

The Effect of Local Environment on Temporary Loyalty Programs: Analyzing the Impact of Competition, Market, and Store Characteristics

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Abstract

Retailers increasingly adopt temporary loyalty programs (TLPs) allowing customers to save stamps to redeem discounted rewards. However, their success varies across grocery stores. This study examines the effect of the local environment – such as competition, market, and store characteristics – on redemption rates of stamp-based TLPs across 697 Dutch grocery stores of a service supermarket chain. We find that competition from lower-priced stores (e.g., independent supermarkets, drugstores, and non-food stores) significantly reduces redemption rates, while higher-priced specialty food stores have a positive effect on redemption rates. Moreover, we find that areas with large households and a high percentage of people receiving social assistance benefits are positively related to redemption rates as well as larger store sizes. In contrast, the redemption rate is negatively related to high-density areas, high property values and urban locations. The insights can be used by the back-end parties to improve the success of these programs.

Keywords: *Loyalty; Grocery Retailing; Competition*

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