

# The Drivers of Loyalty Program Success

## An Organizing Framework and Research Agenda

by MICHAEL McCALL and CLAY VOORHEES

Despite the proliferation of loyalty programs over the past three decades, evidence regarding their effectiveness in cementing customer loyalty remains mixed and often inconsistent. The current lack of understanding of what factors drive a successful loyalty program represents an important knowledge gap. Accordingly, this review (1) organizes current thinking on loyalty program management and (2) outlines an agenda for future research. This review is organized around three categories of drivers that affect loyalty program effectiveness: program structure, reward structure, and customer factors. In synthesizing this body of research, this review identifies important research questions that offer opportunities for hospitality managers and academic researchers to collaborate on a mutually beneficial topic that has both theoretical and practical importance.

**Keywords:** Customer Loyalty, Rewards Programs, Customer Relationship Management, Loyalty Programs

Loyal customers offer businesses a steady customer base, more frequent purchase cycles, higher profit margins, and a group of advocates who voluntarily market the firm to prospective customers (Buchanan and Gilles 1990; Reichheld and Sasser 1990; Rigby, Reichheld, & Schefter 2002). For these reasons, academics have spent decades attempting to explain the mechanisms that affect consumers' loyalty, while practitioners have developed and applied numerous strategies focused on developing a loyal customer base. Among these efforts, one of the most significant and innovative breakthroughs in loyalty management occurred in 1981, when American Airlines launched AAdvantage, the first contemporary customer reward program, with the goal of increasing repeat purchases.

Nearly three decades later, two key conclusions can be made about the management and understanding of loyalty programs. First, loyalty programs are now a mainstay in hospitality industries (Hoffman and

Lowitt 2008). For example, the Advantage program has 57 million members (DeKay, Toh, and Raven 2009), and as many as seventy other airlines have introduced similar programs since American rolled out its program (Lynn 2008). Moreover, virtually all hotels, restaurants, and retailers now provide some type of incentive to customers to encourage loyalty (Hoffman and Lowitt 2008). Second, despite the proliferation of loyalty programs, little empirical evidence links program participation with actual loyalty and firm performance. As a result, our understanding of how these programs influence consumers is still in its infancy. That is, while millions of people participate in customer loyalty programs (Smith and Sparks 2008; DeKay, Toh, and Raven 2009), the question of whether these programs actually work has not been settled (Bolton, Kannan, and Bramlett 2000; Dowling and Uncles 1997), and the drivers of loyalty remain elusive.

These two issues are perhaps best summarized through the words of a manager of the Millennium Hotel Group, who said,

You know, I have this customer reward program. It is kind of expensive but, I feel like I have to have a program because everyone else has one. Honestly, I don't know what, if anything, it actually does for me.

That quote demonstrates the confusion surrounding loyalty program management. Unfortunately, we believe that the academic literature may provide more confusion than guidance to hospitality managers looking to improve their loyalty programs (or even to justify their expense). For example, some researchers suggest that properly designed loyalty programs can increase repeat-purchase rates, willingness to pay price premiums, advocacy, and share of wallet (Keh and Lee 2006; Leenheer et al.

2007; Sharp and Sharp 1997; Verhoef 2003). Others, however, question the effectiveness of loyalty programs (O'Brien and Jones 1995) and even suggest that these programs may be "shams" (Shugan 2005).

Together, these studies provide limited snapshots into the potential benefits and risks of loyalty programs under a narrow set of conditions. Noticeably missing from the hospitality and greater marketing literature is an article that reconciles these disparate perspectives on loyalty programs and develops a platform for future research. This article seeks to address this gap in the literature by providing (1) a review of the current thinking on loyalty program management and (2) an agenda for future research. As a result, we hope to provide a better understanding of what works and what does not work in loyalty program management and why these effects emerge. As a conclusion to these efforts, we offer a series of remaining research questions that are worthy of study and provide an ideal opportunity for managers to collaborate with academics to address emerging issues with their loyalty initiatives.

In the following sections, we first provide an overview of research that has been conducted on customer loyalty programs since the AAdvantage program was introduced. Based on this research, we develop a conceptual model of loyalty program effectiveness and use this model as a mechanism to introduce and discuss the relevant findings and opportunities for future research across three drivers of loyalty program effectiveness. Finally, we close with a formal call for future research.

## Conceptual Model of Loyalty Program Effectiveness

References to improving the customer experience and fostering loyalty have appeared in the hospitality literature at least as early as the first bibliography of

hotel and restaurant topics, which appeared in 1960 in the *Cornell Hotel and Restaurant Administration Quarterly* (Spinney and Fickle 1960). Since this time, scores of academics have tackled theoretical and practical issues surrounding customer loyalty and its antecedents. More specifically, a recent wave of research has emerged that attempts to deconstruct the factors that underlie loyalty program effectiveness. A review of this research suggests that the main drivers of loyalty program effectiveness can be categorized into the following three main “buckets”:

1. the structure of the loyalty program,
2. the structure of the rewards, and
3. consumer fit with the loyalty program.

For instance, Shugan (2005) suggests that the *structure of successful programs* should shift the initial investment obligation from the consumer to the firm in the early stages of program involvement. This type of shift would foster consumers’ trust prior to asking them to commit to a program and provider. Moreover, O’Brien and Jones (1995) note that loyalty programs that are designed with flawed *reward structures* may prompt repeated patronage among a company’s least desirable customers. This would occur when retail outlets offer incentives through their loyalty program to encourage the purchase of heavily discounted products, thereby drawing mercenaries who simply shop based on price. Similarly, when the rewards potentially exceed the value of the good or service itself, or if those rewards fail to reinforce the most loyal customers (e.g., triple mile points to everyone who purchases within a specific time period), firms may be effectively “buying” purchasing behavior in the short term but failing to truly change consumers’ attitudes or future intentions. Consequently, it is imperative to construct a program that ensures that the “best” customers receive the “best”

incentives. Finally, consumers need to feel that they fit with the program and they have earned their rewards (Nunes and Drèze 2006b). When a reward threshold is too low, the attractiveness of that reward is diminished (Kivetz and Simonson 2003). Instead, the perception of exclusivity or acquired status is likely to drive future loyalty. We provide an overview of each of these drivers in Exhibit 1.

Based on the three buckets and various drivers that we just discussed (pictured in Exhibit 1), we review the background work in the area and then develop ideas for future research. Exhibit 2 provides a summary of this review, and Exhibit 3 details avenues for future research.

## Structure of Loyalty Programs

Loyalty programs are typically structured in tiers that are designed to reduce costs and provide firms with the flexibility to segment members within the loyalty program. Each of these dimensions of program structure can have a specific influence on consumers’ evaluations of a loyalty program and its effectiveness.

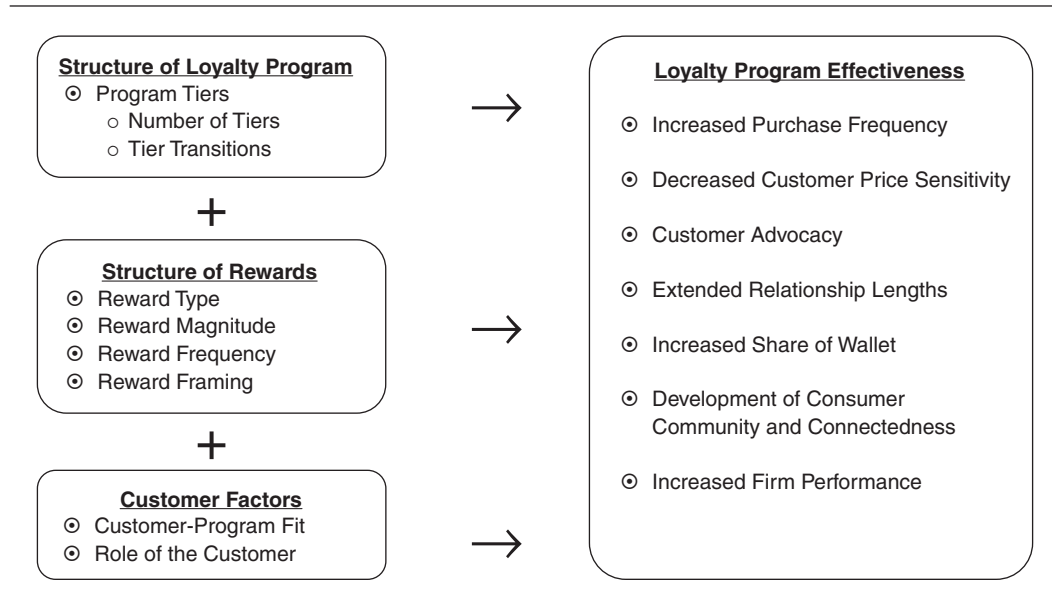
### Loyalty Program Tiers

Tiered reward programs are common among customer loyalty programs. The basic assumption behind these tiers is rooted in the Pareto principle, also called the 80-20 rule, which suggests that a small proportion of a firm’s customers contribute a large share of the firm’s revenue (Pareto 1897; Peppers and Rogers 1997). To date, research on the effects of program tiers have been focused on two main issues: (1) the impact of the number of tiers and (2) consumers’ behavior as they approach and move between tiers.

### Number of Tiers

Tiered programs are effective for two reasons. First, membership in a particular

**Exhibit 1:**  
A Conceptual Model of Loyalty Program Effectiveness



tier provides customers a sense of identity and fit with the firm and with other like customers. United Airlines' red carpet boarding, for instance, is an effort to convert this type of exclusive identity into a tangible attribute. These feelings of identity can lead to enhanced commitment to the program and firm. This process can be explained based on Bergami and Bagozzi's (2000) contention that identification with an organization is a function of consumers' propensity to categorize themselves. Second, tiers can be used to further segment customers and ideally provide differentiated rewards for various customer tiers (Rigby and Ledingham 2004). Building on these frameworks, Drèze and Nunes (2009) demonstrate that three-tier programs develop higher satisfaction among all members than do two-tier systems, because having the third tier enhances feelings of status for elite members and allows for a clearer understanding of relative position for lower-tier consumers.

This research provides the first explicit effort to understand how the number of program tiers and their description can affect consumer perceptions, but many avenues for future research remain. First, research is needed that better explains how program tiers can enhance identification with the firm and the possibility that this identification affects social comparisons (assessment of in- and out-group members). More research is needed with respect to the impact of the total number of tiers and consumers' reactions to tier changes. Current research considers tiers in a static setting, but more research is needed that better explains how the optimal number of tiers may change once consumers are faced with an action that downgrades or upgrades their tier status. Specifically, new insight is needed that documents how consumers' attitudes and behaviors change following a transition between tiers. Based on these findings, further research is needed that will advance our understanding of optimal

**Exhibit 2:**  
Review of Recent Research on Loyalty Program Effectiveness

Cite	Context	Key Findings	Focal Area
De Wulf, Odekerken-Schröder, and Iacobucci (2001)	Retail	<p>Relationship marketing tactics were found to play a differential, yet consistently positive, role in affecting perceived relationship investment</p> <p>Mixed evidence was detected for the positive effects of tangible rewards on perceived relationship investment</p> <p>The natural appeal of tangible rewards can be assumed to decrease if more sellers start offering them. As tangible rewards become widespread, their absence may disappoint consumers, whereas their presence would not necessarily boost customer retention.</p>	Reward type
Kim, Shi, and Srinivasan (2001)	Conceptual article	<p>Reward programs work when they develop switching costs for consumers</p> <p>Size and relative price sensitivity of a heavy user segment are the greatest determinants for the selection of rewards</p> <p>A small heavy user segment that is more price sensitive is optimal for firms to offer the more inefficient rewards</p> <p>When heavy user segment is large or not price sensitive, competing firms should adopt the more efficient rewards</p>	Reward type
Winer (2001)	Conceptual article	<p>Problems with loyalty programs: expensive mistakes can be made when it seems the company is taking away benefits and increased loyalty or spending is questionable</p> <p>Privacy issues: customer must agree to submit personal information</p> <p>Cost-benefit analysis, segmentation, and prioritizing customers are critical</p>	Program structure Reward framing

(continued)

**Exhibit 2:** (continued)

Cite	Context	Key Findings	Focal Area
McAlexander, Schouten, and Koenig (2002)	Consumer goods (vehicles and motorcycles)	<p>Companies can create a unique competitive advantage by differentiating based on an ownership experience that develop customer-centered relationships</p> <p>Loyal customers integrated into a community are more likely to forgive company of mistakes, be less likely to switch brands, more vocal, and even more likely to invest in stock</p>	Customer-program fit
Kivetz (2003)	Reward choice scenarios	<p>The presence of effort requirements increases consumer preference for sure-small rewards over large-uncertain rewards</p> <p>When required efforts are further increased, the preference for sure-small reward reverses; that is, the preference for sure-small rewards over large uncertain rewards is an inverse U-function of the effort level</p> <p>Consumers appear to evaluate rewards relative to an effort-induced reward expectation that serves as a malleable reference point</p> <p>Findings imply that, as the level of program requirements increases, marketers should vary the relative share of sure-small versus large-uncertain rewards in their "reward mix"</p>	Reward magnitude Reward frequency
Kivetz and Simonson (2003)	Retail	<p>High customer fit leads to more participation, even if the effort level is a little higher</p> <p>Highlighting information like proximity of store, exclusiveness of double points, etc., will appeal to customer as better fitting/more attractive because it doesn't require much effort out of the ordinary</p>	Customer-program fit
Verhoef (2003)	Consumer goods and services	<p>Commitment was a key variable; satisfaction and price equity were not as important</p> <p>Loyalty programs that offer economic incentives are useful both to lengthen customer relationships and to enhance customer share</p> <p>Both developing customer relationships and offering economic incentives can lead to greater customer retention and share</p>	Reward type
Yi and Jeon (2003)	Consumer goods	<p>When customers are highly involved, direct rewards are preferable to indirect rewards regardless of reward timing</p>	Reward timing

(continued)

**Exhibit 2:** (continued)

Cite	Context	Key Findings	Focal Area
		<p>When customers are not involved, immediate rewards are more effective in building a program's value than delayed rewards</p> <p>When customers are highly involved, program loyalty is formed based on value perception and the loyalty program affects brand loyalty via both direct and indirect routes</p> <p>When customers are not involved, there is no direct route between value perception and brand loyalty. That is, the loyalty program's value affects brand loyalty only through program loyalty to the extent that the program provides value to the customer.</p>	
Drèze and Nunes (2004)	Airlines	<p>Combined-currency prices are effective under two conditions: (1) consumers do not place equal value on cash and miles and (2) the cost function for one form of currency is convex</p>	Reward flexibility
Van Osselaer, Alba, and Manchanada (2004)	Air travel	<p>Despite the fact the experimental manipulations relegated point levels to be irrelevant, the point levels still impact customer choices</p> <p>Consumers are more likely to stick with a program or company that they have already accumulated a significant amount of points</p> <p>The effectiveness of a loyalty program decreases when a competitor without a loyalty program offers much lower prices</p>	Reward timing
Kivetz (2005)	Retail	<p>Customers prefer rewards that fit with the purchase context. For example, consumers in a book context will likely choose relevant rewards (i.e., free book). Similar effects were found in transportation retail</p>	Reward type
Rosenbaum, Ostrom, and Kuntze (2005)	Retail	<p>Members of communal loyalty programs had much stronger loyalty to the company compared to noncommunal programs</p> <p>Members of communal loyalty programs are much less likely to switch brands</p>	Customer-program fit
Shugan (2005)	Conceptual article	<p>Traditionally, loyalty programs ask the customer to make an investment in the company or trust them to provide future benefits. In the future, new programs should have the company make an investment in the customer.</p>	Program structure

*(continued)*

**Exhibit 2:** (continued)

Cite	Context	Key Findings	Focal Area
Stauss, Schmidt, and Schoeler (2005)	Transportation	<p>Rather than being loyalty mechanisms, it is more likely that volume reward programs are merely mechanisms of imposing different prices and services on different customer segments based on observed purchasing volume. A clear customer benefit is the provision of recognition. Loyalty programs can provide that conspicuous recognition to selected customers by giving them prestige, distinction, partial celebrity standing, an elevated status, or the ability to “feel special.”</p> <p>Customers do experience many incidents that frustrate them in loyalty programs</p> <p>Examples include difficulty of access, impossibility of claiming the reward, low value of reward, and being required to invest too many mental and material costs to get benefits</p> <p>Some customers also feel discriminated against compared to other consumers, believe the firm is focusing wrongly on the loyalty program, and are offended by the exclusive focus on the economic aspects of the relationship</p>	Customer-program fit
Nunes and Drèze (2006a)	Context: Car wash, restaurant, and retail	<p>Individuals who are artificially advanced toward a goal demonstrate greater persistence toward reaching the end goal (completing a reward programs card)</p> <p>These effects were stronger when points rather than purchases were used to document progress and when a reason was provided for the artificial advancement</p>	Reward timing
Keh and Lee (2006)	Retail	<p>Delayed rewards with high value work well with satisfied customers</p> <p>Immediate rewards work well in dissatisfied contexts to promote loyalty</p> <p>Direct rewards build higher loyalty in both contexts than indirect</p> <p>Effectiveness of reward programs is highly fluid and dependent on the interplay among service experience, reward type, and reward timing</p> <p>Higher face value of indirect rewards doesn’t enhance loyalty effects in either satisfaction context.</p>	Reward timing

(continued)



**Exhibit 2:** (continued)

Cite	Context	Key Findings	Focal Area
Leenheer et al. (2007)	Grocery retailing	<p>When focusing on the trade-off between direct and delayed rewards, managers are advised to reward customers predominantly via delayed rewards, such as a saving feature, since the impact on the enrollment decision is stronger than for direct discounts</p> <p>To enhance the perceived noneconomic benefits, managers may stress the joy and connectedness that the program brings, which could even be more important than low price</p> <p>Once a consumer has decided to enroll in a particular program, the effect of membership on share-of-wallet is independent of the savings and discount rates</p>	Reward type
Smith and Sparks (2009)	Retail	<p>The act of redemption itself appears to be important in developing positive feelings towards the retailer, but the freedom to choose on what to spend the points appears also to be of value</p> <p>Some consumers feel like they are getting something for nothing when they redeem points, but most realize that it just feels that way. But these feelings still can translate into loyalty.</p>	Reward flexibility
Drèze and Nunes (2009)	General loyalty programs and lodging	<p>Planned saving of points towards some redemption goal is common</p> <p>A three-tier program is more satisfying than a two-tier program to members within each tier</p> <p>Top-tier customers are more satisfied when they are the relative minority in terms of members in comparison to the lower tiers.</p>	Number of tiers

**Exhibit 3:**

## Opportunities for Future Research

<i>Topic/Research Category</i>	<i>Important Research Questions</i>
Structure of loyalty programs	
Number of tiers	<p>Under what conditions do tiers create a sense of community?</p> <p>How do consumers evaluate consumers from different tiers, and what impact does this have on their evaluation of experiences and their relationship with the firm?</p> <p>What happens behaviorally and attitudinally when tier changes occur?</p> <p>After accounting for the dynamic nature of loyalty programs, what is the optimal level of tiers for a loyalty program?</p> <p>How do customers react to tier changes, and how can/should firms handle tier changes?</p>
Behavioral changes approaching and following tier changes	<p>How does consumption behavior among competitive alternatives as consumers approach rewards in a focal loyalty program? Do consumers increase their net spending in the category or simply reallocate their current spending in favor of the program with which they approach a reward?</p> <p>Do consumers decelerate their spending following reward attainment? Under what competitive conditions may this occur?</p>
Structure of rewards	
Reward type	<p>How do consumers react to rewards ranging in acquisition and exchange utility? To what extent do individual characteristics influence these evaluations?</p> <p>How do consumers evaluate enduring relations rewards (i.e., free upgrades, club-level access, etc.) relative to one-time exchange rewards? What factors are driving these evaluations?</p> <p>In what ways do rewards affect consumers' evaluations of competitive offerings and related switching behavior?</p>
Reward magnitude and frequency	<p>What impact does delayed versus immediate reward timing have on accelerating purchases?</p> <p>Are consumer evaluations of magnitude directly related to monetary value, or do they also consider additional "value" elements related to preferential service and relational improvements?</p>

*(continued)*

**Exhibit 3:** (continued)

<i>Topic/Research Category</i>	<i>Important Research Questions</i>
Customer factors	<p>What influence does reward types and customer characteristics impact the artificial advancement effect?</p> <p>Does effective program framing influence consumers' evaluations of the program that is independent from its attributes? Do these effects differ across brands and contexts?</p> <p>Can framing reduce consumers' reward expectations (expected magnitude and frequency)?</p>
Customer-program fit	<p>Moving beyond spending patterns, what processes do consumers employ to assess their fit with a loyalty program?</p> <p>How does interest in sense of community vary across consumer segments?</p> <p>What are the costs and benefits of a sense of community in customer loyalty programs?</p> <p>Do program rewards for altruistic causes increase customer program fit?</p>
Role of the customer	<p>Are certain customers more prone to participate in loyalty programs?</p> <p>How do consumers currently view their role in a loyalty program, and to what extent do these perceptions impact evaluations of the program?</p> <p>Are customers willing to adapt their roles (take on more effort) in exchange for greater or more frequent rewards?</p> <p>How does prior experience(s) with reward programs influence loyalty, commitment, and reward accumulating behavior?</p>
Other avenues for future research	<p>What are consumer reactions to fee-based membership programs (e.g., credit cards, etc.)?</p> <p>What are the theoretical mechanisms that drive consumer involvement in loyalty programs?</p> <p>How well do experimental results hold up in field both in cross-sections and over time?</p>

tier numbers and structure. Finally, there is an opportunity for additional research on transitioning strategies that firms can employ as they change consumers' tier status.

***Tier Transitions***

In addition to the number of tiers present in a program, consumers may also change

their evaluation of and behavior in a loyalty program based on their transition between tiers. An interesting by-product of customer loyalty programs is their impact on consumers' behavior once they enter and transition through tiers in the system. Specifically, once firms establish the requirements for gaining rewards at

various tiers, consumers may change both their frequency and magnitude of consumption. These effects are grounded in the goal-gradient hypothesis, which suggests that individuals accelerate their behavior as they approach a goal (Hull 1932). Hull (1932) first documented these effects with rats as they approached food. Recent research has shown a similar phenomenon in the context of loyalty program tiers. Kivetz, Urminsky, and Zheng (2006) documented that consumers accelerated their purchasing process as they approached a particular reward threshold. Interestingly, even the illusion of progress towards earning a reward induced more rapid purchasing activity.

Building on this work, there are a number of avenues for future research. At a basic level, theories of reactance (Brehm 1966) suggest that consumers will modify their behaviors as they anticipate and experience changes in their benefits. In a loyalty program context, this suggests that consumers will adapt their attitudes and behavior following changes in a program. Consequently, research is needed to explain how consumers react after their tier changes (as well as before). Research to date has documented that consumers adjust their loyalty program behavior, but it fails to consider changes in a consumer's entire purchase portfolio. Future research could investigate the changes in consumption behavior among competitive alternatives as consumers approach rewards from a particular purveyor. In essence, this would shed light on whether consumers are increasing their net purchases in a category or simply shifting allocations to obtain the reward. Once they reach a tier, consumers may actively manage a portfolio of loyalty programs and adjust their behavior to maximize their program rewards across each program rather than in isolation.

## Structure of Rewards

In addition to the way a loyalty program functions, it is important to consider the nature of the reward being offered to consumers. While it would be defensible to include such coverage under the loyalty program heading, the amount of research examining things such as reward type, magnitude, frequency, and framing seemed to justify special consideration and an additional category.

## Reward Type

Loyalty programs offer a diverse array of rewards. Research on reward types tends to examine two issues: (1) the utility associated with a particular reward and (2) whether the reward is direct or indirect. Most rewards offer either acquisition or exchange utility (Frenzen and Davis 1990). Acquisition utility relates to direct benefits of the reward program and includes economic rewards, which some research suggests may be most preferred by consumers (Verhoef 2003). Additionally, other tangible rewards (e.g., free hotel stays, tickets) may be provided as rewards, but some research suggests that these forms of acquisition utility have limited impact on relationship quality (DeWulf, Oderkerken-Schröder, and Iacobucci 2001). Kivetz and Simonson (2002) suggested that upper-tier and high-end customers are likely to use rewards to purchase luxury items. These results suggest that evaluations of all reward types could be contingent on consumers' characteristics. Consequently, these authors recommended that reward choices be commensurate with the consumer's spending tier. Many programs now increase the customers' exchange utility, which includes such intangible rewards as privileged access to websites and members-only newsletters. These exchange utility benefits have been shown to have enduring effects

on brand loyalty (Roehm, Pullins, and Roehm 2002).

The nature of the reward undoubtedly influences consumers' evaluations of the program. Initial research on this issue has demonstrated that consumers tend to prefer direct rewards, which are specifically tied to the provider (Kivetz 2005). For example, consumers who purchase movie tickets are likely to appreciate earning discounts on future movies tickets. Not only is the relationship between the loyal behavior and program outcome consistent, but it is clear that these customers are interested in movies. In contrast, evidence suggests that providing indirect rewards, typically, for extraneous goods or services, is a suboptimal reward practice and may even be harmful to promoting loyalty (cf. Kim, Shi, and Srinivasan 2001). The consistency between the rewards and the provider is even more important for consumers who are highly involved in a product category (Leenheer et al. 2007; Yi and Jeon 2003). However, for low-involvement consumers, there is little difference in consumer evaluations of direct and indirect rewards.

Despite this research establishing that the nature of the rewards offered in the program can strongly influence consumer evaluations, there are still many avenues for future research. In particular, research is needed to understand how consumers evaluate one-time rewards (i.e., the exchange of points for a one-time benefit) in comparison to enduring rewards that come with status and tier improvements. We need to know what type of consumer prefers preferential treatment and who wants to trade points for goods or services. It will also be valuable to know how the nature of the rewards drives attitudes and behavior within the program and potentially even attitudes toward the provider itself. Along these lines, more research is needed to see

not only whether reward types influence general evaluations but whether particular rewards can reduce switching behavior among consumers. An improved understanding of the impact of reward type on competitive choices is needed.

### **Reward Magnitude and Frequency**

One study found that consumers often view rewards as a form of extra currency that can be used for luxury purchases and self-gifts (Smith and Sparks 2007). As a result, the magnitude and frequency of rewards available to consumers may directly influence their attitudes and participation within a loyalty program. Moving beyond the obvious preference for higher-magnitude and more frequent rewards, research demonstrates that preferences for reward magnitude vary under a number of situations. First, Kivetz (2003) demonstrates that consumers' preferences regarding rewards' magnitude shift as consumer effort increases. Specifically, when the required consumer effort is low, consumers prefer low-magnitude, guaranteed rewards. But as required effort increases, consumers tend to prefer larger rewards, even if they are less certain, providing evidence of a "lottery" effect. In addition, Keh and Leh (2006) show that consumers who are satisfied with a provider are happy to wait for delayed rewards with high value rather than experiencing more immediate, lower-value rewards. Alternatively, dissatisfied consumers prefer more immediate and lower-magnitude rewards. These results are consistent with the notion that low-involvement consumers prefer more immediate rewards (Yi and Jeon 2003).

Overall, the research has shown that the influence of reward magnitude and frequency are contingent on consumers' situations and individual differences. Future research could build on these efforts by

probing deeper into consumer evaluations of reward magnitude. Specifically, do consumers simply assess magnitude based on perceived monetary value, or do they adopt a more comprehensive evaluation that accounts for other aspects of value (e.g., perceived sacrifice, preferential treatment, relational benefits)? What might be the effects of reward timing and magnitude on actual purchase behavior with the provider? For instance, while Yi and Jeon (2003) provide preliminary evidence that these factors can affect loyalty to a brand, that study stops short of demonstrating actual purchase behavior. Future research should assess the impact that magnitude and frequency have on actual purchases (both net increases and relative increases as rewards are approached and subsequently received).

### Reward Framing

In addition to the net changes in the size and frequency of rewards, marketers also must choose how to frame their reward program offerings through their marketing communication efforts. Preliminary work in this area suggests that rewards are optimally positioned as “additional perks” that are provided to loyal customers at the firm’s expense (O’Malley and Prothero 2002; Winer 2001). This type of positioning manages customer expectations and clearly positions the customer as the beneficiary in the relationship. Along these lines, firms should tailor all messages to loyalty program members to underscore their special status and acknowledge the importance of their relationship (Shugan 2005). Given the finding by Nunes and Drèze (2006a) that the mere illusion of progress toward a reward can accelerate a consumer’s purchases, loyalty may be enhanced by framing reward tiers as being close or rapidly approaching. Nunes and Drèze artificially manipulated these effects by providing

consumers with a “head start” in the program by crediting them with two purchases at the start of the program. Moreover, Drèze and Nunes (2009) demonstrate that consumers actively assess their status based on the framing of the program structure, which gives rise to the finding that consumers prefer a tiered program. Most particularly, elite members are most satisfied when they are relatively fewer in number than the lower tiers.

Framing effects, which have roots in the classical behavioral economics literature (Kahneman and Tversky 1979), provide numerous opportunities to experimentally isolate important loyalty drivers while simultaneously evaluating the effectiveness of these drivers in relatively natural settings. First, more research is needed to better explain how the aggregate framing of a program affects consumer evaluations. Several researchers (e.g., Shugan 2005; Winer 2001) have suggested the programs positioned to reward special customers with privileges are best received, but little empirical work has confirmed these effects. Second, much of the current work on framing is limited to static conditions and fails to account for the dynamic processes underlying loyalty programs. Future research could seek to explain differences in the artificial advancement effects across program tiers and with varying presentations of consumer advancement. Finally, Kivetz (2003) calls for additional research to explain how framing may influence consumer expectations for reward magnitude and frequency.

### Customer Factors

The final set of considerations, customer-related factors, involve the following issues: How does the program seek to fit with the needs and desires of the consumer? How does prior consumer experience with reward programs drive commitment behaviors?

and What are the individual differences in consumer spending habits?

### **Customer-Program Fit**

An important key to the success of any loyalty program is whether the consumer can both see and identify with the benefits of membership. In that regard, marketers can encourage more frequent consumption behavior by developing a program that fits with its customers' needs (Kivetz and Simonson 2003). To the extent that consumers feel that their current needs and purchase behavior align or fit with the program requirements, they will view the program favorably and increase patronage of the provider. In addition to increases in purchase frequency, loyalty programs with high fit can also create a sense of community among members (McAlexander, Schouton, and Koenig 2002). This community benefit can be extended by creating opportunities for program members to interact and enjoy the privileges of membership together. These shared community events can foster feelings of attachment to a program, its participants, and potentially the provider itself (Rosenbaum, Ostrom, and Kuntze 2005).

To begin with, research on "fit" focused on the congruence of consumers' current spending and program requirements (e.g., Kivetz and Simonson 2003). Although this is a good start, the next step is to advance beyond rational assessments of fit to an emotional assessment of fit and attachment to programs. This research must examine factors other than simple spending patterns. Along these lines, future research should examine specific factors that drive a sense of community in a program. For example, there is some evidence demonstrating that consumer desires for relationships with providers can vary dramatically across segments (Danaher, Conroy, and

McColl-Kennedy 2008). It would be advantageous to learn whether similar partitions of consumers exist with respect to interest in loyalty-program communities. In that regard, it would be worth knowing what incentives are effective in establishing a sense of community in a program and what benefits these community features provide program managers.

### **Role of the Customer**

Customers' characteristics can greatly influence their evaluation of a program. Simple differences in consumer involvement (Yi and Jeon 2003), perceived fit (Kivetz and Simonson 2003), and perceptions of status (Drèze and Nunes 2009) can drastically affect evaluations of a loyalty program. Moreover, Kivetz and Simonson (2002) demonstrate that customers' role in the initial purchase decisions can drive their reward preferences. Specifically, their results suggest that when points are achieved as a result of work or expended effort, then they strongly desire luxury items that reward them for their hard work and justify the effort. Because it is clear that customer characteristics affect program evaluations, we need a more systematic understanding of the role of customer characteristics in perceptions of a loyalty program and its attributes.

Other than customers' purchasing goods and services, we have seen little research regarding what consumers actually expect their role to be in a loyalty program. We think it would be valuable to detail the tasks that consumers assume to be their responsibility in a reward program and how changes in the responsibility between the customer and firm affect customers' evaluations of the program. Similarly, when customers' roles in the program are adjusted, do they anticipate some kind of change in their rewards? Finally, recent

research demonstrates that certain consumers may be particularly attracted by incentives like rebates (McCall et al. forthcoming). Do similar traits exist for loyalty programs?

### Other Avenues for Future Research

The preceding review educs the many issues regarding the effectiveness and operation of loyalty programs. In addition to the opportunities for future research detailed earlier, there are many other general issues regarding loyalty programs that are worthy of study. We detail several of these ideas next and show them in Exhibit 3.

While membership in most loyalty programs is free for the asking, we believe it would be worthwhile to develop empirical evidence that systematically assesses the impact of a fee-for-membership approach on the customer's behavioral or attitudinal loyalty. A stream of psychology research demonstrates how increased effort (fees, in this case) should lead to more positive associations with the choices made (Aronson and Mills 1959). When people are required to exert effort to join a club or acquire a good, they value it more favorably than when little to no effort is exerted. Alternatively, when consumers are provided with membership choices that are free, it is unclear whether they would continue to choose an option that requires a fee. Moreover, some research suggests that mixed rewards that combine "points" with real currency can reduce consumers' perceived costs of a reward (Drèze and Nunes 2004). Building on these two ideas, it would be possible to assess consumer reactions to varying fee structures governing enrollment and even tier retention within loyalty programs.

At a broader level, we should identify and then test the theoretical mechanisms that govern consumer involvement in loyalty

programs. Researchers have generally leaned on individual theories to support empirical generalizations in isolation, but an opportunity remains for a comprehensive theoretical research program that provides a universal model of loyalty program involvement. Finally, the single biggest void in research in loyalty program management is the noticeable absence of externally valid field research. Hospitality managers have an abundance of customer information (survey and behavioral data) that could explain many of the outstanding issues noted in this article, but due to a lack of collaboration between managers and academics, the potential of these data is not being realized. Most of the studies discussed in this review are based on experimental scenarios that necessarily lack external validity. Without external validation and extension of these results, however, our understanding of how loyalty programs really work will remain stunted.

### Concluding Remarks

Given the vast data resources, customer loyalty programs offer a fertile environment for research on customer relationship management, consumer behavior, and marketing strategy. As a result, research on loyalty program management offers an opportunity for productive research collaborations across faculty within the three camps of marketing research (i.e., marketing management, consumer behavior, and modeling), as well as collaborations between industry and academe. Our goal here was to examine the state of loyalty program research and to lay a foundation for future research. Loyalty programs are a mainstay of all hospitality firms, and we see little likelihood that they will cease operation. Without additional research, however, they risk becoming merely a cost of doing business that provides no opportunity for differentiation across providers. Hopefully,



this review can serve as a catalyst for future research on loyalty program management.

### References

- Aronson, E., and J. Mills. 1959. The effect of severity of initiation on liking for a group. *Journal of Abnormal and Social Psychology* 59:177-81.
- Bergami, M., and R. P. Bagozzi. 2000. Self-categorization and commitment as distinct aspects of social identity in the organization: Conceptualization, measurement, and relation to antecedents and consequences. *British Journal of Social Psychology* 39:555-77.
- Bolton, R. N., R. K. Kannan, and M. D. Bramlett. 2000. Implications of loyalty program membership and service experiences for customer retention and value. *Journal of the Academy of Marketing Science* 28: 95-108.
- Brehm, J. 1966. *A theory of psychological reactance*. New York: Academic Press.
- Buchanan, R., and C. Gilles. 1990. Value managed relationship: The key to customer retention and profitability. *European Management Journal* 8 (4): 523-26.
- Danaher, P., D. Conroy, and J. R. McColl-Kennedy. 2008. Who wants a relationship anyway? Conditions when consumers expect a relationship with their service provider. *Journal of Service Research* 11 (1): 43-62.
- Dekay, F., Toh, R. S., and Raven, P. (2009). Loyalty programs. *Cornell Hospitality Quarterly*, 50 (3): 371-382.
- DeWulf, K., G. Odekerken-Schröder, and D. Iacobucci. 2001. Investments in consumer relationships: A cross-country and cross-industry exploration. *Journal of Marketing* 65:33-50.
- Dowling, G. R., and M. Uncles. 1997. Do customer loyalty programs really work? *Sloan Management Review* 38:71-83.
- Drèze, X., and J. C. Nunes. 2004. Using combined-currency prices to lower consumers' perceived cost. *Journal of Marketing Research* 41 (1): 59-72.
- Drèze, X., and J. C. Nunes. 2009. Feeling superior: The impact of loyalty program structures on consumer's perceptions of status. *Journal of Consumer Research* 35 (6): 890-905.
- Frenzen, J. K., and H. L. Davis. 1990. Purchasing behavior in embedded markets. *Journal of Consumer Research* 17 (1): 1-12.
- Hoffman, J. L., and R. M. Lowitt. 2008. A better way to design loyalty programs. *Strategy and Leadership* 36:44-49.
- Hull, C. 1932. The goal gradient hypothesis and maze learning. *Psychological Review* 39:25-43.
- Kahneman, D., and A. Tversky. 1979. Prospect theory: An analysis of decision under risk. *Econometrica* 47 (2): 263-91.
- Keh, H. T., and Y. H. Lee. 2006. Do reward programs build loyalty for services? The moderating effect of satisfaction on type and timing of rewards. *Journal of Retailing* 82:127-36.
- Kim, B. D., M. Shi, and K. Srinivasan. 2001. Reward programs and tacit collusion. *Marketing Science* 20: 99-120.
- Kivetz, R. 2003. The effects of effort and intrinsic motivation on risky choice. *Marketing Science* 22:477-502.
- Kivetz, R. 2005. Promotion reactance: The role of effort-congruity. *Journal of Consumer Research* 31:725-36.
- Kivetz, R., and I. Simonson. 2002. Earning the right to indulge: Effort as a determinant of customer preferences toward frequency reward programs. *Journal of Marketing Research* 39:155-70.
- Kivetz, R., and I. Simonson. 2003. The idiosyncratic fir heuristic: Effort advantage as a determinant of consumer response to loyalty programs. *Journal of Marketing Research* 40:454-67.
- Kivetz, R., O. Urminsky, and Y. Zheng. 2006. The goal-gradient hypothesis resurrected: Purchase acceleration, illusionary goal progress, and customer retention. *Journal of Marketing Research* 43:39-58.
- Leenheer, J., H. J. Van heerde, H. A. Bijmoot, and A. Smidts. 2007. Do loyalty programs really enhance behavioral loyalty? An empirical analysis accounting for self-selecting members. *International Journal of Research in Marketing* 24:31-47.
- Lynn, M. 2008. Frequency strategies and double jeopardy in marketing: The pitfall of relying on loyalty programs. *Cornell Hospitality Report* 8 (12): 4-12.
- McAlexander, J. A., J. W. Schouton, and H. F. Koenig. 2002. Building brand community. *Journal of Marketing* 66:38-54.
- McCall, M., C. L. Bruneau, A. Ellis, and K. Mian. Forthcoming. A framework for understanding consumptive delay: Rebate proneness and redemption. *Journal of Product and Brand Management*.
- Nunes, J. C., and X. Drèze. 2006a. The endowed progress effect: How artificial advancement increases effort. *Journal of Consumer Research* 32 (4): 504-12.
- Nunes, J. C., and X. Drèze. 2006b. Your loyalty program is betraying you. *Harvard Business Review* 84:124-31.
- O'Brien, L., and C. Jones. 1995. Do rewards really create loyalty? *Harvard Business Review* 73:75-82.
- O'Malley, L., and A. Prothero. 2002. Beyond the frills of relationship marketing. *Journal of Business Research* 57:1286-94.
- Pareto, W. 1897. The new theories of economics. *Journal of Political Economy* 5:485-502.
- Peppers, D., and M. Rogers. 1997. *Enterprise one to one*. New York: Currency/Doubleday.
- Reichheld, F., and W. Sasser. 1990. Zero defects: Quality comes to services. *Harvard Business Review* 70: 105-11.
- Rigby, D. K., and D. Ledingham. 2004. CRM done right. *Harvard Business Review* 82:118-28.
- Rigby, D. K., F. F. Reichheld, and P. Schefter. 2002. Avoid the four perils of CRM. *Harvard Business Review* 80:101-9.
- Roehm, M. L., E. B. Pullins, and H. A. Roehm Jr. 2002. Designing loyalty building programs for packaged goods brands. *Journal of Marketing Research* 39: 202-13.
- Rosenbaum, M. S., A. L. Ostrom, and R. Kuntze. (2005). Loyalty programs and a sense of community. *Journal of Services Marketing* 19:222-33.
- Sharp, B., and A. Sharp. 1997. Loyalty programs and their impact on repeat purchase loyalty patterns. *International Journal of Research in Marketing* 14:473-86.

- Shugan, S. M. 2005. Brand loyalty programs: Are they shams? *Marketing Science* 24:185-93.
- Smith, A., and Sparks, L. (2009). It's nice to get a wee treat if you've had a bad week: Consumer motivations in retail loyalty scheme points redemption. *Journal of Business Research*, 62 (5): 542-547.
- Spinney, K., and B. Fickle. 1960. A bibliography especially prepared for hotel and restaurant administration and related subjects. *Cornell Hotel and Restaurant Administration Quarterly* 1 (2): 43-103.
- Stauss, B., Schmidt, M., and Schoeler, A. (2005). Customer frustration in loyalty programs. *International Journal of Service Industry Management*, 16 (3/4): 229-252.
- Van Osselaer, S. M. J., J. W. Alba, and P. Manchanda. 2004. Irrelevant information and mediated intertemporal choice. *Journal of Consumer Psychology* 14:257-70.
- Verhoef, P. C. 2003. Understanding the effect of customer relationship management efforts on customer retention and customer share development. *Journal of Marketing* 67:30-45.
- Winer, R. S. 2001. A framework for customer relationship management. *California Management Review* 43: 89-108.
- Yi, Y., and H. Jeon. 2003. Effects of loyalty programs on value perception, program loyalty and brand loyalty. *Journal of the Academy of Marketing Science* 31: 229-40.

**Michael McCall**, Ph.D., is a professor of marketing in the School of Business at Ithaca College and a visiting scholar at the Cornell University School of Hotel Administration (mm114@cornell.edu). **Clay Voorhees**, Ph.D., is an assistant professor of marketing at the Eli Broad College of Business at Michigan State University (voorhees@bus.msu.edu).