or direct/indirect rewards.

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Appendix 1 :

Construct	Measuring scale	Item	Average	Standard deviation	Factor contribution AFC	Reliability (AFC)	Validity (AVE)	Cronbach's Alpha
Brand loyalty	Yi & Jeon (2003)	FID 1	3,415	0,065	0,780	0.89	0.72	0.900
		FID 2	3,426	0,063	0,905			
		FID 3	3,690	0,063	0,916			
Word-of-mouth	Zeithaml et al (1996)	WOM 2	3,437	0,064	0,769	0.88	0.71	0.920
		WOM 3	3,447	0,062	0,886			
		REC 4	3,440	0,063	0,925			
Loyalty intention	Keh & lee (2006)	INTFID 1	3,313	0,063	0,935	0.91	0.79	0.758
		INTFID 2	3,363	0,064	0,864			
		INTFID 3	3,486	0,065	0,907			
Resistance to counter persuasion	N'Goala (2010)	RESIST 2	2,423	0,065	0,796	0.85	0.668	0.880
		RESIST 3	2,482	0,066	0,856			
		RESIST 4	2,577	0,065	0,875			
Preferential treatment	Items Hennig-Thurau (2002) & Palmatier et al (2007)	TRAITPREFLPS 1	3,387	0,061	0,867	0.878	0.70	0.890
		TRAITPREFLPS 2	3,507	0,063	0,847			
		TRAITPREFLPS 5	3,254	0,065	0,850			
Perceived value	Yi & Jeon (2003) from the typology of O'Brien (1995)	VALPER LPS 1	3,130	0,067	0,756	0.904	0.65	0.901
		VALPER LPS 2	3,415	0,059	0,847			
		VALPER LPS 3	3,489	0,058	0,847			
		VALPER LPS 4	3,585	0,058	0,874			
		VALPER LPS 5	3,852	0,054	0,714			

Social benefits	Hennig-Thurau (2002)	BEN SOC LPS 1	2,975	0,071	0,892	0.92	0.75	0.944
		BEN SOC LPS 2	2,912	0,070	0,887			
		BEN SOC LPS 3	3,014	0,072	0,937			
		BEN SOC LPS 4	3,144	0,067	0,881			
Personalization of the relationship	Bauman & al (2005) (rehabilitated from Parasuraman et al, 1990)	PERS LPS 1	3,246	0,068	0,875	0.90	0.705	0.926
		PERSLPS 2	2,954	0,070	0,851			
		PERSLPS 3	3,155	0,066	0,864			
		PERSLPS 4	3,201	0,067	0,895			
Loyalty to the loyalty program	Yi & Jeon, (2003)	FIDLPS 1	3,634	0,060	0,918	0.93	0.81	0.933
		FIDLPS 2	3,535	0,062	0,933			
		FIDLPS 3	3,613	0,060	0,869			

Appendix 2 : Hypothesis testing

Hypothesis	Regression coefficient (Beta)	C.R	Signif.	Hypothesis
H1 Preferential treatment -> Loyalty to the loyalty program	0.175	4.37	0.000	Validated
H2 Perceived value -> Loyalty to the loyalty program	0.861	10.83	0.000	Validated
H3 Social benefits -> Loyalty to the loyalty program	-0.100	-2.76	0.006	Rejected
H4 Personalization of the relationship -> Loyalty to the loyalty program	0.203	5.57	0.000	Validated
H5 Loyalty to the loyalty program -> Brand loyalty	0,588	10,787	0.000	Validated
H6 Loyalty -> Share of wallet (SOW)	0,656	2,112	0,033	Validated
H7 Loyalty -> Word of mouth (WOM)	0,943	16,479	0.000	Validated
H8 Loyalty -> Loyalty intention	0,997	12,910	0.000	Validated
H9 Loyalty -> resistance to counter-persuasion	-0,034	-0,470	0,684	Rejected
H10 Loyalty to the loyalty program -> Share of wallet (SOW)	0,323	1,499	0,134	Rejected
H11 Loyalty to the loyalty program -> Word of mouth (WOM)	0,126	4,967	0.000	Validated
H12 Loyalty to the loyalty program -> Loyalty intention	0,103	3,664	0.000	Validated
H13 Loyalty to the loyalty program -> resistance to counter-persuasion	-0,039	-0,630	0,591	Rejected