
**Loyalty Programs:
Generalizations on Their
Adoption, Effectiveness
and Design**

Loyalty Programs: Generalizations on Their Adoption, Effectiveness and Design

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Loyalty Programs: Generalizations on Their Adoption, Effectiveness and Design

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Abstract

Loyalty programs (LPs) have increased in popularity, and have been studied extensively in the academic literature with mixed findings. Therefore, we offer an overview of extant research on LPs. We derive generalizations on the effectiveness and best design of LPs, discuss conditions that mediate and moderate the effects of LPs on customer behavior and attitudes, and highlight avenues for further research. Overall, we conclude that LPs are effective in increasing consumer purchase behaviors over time, but their impact differs across consumer segments and markets. Numerous practical examples illustrate the points discussed. Overall, this monograph provides insights to researchers and practitioners through a comprehensive, research-based synthesis of current knowledge. As a consequence, LP managers may better understand the implications of LP adoption, and ultimately improve the effectiveness of their LPs.

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1

Introduction

The boom in information technology and the shifting of firms toward a customer-centric focus have prompted the development of *loyalty programs* (LPs) as important customer relationship management tools. During the 1990s, the number of LPs among European retailers grew 25%–30% annually (Ziliani and Bellini, 2004). Traditionally LPs have been prominent among retailers, but the implementation of LPs is rapidly spreading to new areas. In September 2010, Microsoft introduced Bing Rewards LP to reward online customers who use the Bing search engine for Web searches (and even to reward spam reporting). Popularity of LPs increased also in the non-profit sector. For example, Recyclebank offers an LP that rewards members for recycling at home and using other green activities.

By 2003, approximately 92% of UK consumers participated in LPs (Berman, 2006). By 2010, the number of LP memberships in the US exceeded 2.1 billion memberships, growing by 16 percent despite the worldwide recession (Hlavinka and Sullivan, 2011). In fact, consumer interest in LPs has increased during the recent recession (Burness et al., 2009; Ferguson and Hlavinka, 2009a), parallel to the increased interest of firms (Barsky, 2008; Burness et al., 2009).

2 *Introduction*

The popularity of LPs has spurred substantial academic research (for previous reviews, see Berman, 2006; Nunes and Drèze, 2006b; O'Brien and Jones, 1995; Uncles et al., 2003; Wansink, 2003), where this review builds on Dorotic et al., 2012. Unfortunately, empirical research shows divergent findings and may bring more confusion than guidance to managers (McCall and Voorhees, 2010). Some studies indicate a positive impact on customer behavior (Lal and Bell, 2003; Leenheer et al., 2007; Liu, 2007; Taylor and Neslin, 2005), while others report little or no impact (Meyer-Waarden and Benavent, 2006; Sharp and Sharp, 1997). Diverse research methodologies, concepts, and measurements make it difficult to compare the results. Yet, given the prevalence of LPs and the growing number of studies, we offer an overview of extant research on LPs, derive generalizations on the effectiveness and best design of LPs, and highlight avenues for further research. We thus expect this monograph to support both researchers and practitioners through a comprehensive, research-based, synthesis of current knowledge. Furthermore, our study aims to help companies with LPs improve their performance. Meanwhile, companies that are still contemplating LPs will better understand the implications of such programs through this overview.

In the following sections, we begin by defining customer loyalty and loyalty programs and proposing a conceptual framework (Figure 3.1) that structures our literature overview. We conclude with generalizations at the end of this monograph in Table 10.1.

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