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The effects of experience in loyalty card adoption on the importance of the attributes of loyalty schemes

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Abstract

The popularity of loyalty programs worldwide shows that this is one of the most efficient marketing tools in highly competitive markets to retain customers. The saturation of loyalty schemes themselves can lead to a fierce competition between firms to gain wider penetration for their cards. The experience of the customers regarding adoption of loyalty programs can affect their attitude towards the different attributes of the programs. We found that more experienced customers evaluate the importance of the soft attributes of the loyalty schemes higher.

1. Introduction

Loyalty programs have been introduced by many companies in different industries in highly developed countries with mature market economies and the popularity of this widely used marketing tool does not seem to decline. In the U.S., for example, more than 90% of the consumers have been involved into at least one of the 2000 currently running loyalty schemes (Berman, 2006). In the Eastern European markets the introduction of loyalty cards does not have a long history, the first steps were made not more than a decade ago and many firms are considering the investment into this form of relationship marketing in the current market situations. The timing of the implementation is strongly influenced by the saturation level of a given industry and the competition in it. Hence loyalty programs are typically recognized as a part of defensive marketing strategy (Demoulin and Zidda, 2007), which is effective to retain customers and increase the value of them (Uncles, Dowling, and Hammond, 2003) instead of acquiring new ones, companies tend to apply this tool when they operate in highly competitive and stagnating markets where opportunities to grow are limited. The increasing number of programs available can lead to a decrease in customer adoption likelihood in case of the new ones and diffusion process can be expected to take more time and requires more efforts from the firms. Capizzi and Ferguson (2005) concludes that in countries where loyalty marketing programs reached a given state of maturity, today's customers get bored of similar rewards offered by firms and soft benefits and personalization can sustain their attention. Mimouni-Chaabane and Volle (2010) postulated that companies should pay attention to reward characteristics and perceived customer benefits to launch the most efficient program into the market. On the other hand some studies support the hypothesis that the number of cards a customer holds positively influences the probability and time of adoption of a new loyalty card (Demoulin and Zidda, 2009). The two tendencies comprise an implicit contradiction and little attention has been paid to investigate this field. The purpose of this paper is to investigate the change in customer preferences regarding loyalty card attributes according to the experience in their adoption, especially the number of cards they hold.

2. Literature review and Conceptualization

2.1. Concept of customer loyalty

Customer loyalty originally referred to repeated purchase behaviour but currently a there is a distinction between behavioural and attitudinal loyalty concepts, which has been widely accepted. The latter one refers to the commitment of the customer towards the objective of loyalty, especially the brand or the store. Dick and Basu (1994) view sustainable loyalty as a function of commitment and behaviour at the same time. Lack of the former one leads to spurious loyalty and without behavioural dimension loyalty remains only latent. Oliver (1997) adopted the attitude components to elaborate the phases of latent loyalty and some authors focused on spurious loyalty and its antecedents to explore further dimensions. Bustos- Reyes and González-Benito (2008) distinguish forced, cognitive and inertial loyalties. Cognitive loyalty arises from the perceived functional superiority of the store. Sopianen (1996) identifies price and incentivized loyalties that can be categorized as two facets of cognitive loyalty. The overlapping types of customer loyalty are summarized in Table 1.

Table 1
Different types of loyalty in the literature

		Repeat patronage	
		High	Low
Relative attitude	High	Loyalty (<i>Dick and Basu, 1994</i>) True loyalty (<i>Shoemaker and Lewis, 1999</i>) Brand loyalty (<i>Rotschild and Gaidis 1981</i>) Action loyalty (<i>Oliver, 1997</i>) Emotional loyalty (<i>Sopanen, 1996</i>)	Latent loyalty (<i>Dick and Basu, 1994</i>) Promiscuous (multi-store) loyalty (<i>Bustos-Reyes and González-Benito, 2008</i>) Cognitive, affective and conative loyalty (<i>Oliver, 1997</i>)
	Low	Spurious loyalty (<i>Dick and Basu, 1994</i>) Deal loyalty (<i>Rotschild and Gaidis 1981</i>) Forced, cognitive, inertial loyalties (<i>Bustos-Reyes and González-Benito, 2008</i>) Monopoly, inertia, convenience, price, incentivized loyalties(<i>Sopanen, 1996</i>)	No loyalty (<i>Dick and Basu, 1994</i>)

Another topic of the research stream is the loyalty towards the program itself, which reflects on the incentives provided. Program loyalty or deal loyalty can be stronger than brand or store loyalty (Rotschild and Gaidis 1981; Yi and Jeon, 2003).

2.2. Customers' perceived benefits of loyalty programs

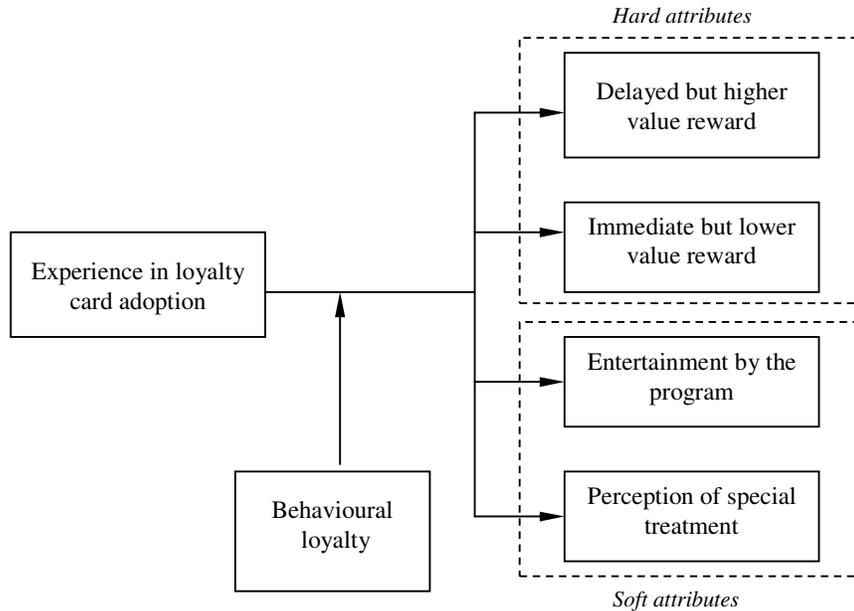
A loyalty program can deliver several types of benefits to customers. Bridson, Evans, and Hickman (2007) determine hard and soft attributes of them that can generate value. Hard benefits refer to tangible rewards, e.g. discounts, gifts whereas soft elements can incorporate special communication and treatment. Yi and Leon (2003) distinguish direct and indirect rewards and from another perspective immediate and delayed ones. In contrast to direct rewards, indirect ones have no connection to the product or service itself. In case of immediate rewards the customer is awarded some value, e.g. price reduction prompt at the time of purchase but delayed rewards can be obtained later, typically after a given extent of purchase has been made.

Mimouni-Chaabane and Volle (2010) differentiate three groups of customer benefits regarding loyalty programs, the utilitarian, the hedonic and the symbolic ones. The utilitarian benefits comprise functional and instrumental values, such as monetary savings or convenience. In case of the hedonic benefits customers concern the emotional and experiential aspects of the loyalty program. They can find the scheme entertaining or perceive joy when trying new products in the frame of it. The latter one is called exploration dimension. Finally, the symbolic benefits refer to prestige, status (recognition dimension) or just belonging to groups with similar values and attitudes (social dimension). The author found that recognition dimension had the strongest effect on customer perception concerning relationship investment made by the company. It is followed by monetary savings with the second strongest influence. Social benefit was not proved to be correlated.

For the current research we constituted our conceptual framework. Based on the findings above we postulated that the experience in loyalty program adoption positively influences the importance of the soft attributes of the new loyalty programs and has a negative effect on hard attributes. We also hypothesized that behavioural loyalty can moderate the effects of the independent variable. We expected that the clients who had adopted a loyalty scheme merely to get the customer surplus by discounts and who did not change their

behaviour regarding loyalty will permanently be interested in the monetary savings instead of other soft attributes of the program.

Figure 1
Conceptual framework



3. Methodology

Data collection

The data were collected by means of an online survey. University students were recruited to visit a special online site developed for this purpose and fill in the questionnaire that was available there and was easy to administer in frame of a longer survey measuring loyalty program related topics. Finally, a sample of 173 respondents was captured after the data cleaning process. The distribution of genders through the sample was biased towards women (62%) and the range of age was between 19 and 23. The students recruited belonged to one of the business faculties.

Measurement

The importance of the hard and soft attributes of a loyalty program and the subjective evaluation of the respondent's behavioural loyalty were measured on a five point rating scale. Each dimension was measured by only one statement. The exact number of loyalty cards held was estimated by the respondents.

Table 2
Measurement of the concepts

Concepts	Measurement
Experience in loyalty card adoption	How many loyalty cards do you own? (Please try to make as precise estimation as you can)
Behavioural loyalty	In case of loyalty programs you have adopted what is the level of your loyalty (please rate your loyalty on a five-point scale where 1 equals to absolutely not loyal and 5 equals to I am absolutely loyal to the brands / stores)
Hard and soft attributes of loyalty programs	Please indicate the importance of the following attributes when you consider to adopt a new loyalty program (please rate the importance on a five-point scale where 1 equals to absolutely not important and 5 equals to I am absolutely important)

4. Results and discussion

The results reported here show that customer experience in loyalty card programs has effects on the importance of soft attributes of these schemes but has no significant influence on the hard attributes.

Table 3
Product moment and one-order partial correlation

		Delayed but higher value reward	Immediate but lower value reward	Entertainment by the program	Perception of special treatment
Product moment correlation	Experience in loyalty card adoption	.037	.021	.214**	.253**
One-order partial correlation (controlling for loyalty)	Experience in loyalty card adoption	.029	.017	.192**	.107*

* $p < .05$

** $p < .01$

Loyalty has a slight moderating role in case of the importance of the special treatment the customers perceive about the given loyalty programs. Deeper analysis of the data will be presented at the conference.

Based on the findings companies should pay more attention on the soft attributes of the loyalty schemes, especially, when they operate in an industry where an average customer holds several loyalty cards. In the emerging markets the increasing number of loyalty programs can force marketing managers to develop special features for card holders to entertain and treat them as special clients of the company.

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