1. Introduction

1.1 Problem Definition

Loyal customers, it is said, are worth striving for. They spread positive word-of-mouth, reduce defection rates, and amplify the purchase frequency, to name just a few examples. But what can be done to induce that loyalty? Can loyalty schemes help us to do so, and most importantly, under what circumstances, at what cost, and with what possible result?

Customer loyalty has become an increasingly important goal in retailing, as the industry in general is characterized by declining rates of consumer loyalty (Hoffmann 2008). Looking at Figure 1 listing the drivers causing these diminishing loyalty rates, it becomes clear that the proclamation of this trend is just a general assertion. Some retailers naturally do implement successful innovations (and thereby foster customer loyalty), while others fail with theirs. In any case, loyalty, at least when it goes hand in hand with profitability, is something that is always worth aiming for. For example, Reichheld & Seidensticker (2006) discovered that a 5% increase in loyalty can lead to a 25-200% boost in profits (see Chapter 2 for a more detailed view on customer loyalty).

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**Figure 1:** Drivers Causing a Decrease of Consumer Loyalty in Retailing

*Source: Hoffmann (2008)*
But can customer loyalty schemes, as their name suggests, really help to engender or enhance customer loyalty? Numerous retailers, service providers, and manufacturers have – some more successfully than others – attempted to establish or at least foster loyalty among their current and prospective customers with the help of such solutions. At the same time, a vast number of researchers have found interest in this topic, in an endeavor to evaluate the effects of these schemes, their effectiveness, and their efficiency. Still, customer loyalty schemes are, at least in their modern forms that enable companies to gather detailed transaction data, a comparatively recent and also constantly advancing development. Literature regarding this topic stems primarily from the second half of the 1990s and the new millennium, and while this field of research still appears to be a ‘hot topic,’ many questions remain unanswered or at least inconclusively answered.

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<th>Categories of Literature on Customer Loyalty Schemes</th>
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<tr>
<td>Behavioral Effects</td>
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<td>Attitudinal Effects</td>
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Broadly speaking, literature on loyalty programs can be distinguished into four areas: success impact, reward configuration, data capture and analysis, and general studies regarding a range of surrounding issues such as customer acceptance or usage frequency (see Figure 2). Among these groups, research on success impact appears particularly interesting, as existing studies on this subject have led to differing results. A detailed literature review of 23 publications has revealed a range of causes for this situation (see Chapter 2.3), with varying definitions of success, dissimilar program configurations in various industries, and diverse research methods allowing for the explanation of a good part of these irregularities. In summary, it may be noted that loyalty programs can indeed have a positive effect on customer behavior. The German fuel station chain Aral, for instance, attributed the rise in market share from 22.5% to 23% in the three months...
following its partnership with the Payback coalition scheme in May 2006 exclusively to this decision (Payback 2007; personal communication, 21 July 2009). While it is anywhere between difficult and impossible to determine the accuracy of companies’ claims regarding the success of their respective schemes from an outside perspective, it is at least noteworthy that a multitude of organizations have employed a loyalty program for an extended period of time and continue to make such favorable assertions.

Interestingly, among the 23 reviewed studies in the success research category, only one focused on the special type of program that Aral – the fuel station featured in the previous example – is also part of: loyalty coalitions. Still, no comparison with stand-alone programs was made. Up until now, academic literature has indeed neglected to deal with the question of how well these multi-partner programs really perform in comparison to stand-alone solutions. This is particularly noteworthy, as various authors have begun to praise loyalty coalitions as the next evolutionary step in customer loyalty schemes. Comments on this subject include the following:

- “According to Frequency Marketing Inc., there are 3 trends to watch for in card marketing in the new millennium: […], and coalition programs” (Barlow 1999, p. 76)
- “Coalitions represent both the natural evolution and the future of loyalty marketing programs, both within the USA and abroad” (Capizzi & Ferguson 2005, p. 297)
- “The 22 major factors that will shape the future of customer loyalty: […] 3. An explosion of loyalty coalitions and networks” (Clark 2006, p. 1)
- “The efficiencies inherent in coalition loyalty models […] make coalitions the natural end-game for loyalty evolution” (Ferguson & Hlavinka 2006, p. 1 f.)

Without doubt, multi-partner solutions boast various advantages over stand-alone programs: administrative costs can be shared between the partner companies, a multitude of options for point collection and consequently faster redemption are hypothesized to result in higher customer interest, customers need to keep only one loyalty card in their wallet, the resulting pool of data is considerably richer, and moreover, large, nation-wide programs enable companies to quickly achieve a high penetration rate. On the other hand, for example, the partner companies’ leeway for program design is limited, there is a danger that customers will develop loyalty towards the scheme and not the partner company, and it is also difficult to pilot such programs. For a majority of practitioners and academics, the advantages nevertheless seem to outweigh the disadvantages.
As far as the few pieces of literature on this topic are concerned, some ground is covered by studies from market research organizations (usually commissioned by coalition operators, however; e.g. TNS Emnid 2006 or GfK 2007), and in fact, some of the rare academic literature was also written by practitioners from research organizations (e.g. Capizzi & Ferguson 2005 or Ferguson & Hlavinka 2006). Next to a few current or former practitioners (e.g. Humby et al. 2008 or Clark & Clark 2009), the truly academic view on coalition schemes remains extremely limited, with only a handful of papers such as those by Sharp & Sharp (1997) or Lara & De Madariaga (2007). At best, authors with an academic background have mentioned examples of coalition schemes within studies of other aspects of loyalty schemes (e.g. Stone et al. 2004 referred to UK’s Nectar coalition in a general evaluation of loyalty schemes or Rowley 2005 in a case study of Tesco’s Clubcard). Scientific information on this topic is consequently scant, with unbiased, empirical evidence of the superiority of coalition schemes still outstanding.

1.2 Research Objective

Given these prophecies made with regard to the superiority of multi-partner schemes on the one hand, and the scarcity of work on this topic on the other hand, the decision was taken to primarily engage in (1) success research with (2) special focus given to the subject of coalition schemes. In addition, a general survey component will form part of this study in order to retrieve answers to a range of further questions that are expected to be relevant to practitioners.

Specifically, the following research questions have been singled out as the focus of this paper (see Figure 3 for a graphical illustration):

- How do coalition schemes perform in direct comparison with stand-alone solutions, or put in more concrete terms, what is the differential impact of these two loyalty program types (1) on a classical behavioral success indicator such as share-of-wallet and (2) on attitudinal loyalty measures?
- What dependencies and interrelationships exist between loyalty, program membership, and other variables often cited in connection with the subject (namely store satisfaction, membership in competing loyalty schemes, and effect of certain shopper characteristics)?
- What do loyalty executives think about these program types and what experiences have they gathered?
- What do members of these program types think about a whole range of questions revolving around different facets of this topic that might be relevant to practitioners (e.g. privacy concerns, exit barriers, program/reward attractiveness, redemption behavior, response to up- or cross-selling incentives, etc.)?
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These questions shall be answered with data from a proprietary, two-pronged empirical investigation. Due to the lack of any sizable, nation-wide coalition program in Austria, Germany was selected as the place to conduct the study. To be precise, the focus will be set on the fuel retailing market, with Aral (as a partner company of Payback – Germany’s biggest multi-partner program) and Shell (with the nation’s major fuel station loyalty scheme Clubsmart) constituting two subjects of study which, being strong and similarly large competitors, ensure good comparability. This decision has been taken, following an analysis of all partner companies in Germany’s three major coalition programs and their comparable competitors with a stand-alone solution in place.

A customer survey will form the heart of this study, with questionnaires being distributed in person to participants at the point of sale, along with a postage-paid, self-addressed return envelope. In addition, explorative interviews with the management of Aral, Shell, and Loyalty Partner (the organization administrating the Payback coalition scheme) will precede this survey, in order to gather background information and to hear about these managers’ experiences with the two types of loyalty programs.

Finally, the comprehensive literature review preceding the empirical component is expected to give a good overview of the field of loyalty research, as well as both loyalty schemes in general and coalition schemes in particular. Next to summarizing, structuring, and critically evaluating the stream of previous publications on loyalty programs, it is the compilation of material on multi-partner programs that is expected to account for a noteworthy contribution to the body of literature.
1.3 Structure of This Paper

Chapter 1 has marked the starting point of this paper by providing a brief overview of the decision process that led to this paper’s focus on loyalty scheme success research in connection with a comparison between coalition and stand-alone solutions.

Chapter 2 will primarily be dedicated to a review of the whole subject of loyalty research. A section on definitions will precede a reflection on pieces of literature dealing with the formation of loyalty, which in turn will be followed by a thorough evaluation of previous studies from the field of loyalty scheme success research.

Chapter 3 will revolve around a comprehensive overview of loyalty schemes. Beginning again with a segment on definitions, this section will also include the historical development and current spread of loyalty programs. This will be followed by a detailed illustration of the known loyalty scheme types as well as the different program characteristics that are commonly used as parameters in these categorizations. Thereafter, an excursion will be made on the value of data being generated by these programs, with a comparison of advantages and disadvantages idiosyncratic to such loyalty tools concluding this chapter.

Chapter 4 will form the end of the literature-centered segment of this paper, offering a synthesis of existing publications on coalition schemes. Hereby, a classification of multi-partner solutions will be compiled, differences to stand-alone programs exposed, and success factors relating to such operations highlighted. In addition, the limited information available on impact, spread, and customer perception will be screened and processed.

Chapter 5 will represent the opening to the empirical segment of this paper, whereby an overview of the qualitative and quantitative study components will first be given, followed by an illustration of the process of developing the study framework, corresponding hypotheses, and underlying theoretical basis. Eventually, a sub-section will be dedicated to the operationalization of the constructs used.

Chapter 6 will be dedicated to a discussion of the findings stemming from the empirical study. First, an overview of the sample and data cleansing processes will be given, followed by a section on descriptive statistics, the main model test, and a brief roundup of the qualitative component.

Chapter 7 will provide a finale to this paper by summarizing the study’s most important findings, highlighting emanating managerial implications and elaborating on limitations of the study as well as suggestions for further research. Finally, a concluding, critical reflection of the research area in general will be given.