The formation of loyalty program image and its impact on retailer’s overall image

Virginie Bruneau,
Louvain School of Management

Pietro Zidda,
University of Namur
The formation of loyalty program image and its impact on retailer’s overall image
Virginie Bruneau, Louvain School of Management
Pietro Zidda, University of Namur

Summary
In these economically turbulent times, loyalty programs (LPs) have increased in number and have become more popular with the consumer. To differentiate themselves from competitors, retailers are highly creative in designing their LPs. Can retailers do whatever they want with their LPs? The main and broad objective of this research is to conceptually question the existence of the LP image and its role in the formation of the overall store/retailer image. We believe that the LP image may contribute to the understanding of the effectiveness of loyalty programs.

Keywords: loyalty programs, store image, store loyalty

JEL Classification: M31

Corresponding author:
Virginie Bruneau
Center for Excellence CCMS
Louvain School of Management / Campus Louvain-la-Neuve
Place des Doyens, 1
B-1348 LOUVAIN-LA-NEUVE, BELGIUM
Email: virginie.bruneau@uclouvain.be
THE FORMATION OF LOYALTY PROGRAM IMAGE AND ITS IMPACT ON RETAILER’S OVERALL IMAGE

VIRGINIE BRUNEAU
Louvain School of Management, Université catholique de Louvain, 1 place des doyens, B-1348 Louvain-la-Neuve, BELGIUM
Center on Consumers & Marketing Strategy (CCMS)
virginie.bruneau@uclouvain.be

PIETRO ZIDDA
Department of Business Administration, University of Namur, Rempart de la Vierge 8 B-5000 Namur, BELGIUM
Center on Consumers & Marketing Strategy (CCMS)
pietro.zidda@fundp.ac.be

Abstract

In these economically turbulent times, loyalty programs (LPs) have increased in number and have become more popular with the consumer. To differentiate themselves from competitors, retailers are highly creative in designing their LPs. Can retailers do whatever they want with their LPs? The main and broad objective of this research is to conceptually question the existence of the LP image and its role in the formation of the overall store/retailer image. We believe that the LP image may contribute to the understanding of the effectiveness of loyalty programs.

Keywords: loyalty programs, store image, store loyalty

* Corresponding author
1. Introduction

In these economically turbulent times, it is crucial for companies to keep their customers loyal. Indeed, retaining customers costs less time and money than attracting new ones (Reichheld, 1996). A commonly used approach for creating and sustaining loyalty is the development of loyalty programs (hereafter referred to as LP).

During the last decade, LPs have increased in number and have become more and more popular with the consumer. Since competition among rival programs is intense, retailers try to differentiate from each other by innovating with their programs. They are highly creative. They offer various types of rewards and schemes. Shoppers for instance receive extra points if they re-use their bag, get any kind of gifts or services if they reach a certain amount of purchases or access to higher tiers in hierarchical programs. One issue that emerges from such diversity and complexity is “can retailers do whatever they want with their LPs?” One can indeed question whether these practices positively affect or damage retailers’ image and reputation.

The main and broad objective of this research is thus to assess whether a LP has its own image, how it is formed and finally whether and how the LP image affects the retailer’s overall image and performance. In this paper, based on an exploratory study and existing theory, we briefly present and discuss a conceptual framework.

2. Loyalty program image

It is commonly known that customers form images about stores and retailers (Bloemer & de Ruyter, 1998; Grewal, Levy, & Lehmann, 2004; Martineau, 1958).

Though LPs are in the front hedge of retailers’ relations with their customers, to the extent of our knowledge, no one has considered LPs in retailer’s image formation process. LPs are part of the shopping experience and past research has shown that these programs affect customers’ behavioral and attitudinal responses. As a consequence, LPs induce attitudes. Since the composite of attitudes that people hold towards a product constitutes the image (Nelson, 1962), we hypothesize that shoppers form images about LPs and that the concept of LP image exists
independently from store image. Customers can indeed be satisfied with and loyal to the LP without necessarily being satisfied with and loyal to the brand or the store. The literature clearly separates attitudes towards the products or store and LPs (Bolton, Kannan, & Bramlett, 2000; Evanschitzky, et al., 2012; Leenheer, van Heerde, Bijmolt, & Smidts, 2007; Omar, 2010; Yi & Jeon, 2003). We thus conclude that customers can form different attitudes towards the store and the LP, and that the concept of LP image exists independently from store image.

3. LP image formation and measure

Images are formed based upon physical attributes that act as stimuli capable of developing certain associations in the mind of individuals (Nelson, 1962). The consumer extracts and perceives certain features from the reality and forms beliefs and/or affects which are congruent with his or her idiosyncratic cognitive configuration. The process is based on the external world (objective reality) and the consumer’s subjective impressions of selected items of that world (perceived reality). Subjects rely on different sets of objective cues to infer different image aspects (Mazursky & Jacoby, 1986).

Since the program design plays a critical role in influencing behaviors and attitudes (Nunes & Dreze, 2006), we hypothesize that the program design would be the main stimulus (objective cue) for LP image formation. The program design includes participation requirements (convenience and cost of participation), point structure (point issuance, effort requirements and tiers) (Dorotic & Verhoef, 2011; Keh & Lee, 2006; Mimouni-Chaabane & Volle, 2010) and rewards (cash value, aspirational value, variety of options, brand-reward congruence and reward form) (Bridson, Evans, & Hickman, 2008; Demoulin & Zidda, 2008; Liu & Yang, 2009; Roehm, Ellen Bolman, & Roehm, 2002; Zhang & Breugelmans, 2011). Consumers will evaluate these different attributes of the LP and depending on their subjective norms (customer-related factors as patronage level, perceived effort advantage or consumer traits) (Mági, 2003), will form an image about the LP.

Furthermore, we should not only consider program- and consumer-related factors but also competition-related one such as market position, LP saturation, differentiation and order of entry (Liu & Yang, 2009; Shugan, 2005).
V. Bruneau, P. Zidda

Hence, LP image will be measured by the customer’s evaluation of the program’s attributes (based on program design and competition) and specific consumer-related factors. Given that individuals are not exclusively rational creatures (Nelson, 1962) and thus not always capable of evaluating rationally each attribute, we should also consider a more holistic conceptualization of the LP image as a set of beliefs, ideas and impressions regarding the LP. Thus, LP image can also be considered as an overall impression of the LP (Mazursky & Jacoby, 1986).

4. LP image consequences

We identified two main possible consequences of LP image. First, we propose that LP image will have a direct influence on store image. A second consequence would be the moderating effect of LP in the relationship between the LP and store loyalty. There exists mixed evidence about the effectiveness of LP on store loyalty (Dorotic & Verhoef, 2011). The LP image could contribute to the understanding of this complex relationship.

5. Implications

The highly competitive environment in the retail industry drives retailers to hardly work on the influence of customer perceptions to impact store choice (Ailawadi & Keller, 2004). Retailers try to attract customers by building images (in line with their target) and create loyalty through LPs. This research will help retailers to understand how to build an effective LP.

Furthermore, past research has identified three main objectives of LPs: first, establish a long term relationship with the customer (Sharp & Sharp, 1997). Second, acquire more knowledge about the customer (Demoulin & Zidda, 2008) and third, create loyalty by changing behavior (Bolton, et al., 2000). We believe that LPs should also be considered as a tool for building positioning and store image and retailers should use their LPs as a communication tool towards their customers to vehicle and enhance their image.
The formation of loyalty program image and its impact on retailer’s overall image

References


V. Bruneau, P. Zidda


