2. Loyalty

“Napoleon Bonaparte, the most feared French commander of the early nineteenth century, achieved extraordinary results through the unrelenting loyalty of the soldiers under his command. Coming to the civilized world of the 21st century, we see Generals in the form of marketers striving to defend or capture market share with the help of a loyal customer base” (Kumar & Shah 2004, p. 318).

The concept of loyalty is nothing new and has received a significant amount of attention in customer research. Most examinations of loyalty tended to focus on consumer goods (brand loyalty) (Dick & Basu 1994), although the concept is of similar significance for industrial goods (vendor loyalty), services (service loyalty) and retailers (store loyalty). Since Dick & Basu’s assertion in the 1990s, the focus has broadened conspicuously, with more and more research dedicated to the latter forms of loyalty, and some even extending the view to the loyalty cards (card loyalty) themselves (Mauri 2003).

Regardless of the form of loyalty, loyal customers are certainly a valuable asset to any company, and various notable examples exist in research literature supporting this fact. It is, for instance, common marketing knowledge that winning over new customers is many times more expensive than keeping current ones. As a rule of thumb for many industries, 20% of customers are said to be responsible for 80% of the revenue (Reichheld & Sasser 1990, Reichheld 1996). Naturally then, it should be a priority for managers to prevent customers from defecting, particularly if they are important, profitable or even important and profitable. A more specific example discovered while exploring the connection between loyalty and growth was that a 5% improvement of customer loyalty can lead to a 25-100% increase in profits (Reichheld & Seidensticker 2006). The authors also proved that those companies that had the highest level of customer loyalty were typically able to increase their turnover at double the rate their competitors could. Consequently, such companies exceeded their competitors’ performance at the stock market by a factor of 2.2 during the 1990s (Finnie & Randall 2002). A possible explanation for this is presented by Tellis (1988), as outlined by Oliver (1997). Using panel scanner data over a 20-week interval, Tellis (1988) explored the relative effects of advertising, brand on display, coupons, special promotions, long-term loyalty, and price on buying behavior. “Without question, loyalty is the strongest determinant of purchase behavior” (p. 142), the author concluded.
Loyalty, then, is something that makes good business sense. With some promoters of loyalty schemes claiming that they are even able to create or foster the growth of true attitudinal loyalty, this is a topic that needs to be addressed in the course of any paper dealing with the marketing instrument of loyalty programs. In the course of this chapter, a definition of loyalty will be given (Chapter 2.1) and the drivers of customer loyalty analyzed (Chapter 2.2). Following this introduction to loyalty research, the chapter will be concluded with a comprehensive review of loyalty scheme success research (Chapter 2.3).

2.1 Definition

A common theme found among most academic definition attempts is that of at least partial disaccord. Loyalty – like terms such as “emotion” or “satisfaction,” as Oliver (1997) rightly pointed out – is easy to discuss in the course of casual conversation, but difficult to analyze for meaning in a scientific context. In the case of loyalty, Jacoby & Chestnut (1978) found 53 definitions in their analysis of the 1970s alone, with one being Jacoby & Kyner’s (1973) definition as a function of six necessary and collectively sufficient conditions. They stated that “brand loyalty is (1) the biased (i.e. nonrandom), (2) behavioral response (i.e. purchase), (3) expressed over time, (4) by some decision-making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision-making, evaluative) processes” (p. 2). Despite the exclusive focus on brands, Jacoby & Kyner’s explanation contains most of the generally accepted characteristics of loyalty, but lacks the important factor of external influence. A more recent, and arguably more elegant definition is that of Oliver (1997), who suggested that “customer loyalty is a deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future, despite situational influences and marketing efforts having the potential to cause switching behavior” (p. 392).

While minor details might be added to contribute to universal applicability, this definition comes very close to what appears up-to-date in the context of today’s state of research. Based on Oliver, for the purpose of evaluating the concept of loyalty later on in this paper, the following more comprehensive definition is suggested:

Customer loyalty is a deeply held commitment to a product, service, store, or any other aspect of an organization that causes the customer to rebuy or repatronize the organization’s product, service, or store consistently in the future, despite marketing efforts or other external influences having the potential to cause switching behavior.
2.1.1 Historical Development of the Loyalty Definition

The roots of loyalty research date back to the 1920s, when Copeland (1923) first dealt with the question of brand repeat purchase behavior. Over time, the narrow focus on brands gradually shifted to a broader view on relationships between customers and companies, but models remained largely behavioral in nature (Homburg & Bruhn 2008). In that regard, the early 1970s marked an important turning point in loyalty research, following the contributions of Day (1969), Jacoby & Olsen (1970), and Jacoby & Kyner (1973). As Dick & Basu (1994) pointed out, brand loyalty research used to rely on behavioral measures like proportion of purchase or purchase frequency, for example. The problem with this type of measurement is that research based on pure observation of activities obviously misses out on the factors that underlie the customer’s purchases. Repeat purchase of a certain brand could be influenced by a lack of choice at a store with a limited range of articles, a stock-out, or even variety seeking behavior. Behavioral measures alone, Jacoby & Chestnut (1978) criticized, were thus inadequate to explain the concept of loyalty. Loyalty was reconsidered to be more than just the simple repeated patronization of a store.

Day (1969) emphasized that it is the internal disposition of the customer that drives loyalty and proposed a shift to the combination of behavioral and attitudinal loyalty in loyalty research. Jacoby & Chestnut (1978) theorized that true single brand loyalty of a consumer could be present only if three conditions persisted: belief (i.e. the cognitive dimension), affection (i.e. the attitudinal aspect), and intention (i.e. the conative element). The consumer thus needed to (1) believe that the brand information he has is superior to that of competitive brands, (2) have a clearly higher degree of affective preference for the specific brand, and (3) must have the intention to purchase the brand in an upcoming buying decision (Oliver 1997).

This reorientation towards the analysis of loyalty through a more detailed description of cognitive activities manifested itself in the following decades, and loyalty was eventually accepted to be “a function of psychological (decision-making, evaluative) processes” (Jacoby & Chestnut 1978, p. 2). Today, it is widely accepted that this conclusion needs to be taken into account for any type of research focused on loyalty in its true sense.

2.1.2 An Attempt at Pinpointing the Terms

A plethora of terms surrounds the concept of customer loyalty and its management by organizations. Customer relationship management (CRM), loyalty marketing, relationship marketing, retention marketing, database marketing, micromarketing,
direct marketing, or 1-to-1 marketing are all but a few examples. Indeed, whatever term you start from, a situation parallel to that of defining loyalty arises. Focusing on relationship marketing literature, for example, Harker (1999) made out 28 definitions. Also dealing with the vast number of terms and definitions from the viewpoint of relationship marketing, Egan (2004) concluded that many of these are merely “relational variations [which] describe a particular or closely associated aspect of relationship marketing philosophy rather than necessarily a holistic concept […] Others are associate concepts that may be seen to overlap with relationship marketing in some way” (p. 20). While direct marketing, micromarketing, 1-to-1 marketing, and database marketing thus do mean vaguely the same thing (as a database is paramount to direct/micro/1-to-1 marketing), Egan argued that they could not be used interchangeably with the term relationship marketing, as they, despite sharing several relational strategies and tactics, are more transactional than relational in nature (see e.g. Berry 1983, Dwyer et al. 1987, Grönroos 1994, Peck et al. 1999, or Ryals 2005 for background on the development of relationship marketing as a comparatively new paradigm in the marketing sciences).

CRM, then, is a term with a heavy focus on its technological aspect as a means to executing loyalty marketing (Dowling 2002; see e.g. Anderson et al. 2007 for an overview of CRM in retailing) and retention marketing as compared to loyalty marketing is a somewhat broader term with respect to its measures towards reducing customer defection, but a narrower concept in the sense that it aims at current customers only (Oggenfuss 1992). All in all, relationship marketing and loyalty marketing are probably closest to what could be called umbrella terms. As far as the difference between these two is concerned, one could argue that relationships might exist even without loyalty (e.g. in the form of simple behavior), while loyalty marketing is oriented exclusively towards creating true psychological commitment.

Several of these terms certainly seem to give the impression that they mean the same, at least to such a large extent that it seems unnecessary to coin a new term (were it not for authors in need of a novel title for their publication). The rough distinction presented in this chapter ought to suffice for this paper, bearing in mind that the intention of virtually all these concepts is the creation or development of what is commonly referred to as loyalty in the literature on the subject (Duffy 2003). What needs to be noted, however, is that some of these concepts do not necessarily distinguish between behavioral and attitudinal loyalty.
2.2 Exploring the Emergence of Loyalty

2.2.1 Classifying the Reasons for Loyalty Formation

Numerous possible causes for repurchase behavior exist and each is characterized by a different loyalty background. To better distinguish between the two categories of behavioral and attitudinal loyalty, it is important to differentiate between the underlying factors. This chapter attempts to provide an overview of existing typologies. Few of them are explicitly founded in theory, but they are nevertheless helpful in getting accustomed to the topic of customer loyalty, as they can be considered preliminary stages of a loyalty theory (Diller 1996). Various attempts to group the numerous causes exist, with German literature providing a few notable examples.

Meyer & Oevermann (1995) made out five fundamental causes for relationships between a customer and an organization:

- Psychological factors
- Situational factors
- Legal factors
- Economic factors
- Technological factors

Among these five elements, only psychological factors are likely to include attitudinal aspects. Situational causes like convenience, stock-outs, or special promotions are much more likely to influence pure behavioral loyalty. Likewise, legal factors such as contractual obligations, economic reasons like high costs of substitution, or technological factors such as a lock-in created by the inefficient transition period during the shift to a new software vendor can hardly be viewed as a form of attitudinal loyalty. Even though it might be argued that reasons related to technology are not very different from economic causes, this basic categorization does serve the purpose of revealing the nuances underlying a repurchase decision.

In a similar approach, Hill & Alexander (2006) distinguished five variables that lead to some form of loyalty. In the following enumeration, they were sorted in degree of allegiance from low to high:

- Monopolies
- Habit
- Cost of change
- Incentives
- Commitment
At a more simplified level, Homburg & Bruhn (2008) suggested a categorization into habitual, voluntary and involuntary relationship drivers. Like other basic categorization attempts, this proposition seems theoretically sound, and one could even attempt to merge other classifications such as those distinguished by Meyer & Oevermann (1995) into them in a mutually exclusive and collectively exhaustive manner.

Diller (1996) focused on four of the numerous possible antecedents to relationships. The following examples were selected to demonstrate how a variation in the degree of these antecedents (high vs. low; plus “bought” in the case of commitment) results in different types of relationships, despite the relationship being intense in all cases:

- **Involvement** relates to the customer’s readiness to absorb and process information and signifies a construct fundamental to any research on customer behavior (Trommsdorff 2004). Diller (1996) argued that beyond its significant impact on purchase behavior and information handling, the extent of involvement of a customer also determines his readiness to form a relationship with a business partner. The case of an intense relationship coupled with a high level of involvement is what Diller called “hot customer relation” (i.e. a relationship characterized by enthusiasm), as opposed to “cold customer relation” (i.e. a relationship despite indifference) in the case that an intense relationship meets a low level of involvement.

- Likewise, varying degrees of commitment can lead to different kinds of relationship. If an intense relationship is coupled with a low level of commitment, an “involuntary relation” arises (e.g. in the case of a monopoly in a certain sector), while a “functional relation” would exist in a case where the supplier has “bought” commitment from the customer by offering a sufficient amount of value (i.e. whenever the customer voluntarily enters a business relationship, but no attitudinal loyalty is present). Eventually, if the relationship is intense and commitment is high, a “truly voluntary relation” sets in (i.e. loyalty in its attitudinal sense).

- Despite being a possible consequence of a relationship, trust can be viewed as a significant antecedent to relationships as well. It creates harmony and stability and helps to oppose complexity and uncertainty, to name just a few examples. When an intense relationship meets a low level of trust, Diller expected a “relation on reserve” to persist, while a “liaison” might be present in the case of a high level of trust.

- Finally, satisfaction is the key variable that has probably received the most attention in literature as a potential relationship driver (see e.g. Oliver 1997 or Kumar & Reinartz 2006). In an intense relationship, Diller (1996) expected
one of two outcomes: either a “hollowed-out relation” in the case of low satisfaction or an “endorsed relation” in the case of high satisfaction.

2.2.2 The S-O-R Model as a Way Out

Chapter 2.2.1 makes it evident that there is no even rudimentary consensus in literature on a structure by which to categorize the reasons for loyalty, and indeed, the whole process from influencing factors to the type of loyalty created lacks an acknowledged theory. Despite his criticism of the graphical presentation of existing models describing this process (which he called “a pipe-fitters nightmare” – a look into Howard & Osterlund 1973, for example, will clarify why), Jacoby (2002) made several noteworthy, further-reaching observations: they are arbitrary to a large extent in the way that variables are categorized, relationships drawn up, and indeed in the way that the variables are chosen in the first place. Furthermore, a clear designation to a particular category is not always clear or even possible. Most importantly, however, authors have failed to build their models on prior knowledge in the way that science is commonly understood. “At the very least, the current state of affairs makes it unnecessarily difficult to compare and contrast the various models, or to identify the unique contributions and deficiencies” (p. 53), Jacoby noted.

This needs to be kept in mind when considering the stimulus-organism-response (S-O-R) model as a way to bring some kind of structure to the multitude of models prevailing in the literature, trying to explain one aspect or another in the overall process from stimuli to output. In fact, within this paper it should be regarded as no more than a tool to structure this chapter, and not as what could be considered yet another model. Variables were chosen in a comprehensive, but nevertheless exemplary manner. The way they were assigned to the three boxes stimuli, organism, and response is not without reason, but it would be arguable that a particular variable could be placed in another, into several, or even outside these boxes. The way that relationships are drawn is based on the original S-O-R paradigm, and is thereby exposed to the prevailing criticism Jacoby highlighted. The reason it was still chosen as a model in this paper is, aside from its ability to provide a good overview (and because its purpose within this paper is limited to just that), that it is widely accepted and still firmly rooted in business curricula.

Historically, the S-O-R model emanated from a more recent form of behaviorism. In its original version, behaviorism dates back to a classic of psychological history, Watson’s (1913) “Psychology as the Behaviorist Views it,” and has roots that can be traced back even further to Ivan Petrovich Pavlov’s salivating dog.
Watson’s model, and indeed most developments following up to the 1960s (including the notable works of authors such as Skinner 1938 or Hull 1966 [first published in 1943]), were simple input-output (I → O) models in that they completely disregarded factors internal to the individual (Jacoby 2002). These models were then outdated by what Jacoby called 2nd generation models. Sometimes referred to as neobehaviorism, these models began to embed the organism as part of the theory, and eventually became known as the S-O-R paradigm, or S-O-R model (Houston & Rothschild 1977, Slama & Tashchian 1987). Stimulus → organism → response became the new mantra, expanding the old stimulus (i.e. input) → response (i.e. output) idea.

Figure 1 provides an overview of a possible way to view the steps from influencing factors to the generation of a particular kind of loyalty as one of several possible responses emerging from the individual.

1) Stimulus

For the purpose of this paper, stimuli were defined as influences (and consequently potential drivers of loyalty) that stem from outside the organism. A lot of classic models use a different approach by adding several factors from the organism box to the stimulus category (see e.g. Howard & Osterlund 1973, Straßburger 1991,
Hoyer & MacInnis 2007). In the case of this paper, however, it is argued that they find a more harmonious fit in the organism segment, which will be discussed in the following section.

A literature review helped to determine the various elements that were taken into account as an external stimulus by one model or the other. These were then categorized into the following three groups: organization-related (i.e. containing all factors influenced by the organization), market-related (i.e. made up of influences stemming from the market), and social (i.e. referring to variables of social nature which exert influence from outside the individual).

- **Organization-related:**
  - **Price** is probably one of the more obvious drivers leading to some form of loyalty.
  - **Product** refers, for example, to the quality or specific value-add that makes customers buy it.
  - **Place** concerns retail channels, geographical location, and convenience.
  - **Promotion** deals with special offers to the customer, whether or not they are price-related.
  - **Communication** relates to the quality of communication attempts of the organization with the consumer. These could include high-quality service centers, well-made direct mailings, or the opportunity for customers to be integrated into the product development process.
  - **Service** describes the quality of a performed service (as opposed to the quality of products), or that of customer service, other than that contained in the communication category.
  - **Legal factors** could, for instance, exist when a contract limits the customer in his alternative seeking behavior.
  - **Customer loyalty schemes**, the focus of this paper, are associated with the use of this marketing instrument as a driver of loyalty.

- **Market-related:**
  - **Transaction costs** are, according to transaction cost theory, also a driver of buying behavior.
  - **Substitution costs** have an impact on repurchase behavior, as they reduce the probability of customers defecting.
  - **Information** relates to intelligence coming from the market (e.g. product tests) that cannot be controlled by the organization.
  - **Competition** is another important factor that sways buying behavior. The presence, structure, and intensity of any competitive offering or other action will naturally have influence on customers involved in their purchase decision.
Social:
- **People** are a notable example of social influence coming from the buyer’s surroundings. This kind of influence comes from outside the organism (e.g. in the form of a friend’s opinion or parental advice), as opposed to culture or religion, which can be seen as being anchored within the individual.

2) **Organism**

Factors listed in the organism box are those variables associated with the individual that determine how external stimuli are processed. As mentioned before, several authors consider these to be stimuli – internal ones, but stimuli nonetheless.

It is argued that once factors such as social class, ethnicity, culture, or religion have become part of the individual, they should be considered internal to the organism. A possible explanation for the difficulty in classifying these factors as either stimulus or organism is that association with any of these categories depends on how far these factors are internalized. If, for instance, an individual becomes religious at a late stage in life (e.g. following exposure to Buddhism during a journey to Tibet), religion might at first be more of an external stimulus to behavior. If, however, a person is born into a Buddhist family, he is exposed to religion from early life and likely to have truly internalized it sooner. What makes it so hard to draw the line, is that this transition from external stimulus to internal characteristic (i.e. “true religious belief” in this case), is likely to be one marked by a more or less continuous transition.

Ascribed to the organism category are the following five categories: demographic, socioeconomic, personal/psychological, patronization-related, and social.

- **Demographic** variables refer to the composition and development of the population (e.g. characteristics such as age or gender).
- **Socio-economic** factors describe the relationship between economic activities and social life (e.g. income, education, or profession).
- **Personal/psychological**:
  - **Variety seeking** attitude is related to the consumer’s desire for change.
  - **Risk propensity** means the individual’s tendency to take chances when deviating from the proven path.
  - **Cognitive dissonance** is a state of mind that humans are theorized to be trying to avoid. Disloyalty to a product, for example, bears the risk of creating such cognitive dissonance through potential dissatisfaction.
- **Learning** refers to learnt behavior. That promise of rewards leads to conditioned behavior is a prominent example of instrumental conditioning (a form of learning that will be discussed in Chapter 5.3.4).

### Patronization-related:
- **Satisfaction** is often considered to be the most significant driver of customer loyalty (see e.g. Oliver 1997, Homburg 2006, or Kumar & Reinartz 2006 for further information).
- **Involvement** is commonly agreed to be a concept central to the organism. The readiness to absorb and process information has been proven crucial to the development of loyalty.
- **Commitment** to an organization, store, product or service is also considered to impact customer behavior.
- **Trust** is a further factor related to products, services, or stores that will sway the purchase decision process of the consumer.
- **Usage rate** is the final patronization-related factor, resulting from customers’ different needs and preferences, leading to different usage rates. A higher usage rate of a product, for example, will most likely expose its strengths and weaknesses to a greater extent, and involvement might be increased.

### Social:
- **Culture and social norm** (i.e. the way of life for an entire society) exert influence on the decision process of an individual if internalized to a large enough degree. Otherwise, influence might persist as a pure external stimulus.
- **Religion** can be of significance similar to that of culture and social norm, once it has become part of the individual.

### 3) Response

Finally, having dealt with influencing factors as well as the way consumers process them, notable examinations of the response “loyalty” shall be presented. One way of categorizing loyalty is offered by Plinke (1989), who, Diller (1996) summarized, elaborated on nine different forms of relationships by contrasting three types of relational objects (things, people, and organizations) with three kinds of commitment (only at the supplier-level, only at the customer-level, and at both levels). Another example is that of Enis & Paul (1970), who, discussing store loyalty, devised an index to capture the varying degrees of loyalty by looking at share-of-wallet allocated to the retail outlet, the amount of switching, as well as the number of opportunities to do so. With a focus on profitability, Reinartz & Kumar (2002) contrasted the duration of patronization (short- and long-term) with profitability (high and low) and came up with four types of customers that require different
managerial action: strangers (short-term customers/low profitability), butterflies (short-term customers/high profitability), barnacles (long-term customers/low profitability), and true friends (long-term customers/high profitability).

Referring to the type of loyalty that is engendered within the individual, Dick & Basu (1994) distinguished between no loyalty, latent loyalty, spurious loyalty, and loyalty in its typical sense. A final example is that of Oliver (1997), who took a somewhat different approach and came to the conclusion that the phases of cognitive, affective, conative, and action loyalty follow one another. The individual approach (including the description of possible stimuli) taken by these latter two authors in the theoretical development of these loyalty types will now be briefly elaborated on. In addition to explaining these categories of loyalty in more detail, this discussion serves the purpose of gaining a complete overview of two seminal contributions to the field of loyalty research.

![Figure 5: A Framework of Customer Loyalty](source: Dick & Basu (1994))

Following Jacoby & Chestnut’s (1978) work, it took until the 1990s for a notable progress of the loyalty literature to take place (Oliver 1997). Dick & Basu (1994) expanded the loyalty literature with the view that the customer’s relative assessment of the alternatives within a set of choices would also hold high potential significance. To construct what they called an “integrated framework” for customer loyalty (see Figure 5), the authors conceptualized loyalty as a relationship between the customer’s relative attitude towards an entity such as a brand, store, vendor or service provider and repeat patronage behavior, and in addition to that,
distinguished attitudinal and non-attitudinal moderators of the relationship between relative attitude and repeat patronage behavior.

In order to determine the kind of loyalty a consumer possesses, the authors used the two matrices provided in Figure 6. The left one distinguishes the level of relative attitude by cross-classifying attitude strength on the one hand and attitudinal differentiation on the other hand. Applying Ajzen & Fishbein’s (1980) notion of judging the degree of attitude by examining the position of, for instance, a particular product along a “continuum of favorability,” one can determine whether it is weak or strong. This is then put in contrast to attitudinal differentiation, asking whether the customer perceives any differentiation in his choice set. The highest relative attitude could thus be perceived if the customer has a strong attitude and there is differentiation within the focal product group. The degree of relative attitude is then placed on the y-axis of the second 2 x 2 matrix and compared to the intensity of repeat patronage, which consequently results in four specific kinds of loyalty, each characterized by a different possible background:

- **No Loyalty**: a low relative attitude and low repeat patronage could, for example, be due to a market with little possible differentiation or a customer who is unaware of recent product introductions.
- **Latent Loyalty**: non-attitudinal influences, such as subjective norms and situational effects, are likely to exert significant influence in a scenario where repeat patronage is low despite high relative attitude.
- **Spurious Loyalty**: this case is, similar to that of latent loyalty, characterized by non-attitudinal influences. High repeat patronage despite low relative attitude could be caused by factors such as social influence or familiarity.
- **Loyalty**: naturally, the state where high relative attitude meets high repeat patronage is the most desirable for an organization, as this situation signifies true loyalty.

![Figure 6: Modeling Different Forms of Loyalty](Source: Dick & Basu (1994))
Going back to the framework depicted in Figure 5, Dick & Basu (1994) further elaborated on cognitive, affective, and conative attitudinal antecedences influencing the loyalty relationship by building on the ideas of Jacoby & Chestnut (1978). Cognitive antecedents consist of the ease of accessing an attitude from memory, the level of confidence in regard to an attitude, the degree to which an attitude is central to a person’s value system, and the clarity of the definition of the particular attitude. Affective antecedents are composed of emotion, mood, primary affect (i.e. physiological responses independent of cognitions), and satisfaction, while conative antecedents comprise switching costs, sunk costs, and future expectations.

Finally, the authors considered two additional non-attitudinal factors influencing repeat purchase behavior. On the one hand, social norm was seen as a moderator of loyalty in certain situations, and on the other hand, situational influences such as stock-outs or special promotions for a rival product were accounted for.

Similar to Dick & Basu (1994) and Jacoby & Chestnut (1978), Oliver (1997) differentiated between the formation of beliefs, likes and dislikes, and behavioral intention. He further theorized that these three phases are sequential in nature, meaning that customers become loyal along the information base first, upon which they develop a favorable attitude, which eventually leads to a commitment to buy. At the first level, consumers are simply swayed by the value that a particular service, for instance, provides to them over the offer of competitors. At the second level, attitude enters the picture, which, the author noted, is formed by expectations in the early phases of purchase on the one hand, and expectation disconfirmation, prior attitude, and satisfaction in the later phases on the other hand. Pointing to Eagly & Chaiken (1993), Oliver (1997) highlighted that the important attribute of affect (i.e. attitude) in this context is that it is firmly connected to overall brand evaluation as well as cognition. For that reason, affect is much less vulnerable to counter-argumentation than cognition. Marking the third level, behavioral intention, or commitment as it could also be called, takes affection one step further by adding the wish to take action.

These three phases fall short of achieving true loyalty, however. To solve this problem, Oliver turned to a stream of research called “action control,” the study of the mechanism by which intent is converted to action (see Kuhl & Beckmann 1985 for further details), to describe a fourth level. In line with this theory, motivation as well as a desire to overcome obstacles is needed for intention to develop into a readiness to act (Oliver 1999). Only then, the author denoted, are all necessary requirements of loyalty accurately considered, and a state of loyalty in its true sense achieved.
2.2.3 Conclusion

It can be seen that numerous elements are expected to exert some kind of influence on the creation or development of customer loyalty. Different authors consider different ones in their models, but none of them seem to have found either final consensus or an ultimate solution. Possibly, we do not have to understand what exactly goes on within the organism, as long we can prove a connection between a stimulus and a response. A lot of these factors are interconnected, which makes them extremely difficult to model. For example, satisfaction was shown to be correlated with loyalty and is commonly considered to be a very important driver of customer retention. The link between satisfaction and retention is nonlinear, however, as Anderson & Mittal (2000) demonstrated, with the impact of satisfaction on retention being strongest on its extremes, and a flat slope (the so-called zone of indifference) spanning out in between. The shape of this curve, Kumar & Reinartz (2006) summarized, is influenced by various factors, including the competitive environment, switching costs, and the level of perceived risks. It is, for instance, not uncommon in many business sectors that aggressive competition offering desirable products lures away satisfied customers from their current brand of choice (Jones & Sasser 1995; see Chapter 5.2 for further elaboration on this topic).

This section tried to give an overview of the framework of loyalty and its status in research. As mentioned before (and indeed, as the name suggests), one of those elements argued to exert some kind of influence on customers are customer loyalty schemes. Numerous authors have investigated their ability to engender or foster loyalty and the following chapter aims at distilling their findings.

2.3 Customer Loyalty Schemes and Loyalty

“Do these programs really create extra loyalty beyond that which is derived from the relative value of the product or service? Do they encourage customers to spend more? Or do they merely bribe a customer to buy again,” Dowling & Uncles (1997, p. 71) rightfully asked themselves and their readers. In this connection it needs to be kept in mind that retailing is, as opposed to the service industry or B2B relationships, characterized by a lower level of personal contact and interdependence (O’Malley & Tynan 2000). The question came up, whether true loyalty could even exist in this sector (Uncles et al. 2003). After all, a risky investment decision certainly has a higher potential to lead to a relationship between two companies than the purchase of pickles will have for that between an organization and a regular grocery shopper. It is not certain, Dowling & Uncles (1997) accentuated, whether customers really want a relationship for low-involvement products. Somehow, one is tempted to say “probably not.”
A good part of research on loyalty programs was dedicated to answering the question of whether they are able to engender loyalty. Often focused on the behavioral aspect of loyalty, a whole range of authors has attempted to answer the question of “whether these programs actually work,” and came up with mixed results. Table 1 gives an overview of the literature reviewed in this section. The focus of this compilation was put on the context of retailing, complemented by a few notable papers from other industries. The categorization into publications employing a comparison across competitors, as opposed to those comparing across time or across consumers was suggested by Liu (2007) and has, in a slightly modified form, been adapted for the overview in Table 1 to help make sense of the heterogeneous literature. In Chapters 2.3.1 and 2.3.2, findings will then be presented in more detail in chronological order, based on these papers’ assignment to the two categories that ultimately matter most: that with either predominantly positive or predominantly negative evidence. In the course of this, all retail-related papers, but only the most noteworthy of the selected papers from other industries will be covered.
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<td>Nolke (1992)</td>
<td>Airlines</td>
<td>USA</td>
<td>Company travel reports (business travelers)</td>
<td>270 customers</td>
<td>2 months (non-consecutive)</td>
<td>Loyalty programs had a significant impact on airline choice; in that regard they were ranked as less important than the number of flights, the percentage of direct flights, and total travel time, but more important than fare and on-time performance</td>
<td>Positive</td>
</tr>
<tr>
<td>Sharp &amp; Sharp (1997)</td>
<td>Retailing (coalition scheme: grocery, fuel, department stores)</td>
<td>Australia</td>
<td>Customer diaries</td>
<td>745 households</td>
<td>5 months (2 separate observations lasting 9 and 12 weeks respectively)</td>
<td>Two of the six brands participating in the coalition scheme that formed the basis for the study showed substantial deviations in excess loyalty; however, these deviations were observed for both members and non-members</td>
<td>Negative</td>
</tr>
<tr>
<td>Mühl (2003)</td>
<td>Retailing (grocery)</td>
<td>Sweden</td>
<td>Customer diaries, survey data</td>
<td>643 households</td>
<td>1 month</td>
<td>Limited support of the impact of loyalty schemes on customer behavior; while program members were found to have a larger share of wallet and share of visits at that check, the effect did not reach significance at the store level!</td>
<td>Positive</td>
</tr>
<tr>
<td>Xopatel &amp; Neslin (2003)</td>
<td>Airlines</td>
<td>USA</td>
<td>Various databases, industry analyses and annual reports to test model</td>
<td>n/a</td>
<td>n/a</td>
<td>Loyalty schemes were found to be powerful, multi-period promotions</td>
<td>Positive</td>
</tr>
<tr>
<td>Meyer-Waarden &amp; Bennen (2006)</td>
<td>Retailing (grocery)</td>
<td>France</td>
<td>Panel data [2,466 customers (30,000 purchase acts)]</td>
<td>6 months</td>
<td>Loyalty programs did not lead to a significantly higher purchase frequency or increased penetration; if all companies had a program in place, the competitive situation would remain unchanged</td>
<td>Negative</td>
<td></td>
</tr>
<tr>
<td>Meyer-Waarden (2007)</td>
<td>Retailing (grocery)</td>
<td>France</td>
<td>Panel data [2,476 customers (307,000 purchase acts)]</td>
<td>36 months</td>
<td>Positive effects of loyalty schemes on lifetime duration and share of wallet at the store level; multiple program membership may reduce effect; impact of share of wallet on lifetime duration increases with time</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>Leenheer et al (2007)</td>
<td>Retailing (grocery)</td>
<td>Netherlands</td>
<td>Panel data [1,396 households]</td>
<td>24 months</td>
<td>Small, yet positive effect (1.4 percentage points) of program membership on share-of-wallet; the effect was seven times smaller as compared to a model not taking self-selecting members into account</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>Authors</td>
<td>Industry</td>
<td>Geography</td>
<td>Data Source</td>
<td>Sample</td>
<td>Time Span</td>
<td>Results</td>
<td>Overall Evidence</td>
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<tr>
<td>Delee &amp; Hoeh (1998)</td>
<td>Retailing (baby products)</td>
<td>USA</td>
<td>Store data</td>
<td>n/a</td>
<td>6 months</td>
<td>25% rise in category sales and 7.5% in transaction size, 4% rise in overall grocery sales and 5% in store traffic</td>
<td>Positive</td>
</tr>
<tr>
<td>Lal &amp; Bell (2003)</td>
<td>Retailing (grocery)</td>
<td>USA</td>
<td>Store data</td>
<td>n/a</td>
<td>24 months</td>
<td>Loyalty programs were successful in increasing turnover in a profitable manner; substantial incremental sales to irregular shoppers offset the subsidies to already loyal customers</td>
<td>Positive</td>
</tr>
<tr>
<td>Smith et al. (2003)</td>
<td>Retailing (grocery)</td>
<td>United Kingdom</td>
<td>Customer diaries, survey data</td>
<td>30 customers</td>
<td>4 months</td>
<td>Average spend was far less for non-members, but no evidence was discovered that cardholders become more loyal over time</td>
<td>Negative</td>
</tr>
<tr>
<td>Lewis (2004)</td>
<td>Retailing (grocery and drug; News; Internet)</td>
<td>USA</td>
<td>Store data</td>
<td>3,658 customers</td>
<td>13 months</td>
<td>Average number of annual orders increased from 9.08 to 10.25 and mean customer revenue increased from 834 to 947</td>
<td>Positive</td>
</tr>
<tr>
<td>Taylor &amp; Naslin (2005)</td>
<td>Retailing (grocery)</td>
<td>USA</td>
<td>Store data, survey data</td>
<td>776 households</td>
<td>24 months</td>
<td>Within the duration of the program, weekly storewide sales rose by 6.8% in the first and 6.4% in the second year; overall, evidence was found for both a points pressure and a rewarded behavior effect (i.e., a significant behavior change took place both before and after reward redemption)</td>
<td>Positive</td>
</tr>
<tr>
<td>Kretz et al. (2006)</td>
<td>Catering, Retail, music rating</td>
<td>USA</td>
<td>Company data, data from own experiments</td>
<td>n/a</td>
<td>Shortening of inter-purchase time with progress towards goal; illusion of approaching the goal was sufficient to alter behavior; a stronger tendency to accelerated towards the reward served as a predictor of greater retention and foster re-engagement with the program</td>
<td>Positive</td>
<td></td>
</tr>
<tr>
<td>Liu (2007)</td>
<td>Retailing (grocery)</td>
<td>USA</td>
<td>Store data</td>
<td>3,000 customers</td>
<td>24 months</td>
<td>For light and moderate buyers, transaction size and purchase frequencies increased, and customers became more loyal to the firm</td>
<td>Positive</td>
</tr>
<tr>
<td>Meyver-Weardens (2008)</td>
<td>Retailing (grocery)</td>
<td>France</td>
<td>Panel data</td>
<td>2,159 customers</td>
<td>36 months</td>
<td>Loyalty schemes significantly affected purchase behavior for both market leaders and smaller retailers</td>
<td>Positive</td>
</tr>
<tr>
<td>Authors</td>
<td>Industry</td>
<td>Geography</td>
<td>Data Source</td>
<td>Sample</td>
<td>Time Span</td>
<td>Results</td>
<td>Overall Evidence</td>
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<tr>
<td>Bolton et al (2000)</td>
<td>Financial services (credit cards)</td>
<td>Three European countries</td>
<td>Company data</td>
<td>405 customers</td>
<td>12 months</td>
<td>In relationship decisions, program members weigh negative evaluations of the company less than non-members; the program leads to increased revenue due to fewer cancellations and higher service usage levels</td>
<td>Positive</td>
</tr>
<tr>
<td>Verhoef (2003)</td>
<td>Financial services (insurance)</td>
<td>Netherlands</td>
<td>Company data, survey data</td>
<td>1,677 customers (1st measurement), 918 customers (2nd measurement)</td>
<td>n/a</td>
<td>A loyalty scheme with economic incentives leads to greater customer retention and serves as a tool to maximize customer share</td>
<td>Positive</td>
</tr>
<tr>
<td>Noordhoff et al (2004)</td>
<td>Retailing (grocery)</td>
<td>Singapore/Netherlands</td>
<td>Survey data</td>
<td>333 customers</td>
<td>n/a</td>
<td>Impact on both attitudinal and behavioral store loyalty: given if number of competitive programs is limited and customers have not become sextoed to loyalty schemes over time</td>
<td>Positive</td>
</tr>
<tr>
<td>Bellzio &amp; Belzio (2004)</td>
<td>Retailing (grocery)</td>
<td>USA</td>
<td>Survey data</td>
<td>301 customers</td>
<td>n/a</td>
<td>Loyalty programs rank very low in the list of factors which customers consider likely to be increasing their store loyalty</td>
<td>Negative</td>
</tr>
<tr>
<td>Dowling &amp; Kincler (1997)</td>
<td>Various</td>
<td>n/a</td>
<td>Literature review</td>
<td>n/a</td>
<td>n/a</td>
<td>Loyalty schemes are not serving their purpose as loyalty would be much more likely to result from other factors than the program itself; only under certain conditions can they be useful</td>
<td>Negative</td>
</tr>
<tr>
<td>Liebmann (1999)</td>
<td>Retailing, consumer goods, leisure</td>
<td>Israel</td>
<td>Survey data</td>
<td>240 customers</td>
<td>n/a</td>
<td>Membership in a single program, joining the loyalty scheme on its own initiative, and a high participation rate in club activities all had a positive effect on loyalty</td>
<td>Positive</td>
</tr>
<tr>
<td>Wright &amp; Sparks (1999)</td>
<td>Various</td>
<td>United Kingdom</td>
<td>Survey data</td>
<td>150 customers</td>
<td>n/a</td>
<td>Consumers were engaging in programs out of rationality or greed and were motivated by a sense of belonging; limited evidence to suggest influence on customer behavior; customers might be getting value from SPs</td>
<td>Negative</td>
</tr>
<tr>
<td>Bridson et al (2008)</td>
<td>Retailing (health and beauty)</td>
<td>Australia</td>
<td>Survey data</td>
<td>200 customers</td>
<td>n/a</td>
<td>Hard and soft reward characteristics as well as the SP overall were shown to be a significant predictor of store loyalty</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Table 1: Literature Review of Loyalty Scheme Success Research
2.3.1 Predominantly Positive Evidence

First in a range of examples with “net positive evidence” comes the work of Drèze & Hoch (1998). During a six month time period, the authors observed a category destination program (i.e. a program that is similar in nature to a loyalty scheme in that it aims to encourage spending, but limited in the sense that it does so only for a single category) for baby products at all 70 outlets of ABCO Markets in the American state of Arizona. Backed by advertisements both in-store and broadcasted by radio and television, the program offered one “Baby Buck” for every USD spent on baby-related products. 100 such baby bucks could then be exchanged for a store-wide voucher of 10 USD. In terms of category sales, the program led to an overall increase of 25%, resulting from a 25% rise in the number of customers buying baby products and a 7.5% increase of the average transaction size. Overall, store traffic increased by 5% and total grocery sales by 4%.

In a preliminary study covering six small Israeli loyalty schemes across three industries (one being retail) with an average of around 15,000 members each, Lieberman (1999) conducted telephone interviews with 40 members of each program. The author discovered a significant effect of membership on word-of-mouth, while no significant effect of membership on expenditure was found, however, even though 20% of customers reported having spent significantly more due to their membership, and 32% indicated having bought slightly more. In any case, the article nevertheless leaves a positive impression.

Using data provided to them by a supermarket chain in the mid-west of the USA, Lal & Bell (2003) analyzed the effects of five non-institutionalized short-term loyalty schemes such as a ham promotion (where vouchers for a certain amount of ham were handed out, depending on the amount spent) or the so-called “discount and turkey promotion” (coupling a store-wide voucher with a coupon for a turkey, whereby the size of the reward again depended on the amount spent). The authors concluded that the programs were successful in increasing turnover by their customers and added that interestingly, the spend of customers in the lower spending deciles was greater than that of the supermarket’s best customers. Moreover, these programs were run in a profitable manner.

Mägi (2003) gathered data on 643 households by having them keep a four week store choice diary and complete a questionnaire at the end of this period. Her results were mixed. On the one hand, the author’s hypothesis that members of a loyalty scheme of their primary store will have a larger share-of-wallet and share-of-visits at the primary store could not be supported. Although support was found to be slightly positive, it did not reach significant levels. On the other hand, the hypothesis that customers having a loyalty card of a chain will have a larger share-of-wallet and share-of-visits at this chain could be maintained. This
was only true, however, for the 35% of customers who did not possess a competitive loyalty card. Still, all in all, limited positive support for loyalty schemes was discovered.

Next to the influence of email-coupons, pricing changes and shipping fees as three other marketing efforts, Lewis (2004) presented a model of customer response to a loyalty scheme. The model included both previous behavior by looking at cumulative purchases and forward-looking elements such as loyalty rewards. To test the model, Lewis used a sample of 1,058 customers stemming from a complete 13 month data set of 30,000 customers provided by an internet retailer focused on grocery and drug store articles. Conducting both simulation and policy experiments (e.g. to test the effect of changing or removing the loyalty scheme), the author found that the loyalty program effectively increased repeat purchase rates and was indeed successful in increasing turnover for a substantial proportion of customers. Specifically, the average number of annual orders increased from 9.98 to 10.25 and the mean customer revenue increased by 13 USD from a baseline of 634 USD. Consequentially, Lewis noted, the relative fit of the dynamic model (which considered future rewards) as compared to a static model did point towards the effectiveness of loyalty schemes.

In a study with questionnaires personally administered to 333 grocery shoppers in the Netherlands and Singapore, Noordhoff et al. (2004) analyzed, among other things, inter-cultural differences in the impact of card possession on loyalty. While doing so, the authors also differentiated between behavioral and attitudinal store loyalty and came up with surprising results. While loyalty card possession yielded a significant increase in both behavioral and attitudinal loyalty in Singapore, the analyses of the Dutch sample could only confirm a link to attitudinal loyalty. Partly due to fact that the amount of loyalty was significantly higher in Singapore, the authors hypothesized that the lack of a connection between loyalty card possession and behavioral loyalty in the Netherlands could be due to the effectiveness of loyalty programs eroding with their age and the emergence of a multitude of competitive schemes. As for the particularly strong links in Singapore, Noordhoff et al. argued that this might have been due to the Asian economic crisis of the late 1990s having increased price consciousness and consequently the sensitivity to price reductions. Despite the unexpected peculiarity as regards behavioral loyalty in the Netherlands, overall support for the ability of loyalty schemes to engender loyalty remains nevertheless positive.

Taylor & Neslin (2005) examined the effect of a loyalty program on sales both in the short and in the long run. Short-term impact, they argued, is created by what they termed points pressure, as customers increase their purchase levels to surpass a necessary threshold for obtaining a reward. By contrast, long-term impact is hypothesized to be generated through rewarded behavior, where, possibly due
to the learning theory of instrumental conditioning or positive affect resulting from the reward, customers exhibit a higher than baseline level of sales in the period following the receipt of a reward. Complemented by an initial mail survey, two years of grocery shopping basket item data for close to 776 households formed the basis for the study. The reward program which offered a free turkey to customers was employed for eight weeks once every year. During their analysis, Taylor & Neslin found evidence for both the points pressure and the rewarded behavior effect. During the eight week period the program was employed, weekly storewide sales rose by 6.1% in the first year and by 6.4% in the second year. Furthermore, sales did not immediately return to pre-program levels following the redemption of the free turkey. Still, unlike one might expect, the overall impact of the rewarded behavior did not surpass that of the points pressure effect.

This points pressure effect was also proven by Kivetz et al. (2006) who (1) analyzed 949 completed ten-stamp cards at a café on a university campus promising a free coffee, (2) conducted a field experiment with 108 participants in a free coffee setting, (3) carried out a questionnaire-based experiment with 65 respondents set around free pizzas as a reward, and (4) analyzed a data set of close to 148 people participating in a program that incentivized them with Amazon vouchers for rating music on a website. The authors found that the purchase frequency accelerated while customers progressed towards receiving a free coffee. Similarly, customers visited the rating website more often, rated more songs, and persisted longer in their rating effort while approaching the reward. This was further fortified by the observation that a slowdown set in following the achievement of a reward, while eventually another phase of acceleration was noticed once a reward could be reached for the second time. Interestingly, even the illusion of approaching a goal was sufficient to alter behavior. During the coffee-experiment, certain customers were handed out cards that required 12 stamps but had 2 fields already stamped as part of a “special promotion,” while others received empty cards requiring 10 stamps. Despite the fact that the number of purchased coffees needed to receive a reward was the same in both cases, the already pre-filled cards were completed faster than the empty ones. Furthermore, the authors noted, a stronger tendency to accelerate towards the reward served as a predictor of greater retention and faster reengagement with the program.

Leenheer et al. (2007) emphasized another important aspect: loyalty programs can not automatically be considered effective if members of loyalty schemes are found to have a higher share-of-wallet than non-members. This is due to the fact that already loyal members are the ones most likely to sign up for a loyalty program, as they are benefitting most from its rewards. Taking this endogeneity into account in an analysis of seven loyalty programs of Dutch grocers, the authors found a small, yet positive effect of program membership on share-of-
wallet (which would have been seven times that large without accounting for self-selecting members). According to the authors’ calculations, the programs were able to generate more additional revenue than additional cost in terms of saving and discount reward. Still, given the limitations of this study, these findings need to be put into perspective. Next to several other issues, it featured a significant flaw in that it did not incorporate any expense factors (e.g. administrative, IT, or marketing spending) other than the rewarding costs.

Using a random sample of 1,000 customers from an American convenience store chain, Liu (2007) observed the effect of the company’s loyalty program over the first two years following its inception. The author found that the effect of the loyalty scheme depended on the customer’s initial usage levels. For heavy spending customers, spend levels and exclusive loyalty to the store did not increase over time, while the opposite was true for light and moderate spending buyers. Their transaction sizes and purchase frequencies increased, and furthermore, they became more loyal to the store. This increase, Liu added, was most evident in the first three months of the program’s creation, upon which growth decelerated to a slower pace.

In a series of two similar articles, Meyer-Waarden (2007, 2008) evaluated panel data from the French town of Angers, covering customers’ purchases in five hypermarkets and two supermarkets. Over a period of 156 weeks each, and covering 397,000 purchase acts by 2,476 customers and 475,000 purchases by 2,150 customers respectively, the author concluded that loyalty schemes significantly affected purchase behavior at smaller retailers as well as market leaders. For instance, Meyer-Waarden (2007) noted, program subscription not only significantly reduced the relative risk of defection, but also increased share-of-wallet at the particular store. “Specifically, cardholders have significantly higher purchase intensities in terms of total and average shopping baskets, share-of-category purchases, purchase frequencies and inter-purchase times than do non-members over the entire three-year period and throughout the trading areas,” Meyer-Waarden (2008, p. 102) summed up the results.

Bridson et al. (2008) gathered survey data from 200 customers of two stores of an Australian health and beauty retailer, and found an empirical verification for the relationship between the loyalty program, store satisfaction and store loyalty. Specifically, hard and soft reward characteristics as well as the loyalty scheme overall were shown to be significant predictors of store satisfaction. As for store satisfaction, the authors confirmed its mediating role on store loyalty, and concluded that loyalty schemes were indeed a significant predictor of store loyalty.

Positive evidence of loyalty schemes is not limited to studies set in the retailing context, however. Apart from the work of Kivetz et al. (2006) that has already been described in greater detail due to its notable findings, examples include...

2.3.2 **Predominantly Negative Evidence**

An important part of loyalty research in the retailing context has historically been that of store loyalty. Various authors have analyzed the factors influencing store patronage (e.g. Bellenger et al. 1977, Arnold et al. 1983, Louviere & Gaeth 1987, Bellizzi & Bristol 2004), but be it product assortment, convenient location or fast check-out lines that fetch the top place as the factor with the highest impact, results in these studies tend to be similar (see East et al 1995, Bloemer & de Ruyter 1998, or De Wulf & Odekerken-Schröder 2003 for examples with a narrower focus). Pan & Zinkhan’s (2006) thorough meta-analysis of the determinants of retail patronage confirms this impression. Interestingly, none of these studies mention the role of loyalty schemes. When asked about the reason for not including loyalty programs as a driver of store choice, Yue Pan answered that the only reason he did not include them was that he did not find many articles that reported usable effect sizes for this variable (personal communication, January 22, 2008). The question still remains open, however, whether Pan & Zinkhan really had all the relevant studies at their disposal, and whether the authors of the publications reviewed in the meta-analysis even considered including the comparatively new topic of loyalty programs in their respective studies in the first place. Furthermore, inclusion in the authors’ study depended on what they considered a “usable” effect size. This problem of varying opinions among authors of what effect size is to be considered “usable” or “good enough,” will be discussed in greater detail in Chapter 2.3.3.

Dowling & Uncles’s (1997) paper is the first in a row of publications that leave the reader with a negative impression of the effectiveness of loyalty schemes. What stands out about this work is that it is often referenced, despite a lack of its own empirical data. In fact, one might even go so far as to call the authors’ work the starting point for modern research on the effectiveness of loyalty programs (next to Sharp & Sharp 1997, possibly). In a review of behavioral loyalty research as well as then current events in the business environment, Dowling & Uncles (1997) seem to have put future research on track. They found that loyalty is much more likely to come from other factors than the loyalty scheme itself. From this they concluded that most programs were not serving their purpose, despite agreeing that if properly designed, there are certain conditions under which they can be useful.
In an attempt to determine its ability to create additional loyalty for brands taking part in the program, Sharp & Sharp (1997) evaluated Australia’s major coalition scheme Fly Buys. To detect a change from normal repeat purchase behavior, the authors developed Dirichlet estimates of expected repeat purchase loyalty from their own panel of 745 households, and compared them with the actual, observed behavior. They found that out of the six participating brands, only two showed substantial levels of excess loyalty, and further added that these deviations were likely to be at least partially linked to other loyalty efforts by the company, as both members and non-members exhibited the same alteration in behavior.

An example of an exploratory study relying on survey data is that of Wright & Sparks (1999). From personal interviews with 150 people entering or exiting the main shopping center of the British city of Stirling, the authors concluded that people were tiring of loyalty cards. In explanation of the reasons behind this phenomenon, Wright & Sparks stated that people no longer had space in their wallets, that they did not have the time or inclination to complete card applications, and that they would not need further cards which they were probably not going to use regularly. In addition, customers were found to join loyalty programs mostly out of rationality or greed, and not because they wanted to reinforce their sense of belonging. Furthermore, the authors retrieved only limited evidence to suggest that loyalty schemes possess the power to influence customer behavior.

Following the administration of an initial questionnaire, Smith et al. (2003) evaluated the results from a four month diary study covering 30 respondents in the United Kingdom. Despite finding that the average spend of non-cardholders equaled just slightly above 40% of what cardholders generated, the authors conceded that “there was no evidence to suggest that the cardholders were becoming more loyal over time” (p. 114). As far as the average spend is concerned, this can easily be explained by the fact that customers that are already very loyal are the ones most likely to sign up for the scheme, since they are the ones drawing the biggest benefits from their membership (Leenheer et al. 2007).

In Bellizzi & Bristol’s (2004) study, respondents were, among other things, asked to assess 28 items on a five-point scale and indicate how likely each factor would be to contribute to their store loyalty. With a mean of 2.67 (5 being highest), “store offers a shopper loyalty card” landed in place 18, followed by items like “store offers automobile oil change while you shop” in place 25, or “store offers a beauty salon/barber shop inside” in the final slot. Obviously, one is tempted to say, customers placed factors such as “store offers quick-moving check-out lines,” “store offers a variety of fresh produce,” or “store is conveniently located” in the top positions. Also, they will naturally prefer immediate discounts over delayed ones, as indicated by the unnecessarily specific item “store does not have a loyalty card, but offers low prices in general, and has lots of two for one
sales” in place number 7. Two things are important to note in this connection: (1) letting customers judge the importance of such factors can potentially yield inaccurate results, as they might not consciously perceive, acknowledge, or admit to the psychological effects underlying certain loyalty schemes (particularly when dealing with delayed rewards) (e.g. Mägi 2003), and (2) both academics and practitioners acknowledge that the potential impact is comparatively small (see Chapter 2.3.3 for a detailed discussion of these issues).

Preceding the series of similar articles by Meyer-Waarden (2007, 2008) that were mentioned in the section on positive evidence, Meyer-Waarden & Benavent (2006) evaluated a sample of 50,000 purchases from a panel of 2,476 customers over a period of 24 weeks. Despite relying on the same panel that Meyer-Waarden (2007, 2008) used, the authors retrieved predominantly negative evidence. According to their findings, stores with a loyalty scheme were not able to develop higher purchase frequency and also, no effect on an increase in customer penetration could be observed. Interestingly, Meyer-Waarden failed to properly comment on this outcome in his latter two articles, except for referencing his earlier work with Benavent while noting that some authors “contend it is difficult to change established behavioral patterns with the type of reward systems that are prevalent today” (Meyer-Waarden 2007, p. 224 and Meyer-Waarden 2008, p. 90).

2.3.3 Possible Explanations for the Mixed Results

It could be seen that some authors provided rather positive and others rather negative evidence, while yet others came up with mixed results even within their own studies. This ambiguous situation even reaches the extent that findings leave enough discretion to be interpreted in both directions. Indeed, certain articles are sometimes cited as positive and sometimes as negative examples, depending on what the authors considered “effective.” For example, Leenheer & Bijmolt (2008) referenced Mägi (2003) in relation to loyalty schemes when stating that “existing academic research […] provided empirical evidence of their effectiveness” (p. 429), while Demoulin & Zidda (2008) claimed that “Mägi (2003) did not show any convincing effect of loyalty cards on consumers’ shares in grocery retail chains (i.e., share-of-wallet and share-of-visits)” (p. 387). A similar example concerns the paper of Lal & Bell (2003), which was referenced by Gómez et al. (2006) following the statement that “papers focused on loyalty programs that compare the consumers’ behavior before and after enrolling themselves in these programs show that there is virtually no difference between the two states regarding number of visits to the retailer or purchase volume” (p. 388), while Taylor & Neslin (2005) stated that the authors “found evidence for a sales increase during
the redemption period, suggesting a rewarded-behavior effect” (p. 295). Interestingly, even the same author might provide different results. For instance, Meyer-Waarden & Benavent (2006) wrote: “findings with regard to the effects of loyalty schemes on repeat purchase patterns in stationary markets are mitigated […] Our findings lead us therefore to reject hypothesis H1, according to which stores with loyalty schemes systematically develop higher purchase frequency” (p. 81). Working with the same source of panel data two years later, however, Meyer-Waarden (2008) noted that “our main findings show that loyalty programmes affect purchase behaviour for both market leaders and smaller retailers” (p. 101 f.).

One reason for these discrepancies could be that the authors were simply sloppy in their literature review. Evidence for this theory comes from the fact that Taylor & Neslin (2005) referenced Lal & Bell (2003) in a June 2002 edition of Quantitative Marketing and Economics, despite the fact that the article appeared in June 2003. Gómez et al. (2006) did no better, however. Apart from referencing the 2002 working paper instead of the published article from 2003 (which, after all, appeared a whole three years prior to their own work), they continuously misspelled the last name of poor Rajiv Lal. Still, this theory probably does not explain it all and is, moreover, a rather unkind allegation that was not meant too seriously. More likely, then, are the different interpretations due to the varying perceptions of what the authors considered to be “effective.” In the course of the literature review employed in this paper, both the works of Mägi (2003) and Lal & Bell (2003) were mentioned as examples of positive evidence. If one attempts to read the corresponding statements of Demoulin & Zidda (2008) and Gómez et al. (2006) with more care, one can discover the solution to this problem in little words embedded in these sentences. When the authors claimed that the loyalty programs “did not show any convincing effect” or made “virtually no difference,” they interpreted the results according to their own standards.

But what is the principal reason that explains why these papers allow for such fundamentally different interpretations in the first place? It is argued that this is due to the fact that the positive effect that can be obtained by employing a loyalty scheme is comparatively small by nature. This is particularly true for the retailing industry, as it is generally characterized by a non-contractual setting, low consumer involvement, a high level of competition, low profit margins and consequently comparatively low reward values in the industry’s loyalty programs. Grocery retailing probably serves as the most prominent example for this scenario. This realization is not only supported by academics (e.g. Meyer-Waarden & Benavent 2009), but by practitioners alike. For instance, Humby et al. (2008) (the men behind Tesco’s Clubcard scheme) explicitly note that these programs can only complement the marketing strategy of a retailer, after all other more important
factors are delivered on. The impact these schemes can consequently have on turnover is comparatively small expressed in percentage points, but will nevertheless result in a significant absolute number – particularly in a retail sector such as grocery retailing, which is characterized by small margins, but high rates of turnover.

A further issue that interferes with these results is the ubiquity of loyalty cards (Capizzi & Ferguson 2005). Indeed, marketers have found customers to be “cherry picking,” with multiple memberships in different competing loyalty schemes forming the basis (Passingham 1998, Wright & Sparks 1999, Bellizzi & Bristol 2004). “I have accumulated nine ‘loyalty’ cards from various stores and supermarkets. Does this make me more loyal, or less,” asks a reader in a letter to The Times in the UK (Wright & Sparks 1999). Usage frequency of these cards is one factor that would have to be considered in order to judge whether customers are really promiscuous at all times, or merely keep a loyalty card of a second fuel retailer in their car in case their first choice is not around. Particularly in those instances where the program is configured so that it gives immediate discounts, consumers are likely to register for the free program. Another possible scenario is what Dowling & Uncles (1997) and McGoldrick & Andre (1997) called polygamous loyalty. As opposed to brand switching on the one extreme and promiscuity on the other, polygamous loyalty describes the loyalty to a small set of brands. A possible example for this would be a variety seeking customer who purchases a specific toothpaste or breakfast cereal 80% of the time, and another one 20% of time. The “just-in-case scenario” as well as that of polygamous loyalty would thus be two possible explanations for the negative effect that having a competing loyalty card has been found to have on share-of-wallet (e.g. by Mägi 2003). What remains true, though, is that cards are often not used in the long run. During a 12 month empirical investigation of the database of one Italian supermarket outlet, Mauri (2003) discovered that a very high percentage of card holders were not loyal to their card. In fact, out of the roughly 8,300 cards issued during that year, less than 40% were still in use in the last month.

The effect of competing loyalty programs is also one of the most important points of criticism with regard to these programs’ effectiveness. Following the argumentation of Uncles (1994) and Dowling & Uncles (1997), a loyalty scheme’s effect will be cancelled out as soon as competitive offerings enter the market. Consequentially, as terminating a loyalty scheme is a problematic issue and not advisable in a setting where a competitor has already matched the program, retailers are expected to be left with additional costs, but no additional benefit. As some of the studies mentioned in Chapter 2.3.2 have shown, this is not necessarily true, particularly because quite often not all players in an industry do employ a
loyalty scheme and furthermore, because they almost always differ in their setup (e.g. their reward structure).

Another possible explanation for the varying results relates to methodological deficiencies, of which Meyer-Waarden & Benavent (2009) provide a valuable summary. While studies using aggregate panel data do not take customer heterogeneity into account and store level data fails to do so with respect to competitive information on buying behavior, declarative survey data is confronted with reliability problems. Most importantly, however, the explanatory power of virtually all existing studies is flawed in that they ignore purchase behavior prior to loyalty program membership. Unfortunately, this is a limitation that is hard to avoid. While for store-level data, purchase behavior can only be captured from the beginning of membership in a loyalty program, very few providers of panel data capture the sign-up date to a loyalty program and also what purchases the respective card has been used for. Finally, survey data might have difficulties capturing the minor changes in purchase levels or buying frequency that can be expected from loyalty program membership in certain industries. Different methodologies, data sources, sample sizes and observed time spans are just some of the issues that cause variations in the outcome, particularly because the effect that is to be measured is fairly small. Regarding the oscillating observations mentioned previously in a comparison of Meyer-Waarden & Benavent (2006) and Meyer-Waarden (2008), for example, Lars Meyer-Waarden noted during personal communication that this was influenced by the data basis covering only 24 weeks in the first case, while it spanned 156 weeks in the later article (personal communication, December 7, 2008).

Next to these two main reasons that are often cited as interfering with the determination of the “true” effect of loyalty schemes, numerous other elements are obviously involved. For example, Meyer-Waarden also highlighted the lack of proper consideration of the distorting effect of self-selecting members in his papers as well as our personal communication. Except for Leenheer et al. (2007), who calculated that 86% of the effect of being a member on share-of-wallet is explained by this endogeneity, no other study to date has launched an attempt to control for this factor. In addition, different industries and even retailing sub-sectors are likely to lead to different results and the program configuration and reward structure can also be considered a major driver of loyalty scheme effectiveness (if not the most important one). A certain variance in the outcome of these studies is thus naturally given, as their setup is never similar in all respects.
2.3.4 Reflection

It seems fair to say that studies regarding the effectiveness of loyalty schemes in generating or fostering loyalty face several limitations that need to be considered. As far as the problem of distinguishing between studies that prove and those that refute the effect of loyalty schemes is concerned, this paper does at least partly step into the same trap that other authors were criticized for falling into. The reason for the voluntary action of offering a “positive evidence chapter” and a “negative evidence chapter” is to provide an illustration for the dominance of research that leaves the reader with a positive aftertaste. Naturally there are some papers that were named in the negative category, but do not provide purely negative results (e.g. Sharp & Sharp 1997 or Smith et al. 2003). The motivation for still putting them into that group is that they are predominantly negative, as opposed to those in the positive category, which are at least predominantly positive. Overall, however, literature tends to support a small, yet positive relationship between loyalty schemes and behavioral loyalty.

But what about attitudinal loyalty, one might ask. Unsurprisingly, opinions diverge in this case as well. Kumar & Shah (2004), for example, argued that loyalty programs need to cultivate attitudinal in addition to behavioral loyalty in order to reap the benefits of some of the commonly believed effects of true loyalty (Reichheld 1996, Steyn et al. 2010):

- The costs of serving loyal customer are less.
- Loyal customers are less price-sensitive.
- Loyal customers benefit the company by passing on positive word-of-mouth.

The way in which this can be done, the authors proposed, is via a suitable configuration of the reward structure. Applicable only to pre-selected, profitable customers, this would mean targeting the customers’ higher level goals in life, such as achieving social recognition, or visiting exotic places around the world. Likewise, Hart et al. (1999) suggested that loyalty schemes need to put more focus on their relational intent. In fact, the authors even asserted that the “future success of the schemes will depend on extended relationships as well as a move away from transactional intent” (p. 557). It needs to be added, however, that Hart et al. are referring to non-grocery retailing sectors only, which might constitute a key point in this discussion. Even Kumar & Shah (2004) could only come up with examples for rewards they contended to be able to foster attitudinal loyalty, which are rather unlikely to see implementation in a food retailing setting. When credit card companies fly their elite customers around in a private jet or treat them to private time with a celebrity, one could imagine that this might work. Picturing a grocery chain doing so is disproportionally harder. In this regard, the
question that Dowling & Uncles (1997) brought up by asking whether customers really want a relationship for low-involvement products might be modified into asking whether a relationship can really be established for retail sectors characterized by low involvement. In all likelihood, it is maintained, creating attitudinal loyalty through a special loyalty scheme for the top customers in Prada stores is more probable to succeed than through a program targeting Tesco’s best customers. This also supports Yi & Jeon’s (2003) proposition that loyalty marketing is a better fit for high-involvement products.

While some authors thus still purport that attitudinal loyalty is a goal that is achievable, many others believe the opposite. “A classic example of a misnomer: the loyalty card” is the title of an article by the academic Steve Worthington (2000), for instance. Similarly, Wright & Sparks (1999) stated that “‘loyalty card’ is not perhaps the correct term to call many of the cards in use” (p. 431), and Weinstein (1999) quoted a managing partner of a retail consultancy talking about attitudinal loyalty with the words “in fact, there is one thing still lacking in frequent-shopper programs, and that is loyalty” (p. 89 f.). Indeed, even for studies that explicitly capture attitudinal loyalty (e.g. Noordhoff et al. 2004 or Gómez et al. 2006) it needs to be kept in mind that despite findings of loyalty program users being characterized by a higher level of attitudinal loyalty than non-members, a causal relationship has never been established.

Can a loyalty scheme generate loyalty? Logic would suggest that a smart shopper (i.e. well-informed and generally price-conscious consumer) will adopt such a program and adjust his behavior to his own benefit, but in practice, this will certainly not be true for all customers (Schnedlitz 2006, Liebmann et al. 2008). This question of whether a loyalty program can create loyalty has not received an ultimate answer yet, but for the effect on behavioral loyalty, the answer appears to be predominantly yes, though depending on industry and program structure, generally to a relatively small extent. As for attitudinal loyalty, the answer tends towards no, at least for a large part of the retailing landscape and again dependant on program and particularly reward configuration.