Why do customer attitudes towards loyalty programs matter a lot?

Virginie Bruneau *

Doctoral student

Louvain School of Management, Belgium

Center on Consumers and Marketing Strategy (CCMS)

Pietro Zidda

Professor of marketing

Université de Namur, Belgium

Center on Consumers and Marketing Strategy (CCMS)

* Louvain School of Management (UCL), Place des Doyens 1, 1348 Louvain-la-Neuve, Belgium, virginie.bruneau@uclouvain.be, + 32 (0)10 47 84 81
Pourquoi les entreprises devraient-elles s’intéresser à l’attitude des clients vis-à-vis de leur programme de fidélité ?

Résumé :
Des études récentes montrent que les consommateurs sont moins actifs et engagés envers les programmes de fidélité (PF). Les entreprises semblent plus s’intéresser à l’enrôlement qu’au suivi de la relation avec leurs clients. Ces derniers méconnaissent le fonctionnement des PF ainsi que les bénéfices qu’ils peuvent en retirer. Afin de créer de vraies relations, les entreprises devraient susciter des attitudes favorables vis-à-vis de leur programme. Via une recherche qualitative, nous montrons que l’attitude vis-à-vis d’un PF est formée d’associations mentales et que celles-ci conduisent à des comportements spécifiques vis-à-vis du PF (ex. participation active) ou de l’enseigne (ex. fidélité).

Mots-clés : programme de fidélité, fidélité à l’enseigne, attitudes, recherche qualitative

Why do customer attitudes towards loyalty programs matter a lot?

Abstract :
Recent figures show that consumers become less active and engaged with their loyalty programs (LPs). Firms tend to spend more effort in enrollment campaigns than in managing relations with program members. As a result, customers are unaware of LP features and hardly perceive the benefits. To build real relationships, firms should foster favorable attitude towards their LPs. By means of a qualitative study, this paper shows that LP attitudes are built up from the associations consumers make about LPs and that they are likely to drive their behavior with the program (e.g., participation) and the store (e.g., loyalty).

Key-words: loyalty programs, store loyalty, attitudes, qualitative research
1. Introduction

Although loyalty programs (LPs) exist for long now, consumers’ enthusiasm to enroll in these programs keeps on growing over the last years. From 2010 to 2012, total LP enrollments in the United States increased 26.7% to 2.65 billion (Berry, 2013). From the firm’s perspective, LPs are often a key element of their marketing strategies. Loyalty schemes aim to increase customers’ loyalty by rewarding them for their loyal behavior. But numbers show that the proportion of active memberships among total memberships has dropped from 2010 to 2012, decreasing from 46% to 44%. In France, the same pattern is observed. According to Passebois, Trinquecoste and Viot (2012), 60% of the individuals possess 3 to 10 loyalty cards and only 50% are used. Figures suggest that firms fairly well manage to acquire new members with their LPs but that they are unable to make them actively participate in the program. Indeed, 44% of enrolled members are not active with the program. The question arising is thus: Why customers do not actively participate to loyalty programs? According to ACI Worldwide, a leading international provider of payment systems (2011), the vast majority of American LP members are not anymore contacted after signing up, they don’t even know how the LP works and what the benefits of the program are. Companies thus fail to build real relationships with their customers. True relationships between customers and firm are the result of real loyalty that encompasses a behavioral dimension and an affective dimension (Dick and Basu, 1994). Too many programs fail because there is a lack of focus on consumers’ feelings and attitudes (Fournier & al., 1998; Noble and Phillips, 2004). Likewise, affective responses such as satisfaction and attitudinal engagement influence partners to stay in or leave the relationship (Duck, 1994; Hinde, 1979). Hence, in order to create real or sustainable loyalty, programs should manage to create favorable attitudes. The second
question addressed in this research is how to create such favorable attitudes towards the LP that are likely to increase customer participation with the LP. Previous research has mainly focused on the behavioral outcomes of loyalty programs (Liu, 2007). Though few studies have considered customer attitude towards LPs (e.g., Yi and Jeon (2003)), they have primarily investigated the reward scheme as an antecedent. Lichtlé & Plichon (2008) suggest that there is a need for understanding the attitudinal antecedents of behavioral loyalty. Likewise, actual research on LPs seems to neglect the simultaneous impact of the LP and related attitudes on customer behaviors (Dorotic & al., 2012). The present research tries to address this gap by exploring the relationship between the LP, customers’ attitudes and behavior. It aims at better understanding the formation of attitudes towards LPs and how the latter attitudes impact behaviors such as participation to LPs and store loyalty.

2. Background

Loyalty programs can be defined as structured marketing efforts which reward, and therefore encourage loyal behavior (Sharp and Sharp, 1997). Many studies have investigated the effects of LPs. Most researchers have focused on behavioral outcomes. They showed mixed results about the effectiveness of the impact of such programs on behavior (Keh and Lee, 2006; Liu, 2007; Sharp and Sharp, 1997; Meyer-Waarden, 2007; Zhang and Breugelmans, 2011).

Another category of research investigates the attitude towards LPs. Two main categories of drivers of the attitude towards LPs are proposed: the perceived benefits (Mimouni-Chaabane and Volle, 2010; Evanschitzky & al., 2012) and the evaluation of the reward scheme (Demoulin and Zidda, 2008; Evanschitzky & al., 2012). The effects of LPs on attitudes and behaviors have also been found to vary according to customer’s characteristics. Customer’s reactions to LPs appear to be function of usage levels, demographics, shopping orientations, variety seeking and price sensitivity (Leenheer & al., 2007; Demoulin and Zidda, 2009; Liu,
The attitude towards the LP appears to have a central role between the LP and the loyalty towards a brand or a store. “An attitude is a psychological tendency that is expressed by evaluating a particular entity with some degree of favor or disfavor” (Eagly and Chaiken, 1998: 269). Based on associations stored their memory, individuals develop attitudes, which will in turn influence their behavior. Based on the theory of reasoned action (Fishbein and Ajzen, 1975), behavior is likely to be determined by intentions which in turn are likely to be determined by attitudes. We expect that the customer attitude towards a LP will also be formed by a set of associations that s/he stores in his/her memory. The associations are likely to originate from his/her experience with the LP, the information s/he gets from the program manager/firm as well as from WOM. How LP attitudes are formed and what are their outcomes in term of for instance participation to the LP remain however unanswered questions. We thus aim at understanding how people form attitudes towards LPs and at exploring the potential consequences.

3. Methodology

Since our goal is to understand beliefs, opinions, motivations and underlying processes, a qualitative method seems the most appropriate. With the help of a semi-structured interviewing guide, in-depth interviews were conducted to collect the data (from June to July 2013). This method seems the most suitable because it is an open-ended, discovery-oriented method that is well suited for eliciting beliefs from respondents (Rubin and Rubin, 2004). Our sample is formed by 18 informants (14 are consumers, members of various LPs and 4 are industry experts) with various profiles. Appendix 1 summarizes the profile of our informants. We selected the Belgian health and beauty care retail industry because it offers a wide range of LPs. We stopped collecting data after 18 interviews because information saturation was achieved. Each interview lasted approximately one hour, was tape recorded and then fully
transcribed. After “warming-up”, informants were invited to elicit free associations with specific loyalty programs and to talk about their attitudes and behaviors towards the LPs and the related store chains. Informants were then asked to discuss how the elicited associations influence their attitudes and behaviors towards the LPs and stores. Constructivist theory was used as basis for this qualitative study (Lincoln and Egon, 1994). This means that the researcher and the subject co-create reality. Experiences and events are constructed by individuals, and therefore people construct the realities in which they participate (Charmaz, 2000). By means of ATLAS.ti qualitative data analysis software, data from the interviews were coded into three major categories (specificities of active/non-active members, associations forming attitudes and outcomes of attitudes). In the analysis, we moved back and forth between the data and existing literature on LPs.

4. Major findings

Figure 1 summarizes the findings as they emerged from the analysis and interpretation of the data. This is an ongoing research. Our results need of course to be refined theoretically.
4.1 Active vs. non-active members

When asking respondents why they are taking part in particular programs, several reasons have emerged. Our qualitative data showed that being active goes beyond the usage of the card and can include reading of newsletters, accept invitations to special events, .... Four categories of active membership appeared from our data. The first category includes active membership as a result of a positive overall evaluation about the LP. In other words, they participate because they have a favorable attitude towards the LP: *Nadine*: *I use it because I think it is very interesting!*

The second category of active members uses the card without being able to mention any reason besides “habit” or “loyalty to the store” as shown in following example: *Julie*: *I use this card by habit and because my wallet is big enough.*

When trying to understand why members are not active with a particular program, respondents explained two main reasons. The first reason is the not participating because they forget about using their card for example. It is not a result of particular feelings, only the absence of a cognitive component: *Maude*: *When I bought my new perfume, I just forgot [to use my card].*

The second reason evoked for not participating to a program is the result of negative feelings towards the program or the firm/brand: *Isabelle*: *Yves Rocher*[French cosmetics retail chain]*, I receive to many e-mails and I don’t like it.*

4.2 Types of associations

4.2.1 Program design

If the *cost of participation* is too prevalent in consumers’ memory, it will often result in a negative attitude and in turn, inactive membership. Moreover, informants reported that they
develop negative feelings when the company is too intrusive in their privacy or when monetary costs or time efforts are too high.

*Maude:* “I hate when you are enrolled in a program and you receive text messages, it annoys me! Or even advertising flyers, it is cumbersome... For example, Springfield, it annoys me to the point that I no longer want to use the card!”

**Point structure associations.** Collecting points is the essence of loyalty programs and contributes largely in forming attitudes and behaviors towards LPs. They are formed based upon the point format, validity and thresholds. The point format and the way it enables to get rewards is predominant in informants’ mind.

*Maude:* “I like that program because I find it simple and easy to understand. In the other one, there are too many thresholds, why call it petals? It annoys me already.”

Furthermore, thoughts about unachievable redeeming thresholds or limited validity will result in negative attitudes and inactive membership.

*Geoffrey:* “At the end of X points on my card I receive a reduction but I think that the number of points is so high that ... it will take me a lifetime to access this reduction (laughs).”

**Reward associations.** As one would expect, customer opinions about the rewards need to be favorable in order to develop a positive attitude. On the contrary, invaluable rewards will often result in negative attitudes.

*Sophie:* “I don’t know what I get, I should ask them once ... yes, there are small gifts but gifts are often small trinkets uh (laughs). It is not very interesting.”

### 4.2.2 Perceived benefits

Informants not only form associations about the program design but also keep in memory the benefits they derive from using the program. In order to develop favorable attitudes and to incite members to be active with a program, it is crucial that the benefits be important enough
to be perceived. If the perceived benefits are not sufficiently valuable for customers, they will not stimulate them to take actively part in the program:

*Nathalie:* “To carry them around because they are not very useful. I never have time, they are therefore not useful to me.”

Besides utilitarian benefits, active members seem to derive hedonic and symbolic benefits from using the program. Some members feel pride because they benefit from a special status while others feel pleasure when they redeem their points.

*Maude:* “It is always a small sense of pride even if at the end it is only thanks to us but I think it's nice to say that I love this brand more and that I have the gold card (laughs)... I think it's a sense of pride.”

### 4.2.3 Competition

For creating positive attitudes towards their programs, firms need to differentiate from others and create *unique* associations.

*Vinciane:* “I'll say the same: reduction. In fact, since I do not know the [loyalty] cards, for me they are all the same. I do not see a single difference between these [loyalty] cards.”

### 4.2.4 Store or brand image

When evaluating a particular program, consumers take into account the *store’s or brand’s image*. When informants do not know a specific program, they generally form their attitude based upon the associations they make with the store or the brand.

*Maude:* “The person who uses the card Yves Rocher, I see her very old and uh just filled with presents of Yves Rocher (laughs). I do not see very well dressed uh uh ... A little peasant or something like that (laughs).”
4.2. LP attitude and customer-related factors

Differences predominantly occur between active and non-active members. When a member is active into a program, it usually implies that s/he has a positive attitude towards the program. Associations of active members mostly include rewards, clear functioning and perceived benefits. On the other hand, non-active members will generally form associations about the participation requirements. They are not able to form associations about the benefits or the point structure. Furthermore, in the formation of attitudes, the importance of the associations will vary by product category usage level/involvement, shopping orientation, price sensitivity and variety seeking. When usage level is low, customers will be more concerned about point structure and more specifically validity and threshold points. Customers with economic shopping orientation or high price sensitivity will be more likely to form associations about participation costs. Moreover, variety seekers will pay more attention to the rewards.

4.3. Outcomes of attitudes towards LPs

As stated previously, the overall attitudes consumers form towards loyalty programs are likely to impact their behaviors towards the loyalty program. Positive attitudes will induce active memberships whereas negative attitudes will result in inactive memberships.

Maud: "Ah yes, that one is really better compared to the previous one. I would be much more attracted to join and so I would say that I want to be loyal to Planet Parfum."

Consumers’ patronage behavior will be influenced by their attitude towards the LP. If consumers have a positive attitude towards a LP, they will be more likely to patronize the store. On the other hand, if a loyalty program doesn’t meet customer expectations and if it develops negative feelings, his/her likelihood of patronizing the store will tremendously decrease.
Isabelle: "If I am disappointed with the loyalty program [of a particular store chain] well I will go to a Planet Parfum in another city if the loyalty program is better."

Our data also reveal that the customers’ attitude towards a retailer LP can influence the retailer image. If the attitude is largely negative, it can thus damage the retailer image.

Vinciane: "Oh no, here I would never see Di [a retail chain] in the same way. I have a rather negative image. Saving for so much time for a beach plastic bag uh ..."

5. Discussion and conclusion

The main objective of this study was to understand why customers do not actively participate to LPs. First, we tried to underline differences between active and non-active members. The respondents of our qualitative study explained that participating to a program implies using a card (behavior) and thinking about using it (cognitive response). Furthermore, our study showed that active membership can be the result of a positive attitude (but not necessarily). Non-active membership will be the result of no thoughts or negative attitude towards the LP. Following the definition of engagement, we define an active member as someone engaged with the company or brand. Indeed, engagement is the level of customer’s physical, cognitive and emotional presence in a relationship (Brodie & al., 2013). Real activity with the LP will thus be the result of a physical component (e.g. using the card, reply to invitations, read e-mails), a cognitive component (remind about using it) and an emotional component (favorable attitude). Our study showed that customers can be active without necessarily being the result of a positive attitude. But in order to create real loyalty and build relationships with customers, active membership as a result of positive attitudes is a necessary condition. Figure 2 summarizes the types of active / non-active memberships. Active membership is thus not a binary variable but a multi-dimensional
The second objective of this study was to explore the formation of the attitude towards loyalty programs and to assess how and why it impacts on subsequent behaviors such as active LP memberships. Our qualitative study shows that attitudes are based upon associations formed in customers’ mind and that to form attitudes these associations vary in strength by customer-related factors. We found several categories of associations constituting attitudes towards LPs. The first category includes associations formed about the *program design*. Customers’ attitudes are based upon associations about the participation requirements, the point structure and the rewards. Non-active members seem to hold associations about the program requirements and point structure (validity and threshold) whereas active members hold associations towards the rewards. In order to create favorable attitudes, it is thus important for firms to design a valuable program in the eyes of the customer. Previous research that has identified program value as an antecedent of high relative attitude towards loyalty programs (Yi and Jeon, 2003; Evanschitzky & al., 2012). The second category of associations includes the *perceived benefits* of participating to a LP. Customers will evaluate the benefits derived from their participation in a program and will store them in memory. It is thus crucial for companies to create substantial benefits for customers taking part in LPs. This is also in line with previous research stating that perceived benefits (and especially utilitarian benefits) are good predictors of attitudinal loyalty towards a LP (Mimouni-Chaabane and Volle, 2010). The third category contains associations about competition-related factors. In order to create an attitude towards a LP, it is important that customers form unique associations. The fourth

<table>
<thead>
<tr>
<th></th>
<th>attitude</th>
<th>cognitive</th>
<th>behavior</th>
</tr>
</thead>
<tbody>
<tr>
<td>active member</td>
<td>+</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>(engaged in the relationship)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>usage by habit</td>
<td>0</td>
<td>-</td>
<td>+</td>
</tr>
<tr>
<td>no usage (forget)</td>
<td>0</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>non active member</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

*Figure 2: active vs. non-active members*
category is brand or store image. In customer’s memory, the associations with the LP are closely linked to the associations made about the company. In previous research, these categories of associations have been studied separately. This research goes beyond by proposing an integrative framework including all different types of associations that form attitudes towards LPs. In addition, we propose that associations held in memory of active members differ from the associations made by non-active members. It not only implies that they form a different attitude towards the LP but that the bases of the attitudes are also different. These differences seem to determine their active or inactive participation to the program. In the formation process of the LP attitude, the impact of associations varies in strength according to customers’ characteristics. Different categories of customers will thus rely on distinct types of associations to form attitudes.

From an academic perspective, this paper contributes to the better understanding of the relationship between LPs and loyalty. Contrary to previous research, we propose an integrative framework for the analysis of the formation of the attitude towards LPs, its antecedents and its consequences. From a managerial perspective, this research will help firms to build effective loyalty programs by engaging customers in a relationship.

Our research has of course some limitations. First, a qualitative study does not aim to generalize its findings but rather to increase the understanding of a phenomenon. Hence, the deeper understanding of attitude formation illustrated in the present study may open the door to many exciting research opportunities to confirm, quantify and extend the results. Second, we investigated the case of a single industry. Further research should thus investigate LP attitude formation in other industries with for instance low involvement levels.
Selected References


Appendix 1: Informant profiles

<p>| Gender | Age   | Education level | Occupation       | Product cat. usage level | Shopping orientation | Product category variety seeking | Price sensitive | Active to LPs | Inactive to LPs |
|--------|-------|-----------------|------------------|--------------------------|----------------------|---------------------------------|----------------|--------------|----------------|----------------|
| <strong>Annick</strong> | female | 25-34           | high school      | optician                  | medium               | apathetic                       | low            | high         | Paris XL, Inno | none           |
| <strong>Brieuc</strong>  | male  | 19-24           | university       | industrial engineer      | low                  | apathetic                       | low            | high         | Planet Parfum | none           |
| <strong>Corine</strong>   | female | 45-54           | university       | teacher                  | low                  | apathetic                       | low            | low          | Di, small store | Planet Parfum |
| <strong>Isabelle</strong> | female | 45-54           | higher education (non university) | nurse | high | econ | high | high | Planet Parfum, Paris XL | Body Shop, Yves Rocher |
| <strong>Geoffrey</strong> | male  | 25-34           | higher education (non university) | policemen | low | apathetic | medium | medium | none | Planet Parfum |
| <strong>Julie</strong>    | female | 19-24           | high school      | salesperson               | high                 | personalizing                   | high           | high         | Yves Rocher, Di | Planet Parfum, Inno |
| <strong>Louise</strong>   | female | 16-18           | high school      | student                   | high                 | personalizing                   | high           | high         | Di             | Paris XL |
| <strong>Marguerite</strong> | female | 75+             | high school      | retired                   | low                  | personalizing                   | low            | low          | none           | Planet Parfum, Inno, Paris XL |</p>
<table>
<thead>
<tr>
<th>Gender</th>
<th>Age</th>
<th>Education level</th>
<th>Occupation</th>
<th>Product cat. usage level</th>
<th>Shopping orientation</th>
<th>Product category variety seeking</th>
<th>Price sensitive</th>
<th>Active to LPs</th>
<th>Inactive to LPs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maude</td>
<td>female</td>
<td>19-24</td>
<td>university</td>
<td>unemployed</td>
<td>medium</td>
<td>personalizing</td>
<td>high</td>
<td>none</td>
<td>Planet Parfum</td>
</tr>
<tr>
<td>Nadine</td>
<td>female</td>
<td>55-64</td>
<td>higher education (non university)</td>
<td>retired</td>
<td>medium</td>
<td>personalizing</td>
<td>low</td>
<td>low</td>
<td>Paris XL</td>
</tr>
<tr>
<td>Nathalie</td>
<td>female</td>
<td>35-44</td>
<td>technical</td>
<td>salesperson</td>
<td>high</td>
<td>econ</td>
<td>high</td>
<td>high</td>
<td>none</td>
</tr>
<tr>
<td>Sophie</td>
<td>female</td>
<td>35-44</td>
<td>higher education (non university)</td>
<td>secretary</td>
<td>high</td>
<td>personalizing</td>
<td>high</td>
<td>low</td>
<td>Planet Parfum, Di</td>
</tr>
<tr>
<td>Stéphane</td>
<td>male</td>
<td>45-54</td>
<td>technical</td>
<td>owner of clothing shop</td>
<td>medium</td>
<td>personalizing</td>
<td>low</td>
<td>low</td>
<td>small store</td>
</tr>
<tr>
<td>Vinciane</td>
<td>female</td>
<td>35-44</td>
<td>higher education (non university)</td>
<td>teacher</td>
<td>medium</td>
<td>apathetic</td>
<td>low</td>
<td>medium</td>
<td>none</td>
</tr>
</tbody>
</table>