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Why do customer attitudes towards loyalty programs matter a lot?

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Summary

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).

Keywords: loyalty programs, store loyalty, attitudes, qualitative research

Keywords : Max 5.

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WHY DO CUSTOMER ATTITUDES TOWARDS LOYALTY PROGRAMS MATTER A LOT?

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Recent figures show that, unless rising number of enrollments, consumers become less active and engaged with their loyalty programs (LPs). Firms tend to spend more time and money in enrollment campaigns than in managing relations with program members. As a result, customers are unaware of LP features, do not perceive the benefits and become or stay non-active. In order to build real relationships, firms should first foster favorable attitude towards their LPs. This paper aims to understand how attitudes towards LPs are formed and how they impact behaviors. The results of our qualitative study show 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 and the store. By understanding the formation of attitudes towards LPs, firms might create favorable attitudes, increase active memberships and subsequently build long lasting relationships.

Keywords: loyalty programs, 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 et al., 2012), 60% of the individuals possess 3 to 10 loyalty cards and only 50% are used. Figures suggest that LPs fairly well manage to acquire new members but that they are unable to keep them engaged. According to ACI Worldwide, a leading international provider of payment systems (2011), the vast majority of

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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. The consumer’s decision to actively participate depends on the program ability to offer something different and to be able to compete for his time and mind share (Ashley et al., 2011). The first condition to create active memberships is thus to be present in the consumer’s memory in a positive way. Too many programs fail because there is a lack of focus on consumers’ feelings and attitudes (Fournier et al., 1998; Noble and Phillips, 2004). Likewise, affective responses such as satisfaction and attitudinal engagement influence partners to stay in or leave the relationship (Hinde, 1979; Duck, 1994). Hence, in order to create real or sustainable loyalty, programs should manage to create favorable attitudes. The question 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 & Jeon, 2003), they have primarily investigated the reward scheme as an antecedent. (Lichtlé and Plichon, 2008) suggest, 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 behavior (Dorotic et 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 they impact behaviors such as participation to LPs and store loyalty. By means of a qualitative approach, we provide an integrative framework for the analysis of LP attitude formation, its antecedents and its consequences.

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 et al., 2012) and the evaluation of the reward scheme (Demoulin and Zidda, 2008; Evanschitzky et 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 et al., 2007; Demoulin and Zidda, 2009; Liu, 2007; Mägi, 2003; Meyer-Waarden et al.,
Why do customer attitudes towards loyalty programs matter a lot?

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). The basis in forming attitudes is the knowledge represented in memory. 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. Memory can be viewed as a network of nodes linked to each other (Anderson, 1983). Basic information is contained in nodes that are connected by links varying in strength. Nodes can be activated when an individual receives new information or when information needs to be retrieved from memory (Keller, 1993). 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). Furthermore, in-depth interviews have also been recommended as means to elicit beliefs relevant to a topic of interest (Ajzen, 2008). 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. In addition, one can easily find informants with very low to very high levels of product category involvement. 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. The interviews took place at the participants’ residence in a relaxed atmosphere enabling an easy and free flow of information. 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. The meanings of these associations were then discussed more in details. 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 two major categories. The first category comprises attitudes which include informant associations towards LPs. The themes under this category reveal different types of associations. Second, the outcome category comprises the consequences of the attitudes towards LPs. In the analysis, we moved back and forth between the data and existing literature on LPs. The interpretation of emerging findings was enriched by the extant literature and personal experience.

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 Types of associations

We found four categories of associations with the LPs.

4.1.1 Program design
Why do customer attitudes towards loyalty programs matter a lot?

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. In general, they prefer to have a clear and simple way to collect and redeem their points. Transparency with the points will generally result in favorable attitudes whereas too complicated point structure will induce unfavorable attitudes:

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.”

Stéphane: “I have one at the hairdresser, very good because after ten cuts we have one free, it is anyhow a gain of 18 euros.”

4.1.2 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.

*Maudé*: “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.”

### 4.1.3 Competition

For creating positive attitudes towards their programs, firms need to differentiate from others and create unique associations. If the member of a particular program does not perceive the differences between his/her program and competing programs, s/he will be less likely to actively take part into that particular program.

*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.”

### 4.1.4 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.

*Maudé*: “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. Moreover, it will often be difficult
Why do customer attitudes towards loyalty programs matter a lot?

For non-active members to make unique associations about a particular program. 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 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. By creating favorable affective responses to their programs, firms will be able to real relationships with their customers. 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. Hence, it is essential to create clear associations about the rewards, to minimize the participation requirements and to build simple and achievable points structure. In order to create favorable attitudes, it is thus important for firms to design a valuable program in the eyes of the customer. This is in line with previous research that has identified program value as an antecedent of high relative attitude towards loyalty programs (Yi and Jeon, 2003; Evanschitzky et 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. Customers will be reluctant to participate to the program if costs of participating are overweighting benefits. 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. Our data reveals that if customers are not able to differentiate the LP from others, no association and in turn no positive attitude will be formed about the program. The fourth 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. Attitudes are thus formed based upon four categories of associations. 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. Furthermore, associations vary by customer-related factors such as shopping orientation, usage level and variety seeking. This supports previous research stating that the evaluation of LP design varies in function of different types of customers and that these evaluations have different effects on behavior with the loyalty program (Meyer-Waarden et al., 2013). 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. Moreover, our data suggests several outcomes of the attitude towards LPs, including program loyalty, store choice/loyalty, word-of-mouth and store image. This is in line with previous research that validated the link between attitudinal and behavioral loyalty (Frisou, 2005).

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
Why do customer attitudes towards loyalty programs matter a lot?

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 in three ways. First, by creating the right associations in customers’ minds, retailers have a mean to foster active memberships. Second, since firms need to build real relations with their customers to assure their survival and success (Bendapudi and Berry, 1997), a better understanding of customer attitudes towards their LPs will help them to achieve the goal. By increasing favorable attitudes, firms will create the basis for sustainable loyalty. Finally, our study revealed that LP attitude has the power of enhancing or damaging retailers’ image. LPs might thus be a new tool for retailers to build their image.

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.

References


## Appendix 1: Informant profiles

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