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A qualitative analysis of the loyalty building attributes of customer loyalty programs on gaining loyalty to brands

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**A Qualitative Analysis of the Loyalty Building
Attributes of Customer Loyalty Programs on
Gaining Loyalty to Brands.**

**Caryn Ow
2001
MBus**

USE OF THESIS

The Use of Thesis statement is not included in this version of the thesis.

ABSTRACT

A paradigm shift from mass marketing to the concentrated focus on one-to-one marketing has led to a barrage of tactical strategies to instill long-term consumer loyalty among organisations' most valued customers. At the forefront of these strategies are customer loyalty programs. Since the inception of the first loyalty program, AAdvantage in 1981, the marketplace has seen a proliferation of these programs across a widening range of industries. Not surprisingly, this has led to significant interest in customer loyalty programs among academics and practitioners.

Despite the skepticism of academics relating to the effects of loyalty programs, many organisations have allocated a large amount of their marketing budgets to developing, implementing and maintaining customer loyalty programs in the hope of generating long-term loyalty in customers. To date, current evaluations of customer loyalty programs have assessed the effects of these programs by focussing on behavioural measures (such as repeat purchases) and on economic outcomes (such as market share, penetration and share of wallet.) While these traditional measures have contributed to the understanding of consumer loyalty and evaluations of a program's success, it has been recognised by researchers that the measures are inadequate to determine and explain the loyalty-building attributes of loyalty programs. Moreover, studies from the viewpoint of consumers remain lacking.

In an attempt to bridge the gap, this qualitative study explores the attributes of customer loyalty programs that result in consumer loyalty to brands from the perspective

of the consumer. The fundamental significance of this study is the integration of the behavioural and the attitudinal theoretical approaches used to investigate these attributes. In addition to this integrative approach, the study incorporates theories from relationship marketing. The components of loyalty and attributes of loyalty programs that were investigated were drawn from an extensive review of the brand loyalty, relationship marketing and customer loyalty program literatures. These components and attributes were deemed to be the most significant in establishing long-term consumer loyalty. The data for this qualitative study were derived from twenty-four semi-structured focused interviews with consumers who qualified as members of customer loyalty programs.

The tentative conclusions drawn from this research are that from consumer's points of view: (i) the act of loyalty is exhibited by the continual repeat purchase of the same product from the same store, (ii) the key to a successful customer loyalty program is the implementation of a program that is flexible to its members, (iii) the key to a defensive orientated loyalty program is a good incentive structure and an effective communication program, and (iv) the development and sustenance of a relationship between a consumer and an organisation is vital to the brand loyalty process.

The results of this exploratory study provide a deeper understanding of the customer loyalty program phenomenon and the identification of program attributes that result in long-term consumer loyalty from the perspective of consumers. This research highlights that further investigation is required into the loyalty-building attributes of customer loyalty programs, and this will be central to the development of loyalty programs that satisfy consumers and effectively establish long-term loyalty to brands.

DECLARATION

I certify that this thesis does not, to the best of my knowledge and belief:

- (i) incorporate without acknowledgement any material previously submitted for a degree or diploma in any institution of higher education;
- (ii) contain any material previously published or written by another person except where due reference is made in the text; or
- (iii) contain any defamatory material.

Signature _____

Date _____

CC
6/9/01

ACKNOWLEDGMENTS

I would like to dedicate this thesis to my family, as without their support, inspiration and confidence, I would not have survived the past two years. I would like to thank my three dearest girlfriends for their continuous words of encouragement and for tolerating my whining and thesis blabber. Last, but by no means least, I would like to thank Simone for her guidance throughout this thesis and her patience through the many drafts of this thesis.

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CHAPTER 1

INTRODUCTION

Background to the Study

The traditional 80/20 rule, where 80% of business comes from 20% of existing customers, has in recent years attracted increased attention from marketers and managers (Erickson, 1991; Mitchell, 1994). It is the combination of this conventional rule and a paradigm shift from mass marketing to a concentrated focus on one-to-one marketing that has been said to have resulted in a proliferation of customer loyalty programs (Mitchell, 1994; Sheth & Parvatiyar, 1995). Customer loyalty programs are defensive marketing tools designed to alter the behavioural patterns of consumers in the long-term by the provision of incentives to customers to remain with a particular brand or company (Croft, 1995; Sharp & Sharp, 1997; Dowling & Uncles, 1997).

Changes in the consumer environment (Sharp & Sharp, 1997), and a recognition of the insufficient attention paid to customer retention (Kotler, 1992), have made the task of handling loyalty a fundamental managerial challenge (Dick & Basu, 1994). The decision to launch customer loyalty programs has been influenced by the perceived relationship between loyalty and the bottom line (Reichheld & Teal, 1996), as well as the need for competitive parity (Dowling & Uncles, 1997). Not surprisingly, brand loyalty has become a central topic of discussion among marketing academics in recent years (Bhattacharya, 1997; Dick & Basu, 1994; Dowling &

Uncles, 1997; Fader & Schmittlein, 1993; Fournier & Yao, 1997; Sharp & Sharp, 1997; Uncles & Laurent, 1997). Despite the economic advantages (e.g., profitability and competitive parity) that loyalty programs may offer, perhaps the best explanation for the rise in popularity of these programs is the underlying belief that consumers seek to reduce market choices by involving themselves in long-term loyalty relationships with products (Sheth & Parvatiyar, 1995, Palmer & Bejou, 1994). What is most important to note is that customer loyalty programs offer the potential to alter both the patterns of a consumer's repeat purchase behaviour (Croft, 1995; Dowling & Uncles, 1997; Gilbert, 1996; Sharp & Sharp, 1997) and the normal market patterns of a product (Dowling & Uncles, 1997; Bhattacharya, 1997; Sharp & Sharp, 1997). Moreover, with the wealth of consumer information that loyalty programs can capture, they offer marketers the ability to not only identify and segment their most loyal customers in order to implement strategies to which they best respond, but also to provide information that is tailored to their wants and needs (Mitchell, 1994).

Since the advent of the first customer loyalty program, AAdvantage implemented by American Airlines in 1981, these programs have grown exponentially in number and in size, and are now an established part of the marketing world (Uncles, 1997). Current research attempting to measure their effectiveness and success in gaining consumer loyalty has also been increasing. Despite the increase in research, few researchers have clearly identified the attributes of customer loyalty programs that may contribute to consumer loyalty, nor have they explored consumers' attitudes towards the implementation of customer loyalty programs (Rundle-Thiele, Dawes, & Sharp, 1998).

There are four reasons why current measures of the success of loyalty programs may be seen to be inadequate.

- Firstly, the development of loyalty programs is considered to be a relatively new concept (Uncles, 1997). As a result, academic research in this area is scarce and what little exists primarily employs quantitative methods (e.g., Sharp & Sharp, 1997; Dowling & Uncles, 1997). The major limitation of these studies is that they fail to identify whether a link exists between the attributes of loyalty programs and the consumer-brand relationship (Fournier & Yao, 1997). This is because previous research has not investigated the loyalty-building attributes of customer loyalty programs and established how these attributes may help initiate and develop buyer-seller relationships. However, whilst academic material has only recently increased in volume, anecdotal material is already abundant (e.g., Chevan, 1992; Croft, 1995; Mitchell, 1994; Schmid, 1997).
- Secondly, while literature and research pertaining to the identification of the components of consumer loyalty are plentiful, literature that links these components to the use of customer loyalty programs to develop consumer loyalty is rare. In other words, literature in this area has neglected to demonstrate how the components of loyalty programs may assist in developing long-term loyalty.
- Thirdly, a lack of research into consumer attitudes towards the development and concept of loyalty programs has also contributed to the problem relating to current measures, despite the fact that the central aim of

these programs is purportedly to make the consumer the focus of marketing activities.

- The final factor affecting research is that most of these measures have thus far been directed towards one end of the consumer/organisation continuum, the organisation (Sharp & Sharp, 1997; Dowling & Uncles, 1997). Studies that have concentrated on the effectiveness of customer loyalty programs have primarily focused on whether these programs have met the organisation's objectives based on economic outcomes (see Sharp & Sharp, 1997; Dowling & Uncles, 1997). This study proposes that the emphasis on such economic measures (such as market share gain, penetration and overall sales revenue) is attributable to the primary misconception of companies that the effectiveness of these programs is based on profitability. However, according to Fournier and Yao (1997), to neglect the consumer's perspective is to misunderstand the underlying concept of customer loyalty programs. The fundamental objective of loyalty programs is to establish and maintain a relationship with an organisation's most valuable customers, therefore according to Fournier and Yao at least, the success of these programs should be measured by less tangible outcomes.

Attitudinal Versus Behavioural Approach to Consumer Loyalty

A review of the brand loyalty literature indicates that while there is an abundance of research on brand loyalty (Dick & Basu, 1994; Jacoby & Chestnut, 1978), these theories and investigations are drawn from either a behavioural

theoretical approach or from an attitudinal approach. A brief overview of these theories is presented below.

Behavioural Theories

Bhattacharya (1997), using quantitative methods and the Dirichlet Model (a model that is used as a benchmark for assessing isolated deviations in repeat purchase behaviour), investigated several elements of the marketing mix and their effects on loyalty levels on packaged goods that result in excess consumer loyalty by the consumer. Sharp and Sharp (1997) also used the Dirichlet model to examine a popular Australian customer loyalty program (Fly Buys) to determine whether the program can bring about excess loyalty to products affiliated with the program based on repeat-purchases. They hypothesised that loyalty programs should bring about a positive effect on the average repeat purchases of a product. That is, an increase in the quantity of purchases made of the same product more so than in a product's penetration level. While results confirmed that loyalty programs do have a positive effect on altering the repeat purchase patterns of a product, they do so to a minute degree. Dowling and Uncles (1997) discuss the overall effectiveness of loyalty programs and offer a guideline for designing an effective loyalty program. Other anecdotal literature dealing with customer loyalty programs has also attempted to provide explanations for the increasing popularity of these loyalty programs (Chevan, 1992; Croft, 1995; Schmid, 1997; Mitchell, 1994). The majority of the studies discussed above suggest that because the objective of these programs is to alter the purchase patterns of consumers, measurement of the effects of these programs should be taken from a behavioural approach.

Attitudinal Theories

Dick and Basu (1994) realise that concepts other than behavioural measures (for example cognitive, affective and conative antecedents) need to be examined. Their paper offers a new and different approach by examining factors that lead to attitude formation and its consequences. Gordon (1994) investigated the relationship between branded and own-label goods and proposes a model using 'Needs States' as the basis for understanding the needs, motivations and attitudes of consumers. Richards (1998) postulates that, in order to establish and sustain loyalty, commitment will first have to be developed. His research investigates brand commitment by using a conversion model to establish the factors that build commitment to brands. Fournier and Yao (1997) assessed eight individuals who were predetermined as brand loyal. Their study focuses on interpersonal relationships in order to provide a richer understanding of consumer-brand bonds.

While there is a considerable amount of literature that relates brand loyalty to customer loyalty programs from a behavioural perspective, and also a reasonable amount of attitudinal literature that relates to consumer loyalty, literature that combines these two approaches has not been found within the public domain. Further, it is important to note that most of these previous studies employed quantitative methods. From a review of literature, it would appear that Farr and Hollis (1997) and Baldinger and Rubinson (1996, 1997) are among the few academics who have attempted to provide an insight into brand loyalty using both approaches. Their findings suggests that while behavioural measures are important in understanding potential long-term loyalty to brands, they fail to identify the underlying factors that

stimulate such behaviours. They state that understanding consumers' attitudes toward brands play a vital role in determining a product's success. They propose that attitudinal measures provide a useful method to explain *how* and *why* brand loyalty is established. In addition, they say, such a method is useful in helping predict purchase intention behaviour. However, while Baldinger and Rubinson and Farr and Hollis provide material that incorporates both attitudinal and behavioural approaches, their studies only extend to the concept of brand loyalty in general. These studies do not relate specifically to the use or evaluation of customer loyalty programs. Literature that incorporates both approaches to explain and assess brand loyalty while also relating to customer loyalty programs has thus far not been reported within the public domain. This thesis is one of the few studies that adopts a qualitative approach to obtain a deeper understanding of the brand loyalty concept from both a attitudinal and behavioural approach.

From the preceding discussion, it is apparent that a greater understanding of the operation and effects of customer loyalty programs is needed. In particular, insight into consumers' perspectives is necessary to further understand consumer-brand relationships. Furthermore, the way in which consumers' attitudes towards loyalty programs affect their behaviour that may lead to establishing long-term product loyalty is also important.

Significance of the Study

Currently, both academia and the marketplace have taken great interest in the increasing popularity of customer loyalty programs. On the one hand, organisations have invested much of their marketing budget in developing, implementing and maintaining these programs with the hope of keeping their most profitable customers (Gilbert, 1996). However, many organisations have failed to recognise the full potential of these programs (Mitchell, 1994). While management typically understands that the objective of loyalty programs is to sustain the long-term loyalty of consumers, they have failed to clearly identify the attributes of these programs that motivate consumers to alter their purchasing behaviour (Mitchell, 1994). Thus, one of the significant aspects of this study is its aim to provide information about what consumers believe are the main attributes of customer loyalty programs that influence their loyalty behaviour.

While there is extensive literature that contributes significantly to the brand loyalty concept, many of these studies have concentrated on the behavioural aspect of consumer loyalty (e.g., Sharp & Sharp, 1997). According to Dick and Basu (1994), these studies are inadequate in understanding the underlying factors that stimulate loyalty behaviour. Farr and Hollis (1997) propose that an incomplete understanding of loyalty behaviour and a product's success can be attributed to the inadequate literature relating to the integration of attitudinal and behavioural measures. Furthermore, the associations between buyer-seller relationships and their role in the development of loyalty have also been argued to contribute to the lack of understanding of the brand

loyalty concept (Fournier & Yao, 1997). While the marketplace has seen a widespread application of customer loyalty programs, researchers have thus far examined and discussed their effects solely from a behavioural approach (e.g., Sharp & Sharp, 1997; Dowling & Uncles, 1997). The importance of the underlying factors that initially triggered such a behavioural response has not received research attention.

Based on the preceding information, it is apparent that a convergence between attitudinal and behavioural measures is needed to determine both the loyalty components that lead to long-term consumer loyalty to products, and to predict a consumer's purchase motivations. The original contribution of this thesis is to offer, from a consumer's viewpoint, the attributes of customer loyalty programs that drive loyalty behaviour. It does so through the integration of both attitudinal and behavioral measures using a qualitative approach.

Purpose of the Study

The purpose of this thesis is to provide a richer and deeper understanding of the customer loyalty program phenomenon. Results that emerge from this exploratory study provide a foundation for subsequent research where findings can be further refined and investigated.

Research Question

The specific research question for this thesis is:

What are the components of Australian Customer Loyalty Programs, if any, that result in consumer loyalty to a product as experienced by members of these programs?

Definitions

Customer Loyalty programs:

Customer loyalty programs are marketing activities whose objective is to increase repeat purchases in the long-term, beyond what would be expected for a satisfied customer (Rossiter and Percy, 1997).

Brands:

Due to the diversity of customer loyalty programs, the term 'brand' will be used as a generic term that encapsulates goods and services.

Brand Loyalty:

There are many definitions of brand loyalty that have been cited in the loyalty literature. The definition that this thesis adopts derives from Jacoby and Chestnut (1978) where they define brand loyalty as a continual behavioral response to one or more brands within the same product category.

Consumer Loyalty:

Consumer loyalty, according to Uncles (1997), is the continual purchase of a preferential brand despite the availability of an alternative brand.

Behavioural Loyalty:

Behavioural loyalty refers to the extent to which an individual purchases the same brand from a product category over a period of time (Farr and Hollis, 1997; Rundle-Thiele, et al., 1999).

Attitudinal Loyalty:

Attitudinal loyalty focuses on an individual's perception of a brand and is concerned with the words and feelings of consumers rather than with their behaviours (Rundle-Thiele, et al., 1997; Farr and Hollis, 1997).

In summary, this introductory chapter provided an overview of the customer loyalty program phenomenon and highlighted the objective and significance of this study. Specifically, it was explained why the marketplace has seen a proliferation of customer loyalty programs and the benefits that such programs are thought to offer to organisations. While this chapter reflects the abundance of literature into the brand loyalty concept, it also highlights the lack of research on customer loyalty programs and brand loyalty, offering several explanations for the inadequacy of current attempts to measure these programs' success. In addition, this chapter identified the gap that exists between attitudinal and behavioural theories relating to the loyalty concept as applied to customer loyalty programs. The significance and purpose of this study is

also outlined and five definitions are provided to facilitate a clear understanding of terms used within this thesis.

The following chapter attempts to provide a more comprehensive explanation of the development and popularity of customer loyalty programs. It seeks to provide a foundation on which to build this study and provides a more in-depth discussion of the gap between attitudinal and behavioural theories while also attempting to incorporate theories from relationship marketing.

CHAPTER 2

LITERATURE REVIEW

Introduction

The purpose of this chapter is to provide a foundation for a clearer understanding of what actually constitutes customer loyalty programs and to develop a structural framework of the loyalty-building attributes of these programs and the relationship between them. This chapter is divided into six sections. The first section attempts to explain the concept of loyalty programs. It discusses the structure and goals of these programs, and also describes the role that incentives, time barriers and points barriers play in these programs. The second section looks at the development of customer loyalty programs. It provides a comprehensive explanation as to why academics, practitioners and the marketplace have seen the proliferation of these programs. A rationale for their breadth of application is also offered. The third section discusses the loyalty-building components of customer loyalty programs. Issues associated with the problems of customer loyalty programs provide the content for the third section. These issues range from the limited literature about the customer loyalty program phenomenon to a lack of theoretical understanding of these programs. The fourth section sees an integration of the three theoretical areas - attitudinal, behavioral and relationship marketing – in order to suggest the loyalty components of customer loyalty programs. The objective of this section is to identify the loyalty components from the three theoretical areas and explain how the interactions between

these components develop customer loyalty. The components selected for this framework have been chosen based on the premise that they are deemed to be the most significant determinants of loyalty arising from a review of the loyalty and customer loyalty program literature. The fifth section compares the findings of this thesis to the issues discussed in section 2. The purpose of this chapter is to provide a foundation of the loyalty building attributes of customer loyalty programs that lead to consumer loyalty. Lastly, the sixth section concludes this thesis by summarising the most significant findings of this study and offers several future research questions for subsequent studies.

The Concept of Customer Loyalty Programs

There are various understandings of what exactly constitutes a loyalty program. Rossiter and Percy (1997) describe customer loyalty programs as an "incentive-based promotional activity" (p. 411) aimed at encouraging the repeat purchase of a product beyond a satisfactory level. The objective is to increase the repeat purchase levels of existing customers rather than increasing penetration or market share – a concept known as the loyalty effect (Reichheld & Teal, 1996). A loyalty program seeks to bond customers with a particular company, product or service through the provision of incentives such as points, prizes or discounts for their patronage (Sharp & Sharp, 1997; Dowling & Uncles, 1997). Mitchell (1994) proposes that the real marketing power of loyalty schemes is their ability to segment the customer base and to determine which types of promotion suit the different segments of consumers. While

these explanations do underlie the basic concept of loyalty programs, and it has been shown that these marketing instruments can have a positive impact on repeat-purchases (Sharp & Sharp, 1997), they have been referred to as a form of promotion by some researchers (Croft, 1995). It appears that loyalty programs as a marketing instrument can have a positive impact on repeat-purchases (Dowling and Uncles, 1997), and this has led to these programs being hailed by organisations as an innovative tool to instill and maintain loyalty (Mitchell, 1994).

At a strategic level, customer loyalty programs have been shown to have long-term effects (Sharp & Sharp, 1997). According to Richards (1998, p.43), the rationale behind the concept of loyalty programs is thought to be that:

the key to profitability is more likely to involve the retention of current (profitable) customers and increasing their spend than in trying to win new customers.

The goal of these programs is to retain and encourage multiple repeat-purchases by the same customer over a long-term period, thus increasing profitability (Mitchell, 1994; Richards, 1998; Sharp & Sharp, 1997). This is similar to the 'leaky bucket' theory proposed by Ehrenberg and Goodhardt (1977, cited in Dowling & Uncles, 1997), where marketing strategies are designed to replace disloyal customers who leak away with new ones in order to keep the sales level steady. This defensive marketing theory is behind the new emphasis on relationship marketing in marketing (Sharp & Sharp, 1997).

Although repeat-purchases are the primary goal of a loyalty program, the core points of differentiation between loyalty programs and other marketing efforts are their

defensive orientation and their long-term nature (Sharp & Sharp, 1997). In other words, loyalty programs, unlike most other defensive marketing strategies, are better able to defend companies against competitor actions and to maintain this advantage. They attempt to influence consumers not only by providing incentives but also by increasing the consumer's switching costs over time and changing the "consumer choice process from operating in a spot market to operating in a multi-period, contractual relationship market" (Dowling & Uncles, 1997, p. 78).

While repeat-purchases are a goal of customer loyalty programs, they are not the ultimate objective of these programs. Rather, there are two key characteristics that distinguish loyalty programs from repeat-purchase strategies and promotions (Rossiter & Percy, 1997). Rossiter and Percy (1997) state that firstly, repeat-purchase strategies primarily focus on the next few purchases, whilst loyalty programs are more long-term. Secondly, while loyalty programs invariably do offer incentives, the 'extra services' that repeat purchase promotions typically offer are not perceived as incentives (Rossiter & Percy, 1997).

In the light of these distinctions, the central tenet of customer loyalty programs is that they offer the potential to *alter* both a consumer's repeat-purchase behaviour in the long-term and therefore the existing market patterns of a product (Gilbert, 1996; Croft, 1995; Sharp & Sharp, 1997). As well, they can gain a sustainable competitive advantage (Bhattacharya, 1997; Pine II, Peppers, & Rogers, 1996). Furthermore, the fundamental aim of loyalty schemes is to capture information and use it to cater to the individual characteristics of consumers in order to instill and retain their loyalty

(Mitchell, 1994). These attributes are the primary factors that characterise defensive loyalty programs.

Development of Customer Loyalty Programs

There are many explanations for the accelerated growth of customer loyalty programs. These explanations, in part, are thought to result from a change in the consumer environment from an emphasis on quality and customer service to a refocus on consumer loyalty (Sharp & Sharp, 1997). These changes have been stimulated by the recognition that insufficient attention has been paid previously to customer retention in marketing (Kotler, 1992). It has been postulated that increases in profitability are due to consumer retention, which has resulted in a rise of loyalty programs (Reichheld & Sasser, 1996; Richards, 1998). In addition, increases in consumer cynicism and low perceived levels of differentiation between products have resulted in an increased number marketing strategies to restore consumer loyalty (Sharp & Sharp, 1997).

Further to changes in the consumer environment, the marketplace has also changed with a rise in global competition coupled with a rapid increase in innovative products and the aging of other products (Dick & Basu, 1994). Thus, due to the declining levels of product differentiation and cost-effectiveness, organisations have shifted their primary focus away from the use of traditional marketing techniques in hope of understanding the underlying motives of consumer loyalty (Fournier & Yao,

1997). Therefore, establishing and maintaining loyalty has become a fundamental managerial challenge (Dick & Basu, 1994). As a result of these conditions, customer loyalty programs have not only increased dramatically in number over the years, but have also developed across a widening range of industries (such as the airline and retail industries) (Sharp & Sharp, 1997). The relationship between loyalty and the bottom line as well as the fears of a lack of competitive parity have also influenced decisions to practice loyalty-based marketing (Reichheld & Teal, 1996; Sharp & Sharp, 1997). The marketplace has now seen the implementation of these 'new wave' (Sharp & Sharp, 1997, p. 473) programs which have essentially been used as "in-depth marketing instruments" (Chevan, 1992, p. 61). In other words, customer loyalty programs have been employed as a vehicle for accessing a wealth of information about customers.

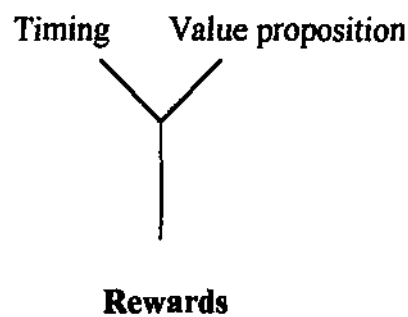
Attributes of Customer Loyalty Programs

Rewards

It is postulated by Dywer, Schurr and Oh (1987) that rewards are seen as complementary resources employed to encourage positive perceptions of benefits. In loyalty programs, rewards are a common tactic used to entice consumers to alter their behavioural patterns. Therefore, before exploring consumers' perceptions of the effects of rewards, it is important to understand the basic structure of rewards in customer loyalty programs.

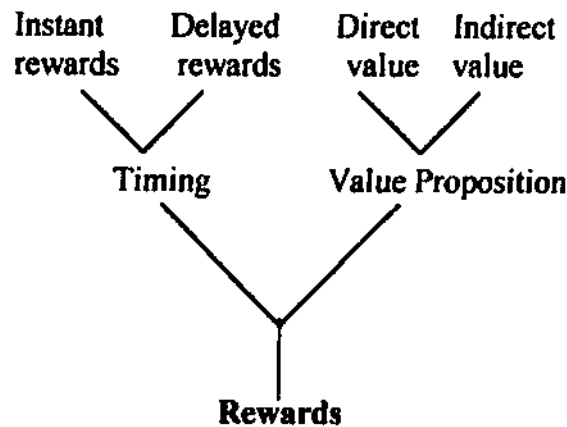
From a broad review of the literature related to customer loyalty programs, it is apparent that there are few studies dealing with the function or structure of rewards in loyalty programs. Dowling and Uncle's (1997) study is one of the few that has focused on the association between customer rewards and customer loyalty programs. They provide a brief explanation of the effects of rewards in loyalty programs, and this explanation is outlined below. Due to the lack of academic attention on reward structure, the present study draws heavily on Dowling and Uncle's (1997) paper to provide a fundamental understanding of the reward structure.

The structure of rewards for a majority of the larger loyalty programs in Western Australia (Perth) can be illustrated in the form of a tree. The trunk represents rewards; from that trunk emanates two branches consisting of two primary attributes:-- (i) timing of rewards and (ii) value proposition of rewards (Dowling & Uncles, 1997).



The timing of rewards refers to the time members have to wait to redeem their rewards from the points accumulated. The value proposition of rewards refers to whether a link exists between the type of reward and the organisation (Dowling & Uncles, 1997). The two branches (attributes) then divide into four stems (sub-

attributes), as illustrated below. These components can be described as instant or delayed rewards and direct or indirect value.



'Instant rewards', as the name suggests, are rewards that are offered instantly when purchases are made. An example is the Shell program where points can be instantly used to obtain tangible rewards (such as free petrol). It is important to note that while the Shell program does offer a more immediate reward, the program is structured in a manner where delayed rewards are also offered. With 'delayed rewards', consumers have to wait a certain period of time, usually until a specific points barrier is reached, to obtain a reward. An example is Fly Buys where a certain points barrier must be achieved prior to obtaining rewards. 'Direct value proposition' is where the reward offered by a program is closely associated with the organisation's products or services (Dowling & Uncles, 1997). For example, in the Shell program, the direct value proposition is free petrol. Programs that offer rewards that are not associated with the organisation's provision of goods or services have an 'indirect value proposition' (Dowling & Uncles, 1997). An example of this type of program is Fly Buys which, as well as air flights, offers rewards (such as movie tickets) that are not flight associated.

Now that the structure of rewards has been discussed, the next section explores consumers' perceptions of program rewards. There are five factors that are suggested by O'Brien & Jones (1995) to relate to the use of rewards in loyalty programs. These factors are primarily associated with consumers' perceptions of rewards, and are the range of rewards offered, the value of rewards, the timing of rewards, the aspirational value and the scheme's ease of use. Each of these factors, discussed below, is thought to be fundamental to an effective customer loyalty program (O'Brien & Jones, 1995).

Range of rewards

Prior to discussing rewards it is important to note that this section relies heavily on Croft's (1995) paper, primarily because his article remains one of the few that discusses the effects of rewards in loyalty programs. He posits that most forms of rewards used in customer loyalty programs have been equated with discounts. Croft (1995) and Mitchell (1997) further suggest that it is this association which has led to the programs being categorised as promotions, with the result that the outcomes of loyalty programs have not been utilised to their fullest extent nor truly appreciated. Croft (1995) asserts that while the use of incentives is considered a good technique to drive and influence the consumption patterns of consumers, such efforts may only achieve short-term results. Thus, the use of discounts as a reward may eventually produce a price war, where the point of differentiation between the competitors becomes lost (Croft, 1995; Mitchell, 1994).

Schmittlein (1993), Dowling and Uncles (1997) and Croft (1995) contend that the use of discounts as a marketing tool is only effective to the extent that it entices

distributors to supply the brand or increase awareness of the brand. Such forms of reward may not be sufficient to motivate a sustained switch in the shopping patterns of consumers, nor to build loyalty or to gain an increase in profitability as a competitive response (Croft, 1995). According to Croft (1995), focus should be placed on bringing about a long-term behavioural change. He proposes that providing incentives that place importance on effective communication and providing privileged status, for example, would better suit the goals of loyalty programs than providing monetary incentives. Moreover, Croft further suggests that concentrating on a long-term behavioural change may also contribute to improved brand stature.

It is argued that without a behavioural change in consumers, loyalty schemes become nothing more than long-term sales promotions (Croft, 1995). The crucial difference between loyalty programs and sales promotions is that while both provide incentives, the focus of the latter is primarily on the next few purchases (Rossiter & Percy, 1997; Sharp & Sharp, 1997). Unlike loyalty programs, sales promotions lack equity (for example, through the accumulation of points and development of relationships) to lock consumers in (Sharp & Sharp, 1997).

Value of Rewards

It is questionable whether rewards should directly support the product being offered by an organisation, or whether the reward offered should be used to motivate the purchase intentions of the consumer in a more indirect manner (Dowling & Uncles, 1997). For example, a particular aspect of Shell's reward structure directly supports the organisation. For the points accumulated, the reward is free petrol. On

the other hand, the rewards offered by Fly Buys can also range from free flights to free movies. Hence, there is no direct correlation between the company's product and its rewards. This is a crucial factor to consider as it can affect in two ways the type of loyalty, if any, established. Firstly, loyalty may be induced either towards the program (deal loyalty) or secondly, towards to the core product (product loyalty) (Dowling & Uncles, 1997).

It is suggested by Dowling and Uncles (1997) that the determining factor of the type of loyalty established (deal loyalty versus product loyalty) relies on the level of involvement between the consumer, the brand and the form of reward offered. For example, for low-involvement products, the reward received from the purchase of the product should be the primary reward, not the product (e.g., Fly-Buys) (Dowling & Uncles, 1997). Without this incentive, the motivation to purchase such products may be diminished. On the other hand, with high-involvement products the reward is not as important in the purchase decision (Dowling & Uncles, 1997). However, if the rewards offered by the organisation directly support the value proposition of that product, this may lead to loyalty being established toward the organisation rather than to the loyalty program. Thus, it is suggested that this would better meet the objectives of loyalty programs (Dowling & Uncles, 1997). An example of such a scheme is the GM Card where members accumulate points towards a discount of the purchase price of a new car.

Timing, Ease of Use and Aspirational Value of Rewards

The associations between the timing, aspirational value and the ease of use of rewards are other factors that may impact the effect of incentives (Dowling & Uncles, 1997). The following diagram illustrates this link between the three factors, using existing loyalty programs as examples.

Figure 1

		Timing of rewards	
		Immediate (relatively)	Delayed
Type of Rewards	Directly supports the product's value proposition	Shell Card	Airline Frequent Flyer GM Card
	Indirect rewards	Promotional Competitions	Fly Buys Credit Card Programs

Type of Reward Schemes
(Adapted from Dowling & Uncles, 1997, p. 76)

Dowling and Uncles (1997) propose that the timing of rewards plays an influential role in forming the perceptions of consumers and in achieving the goals of a loyalty program. They suggest that instant rewards and rewards that directly support the value proposition of a program not only enhance the program but better support the objective of loyalty programs in building loyalty. Despite this, the loyalty programs discussed in the literature reviewed have employed a delayed structure (e.g., Fly-Buys, GM card and Frequent Flyers). Dowling and Uncles (1997) have attempted to explain why a majority of Australian programs have been popular to program members. Viewed from a consumer's cost-benefit analysis, membership is free and the accumulation of points is based on purchases that would typically be made.

Another major attraction to program members is the aspirational value of rewards offered by certain loyalty programs. The authors further stipulate that 'belonging' to a program is another major attraction.

It would appear that the challenge of a loyalty program is to get the structural framework of rewards right. The fundamental distinction between a good and bad program is suggested to be based on the structure, the type of rewards provided, and the extent to which one program differs from that of its competitors (Croft, 1995). If rewards are pitched too low, this could result in offending consumers by the perception of offering 'meager' rewards (Mitchell, 1994). Conversely, pitching rewards too high could result in a 'bidding war', thus encouraging 'promiscuous' purchases by consumers among brands (Mitchell, 1994). To avoid either reaction, Dowling and Uncles (1997) suggest that the value of rewards should try to match the value of the core product offered by an organisation. It should be recognised that the objective of loyalty programs is to alter the behavioural patterns of consumers and to increase repeat purchase of products in the long-term. Therefore, rewards should only be used as a prompt to entice consumers to join a program, and over time the importance placed on these rewards will become secondary (Schmid, 1997; Croft, 1995).

Points Barrier

A points barrier is a strategy used in some loyalty programs to increase the dollar value spent in a single purchase in order to earn points. If a points barrier is

implemented within a program, points cannot be earned *unless* the dollar amount spent in a single purchase exceeds that of the points barrier. Using Fly Buys as an example, a minimum of \$5 must be spent to earn one point. This strategy is designed to encourage consumers to lift the average amount bought in a single purchase (Sharp & Sharp, 1997).

A problem with this strategy, however, is the lack of consumer knowledge of its objective. Sharp and Sharp (1997) established that consumers were unlikely to alter their expenditure in the case of the Fly Buys program because of their lack of awareness and inadequate understanding of the points barrier strategy. In recognition of this, what is needed is a means of identifying the motivating factors that would induce consumers to adopt such a points barrier strategy as well as a promotion and explanation of the points barrier.

Time Barrier

Much like the points barrier, the time barrier takes on a similar role in that it influences consumers to translate the points into a tangible reward within a certain period of time. A time barrier is where the points accumulated within a program have a life span during which they can be used and converted to a tangible prize. The usual life span of points of a West Australian program is between 3 – 5 years (Sharp & Sharp, 1997). According to Sharp and Sharp (1997), some loyalty programs implement such a strategy for two purposes. The first purpose of a time barrier is purely economic so that the organisations running loyalty programs minimise their

contingent liability. The second encourages consumers to increase repeat purchases in two ways. One way stimulates consumers to accumulate more points more quickly. For example, if the time span of points is about to expire and the points accumulated thus far are not sufficient to obtain a reward, consumers are encouraged to spend more within a single purchase to gain more points. The other way encourages members to convert these points into a tangible form of reward before the points expire (Sharp & Sharp, 1997). Therefore, it is important to determine whether the function of a time barrier stimulates consumers in the way it is expected to, and also to explore consumers' perceptions of its use within customer loyalty programs.

Multiple Participants

Most loyalty schemes discussed in the literature involve multiple participants (e.g., Fly-Buys, Credit Card Loyalty Schemes). This is where a number of stores/brands collaborate within one specific scheme to form a loyalty program (Sharp & Sharp, 1997). Sharp and Sharp (1997) found that members of a loyalty scheme which involved multiple participants believed that this technique made it easier for them to achieve rewards without having to forego their normal shopping patterns. This was found to be primarily due to the members' belief that such a structure enabled them to sample big brands from across product categories while being able to obtain rewards. Thus they perceive that they were able to be disloyal to individual suppliers. This belief was the primary motivating factor that influenced the consumers sampled in the Sharp and Sharp study to join this particular type of customer loyalty scheme.

An effect of multiple participant programs is that while they do attract “new and light buyers” (p. 484) to a product, these type of programs may reduce loyalty effects (Sharp & Sharp, 1997). The rationale is that even though a brand’s penetration rate increases, the frequency of repeat-purchases is small, thus diminishing the loyalty effect (Ehrenberg, Goodhardt, & Barwise, 1990). It is proposed that this inverse effect occurs because consumers who are part of the scheme are usually already heavy users of those brands in the scheme and light buyers of some brands in the scheme (Sharp & Sharp, 1997). Therefore, brands that were infrequently bought would see an increase in penetration as opposed to only achieving an increase in average purchase frequency (Sharp & Sharp, 1997). That is, while there are more people buying a brand, therefore increasing the penetration of the brand, the average purchase frequency of that brand remains constant as the heavy users of that brand remain similar.

Sharp and Sharp (1997) suggest that ‘divided loyalty’ is a more realistic characteristic of today’s consumers. That is, consumers are rarely completely loyal to any product. This suggestion is consistent with the concept of multi-brand relationships as discussed in the preceding section. Hence, it can be inferred that loyalty programs that permit multiple brands/products would, in fact, better cater to the natural purchase behaviour of consumers. It is important to realise, however, that this technique may not create excess loyalty for that brand but only appeal to the polygamous nature of consumers (Sharp & Sharp, 1997).

Components of Loyalty

As noted in Chapter 1, it is apparent that ample literature exists on consumer loyalty. Much of this literature discusses loyalty as an aggregate concept, however, and there is still a lack of in-depth analysis of the components that lead to loyalty. In order to develop a foundation of the components that lead to consumer loyalty, eight of the most significant components to emerge from the loyalty literature have been chosen. In particular, the following components have drawn heavily from Dupont's (1998) framework of determinants of customer retention. While each of these components will be explored individually, it is important to recognise that they are not mutually exclusive.

Commitment

According to Morgan and Hunt (1994), commitment has a significant impact on the development of loyalty. While these authors have identified that commitment is a factor that induces and reinforces the bond within a relationship and is a prerequisite for the development of loyalty, the problem is that it has been misconstrued as loyalty (Palmer, 1995; Richards, 1998).

Mutual commitment is thought to be the basis on which relationships are built (Morgan & Hunt, 1994). Commitment occurs when both parties believe it is worth maintaining a relationship. It is established when a consumer exhibits behaviour that is in accordance with the objectives of the marketer (Gronroos, 1990; Shani & Sujana, 1992). Further, this commitment must be long-term in nature and involves both

"cognitive and emotional components" (Rusbult & Buunk, 1983, p. 4). These components as identified by Rusbult and Buunk (1983) can be better explained by Allen and Meyer (1990 & 1996) who through their research on organisational commitment, have identified three types of commitment – affective, continuance and normative commitment. While the three types of commitment discussed above are typically discussed in the field of organizational commitment, for the purpose of this study, only affective and continuance commitment apply to this research and are therefore discussed.

Affective commitment refers to the identification, involvement and emotional attachment an individual forms (Allen and Meyer, 1990 & 1996). An example using loyalty programs could be where members identify themselves with a particular program and build a form of emotional attachment toward their program. Continuance commitment is where an individual perceives a cost associated with the elimination of a relationship or partnership (Allen and Meyer, 1990 & 1996). In association with loyalty programs, this could be the cost associated with the termination of a membership. This form of commitment was also identified by DuPont (1998) and Palmer & Bejou (1994) who state that a commitment will only occur if having the relationship and the expense of dissolving the relationship are both great.

According to Fournier and Yao (1997), Sharp and Sharp (1997) and Dowling and Uncles (1997), the definitions mentioned above are parallel with those of loyalty. Palmer (1995) however, contends that the primary distinction between loyalty and commitment is that the former is characterised by 'willing participants' whereas the

latter is not. Based on this debate, it is evident that the close association between loyalty and commitment has led to the need for a distinction between the two concepts as it may complicate efforts to measure loyalty (Palmer, 1995).

Trust

Trust is a critical component of relationship marketing that contributes to loyalty (Bendapudi & Berry, 1997; DuPont, 1998; Tax, Brown, & Chandrasekaran, 1998). Though it is difficult to evaluate (DuPont, 1998), it is important to discuss the relevance of trust to the development of loyalty and its effect on customer loyalty programs. The significance of trust is that commitment cannot exist without trust first being established (Morgan & Hunt, 1994). Trust is where the word or promise of an individual or an organisation is seen to be dependable, and where the obligations of each person will be carried out in the two-way relationship (Dywer, et al., 1987). The primary role of trust as a precursor to loyalty is that it lessens consumers' transaction costs by reducing the fear of opportunistic behaviour by an organisation (Bendapudi & Berry, 1997; Williamson, 1981). Overall, trust acts as a foundation for a relationship (DuPont, 1998). It is suggested that the higher the level of commitment and trust from a consumer, the lower the propensity to leave the loyalty scheme (Morgan & Hunt, 1994). In addition, according to Morgan and Hunt (1994) when the two components are simultaneously present, they encourage "efficiency, productivity and effectiveness" (p. 22), which, in effect, produces 'co-operative behaviours' that result in successful relationships. Based on Morgan and Hunt's theory and through customer loyalty programs, it may be possible to develop trust between an organisation and consumers and thereby provide the basis for a long-term relationship.

Bonding

While commitment and trust are the basis for relationships, it is the social and structural bonds with consumers that provide the ability to sustain relationships (DuPont, 1998). Bonding is the attempt to establish customer value through two-way interactive activities (Sheth & Parvatiyar, 1995). The importance of this variable according to Gummesson (1997) and Sheth and Parvatiyar (1995) is that the greater the enhancement of the bond formed between the consumer and the product, the more committed to a relationship a consumer becomes and the less likely s/he is to switch products.

Bendapudi and Berry (1997) identify several types of bonds that exist between the consumer and the provider. Using an example of a customer loyalty program, an intra-role bond is the provision of incentives, whilst an example of an extra-role bond is the external relationship between the consumer and the product such as the communication received via mail. Cross and Smith (1995) suggest that there are two notable outcomes of establishing such bonds. Firstly, the consumer develops some level of perceived dependence on the product due to the familiarity that is established between the consumer and the provider. Secondly, the level of trust is increased, which may reduce the fear of opportunistic behaviour. Based on the literature, it is evident that the formation of bonds and the understanding of the extent to which these bonds enhance a relationship between a consumer and a brand are important components that need to be evaluated by this study.

Communication (Information)

Communication is defined as the informal and formal sharing of “meaningful and timely information” (Anderson & Narus, 1990, p. 44). The importance of communication, particularly in building loyalty, is even more powerful now than it has been in the past. It appears that the emphasis on mass marketing has diminished and is being transposed by some organisations to one-to-one communication (Erickson, 1991). There are numerous advantages of this form of communication. First and foremost, it changes the traditional ways of the marketing process by focussing on the individual consumer, which can strengthen brand loyalty (Munger, 1996). Secondly, frequent communication plays a significant role in that it fosters goodwill and aids in the enhancement and continuance of the buyer-seller relationship (Erickson, 1991; Munger, 1996). Thus, it is suggested that it is a precursor to trust (Morgan & Hunt, 1994) which has important implications for customer loyalty programs. Erickson (1991) purports that fostering relationships and building trust influence customers to return. Furthermore, by gaining in-depth knowledge of a consumer's shopping habits through the use of database systems, the organisation allows for the customisation of communication and product knowledge to segments of the market (Munger, 1996). This customisation enables consumers to communicate their needs resulting in the development of new and/or improved products. This, in turn, strengthens the positive perceptions held by customers about the organisation (Munger, 1996).

Despite all the advantages that direct communication offers, Munger (1996, p.60) stresses that “marketers have to get out of ‘the discount game’, replacing it with services that create value for the customer.” Only then will communication be most

effective. Shrake (1999) supported this finding, reporting that a study carried out by Harte-Hanks (1999) produced results indicating that communication was one of the best techniques to assist loyalty-building.

In summary, the role of direct communication between an organisation and its customers is integral to the process of establishing brand loyalty. Hence, it is important in this study to determine the effects of communication, if any, on program members and to what extent it is effective. In addition, it is also important to determine the type of information that members perceive as being of value.

Satisfaction

There is a general assumption that a direct relationship exists between satisfaction and loyalty, in that as the level of customer retention increases, satisfaction improves (Richards, 1998). This, however, is a dubious link according to Tax, Brown and Chandrasehkar (1998). They propose that the underlying role played by satisfaction in customer loyalty programs is that it *reinforces* consumer decisions to participate in the buyer-seller process which, over time, leads to commitment. It is contended that satisfaction is the main mediator of post-purchase behaviour that links “pre-choice product beliefs to post-choice cognitive structure, consumer communications and re-purchase behaviour” (Westbrook, 1987, p. 28). As a result, satisfaction affects both the attitudinal and behavioural patterns of consumers, which in turn encourage consumers to engage in long-term relationships (Tax, et al., 1998).

Rust and Zahorik (1993) propose that there are three underlying assumptions relating to satisfaction and loyalty;

- satisfaction that is based on a small number of elements produces satisfaction based on a small number of loyalty components,**
- the probability of loyalty to a firm being developed relies on satisfaction based on loyalty components and**
- loyalty is a process based on the inclination to be loyal.**

Rust and Zahorik (1993) suggest that the first assumption is driven by management's ability to link specific elements (e.g., service) to components of loyalty. The second assumption, which has most significance and relevance to the evaluation of customer loyalty programs, is based on the belief that loyalty results from routine patterns of behaviour where consumers make a conscious decision to stay loyal or not. Thus, once consumers attain a certain level of satisfaction, similar benefits offered by competitors are precluded from the choice set of these consumers (Dwyer, et al., 1987). While these consumers are loyal, they are still aware of alternatives being offered without the temptation to test other alternatives (Morgan & Hunt, 1994). This behaviour is one of the central aims of customer loyalty programs (Morgan & Hunt, 1994). The third assumption presumes that loyalty is probabilistic rather than deterministic (Rust & Zahorik, 1993). That is, consumers are not seen as either loyal or disloyal, rather each individual will have a different propensity (or probability) to be loyal to a particular product or brand.

In conclusion, it would be appropriate to investigate whether a relationship exists between satisfaction and loyalty and whether this relationship, if it exists, has any impact on customer loyalty programs. In addition, it is also important to determine whether the underlying assumptions proposed by Rust and Zohorik (1993) are valid and to assess the extent of their effects through the use of customer loyalty programs.

Perceived Price, Quality and Value

Relevant literature on price, value and quality indicate that the concepts of perceived price, perceived quality and perceived value all have a significant correlation to loyalty and to one another (see Dodds, et al., 1991; Zeithaml, 1988; Monroe, 1976, Szybillo & Jacoby, 1974). The following section will discuss each concept individually as well as describe how they relate to loyalty.

Firstly, perceived price from a consumer's perspective is defined by Zeithaml (1988, p. 10) as "what is given up or sacrificed to obtain a product." Another way of viewing price that is consistent with the price literature is that it is a 'give' component rather than a 'get' component (Ahtola, 1984). In other words, it refers to the tradeoff between what a consumer needs to 'give' up in order to 'get' something in return.

The importance of price is that it is perceived by consumers to be a stimulus (Dodds, et al., 1991). Price has both "objective external properties and subjective internal representations" (Dodds, et al., p. 308) which are derived from the consumer's perception of price, which in turn, gives meaning to the consumer (Dodds, et al.,

1991). Zeithaml (1982, 1983 & 1988) proposes that a consumer does not usually recall an 'objective price' of a product. Rather, prices are encoded in a manner that gives meaning to the consumer. Hence, this suggests that by understanding what influences consumers' perceptions of price and their shopping behaviour, researchers' focus should be on the way consumers encode prices and not on the objective price of a product. For example, a product with the benefits of a loyalty program attached to it may be encoded by the consumer as representing a lower price than a similar product without a loyalty program, even if both have the same objective price. In addition, although the issue of monetary sacrifice is an important consideration, other issues such as time and effort (non-monetary costs) should also be acknowledged (Zeithaml, 1988). Such non-monetary costs are typically of more concern than the objective cost of a product to a consumer when encoding (Zeithaml, 1988). In relation to customer loyalty programs, consumers may be discouraged from using products associated with loyalty programs due to the inconvenience of having to present a particular swipe card or shop at a particular store.

Perceived quality is closely associated with price. Perceived quality, as defined by Zeithaml (1988, p. 5), is a "consumer's judgement about the superiority or excellence of a product." Like objective and perceived price, there lies a distinction between 'objective quality' and 'perceived quality', although it is debated by some academics whether objective quality exists at all (see Maynes, 1976). The importance of distinguishing between objective and perceived quality is so that an understanding can be reached as to how individuals determine what is and what is not seen as quality. Quality, like price, acts as a stimulus and seems to play an important role in

influencing the purchase intentions of consumers (Zeithaml, 1998). Thus, quality may be a loyalty-building attribute that contributes to the loyalty process. Hence, if consumers perceive that purchasing products associated with a loyalty program will increase the quality of the product (e.g., a frequent flyers lounge) or their relationship with the organisation (e.g., status recognition), this can be seen as an important purchase motivator. The important implication, therefore, is that products affiliated with customer loyalty programs should possess both intrinsic and extrinsic cues which consumers will perceive as having quality.

Perceived value is an abstract concept (Dodds, et al., 1981). The term is used in various contexts to describe "a wide variety of attributes and higher level abstractions that provide value" to a consumer (Zeithaml, 1988, p. 13). In other words, what is perceived to have value to one individual may not to another. Overall, perceived value refers to a consumer's perceived judgement based on a tradeoff between 'give' (their loyalty) and 'get' (rewards) components for a product's utility (Zeithaml, 1988). Therefore, consumers' perceptions of a loyalty program's value may be more important to its success than its tangible economic value.

Perceived value plays two significant roles: firstly, it determines a product's value (Dodds, et al., 1991; Szybillo & Jacoby, 1974) and secondly, it influences a consumer's willingness to purchase a product (Dodds, et al., 1991). It has been argued that brands are typically used as a benchmark to judge a product's value (Gordon, 1994). In relation to customer loyalty programs, this suggests that brands and their associated value play a significant role in helping establish loyalty as it enhances a

member's willingness to purchase program affiliated products. It is therefore important to understand these underlying factors of value, and how when encoded by consumers they influence their purchase intentions.

Another aspect concerning value, as evidenced from the above discussion, is that it is highly interrelated with concepts of perceived quality and perceived price (Dodds, et al., 1981). While value does share close associations with these other concepts, a primary error is that it is often mistaken for price and benefits, and in particular, that it is not well differentiated from perceived quality as they are both a higher level abstraction (Zeithaml, 1988). However, Zeithaml (1988) distinguishes perceived value from perceived quality in two ways. First, value is considered to be both "more individualistic and personal [and therefore] a higher level concept" (p. 14). Second, as discussed, value deals with a 'tradeoff' between 'give' and 'get' elements. Despite the two differences that separate perceived quality from perceived value, it is perceived value that most strongly influences a consumer's willingness to buy (Szybillo & Jacoby, 1974).

The preceding discussion suggests that designers of loyalty programs should place greater importance on emphasising perceived value to members rather than perceived quality. Furthermore, it suggests that marketers should identify whether consumers perceive the use of loyalty programs to be valuable and which aspects of programs they find of value.

In summary, the purpose of this section was to discuss the importance of the loyalty components identified above and how they are thought to lead to consumer loyalty. In addition, it is important to highlight that these components have been drawn from the fields of either behaviour, attitude or relationship marketing.

An Integration

Behavioural Approach

Traditionally, loyalty has been measured by behavioural approaches in the form of repeat-purchase behaviour (see Dick and Basu, (1997); Sharp and Sharp , (1997) and Rossiter and Percy, (1997)). Studies were primarily concerned with predicting the probability of a purchase and the magnitude of purchase. In particular, most measures concentrated on assessing penetration due to the belief that loyalty was some extension of market share (e.g., Fader and Schmittlein (1993); Dowling and Uncles, (1997); Bhattacharya, (1997)). While the components of loyalty have long been established and are all conceptually appealing in capturing the dynamics of brand loyalty (Bhattacharya, 1997), it has been suggested that the existing measures of loyalty are predominantly operational and lack theoretical meaning (Dick & Basu, 1994). That is, while definitions and theories have been put forth, they lack 'explanatory power' in describing what they are trying to measure (Jacoby & Chestnut, 1978). Researchers have recognised that such measures are no longer an adequate measure of brand loyalty (Newman & Werbal, 1974). Furthermore, as the

field of consumer behaviour matures, it has been demonstrated by several researchers that evidence supporting brand loyalty is no longer adequate in explaining the underlying factors that influence choice behaviour (Jacoby & Chestnut, 1978; Newman & Werbal, 1973; Richards, 1998). Recognition has been made that more appropriate theoretical perspectives are needed to re-evaluate the brand loyalty concept (Fournier & Yao, 1997; Baldinger & Rubinson, 1996).

Another factor that has contributed to the inadequacy of current measures of loyalty is that much of the empirical work that exists has been predominantly quantitative in nature (see Sharp & Sharp, 1997; Dowling & Uncles, 1997). Rundle-Thiele, et al (1998) suggests that such an approach is incapable of explicitly expressing the relationship between the attributes of consumer loyalty. This may be due to the difficulty of measuring intangible aspects such as attitudes and relationships (Sheth, 1979). Accordingly, a more appropriate research approach is needed to redefine the components of loyalty and their drivers (Richards, 1998). As the goal of this thesis is to explore the loyalty-building attributes of customer loyalty programs and the relationship, if any, between these attributes, this study explores the problem from a qualitative perspective. The adoption of this perspective will be further discussed in the next chapter.

Attitudinal Approach

From the preceding discussion, it is suggested that traditional measures of loyalty typically focused on behavioural measures while the attitudinal drivers of

loyalty were disregarded. According to Farr and Hollis (1997) and Baldinger and Rubinson (1997), much of this neglect could be attributed to the belief that behavioural loyalty could be measured purely by penetration levels and patterns of repeat buying. Indeed, while behavioural measures are a good indicator of a product's loyalty levels, proponents (such as Ehrenberg, 1990; Baldinger, 1997; Baldinger & Rubinson, 1997; Farr and Hollis, 1997) of attitudinal measures argue that such measures alone cannot predict behavioural loyalty, nor can they arrive at an understanding of the underlying factors that motivate consumers to purchase a particular product.

The advantage of integrating attitudinal and behavioural measures is that changes of a product's lifecycle can be better predicted and explained (Baldinger & Rubinson, 1997). Furthermore, it is postulated that what consumers know and feel about a brand is likely to have an effect on their pre- and post-purchase behaviour (Baldinger & Rubinson, 1996 & 1997). Therefore, while loyalty may be measured by behavioural methods, it is important to determine the components that lead to this outcome.

The significance of the integration of attitudinal and behavioural measures can also be explained by the use of Farr and Hollis' (1997) 'push' and 'pull' mechanisms. Push mechanisms affect consumer behaviour at point of purchase and are a result of an organisation's marketing activity, whereas pull mechanisms affect consumers in the long term by encouraging them to develop a positive predisposition toward a brand. Hence, push factors affect behavioural loyalty while pull factors affect attitudinal

loyalty (Farr and Hollis, 1997). It is suggested that the convergence between the two mechanisms is not only important to the understanding of a brand's potential, but also plays an integral role in influencing a consumer's purchase decisions and behaviour (Baldinger & Rubinson, 1996).

Relationship Marketing

Relationship marketing has been suggested as one of the most useful approaches to both conceptualise and measure brand loyalty (Fournier & Yao, 1997).

Relationship marketing is defined by Palmer (1995, p. 1) as

a business strategy which is aimed at turning casual, discrete transactions between buyers and sellers into an *on-going relationship* through tactical devices such as loyalty programs.

Establishing relationships aims to retain existing customers (Berry, 1995; Gronroos, 1990), focuses on the long-term and continual 'relational exchange' of organisations (Dwyer, Schurr, & Oh, 1987) and can be used as a tool to gain long-term competitive advantage (DuPont, 1998). The catalysts for the rise of relationship marketing have been environmental complexities (such as an increase in competition and eroding levels of customer loyalty), the increased length of supply chains, and the consumer's desire to reduce transaction costs (Bendapudi & Berry, 1997).

It is suggested that consumers like to simplify their problem-solving situations into routinised behaviour by reducing the number of products in an evoked set (Howard & Sheth, 1969). It is contended by Sheth and Parvatiyar (1995, p. 256) that

this "purposeful choice reduction" is at the heart of relationship marketing. Choice reduction behaviour reduces the stress experienced by consumers resulting from uncertainty and vulnerability in a rapidly changing marketplace (DuPont, 1998; Palmer & Bejou, 1994) and the risk of having to make future choices (Derbaix, 1983; Punj & Staelin, 1983; Sheth & Parvatiyar, 1995). This attempt to reduce the complexities characterised in a buying situation result in an *habitual action* which, in turn, induces loyalty behaviour (Bendapudi & Berry, 1997). In effect, a relationship between the consumer and a product is developed. Bendapudi and Berry (1997) found that the most important aspect of the development of a relationship is that consumers who are dedicated to such a relationship are less likely to search for, and be influenced by, promotions.

There are two major recurring themes in the literature that attempt to explain why relationship marketing has such an impact both on consumers and on the effectiveness of customer loyalty programs. They are (i) the compulsion of consumers to eliminate the vast alternatives available in the marketplace and (Sheth & Parvatiyar, 1995; Palmer & Bejou, 1994; Dupont, 1998), (ii) a need to participate in some level of partnership (Dupont, 1998). These emerging themes are the fundamental principles of relationship marketing which offer an opportunity for customer loyalty programs to use to their advantage (Sheth & Parvatiyar, 1995).

A Convergence

The preceding sections have demonstrated that a majority of components used to measure loyalty are drawn from either attitudinal (e.g., preference and liking) or behavioural (e.g., repeat-purchases) theoretical approaches. Theories from relationship marketing have also contributed to an understanding of the way in which relationships between buyers and sellers have assisted in developing loyalty (Sheth & Parvatiyar, 1995; Sharp & Sharp, 1997). While the above theoretical approaches have been useful in identifying and explaining concepts, they have so far only been related to brand loyalty from each individual theoretical viewpoint (i.e., behavioural, attitudinal or relationship marketing). In addition, each approach has discussed the issue of brand loyalty in different contexts. For example, literature from the behavioural school of thought has focused on measurement issues of brand loyalty. In particular, emphasis has been placed on evaluating the effects of customer loyalty programs in gaining long-term loyalty to brands (Dowling & Uncles, 1997; Sharp & Sharp, 1997; Uncles, 1997).

On the other hand, attitudinal theorists have concentrated on measures of the components of brand loyalty (Dick & Basu, 1994). Literature relating attitudinal findings to the effects of customer loyalty programs has thus far not been found in the public domain. Thus, there exists a gap between the behavioural and attitudinal schools of thought. In addition, theories from relationship marketing and their importance in helping establish long-term loyalty through loyalty programs have only recently been put forward (Palmer, 1995). Research that explores the effects of a

convergence between the three theoretical areas has thus far not been documented within the public domain. As a result, this has led to the limited scope of current research.

By -converging the three theoretical approaches in this study, it is anticipated that insight will be offered into the loyalty-building attributes of customer loyalty programs. In particular, the following discussion aims to demonstrate how the integration (a convergence) of the three theoretical areas provides a better evaluation of the effects of these programs.

It is suggested that the use of behavioural approaches to measure loyalty is preferred by researchers because, operationally, the role of customer loyalty programs is to reward consumers for their behavioural actions (changes) and not for their attitudinal changes towards loyalty (Sharp & Sharp, 1997; Croft, 1995). Bhattacharya (1997) implies that if a consumer repeatedly purchases a brand, then (s)he is viewed to be loyal to that brand. Thus, definitions and evaluations of behavioural loyalty focus on purchasing behaviour where "loyalty is inferred from the patterns in that behaviour" (Farr & Hollis, 1997, p. 24). Such behavioural definitions and measures fail to offer any explanations as to the causes of loyalty (Sharp, Sharp & Wright, 1999), as they only go so far in assessing whether loyalty is developed and identifying the components of loyalty (Dick & Basu, 1994). Furthermore, these measures fail to explain how and why brand loyalty is established (Jacoby & Chestnut, 1978).

In addition to the lack of explanatory power of the individual approaches, it is postulated by Palmer (1995) that there is a danger that repeat purchase behaviour may be misconstrued as loyalty. While repeat-purchase behaviour is frequently associated with loyalty, as indicated by the literature, loyalty may not be achieved simply by repeat purchases. On the contrary, what may appear to be loyalty could instead be “a biased expression of individual preference” (Fournier & Yao, 1997, p. 452). In other words, the repeated purchases by a consumer could simply be driven by *preference* for a particular brand against other competing brands and not guided by any emotional attachment (affective commitment) of loyalty to a product. The importance of this distinction is that those purchases which are driven by preference could mean that these purchases were made due to limited choice or other external circumstances. Purchases driven by emotional attachment, on the other hand, are made because a consumer *wants* to make that purchase (Allen and Meyer, 1990).

The fault, identified by Dick and Basu (1994), lies in the inadequate definitions of repeat-purchases which fail to recognise the underlying factors of this behaviour and how, as a result, they affect the development of loyalty. It would appear then, that in order to understand consumers' motivations behind such behaviour, an integration of attitudinal measures is needed.

Problems Associated with Assessing Customer Loyalty Programs

Despite the significant interest that several researchers (e.g., Dowling & Uncles, 1997; Sharp & Sharp, 1997; Croft 1995; Schmid, 1997; Mitchell, 1994; Rundle-Thiele, et al., 1998) have paid to the implementation and evaluation of a loyalty program's success (e.g., Fly-buys - Sharp & Sharp, 1997; Sainsbury loyalty card and Tesco loyalty card – Croft, 1995, GM card – Mitchell, 1994; Frequent Flyers – Gilbert & Karabeyekian, 1995), many of these evaluations have relied on behavioural measures that concentrate on a program's ability to increase market share and penetration (Baldinger & Rubinson, 1996 & 1997). Some studies however, have recognised that, given the nature and objective of loyalty programs, a successful brand should see an increase in its average repeat purchase frequency rather than an increase in penetration and market share (Dowling & Uncles, 1997; Sharp & Sharp, 1997). In other words, the "brand is effectively selling more often to the same people than would be the norm" (Sharp & Sharp, 1997, p. 477). Therefore, it is possible that measures of a program's success should shift from a focus on penetration and market share to measures of repeat-buying patterns.

Despite the fact that measures such as repeat purchases are recognised to be critical in evaluating a program's success (Sharp & Sharp, 1997), they allow researchers to disregard the important interplay between why and how a brand is successful. Baldinger and Rubinson (1997, p. 43) believe that it is the study of the "attitudinal drivers of loyalty" that can predict and determine a consumer's behaviour.

By implication, this means that the integration of the attitudinal and behavioural measures can explore why discrepancies may exist between behaviour and attitude. Though traditional research into brand loyalty has been taken from an "overly behavioural macho approach" (Jacoby & Chestnut, 1978, p. 31), research employing attitudinal approaches has been emerging (e.g., Farr & Hollis, 1997; Baldinger & Rubinson, 1997). However, a gap still remains between research that integrates the two approaches. In particular, studies that incorporate both approaches in evaluating customer loyalty programs have not been found within the public domain.

As discussed, the distinction between the terms 'loyalty' and 'commitment' is contentious. It has been noted that loyalty has often been mistaken in the literature for commitment (Palmer, 1995; Richards, 1998). It is postulated that what may appear to be loyalty on the part of the buyer may actually be caused by the fact that s/he has few other alternatives, and is therefore 'trapped into' rather than 'committed' to purchases (Palmer, 1995). Thus the problem lies in whether loyalty measures should include commitment.

The ability of loyalty programs to capture important consumer information and to create a one-to-one relationship through a program has been recognised by marketers as a valuable source of information (Mitchell, 1994; Schmid, 1997). However, it has been argued that one of the most notable problems with the use of many loyalty schemes is that organisations are not effectively using the information that these programs can offer (Mitchell, 1994). This would suggest that while organisations are in effect buying data from the consumer through their customer

loyalty programs, and thus gaining the ability to be pro-active in their marketing efforts, some are failing to use this data to its fullest extent. While this data can be of benefit to a program, the inability of organisations to use this information to tailor to the individual needs and wants of the consumer contributes to the skepticism surrounding loyalty programs (Mitchell, 1994)

Concluding Thoughts

There are two significant aspects to this thesis. Firstly, it attempts to draw and integrate literature from three theoretical areas – behavioural loyalty, attitudinal loyalty and relationship marketing and link these theoretical areas to measures of brand loyalty. Until recently, Farr and Hollis (1997) and Baldinger and Rubinson (1996 & 1997) have been the only researchers to publish literature that attempts to identify and discuss the importance of the convergence of behavioural and attitudinal measures. However, their research does not extend to relate the convergence of these areas with the effects of customer loyalty programs.

Literature on relationship marketing is much the same. Theories have focused on the importance of relationships, particularly within the service sector. However, the role of relationship marketing theories has not been extended to the analysis of customer loyalty programs. One of the goals of this thesis is to demonstrate how an integration of the three theoretical areas (attitudinal loyalty, behavioural loyalty and relationship marketing) is important in identifying and measuring the effects of brand loyalty. It is also important to note that while academic evidence on loyalty programs

is growing, anecdotal evidence is in the majority. Much of the anecdotal information primarily provides explanations for the attraction of these programs and questions whether such programs are able to achieve their goal of long-term consumer loyalty.

The second aspect of significance of this study is the focussing on a consumer's viewpoint. Until now, the literature on customer loyalty programs has been provided from an organisation's perspective, albeit the purpose of these programs is to alter the behavioural purchase patterns of the *consumer*. Thus, it is the objective of this study to determine the attributes, if any, of customer loyalty programs that result in long-term consumer loyalty to products, as articulated by consumers. An investigation of whether a relationship exists between any of these attributes will also be explored. The focal point of difference of this study is that it attempts to do this by converging the components that are thought to lead to loyalty as developed in behavioural, attitudinal and relationship marketing fields. In addition, this study will employ qualitative methods to explore the attributes of customer loyalty programs and loyalty components. These methods will be discussed in the next chapter.

CHAPTER 3

METHODOLOGY

Research Design

From the preceding literature review, it is evident that the components of consumer loyalty are numerous. In comparing academic research into the loyalty concept with movements within the practical field, it is apparent that there is a consensus that the advancements of the “understanding, measuring and leveraging” (Fournier & Yao, 1994, p. 451) of this concept are still limited. In particular, research within the academic field and within the context of customer loyalty programs remains lacking.

Thus far, research assessing the reliability of customer loyalty programs in achieving their stated objectives has emerged primarily from conventional quantitative methods (see Bhattacharya, 1997; Rundle-Thiele, et al., 1998; Sharp & Sharp, 1997). According to Rundle-Thiele, et al., (1998), the failure to explore the relationship(s) between the attributes of loyalty programs is partly attributable to this one-sided approach. In addition, this approach fails to capture fully the dynamic process of brand loyalty in consumer-brand relationships (Fournier & Yao, 1997). It is apparent, then, that to obtain a fuller and richer understanding of the customer loyalty program phenomenon, a method that can be adaptable and sensitive to situations that may arise in this study is needed (Lincoln & Guba, 1985). The essential criteria for the inquirer

to consider is that the selection of methods must be based on their suitability to the study and the nature of the problem which they are to measure (Anderson, 1982). Therefore, the application of qualitative methods (also referred to as a naturalistic approach), appears to be appropriate (Sheth, 1979). The decision to use this approach was cleared and deemed ethical by the Ethics Committee of Edith Cowan University.

The primary goal of this research is to generate findings that will ultimately lead to a clearer understanding of the attributes of customer loyalty programs that lead to loyalty. As the study explores a developing area, much of the findings will be of a preliminary nature. Zikmund (1997) asserts that exploratory research is a useful technique when researching an area of which little is known. He also claims that this type of research offers a better understanding of a concept instead of offering information that is quantified. As this research is predominantly exploratory, it is contended that qualitative methods are most appropriate (Sampson, 1996; Zikmund, 1997).

Qualitative research is defined as any sort of investigation where findings produced are not arrived at by means of statistical inferences or quantification (Strauss & Corbin, 1990). It focuses on the analysis of causal relationships between variables (Denzin & Lincoln, 1994), and employs an interpretive naturalistic methodology (Denzin & Lincoln, 1994; Punch, 1986). The decision to adopt a qualitative method is based largely on the belief that such a method enables a rich portrait of the problem (Belk, Sherry, & Wallendorf, 1988), giving the researcher the ability to gain insights into the concepts, attributes and relationships which may exist between variables

(Lindlof, 1995). Denzin and Lincoln (1994) posit that such a methodology offers a postmodern and post-positivist perspective that is better suited to the attitudes of today's consumer.

There are several reasons why qualitative methods are appropriate for this study. Firstly, as one of the important objectives of this study is to discover and understand the relationship(s) between components of loyalty, qualitative methods have the ability to both explore and explain the processes of what occurred and why it occurred (Huberman & Miles, 1994). Secondly, this research method is more capable of dealing with multiple situations that may arise between the researcher and subjects in the study (Lincoln & Guba, 1985). For example, it allows the researcher to concentrate on both verbal and non-verbal accounts. Thirdly, the characteristics inherent in this method enable flexibility through the relaxation of set procedures and rules typically characterised by quantitative methods (Sampson, 1996). For example, as this study focuses on consumers and is exploratory in nature, the researcher is able to be flexible in the interviewing process. This therefore allows the respondent some degree of freedom to lead the direction of the interview. Lastly and most importantly, a qualitative method may provide the ability to gain an in-depth understanding (Glaser, 1992; Strauss & Corbin, 1990) of the loyalty process as it relates to customer loyalty programs

Sample

The sample of 24 respondents was chosen through purposive sampling. Respondents were recruited from family relations and friends of friends which in effect, created a snowball effect. All respondents were screened by two factors. Firstly, all subjects chosen had to be participants in at least one customer loyalty program. The reason for this first criterion was to ensure that all subjects have a personal understanding of the operation of customer loyalty programs. Secondly, respondents were equally segmented according to their gender and marital status. That is, of the 24 respondents, 6 were female and single, 6 were male and single, 6 were female and married and 6 male and married. The table below provides a brief description of the 24 respondents that were recruited for this study.

Gender	Age	Marital Status	Occupation
Female	22	Single	Retail Sales Representative
Female	30	Single	Accounts Manager
Female	23	Single	Student
Female	20	Single	Student
Female	19	Single	Student
Female	41	Single	Student
Female	22	Married	Sales Representative
Female	48	Married	Home Duties
Female	55	Married	Director
Female	25	Married	Assistant Manager
Female	36	Married	Graphic Designer
Female	47	Married	Home Duties
Male	26	Single	Student
Male	26	Single	Managing Director
Male	22	Single	Student
Male	28	Single	Self Employed
Male	22	Single	Marketing Manager
Male	52	Married	Consultant
Male	28	Married	Stockbroker

Gender	Age	Marital Status	Occupation
Male	38	Married	Company Director
Male	2	Married	Financial Advisor
Male	35	Married	State Manager
Male	55	Married	Real Estate Agent

It was anticipated that individuals at different stages of the family lifecycle (e.g., singles v married) would exhibit different consumption patterns relating to loyalty programs and the establishment of loyalty. However, in this study, this ultimately proved to be insignificant.

Sampling Methods

Due to the specifications of the study, the sample technique applied was purposive (Denzin & Lincoln, 1994; Sampson, 1996). Such samples are a form of non-probability sampling and are not ad hoc, but somewhat assisted by the researcher's theoretical and experimental judgements (Johnson, 1990). Random sampling was not required due to the objective of identifying relationships between variables, and because this method does not apply to theoretical sampling (Glaser & Strauss, 1967).

It is purported that the choice between the various sampling forms should be considered in a purposive and conceptual manner (Huberman & Miles, 1994). A sample needs to be selected based on the "range of activities, processes, events, locations and ties" (Huberman & Miles, 1994, p. 441) relevant to the study. One of the most pertinent aspects to consider in sampling is the selection of a representative sample (McCracken, 1988). There are two forms of representativeness – statistical and

theoretical representativeness (Glaser & Strauss, 1967). The former is distinguished by randomness, and is used to gain descriptions or to verify hypotheses with the overall aim of classifying samples into categories (Glaser & Strauss, 1967). Theoretical representativeness primarily focuses on a selection of a sample that is meaningful to the study, based on the research problem that is to be tested (Huberman & Miles, 1992; Johnson, 1990). This form of representativeness involves the identification and comparisons of groups within a sample (that are meaningful to the study), with the goal of identifying their 'theoretical relevance' (Glaser & Strauss, 1967; Hammersley, 1989). In other words, respondents chosen for a study are selected based on the researcher's belief that they would best generate pertinent information relating to the research problem. Hence, as this research required a sample that is meaningful to the study, the sample members had to have an understanding of what customer loyalty programs are, how they operate, and their attitudes towards them.

Sample Size and Composition

As highlighted above, non-probability samples typically use a modest number of sample informants as the study concentrates on 'specialised knowledge' of specific situations (Johnson, 1990). It is suggested that the number of informants should be chosen on the basis of their salient characteristics (Johnson, 1990). Concern should centre on the quality of content the subject has to provide rather than on the quantity of respondents (Johnson, 1990). This focus on quality rather than quantity contributes to the accuracy of accounts described by the subject and enhances the validity of information presented. Based on the above suggestions and because of the exploratory

and purposive nature of this study, the number of respondents employed for this study is small. Unlike statistical sampling which requires larger numbers, the selection of a smaller sample that is meaningful to the study is more suitable in qualitative research (Johnson, 1990). It is stated that the optimum choice of informants for a qualitative study should be between 24-30 (Sampson, 1996). A small sample size allows the researcher to capture the intensive characteristics of respondents (Sampson, 1996). In addition, it assists in capturing more accurately the regular behavioural patterns of respondents through verbal accounts as well as to document the non-verbal behavioural aspects (Freeman & Romney, 1987).

To refine the selection of an 'ideal' respondent, five criteria were used. The first three are outlined by Johnson (1990) - "their role in the community... the knowledge informants possessed... and the innate abilities of informants such as willingness to communicate, or cooperate, communicating ability and impartiality" (p. 29). The final two criteria are an individual's availability to be sampled for a study and their ability to disclose information that interests the researcher (Longabaugh, 1980). The use of the combination of these criteria assisted in gaining content that was both rich, and provided clarification on the topics that were discussed during the study.

Data Collection

When using exploratory, qualitative methods, the researcher must be creative in the choice of information sources available (Zikmund, 1997). The method

employed in this study should be flexible enough to investigate all sources of information that may provide a better understanding of the problem (Zikmund, 1997). There exists an array of choices surrounding the format of inquiry and analysis available to the qualitative researcher (i.e. depth/clinical and focused/group interviews) (Denzin & Lincoln, 1994). Most popular and most commonly used, however, is the individual, focused, face-to-face interview (Fontana & Frey, 1994; Punch, 1986; Sampson, 1996).

The focused individual interview is seen as a powerful method as it encompasses several distinguishing characteristics. Firstly, it enables one to be drawn into the internal world of an individual and thus capture the experiences the way they are perceived by that individual (Haley, 1996). Secondly, this form of interview is designed to encourage open expressions of information from the respondents, which enables them to more willingly express the beliefs and values influencing their behaviour (Arnould & Wallendorf, 1994; Sampson, 1996). The fundamental advantages of this technique lie in its ability to obtain a wider range of responses and to avoid the set procedures inherent in most methods of analysis (Fontana & Frey, 1994). A primary reason for this is the ability of the researcher to control the sequencing and language of the interview which, in part, permits the freedom for open-ended responses (Sampson, 1996). It is because of the several advantages explained above that the focused interview was adopted in this study.

In addition to the various forms of interviews available, the format of this qualitative technique is another factor to consider. The format varies between

structured and unstructured interviews (Pawson, 1996). The former is differentiated by a sequence of 'pre-established questions' with restricted 'response categories' (Fontana & Frey, 1994), while the latter, which this study adopts, is guided by the interviewer, but with an interview guide to follow, allowing the respondent to provide the content (Holt, 1991). This in turn permits responses to be spontaneous, specific, personal and self-revealing (Sampson, 1996). Such a format also allows the interviewer to " 'come down' to the level of the respondent and [engage] in a real conversation with 'give and take' and empathetic understanding" (Fontana & Frey, 1994, p. 371). It is proposed by Fontana and Frey (1994) that by allowing the researcher such flexibility in a study, it "makes the interview more honest, morally sound and reliable ... and therefore presents a more 'realistic' picture" (p. 371).

One principle issue concerning the use of unstructured, focused interviews is the freedom which the interviewer is allowed (Sampson, 1996; Denzin & Lincoln, 1994). Unlike the strict and procedural idiosyncrasies of quantitative methods, the qualitative process does not imply a distinct set of stages. This lack of standardisation has subjected the comparability between one interview and another to scrutiny and criticism (Sampson, 1996). Wainwright (1991) concurs, proposing to address this concern by 'reflexive practice'. He defines reflexive practice as the researcher's own understanding of the research process (Wainwright, 1991). Therefore, a conscious effort has been made in this study to critique the research process and factors involved in the study so that the research will not be criticised for the problem of standardisation.

In recognition of the information presented, the use of the focused, individual interview using a semi-structured format was deemed to be best suited to both the nature of this study and the phenomenon that was tested. The advantages of using this format ultimately provided a richer explanation of the emerging results than would other techniques (Fontana & Frey, 1994).

Data Collection Procedure

As evidenced from the preceding discussion, there are several criticisms of the use of a semi-structured format of focused interviews. To combat these criticisms there were several interviewing techniques utilised by the interviewer, including the aid of an interview guide, which offered some compensation for the weaknesses of qualitative methodologies. These techniques are discussed below.

Firstly, the apparent lack of direction in a semi-structured interview was an issue for consideration (Sampson, 1996). In order to minimise this, the direction of the interview was led by the interviewer. In addition, a systematic effort was made to discuss topics that were deemed relevant to the study (Johnson, 1990). It should, however be noted that while the interview was to an extent directed by the interviewer, respondents were given the autonomy to discuss any issues that they saw relevant to the interview.

Secondly, to assure some level of consistency regarding the content covered during the semi-structured, focused interview, a framework of topics was developed

and used as a guide (see Appendix A). This guide encompassed topics that were previously discussed in the literature review (i.e., attitudes, consumer behaviour, relationship marketing, points barriers, multiple participants, etc). It is important to note that while the guide was used to ensure consistency of content, the order and timing of the topics discussed was left to the discretion of the interviewer (Brenner, 1985a; Potter & Mulkay, 1985; Sampson, 1996).

To maximise the procurement of non-forced responses and to decrease the influences on the data that emerged, questions directed to informants were posed in an indirect manner (Glaser, 1992). The formatting of questions in the interviews began with broad non-threatening questions (Wallendorf & Belk, 1989). This permitted respondents to express their views more freely, while at the same time enabling the interviewer to guide the direction of their discussion in a less obtrusive manner (McCraen, 1988; Potter & Mulkay, 1985). When respondents seemed to withdraw or refrain from discussing certain topics, probing (Sampson, 1996) and reframing techniques (such as re-wording questions) (Wallendorf & Belk, 1989) were used to encourage respondents to speak more specifically about issues, thereby eliciting deeper and more valid responses (Sampson, 1996).

Concentrating on specific events reiterated by respondents provided a richer and more detailed account of these events and experiences (Thompson, Locander, & Pollio, 1989). Special attention was also given to 'explanatory passages' (the explanations of respondents' stories), 'flow paths' (respondents' flow of thinking) and 'answer sequences' (the format in which respondents answered questions) (Glaser &

Strauss, 1967, p. 305). Investigation of these areas assisted the interviewer in directing the flow of conversation and questioning, thus enabling respondents to expand on particular experiences that were relevant to the study. To be sensitive to any problems respondents may have had in understanding any of the questioning or in understanding the nature of information presented by the interviewer, the same questions were asked in a variety of ways (Glaser & Strauss, 1967).

Data Analysis

Data gathered from the 24 interviews was recorded using a dictaphone. Each interview was recorded on a separate cassette tape and assigned an alphabetical letter for identification. No interviewee was personally identified. Each interview was then transcribed into a Word Document for analysis.

In analysing qualitative data, there are two main areas that the qualitative inquirer used to critique the data. The first was through the verbal accounts of respondents (Wallendorf & Arnould, 1988) and the second, through their non-verbal behaviour (McCracken, 1988). Statements made by respondents are the result of both their individual perceptions and emotional states (Dean & Whyte, 1958). It is postulated that the direct verbal accounts of respondents provide meaning to their behaviour, allowing emic representations rather than objective accounts (Wallendorf & Arnould, 1988). Several strategies were used to derive meaning from the verbal accounts of respondents. Firstly, patterns and themes (Huberman & Miles, 1994;

Glaser & Strauss, 1967) were identified by tabulating responses in a grid formulated by the researcher. Through analytic induction, the researcher concentrated on several themes that emerged from the interviews through the use of "question-and-answer cycles" (Huberman & Miles, 1994, p. 431). In addition, transcripts were reviewed line-by-line (Haley, 1996), by sentence or by phrase until some form of connection and meaning developed that was significant to the study (Strauss & Corbin, 1990).

Identified themes were then clustered together to identify any similarities in responses from which meaning was derived. Information provided by each informant was continually contrasted to and compared with responses from others to identify any commonalities, differences or variances between them (Strauss & Corbin, 1990). A technique referred to as 'counting' (word counts) was used to gauge the strength of similar repetitive responses made by respondents (Strauss & Corbin, 1990). Arnould and Wallendorf (1994) further suggest searching for overgeneralisations made by respondents and this technique was used to identify and interpret the broad meanings behind respondents stories.

The combination of these techniques assisted in the interpretation of results and in making connections between each interview (Huberman & Miles, 1994). Furthermore, this enabled the study to build "a logical chain of evidence" (Huberman & Miles, 1994, p. 432) from which a coherent understanding of the transcripts was made. A priority that was established throughout the analysis was the identification of relationships between the attributes of customer loyalty programs and the degree to

which the components of loyalty results in consumer loyalty to products. Due to the small sample size, qualitative analysis software (e.g., Nudisst) was not necessary.

Thus far, the strategies discussed have concentrated on the transcripts of interviews. Whilst these interviews are pertinent and provide insight for the translation of results, non-verbal behaviour should not be dismissed as it allows for the exposure of relevant information (McCracken, 1988). This is the second area from which data was derived. The analysis of non-verbal behaviour has important implications for the findings. In addition to analysing the presence or absence of specific information presented by subjects, listening to the "pauses ... [being] observant of the stutters, the ah's ... incomplete sentences and slips of the tongue" (Mostyn, 1985, p. 142) provided meaningful information about the attitudes and feelings of respondents.

Limitations

The methodological limitations of this study stem primarily from three areas: bias associated with sampling issues, response bias, and the naturalistic approach of this research.

Sample size

It is understood that the generalisability of interpretations can be affected by the small sample size (Lincoln & Guba, 1985; Glaser & Strauss, 1967). However, due

to the exploratory character of this research, it is argued that such a flaw is typical of exploratory investigations (Brenner, Brown & Canter, 1985).

Response Bias

There are five forms of response bias, however, only one form applies to this study – interviewer bias (Zikmund, 1997). This is where the presence of the interviewer affects a respondent's responses. One reason for interviewer bias is a respondent wanting to 'save face' in front of the interviewer or feeling some sensitivity towards certain issues (Brenner, Brown, & Canter, 1985; Zikmund, 1997). Hence, responses given are made on the grounds of what is considered to be socially acceptable rather than of actual truth. In an attempt to minimise the impact of this issue, respondents were told prior to their interview that any discussion that took place was strictly confidential. Their identities would not be revealed and only the researcher and her supervisor would have access to the transcripts.

Another aspect of interviewer bias that could influence responses could be the actual presence of the interviewer, for example, one's dress, voice tone, facial expressions or non-verbal behaviour. In addition, the length of the interview could also affect findings. If the respondent starts to feel impatient or feels that time is being wasted, responses given could be abrupt and short with the possibility of limited thought (Brenner, et al., 1985). To avoid this problem, subjects were advised as to the length of the interview and were also given the liberty to end the interview if they felt it necessary.

Sample bias

Zikmund (1997) defines sample bias as when the results of a study have a tendency to flow in one direction, away from the 'true value' of the population, as a result of the sampling frame. Due to the qualitative approach employed in this study, respondent error forms a significant component of the sample bias. For example, a respondent may unconsciously and/or inadvertently misrepresent or falsify certain statements, stories or events told. Another form of response bias is unconscious misrepresentation (Zikmund, 1997). Not all subjects within the sampling frame can be expected to be competent (Brenner, 1985b). Subjects may misinterpret the question or statement asked and therefore provide a biased response. In addition, while subjects may be willing to answer or describe certain events or stories, specific details may be omitted or forgotten which, as a result, affects the validity of findings (Brenner, 1985b; Zikmund, 1997). To counteract this problem, a conscious effort was made to encourage subjects to expand on events recalled. In addition, respondents were probed to ascertain whether any uncertainties were present regarding the stories they reiterated.

Due to the constraints, both time and financial, of a Masters thesis, a non-probability form of sampling was used. Despite the fact that the sample was theoretically representative in terms of the information to be gathered, respondents were selected using a snowball sampling technique. This is where the initial group of respondents is chosen for a study using a probability method with the additional respondents then being obtained from information given by the initial respondents (Zikmund, 1997, p. 430). Another limitation is that the sample was restricted to the

Perth (Western Australia) metropolitan area only. This may have a biased effect on results as subjects within the metropolitan area may consume differently and/or have a different perspective on loyalty programs than those outside the metropolitan area.

Another limitation of this study is that it concentrates only on members of customer loyalty programs. The views of individuals who are not members of programs could have a dramatic impact on the results presented, and therefore the results may be skewed. However, it must be emphasised that this study is only exploratory and has the intent of identifying the loyalty-building attributes of customer loyalty programs. To do this, it was necessary to ensure that those individuals participating in the study had a clear understanding of the operation of these programs in order to have formed an attitude toward them.

Interpretation of Analysis

Thus far, the above limitations have focused on respondents. This is not to say that the interviewer has no shortcomings. Certainly, the two most obvious limitations are the interpretation of analysis (Brenner, 1985a) and the subjectivity of interpretations (Fontana & Frey, 1994). Due to the naturalistic approach used in the study, explanations by respondents could well be misinterpreted due to the subjective nature of the analysis. This problem was minimised by the recording of all interviews to provide a verbatim transcript from which an analysis could result. According to Brenner (1985a), the interviewing technique of the researcher can also be a limitation to the study. The way questions are phrased may be viewed as leading or directive

(Brenner, 1985a). However, attention was paid in this research to attempt to maintain a neutral position.

Subjectivity

Denzin and Lincoln (1994) contend that interpretations derived by the researcher are both 'artful' and 'political', and that explanations given by subjects about their thoughts and behaviour can never be fully established. They propose that explanations made by subjects are merely 'accounts' or 'stories' of their actions and that, "no single interpretive truth" (p.14) exists and neither is there a single method which can be used to "grasp the subtle variations in ongoing human experience" (p.12). Scientific studies are laced with 'tacit meaning' and therefore the results from qualitative work should not be damned for their interpretive dimension (Lindlof, 1995). Indeed, the results of qualitative work are heavily influenced by the researcher's abilities and perceptions, but the goal is to realise that the aim of a study is not to produce a standardised set of results (Anderson, 1982). Rather, the goal is to produce a coherent and illuminating description of the concrete situation in this study (Wainwright, 1991).

In light of the limitations reviewed above, considerable measures have been taken to counter the common criticisms directed at the use of the selected method. It is fundamental to understand that the limited generalisations of the findings are made with the hope that subsequent studies will follow. These findings are therefore not considered to be conclusive (Zikmund, 1997). It is hoped that the findings from this research will contribute to a better understanding of the phenomenon under

investigation, thus representing the study's contribution to knowledge. The interpretations and results of the study should be considered for their insights into the customer loyalty program phenomenon and their capability of convincing the reader (Holt, 1991).

CHAPTER 4

RESULTS

This chapter presents the results of 24 interviews conducted for this study. It briefly discusses the findings from the data and their relevance to the research question. The interpretations of these findings are discussed in more depth in the next chapter. This chapter is divided into three sections. The first section deals with general issues of loyalty and is compared to the issues discussed in the review of literature. The next section discusses the perceived loyalty-building attributes of loyalty programs (such as rewards and multiple participants) that are important to members, as well as the perceived effects of loyalty programs. The final section focuses on buyer-seller relationships, discussing their perceived function in loyalty programs and their perceived effects on establishing loyalty.

For the purpose of confidentiality, all respondents were coded alphabetically (i.e., A - W) and according to gender (M - Male, F - Female) and age. To represent the direct quotes of respondents used in this chapter, each quote is coded according to the respondent's assigned codes respectively. The *italicised* sentences within these quotes represent questions asked by the researcher.

SECTION ONE

Definition of a Loyal Consumer

To ascertain a common definition of a loyal consumer, the interviewer asked respondents to describe what they perceived to be a loyal consumer based on their purchase behaviour. By doing this, it was possible to determine whether a consensus exists among respondents. As illustrated by the replies of respondents shown below, a recurring theme in the data was that a 'loyal consumer' was characterised by some form of driving force that led to repeat purchases of the same product and from the same store.

[A loyal person is] someone who goes back to a shop because something, whether its service or whether its price or some sort of consistency about it, makes you want to go back to that shop. (J) M, 22

The replies of respondents in this study suggest that both attitudinal factors and the behavioural actions of respondents represent loyalty. It is important to note that according to respondents, attitude is subordinate to an individual's behaviour. That is, prior to a behavioural action taking place, it is suggested that an attitude must first be developed in order for a behavioural action to occur. Respondent J illustrated this in the quote above.

Another two recurring themes that helped define a loyal consumer was, firstly, the continual consumption of specific products, irrespective of competitor actions, substitutes and price.

A loyal consumer is a person who will try every way of patronising [a particular product/store], as long as he can see it's not going to be excessively detrimental to do so. If I find something a little more expensive somewhere else I will still buy there, I won't let the small variation affect my decisions. (T) M, 55

The second theme is that an individual should be an advocate of that product/service to be a loyal consumer.

A truly loyal consumer would have to be someone who continues to purchase that product and then becomes an advocate of that product. (C) M, 37

From the data obtained, it appears that a loyal consumer is perceived to be one whose decision processes are affected by some attitudinal driver such as preference, liking or satisfaction. This attitude is in turn exhibited as a behaviour through the purchase of the same product from the same store. In addition, this display of behaviour should occur irrespective of the efforts of competitors or marketers, and these loyal consumers are more likely to be advocates of that product. Hence, from the data, it would appear that measures of the effects of customer loyalty programs should include both attitudinal and behavioural approaches in order to incorporate the effects of both perspectives.

Loyalty and Habit

Despite the finding that repeat purchases are perceived by respondents to be an indication of loyalty, and the fact that the literature supports these findings, it has been cautioned by authors such as Mitchell (1994) that the implication of these findings may be a misrepresentation of loyalty (Fournier & Yao, 1997). In other words,

measures that assume to be evaluating loyalty may well not be measuring loyalty per se. Rather, other factors (for example, no other alternatives or no stock) that may influence consumers to purchase a certain product could be represented as loyalty.

This point is illustrated by the following quote:

I think that they are two completely different things [repeat purchase and loyalty], ... I think that you can go and use a product, you can use it over and over again ... because ... it is a very good product. But ... maybe you are just using that product because it's either the best or the least best one... You're not completely satisfied but there is no better.
(H) M, 28

Factors such as convenience and laziness as well as habit-forming elements such as comfort zones, could be attributable more to habit than to loyalty (see Mitchell, 1994). Such factors would have a detrimental effect on the measures of the effectiveness of loyalty programs.

Where's the difference, the distinction between habit and loyalty?
There probably isn't any... if you keep going back to a place because you are habitual then that is a loyalty. (I) F, 22

I don't know if I'm loyal or ... do my shopping which makes me appear loyal because I keep going back to the same places. It's probably more habitual. (K) F, 20

Although there are factors, such as convenience, that create a fine line between loyalty and habit, perhaps another perspective on the distinction between the two concepts is that loyalty can be said to breed habit or vice-versa. This viewpoint was expressed by a majority of the sample members. Therefore, repeat purchases could be indicative of the act of loyalty which, over time, can develop into a habit.

Going back to these stores to repeatedly buy or purchase certain products doesn't mean that you're really loyal, it might be a habit. That breeds loyalty. You go there because you're satisfied, because you

know it's going to be there, then you're being loyal to that company (K) F, 20

Loyalty is definitely more of a habit. As you grow older you become more habit forming. Even as young as you are I don't think you like change. You don't like change because what you have you like, you just you're not sure of what you're going to get so you're quite happy with what you've got, so it is habitual, it is habit forming, there is no question about it. Loyalty creates habit. (T) M, 55

From the above responses, it would appear that loyalty and habit are closely associated with one another in the minds of the respondents. According to respondents, the expression of loyalty through the continual purchase of the same product from the same store may lead to habitual behaviour. The responses also indicate that attitudinal factors such as satisfaction act as a stimulus to influence loyalty behaviour. This indicates the importance of the integration and understanding of both attitudinal and behavioural measures to the study of loyalty.

Loyalty and Commitment

The need to distinguish between loyalty and commitment was highlighted in Chapter 2. It was demonstrated that commitment could be misrepresented for loyalty, which as a result can affect measures of loyalty (Palmer, 1995). The importance of distinguishing between the two concepts lies in whether respondents see loyalty and commitment as one and the same.

The recognition that commitment plays a fundamental role in the development of loyalty is supported in the literature (see DuPont, 1998; Palmer & Bejou, 1994;

Shani & Sujana, 1992; Morgan & Hunt, 1994). According to program members, commitment comes into the process of loyalty, however, not in the way suggested in the literature. Results indicated that many respondents felt that commitment did not equate with loyalty as such, rather, commitment evolves from the components of loyalty.

I think that loyalty generally comes as a result of the product whereas commitment comes as a matter of relationships. The products and services are the things that lead to good loyalty, those are the things that drag you in and keep you consuming from that place. But the relationships that you build, or the organisation builds with you is the thing that builds the commitment, and that is something that builds over time. It is not something that occurs instantly. (E) M, 26

Subjects who believed that commitment and loyalty are similar based their understanding on the assumption that they discussed these concepts within the same context, that is, the shopping experiences and repeat purchases of consumers.

I think commitment and loyalty are all on the same line. You're committed each week to go and get that, then that is ... making you loyal as well. (G) F, 48

Loyalty Programs and Promotions

In addition to the need to distinguish between loyalty and other concepts such as habit and commitment, there is also a need to establish whether customer loyalty programs and promotions are perceived by respondents to be the same. There is skepticism among academics and practitioners as to whether loyalty programs and promotions have different roles and different effects. On the one hand, some have voiced the opinion that the effect of a loyalty program is similar to that of long term promotions (Croft, 1995; Mitchell, 1994). That is, such programs are characterized by

a one-off and temporary nature, such as special bonuses and price discounts. On the other hand, several researchers contend that the marked difference between loyalty programs and promotions is that loyalty programs are long-term in nature (Rossiter & Percy, 1997; Sharp & Sharp, 1997; Dowling & Uncles, 1997; Uncles, 1997). Thus there is a belief that there is a 'cause and effect' on consumers' behaviour in the long-term that also sets loyalty programs apart from promotions (Rossiter & Percy, 1997).

The data from the study, however, showed a lack of consensus. Some respondents could distinguish between a loyalty program and a promotion based on their belief that loyalty programs are long-term in nature.

I think a loyalty program is an ongoing thing, trying to repeat, a continuous thing, whereas a promotion is for a quick burst of consumer, activity (I) F, 22

I think that they're distinctly different. Promotions are ... promoting something to people that they don't know, to the general public and I get the feeling that rightly or wrongly, that ... loyalty programs ... is almost a more personal thing. (L) M, 62

Other respondents who considered promotions and loyalty programs to be the same based their decisions on the lack of personalisation of information received. Respondents indicated that the similarity was based on the fact that they perceived an organisation's interest was purely profit-seeking and that loyalty programs acted as a form of advertising for products that are linked to these programs.

I think they're about the same thing because they just encourage you to spend more at a particular place. (N) F, 19

In order to maintain a consistency within this study and in an attempt to reduce any misunderstanding concerning measures of loyalty, it was important that an

understanding was reached regarding the several issues discussed above. Primarily, the objective of the preceding information was to clarify and establish whether respondents of this study shared similar views regarding these issues. It appears that while respondents agreed on the definition of a loyal consumer and that loyalty differs from commitment, there was a lack of consensus concerning loyalty and habit and loyalty and promotions.

SECTION 2

The next section explores the loyalty-building attributes of customer loyalty programs based on consumers' perceptions. In particular, it presents the advantages and disadvantages of specific attributes of programs as program members perceive them.

Attraction to Loyalty Programs

From the results of the study, the attraction to loyalty programs appeared to be initially based on the ease of the attainment of rewards and the ease of use of loyalty programs. Consumers felt that the ability to be rewarded for their normal daily purchasing behaviour, seemed attractive. Furthermore, if consumers were already heavy users of the stores or products affiliated with these programs, this was perceived to be an additional bonus.

I know I've got to spend the money, so you may as well spend it and get some benefit out of it. (T) M, 55

The hope of having rewards for purchasing various products or in various shops ... I'm shopping there generally anyway so ... I might as well get the points. (M) F, 55

I saw the brochure and had a look through it and [they are] all the places I [shop at] so I thought I would make the most of it and see how I go. (D) F, 22

According to the respondents, the little effort required to accumulate points may have contributed to the popularity of these programs. The fact that consumers only had to swipe a card appealed to respondents.

The fact that I really didn't have to do anything except display the card when I was making a purchase. (I) F, 22

There's no particular effort that you have to put in to achieve what they're trying to get you to achieve. (T) M, 55

Other associated reasons included free membership and family association. The latter is where several members of the family can participate in the one membership to accumulate points.

It was free. (I) F, 22

I was ... influenced because my old man was ... under the same program and I was ... under his as well. (X) M, 23

The results also revealed that another reason for the attraction to loyalty programs was related to the dual operation of loyalty programs.

I like the fact that you get the dual system where you get points for the dollars purchased through the Visa which you also get points for the amount of kilometers travelled with Qantas. (R) M, 26

Here Respondent R refers to the ability of members who are able to 'link' two programs or more together (e.g., Visa card and Qantas Frequent Flyer) to accumulate points. Not only could this provide an advantage to program members by

accumulating points more rapidly, but it may also aid in building stronger connections and relationships between the organisations and their members.

From the perspective of younger respondents, the primary source of attraction to loyalty programs appears to be the ownership of a membership card.

Looking at my wallet there are lots of cards now. (N) F, 19

Well I like having another card in my wallet. (K) F, 20

Following these examples, it may be proposed that the allure of loyalty programs is based primarily on consumers being rewarded for their existing purchase behaviour. It is apparent that the initial objective of respondents of this study is not to provide loyalty to products or organisations, but merely to reap the rewards offered. However, this is not to say that customer loyalty programs do not encourage loyalty. The fact that many respondents already patronised the shops affiliated with certain programs supports the possibility that the acquisition and maintenance of consumers' repeat purchases would lead to a more long-term relationship that could result in loyalty. Conversely, if these rewards are the sole attraction to loyalty programs, then consumers may be susceptible to competitors who offer greater rewards. This issue is discussed later.

Dislikes of Loyalty Programs

From the opposite angle, the factors which respondents dislike most about loyalty programs appear to be: (a) a lack of understanding of certain programs, (b) the structure of the rewards and, (c) the rewards offered by some programs.

Understanding of programs

One of the contributing factors found in this study that may lead to negative attitudes towards loyalty programs is the lack of understanding of the operation of some programs.

It's just difficult to understand, difficult to get rewarded ... you don't pay any attention to it. The Ansett one, it's got some complicated calculation where it's four becomes one, one becomes whatever. Qantas Telstra card is a bit more complex because four points equates to one mile. (C) M, 37

These results suggest that the lack of understanding may be one of the reasons why program members are not motivated to continue with their membership.

Time and Points Barrier

As discussed in chapter 2, time and points barriers are barriers implemented in most loyalty programs that affect the structure of rewards. While most respondents were unaware of these technical definitions, they made reference to these barriers during their interviews. Hence, these barriers appear to be an important component of customer loyalty programs to respondents.

The main concern relating to barriers appears to be their function within loyalty programs. Respondents indicated that the relationship between the points and time barriers is unfair. That is, the respondents perceived that the time taken to accumulate the requisite number of points to attain a reward was too short.

... it takes so long to get to the rewards to actually benefit from collecting the points. Three years doesn't seem long enough to collect that many points. (F) F, 23

If you didn't use it up, after a while it gets deducted automatically, so I think that is a bit unfair when you can't really redeem your points until you have a certain number of points, so you can't really accumulate if it they keep deducting it all the time. (P) M, 26

Despite the dissatisfaction voiced by many respondents, it was recognised by others, because of the liability faced by organisations due to the value of unclaimed rewards, organisations were justified in implementing such barriers to cover their costs.

I think it's two-fold. As a consumer, you got to get your ass kicked. ... we're going to reward you so they expect you to play by the rules, so ... that has a bearing on one's thinking. If you're a retailer or a manufacturer, the idea is to get a contingent liability in your balance sheet and you've got to work at some way to edging people along to use the points as briskly as they possibly can. (C) M, 37

This viewpoint is in line with the function of these barriers that is to (i) encourage members to spend more in a single purchase, and (ii) convert the points accumulated at an earlier stage before expiry.

In conclusion, from the general statements of respondents, it appears that program members may like to see a change in the reward structure, in particular the relationship between the time and points barrier. In order to see a change in the

structure of these barriers, it is likely that the value of rewards offered by programs would need to decrease proportionally as the time and/or points barrier is reduced.

Rewards

There are several issues associated with rewards. They are the attainability of rewards, the perception of the rewards offered by competing programs (small versus larger rewards), and the structure of rewards (delayed versus instantaneous and direct versus indirect structure). An important point to note is that although each issue is discussed individually, they are closely related to one another.

Attainability

Firstly, the attainability of rewards as perceived by consumers is closely connected with both the time and points barriers. A majority of respondents preferred having a lower points barrier in order to accumulate points and obtain rewards more quickly and easily. To achieve this, respondents recognised that the demand for a lower points barrier would mean having to forego larger rewards for rewards of a lower monetary value. Despite this acknowledgement, some respondents also recognised that certain members may prefer larger (value) rewards as opposed to smaller rewards. These respondents further suggested that a program that offered greater flexibility including an option for smaller rewards in their structure would better cater to these needs.

I'd give people the option of being able to get something, it doesn't have to be a trip, but something small... at least they're being recognised. (K) F, 20

[They] should have different levels ... if you're prepared to say I'm going to fly with you for the next ten years or something, you enter into a contract ... and then you have a longer, a less steeper, declining drop off in points. (H) M, 28

The results further suggested that a program that offered the flexibility to choose between smaller or larger rewards may have a motivational effect on members which in turn could induce behavioural changes.

It's much more attainable that people would think it's more encouraging, ... you can't ... go shopping thinking I'll never get it. Instead you'll be thinking ... maybe." (N) F, 19

Even for smaller stuff, even like a cup or something, at least it's something, it entices people to go out and spend more money basically. Gives people a reason to go and get extra points or to build up their points. It gives them an excuse to go back to the same place again. (P) M, 26

Perception

While some respondents indicated they had a relatively positive perception of the rewards provided by their program, others who held negative attitudes attributed this to the perception that rewards were unattainable due to the high points barriers implemented in their programs.

I mean it's a joke because the only benefit that I have taken from Fly Buys is \$100 shopping voucher and that too when I calculated it backwards is worth \$10,000 in shopping money. If you added all that up, you'll be amazed because the prizes that you get ... and the amount of money extra you've paid, you may as well have paid for it yourself. (W) M, 52

The fact that the sample was restricted to one state (W.A.) may have also added to the disparaging views of rewards. As the following statements will illustrate, many respondents felt that the rewards offered to people in Perth are relatively

restrictive and unfair. Being isolated from other States means that the rewards are less achievable because of the geographical barrier. In addition, some respondents also commented that due to our geographical barrier, Western Australians tend to miss out on certain events that could be included as rewards (e.g., musical shows). As a result, this may have precluded a positive perception of rewards.

It's turned out to be quite hard to collect enough points to get very far, especially living in Perth. It is hard to get flights anywhere because Perth is so far out and we have to accumulate a lot more points than anywhere else. (F) F, 23

Structure

The structure of rewards in loyalty programs is an important aspect that was raised frequently by respondents. To reiterate what was discussed in Chapter 2, the structure of rewards within most customer loyalty programs can be described and represented in the form of a tree. There are two attributes of rewards – (i) timing of rewards and (ii) value proposition of rewards. Each attribute is divided into two sub-attributes. Firstly, the timing of rewards can either be instant or delayed. Secondly, the value proposition of rewards can either be direct or indirect. For a further explanation of these attributes, refer to Chapter 2.

Instant rewards

A majority of respondents indicated that instant rewards were preferred to rewards that are delayed. According to the data, instant rewards mean that consumers could better make the association between the reward received and the purchase that was undertaken to earn that reward. This in affect, was also perceived by program members sampled as a sign of recognition and gratitude by organisations for the

Hence, results suggest that if the level of involvement of a purchase is high, price may then become a secondary factor because of all the other perceived benefits that the consumer is willing to pay for. If, on the other hand, the level of involvement is low, then price may play a primary role according to the cost disadvantage consumers perceive. According to program members sampled, if the price of a product and the level of involvement of purchasing that product are high, then the fact that the product is affiliated with a member's loyalty program becomes a minor issue. Therefore, price and the level of involvement of a purchase appear to be important determinants in the purchase of products associated with loyalty programs.

The second theme that emerged from discussions with respondents relating to price is that price may become secondary when associated with elements such as the service received, the quality of products and the development of relationships over time.

I'll continue to buy through Fineleys Menswear regardless of what Roger Davies or Worths ... specials are. Because I know the people at Fineleys and I'm happy to deal with them and I know that if I buy it from them, I know it is a suit of the highest quality that they can possible get their hands on, regardless of price. That to me is more valuable. (E) M, 26

This finding suggests that organisations which offer highly priced goods or services and are associated with a loyalty program should promote the additional advantages that a member receives from their program in order to deflect from the emphasis of high prices.

conscious efforts of members in purchasing program-affiliated products. This is further discussed in the next section.

I think that at the end of the day... responses to actions need to be largely immediate or need to be soon after, to be able to link it to the actual action itself. (E) M, 26

Respondents also indicated that the *link* between a purchase and the reward for that behaviour also acts as a motivational tool. The ability to identify the direct link between a purchase and the reward for that purchase was described by program members as a positive and emotional rush.

The links need to be very tight in terms of the category of prize to what the purchase was, or perceived value. For example Qantas, I can't take that extra trip because I've run out of annual leave, but it's still an immediate buzz because I know I've got a ticket to anywhere that I want ... so ... the link has to be really tight or it could be dissociated but it has to be an immediate emotional positive surge. (S) F, 36

You immediately identify, I've gone to Europe, I did that number of kilometers therefore I get a free trip to Melbourne. I could identify before I took the trip how easy it was to get that free trip it was like a real immediate hit of pleasure. (S) F, 36

Gratitude and Recognition

While the preceding topic indicated that the ability to link a reward to a purchase acted as a sign gratitude and recognition, the appeal of instantaneous rewards was also perceived by respondents to be related to the desire of members wanting to be recognised and shown gratitude for their conscious effort in purchasing products affiliated with loyalty programs. It appeared that respondents believed that one of the only ways by which organisations are able to show gratitude and recognition to members for their behavioural efforts is in the form of rewards.

I would prefer if you were instantaneously rewarded because it's instant gratification. (B) F, 30

I would say that the average consumer would [feel] pretty good if they received some sort of reward after a purchase. (E) M, 26

I feel that by being rewarded is a way a company recognises that I make the effort to buy products that are associated with my loyalty program. (M) F, 55

Some respondents further suggested that gratitude and recognition shown through some form of personalised vehicle would have just the same effect as a tangible form of reward. The fact that recognition has been demonstrated by an organisation is the key.

A personal phone call or email saying I noticed that you flew business class from Perth to Sydney again with us. Just sending an email to say thanks very much and good to see you continuing flying through Ansett, would leave me with a good feeling about flying with them again.

Delayed Rewards

While a majority of respondents expressed the idea that an instantaneous structure of rewards would be preferred, it cannot be said that respondents do not value delayed rewards.

Depends on what category [type of program it is]. Like some programs you expect to get instantaneous rewards and other [programs] you'd [be] happy to shop towards a goal [delayed rewards] (C) M, 37

The general consensus regarding an instantaneous structure as opposed to a delayed structure of rewards was, according to the results, dependant upon the objective of members joining a loyalty program. For example, those members who prefer a delayed structure of rewards held the belief that the value of these rewards would be higher. In other words, 'bigger is better'

In my case I prefer going for things longer term... I can see the value in that. (T) M, M, 55

Other respondents associated their preference for delayed rewards based on the relevance of the rewards to their lifestyle.

If I wanted fancy things around the house or different types of mobile phones ... I could probably get that, [but] it doesn't interest me...I'm hoping to catch the bigger fish at some stage. (R) M, 26

A general consensus that emerged from the data is that most respondents who preferred a delayed structure rationalised this view primarily by what they felt was an equal balance between the perceived value of rewards offered and the amount of money spent to obtain those rewards. However, it was apparent that members sampled would rather be given the 'option' to choose between the two structures.

The thing I suppose is choice, for people who don't spend that much or ... can't really afford to spend that much money, will probably have to wait a very long time before they see a flight. But if they really want the holiday, then at least it gives them a choice. But right now you've got to wait for it to build up. (P) M, 26

The fundamental idea that emerged from the discussion on this topic is that loyalty programs may try to cater to different segments of consumers by implementing different levels within a program. While respondents indicate their desire for a more flexible program, it is important to note that there are currently programs that have implemented such a structure (e.g., the Qantas Frequent Flyer program).

A big percentage ... of the population in Australia are the ordinary mums and dads below executive level, and there's also a very large population of baby boomers, and you have a very limited percentage of the population that can really afford to spend that kind of money that you are looking at. And this is why I ... still maintain the fact that loyalty programs should include ... little household items like kettles, iron. (W) M, 52

It seems that a majority of respondents associated their demographics (for example, their average household income) with the inability to obtain rewards. By having flexibility in the structure of reward programs, an organisation could allow members to feel that rewards are more achievable.

Direct value proposition

The direct value proposition of rewards refers to the extent to which the rewards support a product. It is suggested by Dowling and Uncles (1997) that a reward that directly supports the value proposition of an organisation's product, better supports the objective of customer loyalty programs and the image of the organisation.

Let's look at the airfare example. I would expect an award for a large amount of airfare consumption. The reward should be some sort of airfare benefit or travel benefit whether it be accommodation or car hire or an airfare upgrade or an airfare outright or whatever. It needs to be travel related. (E) M, 26

I'm a club member for Mills Records ... if I buy 10 CD's, I get a free one. So in that respect if I was going to buy any CD's I would tend to go to Mills and buy my CD's so that I do get a free one eventually. But with Coles because there are so many companies ... they can't really get people to be loyal. (F) F, 23

Furthermore, the direct value proposition of rewards also creates a spin-off effect whereby it has a behavioural impact on consumers by encouraging them to link their own purchases to gain more benefits.

I'd buy my Qantas tickets and I get points for actually buying the ticket, I get points for the amount of kilometers travelled and if I chose the right hotel over there I'd get points for that as well. (R) M, 26

Indirect value proposition

According to the data, it seemed that the primary advantage an indirect value proposition of rewards would offer is an easier way of accumulating points.

It is better as a consumer because you have a wide variety to choose from and you gather more points faster. (W) M, 52

However, the indirect value proposition of rewards may defeat the goal of loyalty programs, as it would hinder the effect of creating loyalty, that is, loyalty to that one organisation because consumers could not *link* the reward to their effort or to the purchase made. Rewards that are indirectly related to the organisation and loyalty program may lose the impact of immediate recognition and gratitude that, from the data, may have an impact on consumers.

From the information gathered, it appears that implementing programs where the reward value proposition is directly linked to an organisation would better support the objective of loyalty programs. By linking the rewards to the organisation that provides them, it appears that members could better associate immediate gratitude and recognition for their conscious efforts. This in turn could create both a positive motivational effect that may be lacking in some programs.

On the whole, while rewards act as an initial incentive to acquire and retain the repeat purchases of consumers, they also appear to represent monetary value and are a symbol of value in terms of recognition and gratitude. The efficiency and success of a loyalty program, according to program members, relies heavily on its reward structure. The overall consensus among respondents affirms that flexibility, by the provision of an option between an instant and/or delayed structure of rewards may assist in the development of a successful program. In addition, rewards that have a direct link to the value proposition of an organisation may further assist in achieving the objective

of gaining long term loyalty. By implementing such a structure, organisations may not only encourage consumers to believe that rewards were more achievable, but consumers might also place a higher value on the reward which, in turn, may induce some level of loyalty.

Multiple Participants

According to the data, a primary reason why members favoured multiple participant programs was based on the pre-conceived belief that multiple participants assisted in the acceleration of points accumulation.

I prefer it being multiple participants for me because it means I can get more points at more places. (H) M, 28

There are more ways of accruing points so you can probably reach your goal a bit quicker. (J) M, 22

The crucial issue for marketers concerning the structure of multiple participant programs is whether such a structure supports the goal of gaining loyalty or whether it obstructs it. There are varying views offered by respondents that shed some light on this issue. For those respondents who felt that multiple participant programs assisted in gaining loyalty, their decision was based on the understanding that consumer loyalty would be established with more than one organisation.

I don't think you're being less loyal, I think that they're creating opportunities for you to be more loyal because you can go and use it anywhere. Whereas with Shell, you're restricted to going to one spot and that might put you off. (B) F, 30

You do achieve loyalty. To give you an indication, I've got a Fly Buys, as I collected with Shell and I don't know whether it's just my imagination but I always stop at the Shell station very seldom would you see me put petrol in other than a Shell station. (T) M, 55

Despite the above statements, the role of multiple participants is clouded because it can lead to misinterpretations of loyalty. As the following example illustrates, the structure of multiple participant programs allows members the freedom to purchase any brand from within the program.

You won't be loyal to one store in particular ... you are being loyal to that company in that respect but not in terms of being loyal to a certain department store. (F) F, 23

In addition, some respondents indicated that multiple participant programs obstructed the aim of customer loyalty programs in that such a structure builds loyalty to a program rather than to a product (brand).

You are not becoming loyal to shopping, you are becoming loyal to a program and the only reason you are going to these shops... is because of the program. If you take away the program, you don't have the loyalty to the shops. (J) M, 22

From the above responses, it appears that the role of multiple participant programs could adversely affect the outcome of loyalty programs. While some respondents indicated that they favoured such a structure, it appears that this is primarily attributed to the ability of accumulating points at a faster rate. The data suggest that while multiple participant programs may establish some form of loyalty, such loyalty was thought to be directed towards the loyalty program rather than to a product/brand.

Price

During the study, two themes emerged on the topic of price and its effects on loyalty programs. The first is cost disadvantage and the second, secondary placement. A cost disadvantage is where consumers will only purchase a product that is affiliated with a loyalty program, provided that the price of that product is within the perceived acceptable price range designated by consumers. In other words, if the price of a product is outside a member's predetermined parameters, the purchase will not occur. However, if the price is acceptable the member will choose that brand that is affiliated with their program.

I'm not going to drive to Mobil at 70c per litre rather than Shell down the road at 67c, but if the prices are similar I'm going to go to ... Mobil ... because I know I'm going to get extra points. If Qantas pissed me off tomorrow or if Qantas' prices went up 20%, then the loyalty program goes out the window because I want to travel with a ... range of services at a given price. If [the price is] going to be more than Ansett then I don't want frequent flyer points anymore [because] I can get them for nothing [from Ansett]. (A) M, 32

According to respondents, another factor that influences a purchase of a program affiliated product, as well as price, is the level of involvement of that purchase.

If the product is a high ticket item and ... is a specific product and ... a specific brand that I really want and I can't buy it with my Visa, ... I [would] purchase it regardless of having a loyalty program with my Visa. But if it was a low ticket item I would certainly just look at the other brand and see what the differences were and if there wasn't really any difference or if the price wasn't an issue, I would just go for the one that I would get points with. (B) F, 30

Service and Quality

An unexpected finding that emerged from the study was that program members continuously mentioned the subjects of service and quality. Whether the two attributes were discussed in reference to relationships or to the attraction of loyalty programs, it was found that service and quality were perceived by members sampled to assist in the development of loyalty. Respondents proclaimed that without service and quality, long-term loyalty would not be achieved. They maintained that the two attributes had to be established from the initial point of contact and sustained throughout the development of a relationship.

If you saw quality and service ... being driven throughout the whole time... it would heavily influence your behaviour in terms of ... loyalty. (M), F, 55

Brand Switching

Another significant finding from the data was the respondents' belief that loyalty programs acted as a defense mechanism to discourage consumers from swapping across products/services. According to the data, loyalty programs are perceived to do this in two ways. Firstly, the loyalty program itself acts as a high switching cost through the perceived value of rewards and the accumulation of points

You're hooked in. Once you've got it and you see that you're going for a goal and you're fairly goal orientated and it's a trip to London ... then I'm just working towards something and I'm using my Visa and the points are a consequence of using the Visa. (U) F, 41

Secondly, members were less inclined to switch across brands because they were able to link two or more loyalty programs together (e.g., Qantas Frequent Flyer and American Express Credit Card). By linking several loyalty programs together, program members would more likely be influenced to purchase products or utilise services that were part of a loyalty program than non-program products/services. This could be explained by the ability to accumulate points at a more rapid rate from a combination of programs than by accumulating points from just one program. Furthermore, such an effect, according to respondents' statements, would further solidify their memberships.

We use Ansett as an airline ... you have the benefit of having purchased the ticket using Diners ... and you get all the benefits. (L) M, 62

From the above statements, it may be suggested that by implementing strategies which act as a switching cost, organisations give consumers a reason to stay, and lock that consumer into some form of relationship. Over time, this relationship may assist in inducing some level of loyalty through the program.

In conclusion, the respondents' statements suggest that price can become a secondary issue when associated with other external cues. This may further suggest that for a program to achieve its objectives and to deflect program members' focus on price, that organisations affiliated with loyalty programs should try to concentrate on components such as service, quality and value. Furthermore, the results also propose that price could become of secondary importance when associated with the antecedents of relationships (discussed in the next section).

SECTION 3

Relationship Marketing

The notion of relationship marketing as presented in the second chapter is thought by marketers and academics to have a significant impact on a loyalty program's success as it provides a useful insight into the brand loyalty notion. In this study, respondents believed relationships to be a leading factor in the development of loyalty. There were several major themes that emerged concerning relationships and their role in the development of loyalty – (i) relationships give members reason to return, (ii) relationships signified a voluntary two-way relationship and (iii) relationships have a relaxant effect on purchase situations. Each of these themes is discussed below.

One of the major themes that emerged from the discussion on relationships is that they gave respondents a 'reason to go back' and a 'reason to build loyalty'

I think it's very important ... I know that I get a lot of customers coming back to me because I talk to them and I am friendly and my service is good, so I think that's very very important in creating loyalty
(F) F, 23

There are prerequisites before you get to loyalty. I think that there is a ... tick list and [there] has to be a various number of them in a positive mode for there to be a relationship. (S) F, 36

Respondents also indicated that relationships signified an organisation's effort to make consumers feel that they were more than just profit. Creating relationships

with an organisation through the use of loyalty programs took away the 'greed' aspect which respondents commonly associate with organisations. As a result, this encourages repeat purchases by program members.

I think for most people who are part of the system, they want to feel more than just number dollars and cents. (H) M, 28

Chapter 2 identified that relationships played an important role as consumers found them to have a 'relaxing' effect on their buying situations. In other words, consumers felt more at ease at point of purchase. As a result of this effect, consumers became immune to the marketing efforts of competitors and their buying alternatives were simplified. Therefore, by building relationships through the use of customer loyalty programs, organisations may create an immunity effect. While this relaxant effect was evident in the results, it emerged in an indirect manner. Much of this effect was displayed through the discussion of the relevant components that lead to the development of relationships. These components were: (i) satisfaction, (ii) trust, (iii) communication, and (iv) value, all of which were previously discussed.

Satisfaction

A consensus among respondents was that satisfaction was seen as an initial stimulant to the development of relationships.

It's a build-up to loyalty. If you can make the customer satisfied then you will be starting the relationship to loyalty. (F) F, 23

Although it is perceived to be the initial component needed to establish any form of link between the consumer and an organisation/brand, many respondents also

indicated that satisfaction was a component that should continue throughout the development and maintenance of a relationship.

It has to continue on ... even after the bond and the trust is built. (P) M, 26

Satisfaction came in various forms for respondents. The most prominent form of satisfaction appears to be developed through product attributes and service. According to some respondents, if continual satisfaction is provided by service and product attributes, this will lead to the beginnings of a relationship.

Satisfaction ... builds in with [the] service that you get and also the products. (P) M, 26

Aside from satisfaction derived through product attributes and service, as mentioned in Chapter 2, researchers have suggested that there is a direct relationship between satisfaction and loyalty (Dick & Basu, 1994). This is supported by the results.

If you have loyalty with somebody and you have a lot of satisfaction then ... that would strengthen your loyalty. (L) M, 62

In summation, it would appear that a relationship may exist between satisfaction and loyalty. If components such as price, service and aspects of product attributes are continually met, it can also be proposed that this would lead to the establishment of a relationship.

Trust

Trust, according to a majority of the respondents, develops from satisfaction and is the next component leading to the establishment of relationships. The

importance of identifying the ways in which trust is developed is that loyalty programs can determine which is the best technique to develop trust in an efficient manner. From the data collected, it is apparent that the development of trust occurs in a variety of ways as demonstrated below. The most prevalent, however, was trust in the sense of meeting expectations on a continual basis.

You have to trust the product that you're buying, that ... you're getting what you've paid for. So it is an element of trust because whenever you purchase something, you ... presume that it is ok, and that [it's] what [it] says it is. (I) F, 22

Honesty was the next most important factor that respondents associated with trust. They indicated that honesty, or perceived honesty, between the consumer and the service provider would strengthen the development of trust.

If you think that someone is just giving a pitch because they want to sell you something rather than someone giving you a pitch because they really want to help you ... if you lose that trust in what they're saying, you won't go back there. (F) F, 23

The final factor that respondents indicated led to trust was through the provision of service. Service, as will be discussed in more depth later in this chapter, assists the development of trust by continuously meeting the service satisfaction of consumers.

Trust isn't something that just happens. Something where I trusted a business ... would come after things like value and satisfaction that I thought I got from the product and from the service. (X) M, 23

Communication

Erickson (1991) identified that the use of communication is an important technique for researchers and practitioners when trying to bridge the gap between a consumer and an organisation. According to the responses of program members

interviewed, relationships between members of a program and an organisation thrive on the ability of communication to inform and increase the perceived value of a program to members. It appears that this buyer-seller relationship may be enhanced through the provision of timely information that enables members to make informed decisions.

In spite of some of the negative attitudes towards the attainment of rewards described earlier, the level of interest shown by respondents in a program's communications was relatively high.

That sort of information is pretty important because people are actually interested in how they can actually spend those points or use those points. (M) F, 55

Communication is pretty important because if you don't do mail outs and inform people of the rewards you're offering or certain specials that you have, no one is going to know. (P) M, 26

According to the respondents it appears that communication affects loyalty programs in four ways – (i) communication is seen as a technique to help consumers make informed decisions, (ii) it assists in the process of generating top of mind recall for particular brands or stores associated with loyalty programs, (iii) communication may alter the behaviour of program members, and (iv) communication plays a significant role in the development of relationships between a program member and an organisation. These are individually discussed below. The last effect (communication and relationships) will be discussed later in this section.

The results revealed that the role of communication in helping consumers make informed decisions appeared to be valued the most by respondents. There are two reasons for this. Firstly, communication helps consumers by informing them of their position within the program and secondly, it informs members of the special offers and bonuses provided by their program within a specific period of time.

I think it's very important because you want to know where you stand with these organisations that you're being loyal to. (T) M, 55

To know what time is what ... I bought these things, I've got the points, what am I entitled to. (V) F, 47

The second potential affect of communication was the direct impact on a member's top of mind recall arising from their ability to make informed decisions. For example, if a particular product offers 50 bonus points during a certain period of time, top-of-mind recall is where a consumer has the ability to recall this information instantly when shopping for that specific product. According to respondents, if it were not for the communication of the bonus offer, top-of-mind recall for specific products/services affiliated with the loyalty program may not occur.

Where else can I go to get some more points, or where can I go that I can use my points. What it's done is preoccupy me and it's just got that name and that brand on my mind. (S) F, 36

The ability of communication to affect the behavioural consumption patterns of program members is another important achievement (Enrickson, 1991). Not surprisingly, this achievement appeared to be met as represented by the high level of interest shown in communication by respondents. The two major factors that led to this behavioural change appeared to be bonuses (e.g., bonus points) and specials communicated through newsletters or magazines received by members.

If you shop this month at Myer or at Coles, you get double points for this month or for this week. I might have shopped at Myer that week, I might have been intending on going in two weeks time, but then I'll quickly go that week. (V) F, 47

You get your communication and you have a look and say hey x number of points more and I'll be laughing, or I'll achieve what I want, that would definitely motivate you to channel more towards those particular [brands] even if it means paying a little more in order to achieve that. (T) M, 55

Despite the recognition that communication is valued and has a certain level of interest among members, as demonstrated by the above three potential benefits, the respondents also revealed that there were several areas where they were dissatisfied with the communication of their loyalty program. The content of information was one such factor.

I don't understand why they're not communicating more and say ok, why don't you tell us what you want and learn from each other. The whole point of a loyalty program is for you to remain loyal ... you're only going to remain loyal if you get what you want. All these big companies are pushing all this stuff about loyalty programs and none of them are going to their customers and saying alright, what do you want that is going to make you loyal to me. (X) M, 23

Another area of dissatisfaction with loyalty programs' communications expressed by respondents was the lack of personalisation.

I wouldn't look at the message as much as the communication itself, that is, if they send me a personalised letter I would look at it and say oh lovely they sent me a personal letter. I wouldn't care either way what the message actually said. I would look at the fact that they actually sent it, so if they send one message every month and they send me a birthday card on my birthday ... I would feel better about that than if they sent me one every six months that said we're going to give it to you for free. I wouldn't even read the message to be honest with you, there is too much crap that flows through my desk. (E) M, 26

It is important to also note that while some respondents felt personalisation of communication was important, there were others who objected to this due to the belief that this was an intrusion into one's personal life.

I'd probably find that ... creepy, because if they were tracking down my consumption habits and then they analyze that and say someone calls me ... and says wow we see that you tend to spend there and so on I would find that disturbing. (R) M, 26

In summation, it is apparent from the statements of respondents that the communication of a loyalty program plays a significant role in these programs. It is suggested that the ability of this communication to act as a catalyst of repeat purchase behaviour may be one of the greatest contributors to a successful loyalty program in achieving long-term loyalty. In particular, the potential of communication to assist program members to make informed decisions proved to be an important factor to program members sampled. Furthermore, the data collected suggest that the implementation of an effective communication strategy could result in altering the behavioural consumption patterns of program members and also assist in the development of buyer-seller relationships.

Value

While value is a pertinent component in the formation of relationships, it needs to be viewed as a separate topic and examined on its own merits due to the many contexts in which respondents discussed the subject. As previously identified, value is an abstract concept (Dodds, Monroe & Grewal, 1991) and was therefore, not surprisingly, discussed by respondents within a diversity of contexts (e.g., value in

rewards, aspirational value, value in relationships, value in recognition and gratitude, value in communication). This could explain why respondents segregated value from the other components associated with relationships when discussing the topic.

Another reason why value is not discussed with the other four components of a relationship is so that the themes that emerge from the discussion on value can be identified and discussed more clearly. Perhaps the best way of presenting the findings on value is to look at the context in which value was discussed individually (according to the categories mentioned above). It should be noted that although each of these categories is discussed separately within this chapter (e.g., rewards, relationships, communication, etc), they are interrelated.

Value of rewards

One of the leading themes that emerged from the interviews is that the perceived value of rewards strongly influences the purchasing behaviour of program members. In addition to rewards having a motivational effect on consumers, the perceived value of rewards also contributes to this effect. It was found that program members use value as a benchmark to determine the level of effort towards their consumption behaviour, and to the level of loyalty established between an organisation/brand and themselves. In other words, the level of perceived value of rewards appeared to influence the level of loyalty achieved.

I'd like to be able to go back to the UK on points ... that would be a big bonus or possibly a trip around Australia, I think that would be quite good value. (M) F, 55

However, it seems that there were mixed responses as to whether respondents felt they were getting value, be it in the form of rewards or in some other indirect

manner through their program(s). The negative views expressed by respondents regarding value contributed to the lack of perceived value of rewards that were offered by their programs.

I wouldn't even consider joining ... Fly Buys ... because you just don't get value there. I was actually thinking of pulling out of this program because I'm not getting anything out of it ... I don't perceive much value there. (R) M, 26

Much of this dissatisfaction was also linked to the relationship between the level of spending that was needed to accumulate points and the rewards received for that effort. Many respondents felt that the value of the effort required was not equivalent to the value of the rewards obtained, and consequently, acted as a demotivator to their purchase behaviour.

I feel after five years of buying stuff at Coles and Myers I deserve more than that. I think it's stingy. (S) F, 36

I don't think it's true value ... people think they'll be in this system and that they're getting free things back, but they don't realise that they have to spend so much money first. (G) F, 48

Although the above reasoning sheds light on the dissatisfaction felt by some members of loyalty programs, perhaps the most significant reason for dissatisfaction may be the lack of recognition and gratitude shown to these members. As the next sub-topic will establish, apart from the monetary aspect of rewards, it appears that respondents saw rewards more importantly as a symbol of gratitude and recognition for their behavioural efforts. Judging by the sentiments of respondents, the above statements better explain why consumers are dissatisfied with the rewards offered.

On the other hand, members who felt they received value did so either through the rewards received from their program(s) and/or through the relationship established between them and the organisation involved with the program

Just from my normal spending I know I've got enough now to go to Bali or to go to the Eastern States. So that's real value, that's in real dollar terms. (U) F, 41

Other respondents who indicated that they were satisfied with the value of rewards did so because they perceived the accumulation of points to be a form of reward.

For every dollar you spend you're getting some sort of reward back. It's not instantaneous purely and simply because you do not get the benefit from it, it's a theoretical reward. (J) M, 22

It is important to note that many of the quotes used above are based on monetary value. While it is likely that the monetary value of rewards is important, as indicated through the responses, the results also established that the attitude of respondents changed as a relationship developed between a member and an organisation. Value, which was formerly defined by monetary terms, is now placed on a higher level.

You want to be looking at value ... with every transaction but ... as the relationship builds and prolongs, the value concept within your mind isn't as important. (X) M, 23

Aspirational Value

It appears from the study that one of the reasons contributing to the proliferation of loyalty programs could be the aspirational value attached to rewards

by respondents. Several forms of aspirational values emerged from the study. Some inferred value from their aspirational wants or dreams

Even those who did not place themselves in this category could see how others attach aspirational values to programs and how rewards could act as a prime motivator in altering the purchase behaviour of members.

For some people who can't pay for a holiday themselves, I think they would purposely use those stores to gain enough points so ... they can go on holiday and that's just a bonus. (I) F, S, 22

For some people it might satisfy something to aspire to ... they've got these dreams and this chance for them to reach them. (J) M, 22

In conclusion, the results of this study presented two significant findings relating to value. Firstly, value is initially perceived by program members through the monetary gains of the rewards offered by a program. It was also found that this type of perceived value contributed to the initial attraction of loyalty programs. The ability to be rewarded tangible prizes for purchases that would typically be made also made the concept of loyalty programs attractive. However, an interesting finding was that while program members initially placed high value on the monetary gains of rewards it was suggested that this value can become of secondary importance once the consumption patterns of consumers became more repetitive, and relationships developed. Secondly, the perceived aspirational value from loyalty programs seemed attractive to members. According to the data, the aspirational value is primarily attached to the members' desire to attain rewards they would not normally get the opportunity to consume. For example, for a program member who flies infrequently, or has never flown at all, the potential to earn a free flight from their normal

purchasing behaviour may be perceived by that individual to be of high aspirational value. This, in effect, may lead to some level of loyalty. Those respondents who indicated some level of dissatisfaction attributed this to the relationship between the level of spending that was needed to accumulate points and the type of reward received in return.

Concluding Thoughts

The objective of the information collected from a study of 24 program members was to identify which attributes of customer loyalty programs result in consumer loyalty to brands. This chapter was divided into three sections. The first section explored the concept of loyalty. Specifically, it defined that a loyal consumer, from the perspective of respondents, is one who over time purchases the same product from the same store. This section also differentiated between the concepts of loyalty and commitment (an extension of loyalty), as well as making a distinction between loyalty programs (are long-term in nature) and promotions (are temporary and have a short-term effect on purchase behaviour).

The second section of this chapter presented information pertaining to the advantages and disadvantages of the attributes of loyalty programs. This section was divided into four parts. The first attempted to explore reasons for the attraction to loyalty programs. The results indicated that the attainment of rewards for a behaviour that did not require any additional effort on the part of the program member was likely to be the primary attraction of loyalty programs. Other factors that respondents found

attractive were free membership, the ability to combine family members on the one membership and the ability to link several programs together to accelerate the process of accumulating points. The second part discussed the respondents' dislikes of loyalty programs. This study suggested that the time and points barriers implemented within some loyalty programs were considered to be the primary dislike of respondents

The third part of this chapter explored rewards. This section specifically concentrated on three issues. The first discussed members' perceptions of rewards offered by loyalty programs. The study found that a majority of program members sampled were dissatisfied with the rewards offered by their program. This was primarily attributed to the lack of perceived value of the rewards. The attainability of rewards was the second issue discussed. Much of the negativity held towards rewards also appeared to be based on members' perception that they were difficult to obtain. Finally, the reward structure (instant versus delayed and direct or indirect value proposition) was discussed. From the statements of respondents it is suggested that the key to a successful reward strategy is to implement a structure that offers members flexibility in their choice of rewards. The loyalty-building attributes of customer loyalty programs, as identified by respondents, concluded the fourth part of this chapter. Issues such as multiple participants and price, service and quality were explored. Results suggested that while a multiple participant structure may assist program members in accumulating points more easily, such a structure may reduce the loyalty levels of some participant brands. According to the data, in isolation price is an important purchase determinant. Specifically, price is often used as an indicator of a product's quality. However, when other extrinsic cues are considered, such as the

member's level of involvement or the existing relationship between a member and an organisation, it is suggested that price may become a secondary issue for some.

The final section of this chapter was concerned with relationship marketing. It revealed members' attitudes towards the importance of relationships in establishing long-term consumer loyalty. Further, this section discussed both the relevance of, and the way in which, several components of relationships play a role in developing loyalty through the use of customer loyalty programs. The first of these was satisfaction. According to the study, satisfaction appeared to develop through product attributes and service. It was determined that a relationship may exist between satisfaction and loyalty. Trust according to program members, develops from satisfaction. The three factors associated with trust are meeting expectations, honesty and through the provision of service. It became apparent during the analysis of the interviews that communication played a significant role in the development of consumer loyalty among program members sampled. The importance of communication to program members is that it enabled them to make informed decisions and acted as a motivator for some members to purchase program affiliated products. It is suggested that the outcome of these may lead to some type of behavioural change among members. The final topic discussed in this section is value. According to the results, it appears that value not only plays a significant role in the development of relationships but may also influence the attitude of program members, which in turn, affects loyalty behaviour.

CHAPTER 5

DISCUSSION

The purpose of this chapter is to compare the findings of this study to the issues discussed in the literature review. The following discussion attempts to add to the understanding of the customer loyalty program phenomenon, and suggest the components of loyalty and attributes of customer loyalty programs that may lead to long-term consumer loyalty.

Attitude Versus Behaviour

A 'loyal consumer' was described by respondents in this study as a person who repeatedly purchases the same product from the same store over time. However, respondents also indicated that such behaviour is seen to be subordinate to attitude, in that loyal behaviour is affected by attitudinal factors such as satisfaction, preference or choice process. While the emphasis on repeat purchases parallels Dowling and Uncles' (1997), Fournier and Yao's (1997) and Sharp and Sharp's (1997) definition of loyalty, their definition has not taken into account the attitudinal factors that influence loyalty. This has important implications for measuring loyalty, as current measures of loyalty have mostly concentrated on behavioural attributes (for example, repeat-purchases). While behavioural measures can effectively assess loyalty levels, they do so only to the extent of determining whether loyalty has been achieved. They lack, however, the ability to determine the components that lead to loyalty. By excluding

attitudinal factors when measuring loyalty, one would fail to obtain an understanding of how and why such loyal behaviour takes place. Therefore, based on the results of this study, measures of loyalty that integrate both a behavioural and attitudinal approach may be a more appropriate assessment of loyalty levels.

Loyalty versus Commitment

As Chapter 2 identified, a distinction between loyalty and commitment is needed (Palmer, 1995; Richards, 1998). This is because the efforts of measuring loyalty could be complicated by a misrepresentation of commitment for loyalty (Palmer, 1995). Findings of this study suggest that while loyalty and commitment are closely associated, commitment may be seen as an extension of loyalty. The study also indicated that commitment may also be established through the formation of loyal customer relationships. This finding is in accordance with DuPont's (1998) hypothesis that commitment develops after loyalty is established. Furthermore, Allen and Meyer's (1990 & 1996) conceptualisations on affective and continuance commitment were found to hold true. The results revealed that emotional attachments (affective commitment) existed between program members and their program(s) and that there was a level of hesitation (continuance commitment) where members hesitated to terminate their membership/relationship with their program(s) due to the costs that may be involved.

Loyalty Programs Versus Promotions

Literature relating to loyalty programs also discusses the need to differentiate between loyalty programs and promotions. It is held by several researches (e.g., Croft, 1995, Sharp & Sharp, 1997; Dowling & Uncles, 1997) that the overall effects of loyalty programs could be misinterpreted as being the same as those of a long-term promotion. Promotions are in general a short-term technique used to increase awareness (Fader & Schmittlein 1993; Dowling & Uncles, 1997), market share and penetration for a product (Sharp & Sharp, 1997). They are generally concerned with the next few purchases and are therefore not long-term (Rossiter & Percy, 1997, Dowling & Uncles, 1997). On the other hand, customer loyalty programs are long-term in nature with the objective of gaining and maintaining customer retention (Fournier & Yao, 1997; Sharp & Sharp, 1997).

The responses from the study showed no consensus regarding the distinction between loyalty programs and promotions. While some of the definitions given by respondents paralleled with those above, other respondents perceived loyalty programs and promotions to be one and the same. Their judgements were made based on the lack of personalisation in both, on the belief that the communication received from their program was a form of advertising, and on the provision of similar types of rewards. However, while these respondents stated that they perceived loyalty programs to be promotions, they believe them to be long-term promotions.

Relationships and their effects

It is proposed that the significance of relationships in developing consumer loyalty is that they are used as tools to gain a long-term competitive advantage over competitors (Dupont, 1998). Furthermore, a relationship acts as a defensive mechanism by suppressing the urge of consumers to switch brands (Bendapudi & Berry, 1997). It was found in Chapter 2 that much of the literature pertaining to relationships seemed to parallel the replies of respondents in this study. The general consensus of these responses was that relationships were a valued and significant contributor in inducing the loyalty of consumers. Relationships induce loyalty by giving program members a reason to go back to the same store. By entering into a relationship, not only is an emotional link established with program members and the organisation, but the relationship also makes members feel valued. According to program members, the significance of relationships is that they take away the greed aspect (profitability) and make the buyer-seller process more personalised. This may enable relationships to have a long-term competitive effect as proposed by DuPont (1998), as relationships relax the buying situation for consumers, steering them away from other competitive efforts and limiting their choice set. According to the results of this study, a stable, solid relationship may not exist without the components of satisfaction, trust, communication and value being established first.

Satisfaction

There are two assumptions concerning satisfaction and its role in the development of relationships. The first assumption is that there is a direct relationship between satisfaction and loyalty (Richards, 1998). The second, is that satisfaction reinforces a consumer's decision to partake in the buyer-seller process which, over time, leads to loyalty (Tax, et al., 1998). The study found that both statements are relevant. According to respondents, satisfaction is considered to be the initiating component in a relationship and without this being first achieved, the foundation for a relationship may not be established. This study also found that although satisfaction is a starting point for the development of relationships, it should be maintained throughout the buyer-seller cycle in order to sustain loyalty.

Trust

Trust is recognised in the literature to be a critical component and a prerequisite for relationships and loyalty (Morgan & Hunt, 1994). While it has been suggested that developing trust lessens the skepticism held by consumers about the opportunistic behaviour of organisations (Bendapudi & Berry, 1997; Williamson, 1981), the findings of this study offer a new perspective on trust and its role in establishing loyalty. It was proposed by respondents that trust is achieved by meeting the expectations of consumers, by providing service and/or product satisfaction, and by the honesty of retailers.

Communication

Communication, according to the data, plays a fundamental role in customer loyalty programs and in the development of loyalty. Munger (1996) suggests that communication strengthens brand loyalty because of the positive impact it can have on consumers. In addition, it fosters goodwill and therefore enhances the value of relationships (Erickson, 1991; Munger, 1996). It appeared from the responses that communication (which typically takes the form of direct mail) enables the gap between a program member and organisation to be bridged. Some respondents commented that communication made members feel valued, which in turn, gave them a sense of belonging. Thus, it appeared that communication may add value to the development of relationships and the loyalty process.

Despite some of the negativity that some respondents felt towards customer loyalty programs, a high level of interest is paid to the communication they receive. Members reasoned that this occurred due to their perception that it enables them to make informed decisions. The most significant aspect of communication emerging from this study is that members considered communication to be one of the most direct ways of altering their behaviour. It was found that informing members of specified time periods in which certain products or services can be bought or where double points are provided, encouraged members to trial new products and also limited their choice set by offering only a few alternative products/services that they could purchase to accumulate maximum points.

On a negative note, however, one aspect of communication that respondents indicated needed attention is the 'clutter' of information they receive. Respondents felt that too much unnecessary information is provided, affecting the impact that communication could have on members. Thus, the volume of communication discourages the interest of members as a result of the confusion and overload of information presented within one mail-out.

In summation, as indicated by the study, a crucial aspect to consider is that communication with program members should be structured in such a way that members can relate to and understand it. It is suggested that only then could the effects of such communication be maximised. It is important that members perceive the communication to be tailored to their specific needs and wants and therefore relevant to them. This may enable organisations to maintain the interest of members.

Value

The concept of value is thought to have two roles in the development of relationships and loyalty. Firstly, it is a determinant of a consumer's willingness to purchase (Dodds, et al., 1991; Szybillo & Jacoby, 1974) and secondly, it assists in determining a product's value (Gordon, 1994). Value is difficult to define, and what may have value to one consumer may not to another (Dodds, et al., 1991).

The findings from this study suggest that there are several contributing factors that may explain why certain respondents perceive value in the rewards provided. Firstly, respondents perceived the accumulation of points as a form of psychological

reward. For example, as a member shops and spends, points are accumulated which can may then, at some point in the future, be transformed into a tangible reward. Secondly, these respondents matched the targeted customer profile of an organisation's loyalty program. Thirdly, and as a result of the second factor, these members can afford the 'wait period' where enough points can be accumulated to convert to a satisfactory reward. The most significant aspect of value that emerged from the study is that respondents spoke of value in several different contexts, such as monetary value, aspirational value, gratitude and recognition, and these will be discussed below.

Monetary value

According to the results, some respondents perceived value in monetary terms and this was assessed through the form of rewards. However, as time passes and a relationship develops, some respondents indicated that the importance of the monetary value of rewards diminished and value was placed on the development of relationships between a program member and an organisation.

Aspirational value

The perceived aspirational value is the ability of members to satisfy their 'desires'. For example, certain members find aspirational value in attaining rewards such as vacations. While this type of aspirational value could be seen effectively as a monetary reward, respondents associated vacations as an aspirational value explaining that such an event would not typically take place if not as a result of the reward being

given. Therefore through the implementation of customer loyalty programs, it is suggested that program members sampled obtained value from aspiring to obtain rewards that were not part of their normal purchase behaviour.

Gratitude and Recognition

A significant finding, and one that the literature has not reported, is that gratitude and recognition are two attributes that have a vital influence on the effectiveness of customer loyalty programs in gaining consumer loyalty. According to respondents, the fundamental importance of gratitude and recognition is that members perceive it as a sign of value. It is suggested that members regard rewards as a sign of gratitude and recognition for their efforts in purchasing products that are affiliated with specific loyalty programs. This may be one of the primary reasons why certain members of loyalty programs are dissatisfied with the rewards they receive. If members perceive an imbalance between the perceived value of a reward and the effort needed and money spent to achieve that reward, it is suggested there may be a lack of gratitude and recognition shown towards those members for their conscious decision to purchase products affiliated with a program. Hence, it would appear that it is important for members to feel that they are being recognised for their conscious efforts to purchase products that are only associated with a certain loyalty program. Thus such gratitude and recognition, according to program members, can only come in the form of rewards, considering there is no other alternative by which organisations can show their appreciation. As a result, it appears that the development and

maintenance of consumer loyalty may assist in the positive perceptions of consumers towards customer loyalty programs.

Price

Zeithaml (1982, 1983, 1988) suggests that while objective price (discussed in Chapter 2) is an important factor in influencing consumers' behaviour, it is the way prices are encoded by consumers that has more meaning and therefore drives their behaviour. From the findings of the study, there are two situations where this occurred. The first of these was where program members sampled would purchase program affiliated products providing the price fell within an acceptable threshold. The second is where price became a secondary issue when other cues, such as service received, quality of products and level of involvement of the purchase, were present. This finding parallels that of Dodds, et al., (1991). The significance of this finding, as Zeithaml (1982, 1983, 1988) and Dodds, et al., (1991) had previously theorised, is that the objective price of a product/service has less significance to respondents than the perceived price. Hence, this poses an advantage to organisations associated with loyalty programs as these program could be used as a vehicle to promote product/service attributes and take the emphasis away from prices.

Rewards

Based on the results of this study, it is apparent that the role of rewards in customer loyalty programs has a significant effect on the establishment of loyalty.

The results of this study indicate that the range of rewards offered by loyalty programs is one of the most influential aspects that affects both a member's purchasing behaviour as well as a member's propensity to become loyal. This was also indicated by Croft (1995). The data from this study found that there is a direct relationship between the attainability of rewards through the accumulation of points and a program member's willingness to purchase. However, it is the perceived relationship between the attainability of rewards and the accumulation of points that has led to some members' negative perceptions about customer loyalty programs. It appears that much of the dissatisfaction towards customer loyalty programs may be a result of the relationship between the number of points to be accumulated to obtain a reward and the lack of perceived value in the rewards offered, although the results also indicated that respondents actively attempt to find ways to earn points.

This points-reward relationship has important implications for a member's willingness to purchase. Therefore, based on the general responses of the study, it may be possible to change both the negative perceptions of members and to stimulate program members to use their program(s) more effectively. This may be done by changing the programs' structures to better appeal to different segments. The consensus within the sample is that respondents would like to see more flexibility within the reward structure of loyalty programs. Implementing a program with structural levels such as blue, silver or gold levels (such as the Frequent Flyer Program) may better meet the value expectations of program members. In addition, it is proposed that structuring a program that offers smaller rewards with much shorter

barriers (points and time) or bigger rewards with a higher barrier may enhance the image of organisations and their loyalty programs.

Closely associated with the attainability of rewards is the issue of instant versus delayed rewards. While Dowling and Uncles (1997) report that the delayed structure of incentives has its advantages, there was consensus among the respondents that providing flexibility within the programs to which they belonged, by incorporating both an instant and a delayed structure of rewards, may better enhance the effectiveness of a loyalty program in establishing loyalty. The ability for members to choose between smaller or bigger rewards has obvious affects on the timing of rewards. Members opting for instantaneous rewards would have to accept smaller rewards while those choosing a delayed structure would receive rewards of greater worth. While some programs do offer this type of structure, some respondents indicated that this information was not made clear to them. Those who did know had more often discovered this information through word of mouth, not from the organisation itself.

The third issue concerning rewards is the value proposition of rewards. Dowling and Uncles (1997) found that rewards that directly support the purpose of an organisation's product/service being offered (e.g., GM Card) affect the type of loyalty that is developed. This was supported by the findings of this study that suggested that loyalty to products might be better established if respondents were able to make a direct link between the rewards of a program to the organisation that provided it. Further, it was also found that the direct support of rewards may better uphold the

objectives of programs (long-term consumer loyalty), therefore strengthening the program as well as the image of the organisation (Dowling & Uncles, 1997). When the program members sampled were able to link a reward to a particular purchase, it is suggested that this link enhanced the loyalty program and brings about a positive perception of that organisation.

In conclusion, the results demonstrated that rewards may play an influential role in establishing long-term customer loyalty. This study proposes that rewards may also influence the attitude of those program members sampled towards their loyalty programs. As a result, it is suggested that attention should be paid to the type of rewards offered to assist in enhancing the positive image of an organisation. Moreover, it appears that the reward should also support the value proposition of the product/service that is offered by the organisation. The findings suggest that from the perspective of the respondents, flexibility appears to be the key to a successful reward structure.

Multiple Participants and Multi-Brand Relationships

Multi-brand relationships are where consumers are considered to be loyal to a repertoire of brands within a product category (Fournier & Yao, 1997). Loyalty programs such as Fly-Buys, whose structure involves a collaboration of stores within the one program, cater to this idea. The skepticism that surrounds such a structure relates to whether multiple participants support the objective of loyalty programs in gaining loyalty. Fournier and Yao's (1997) argue that even those consumers who have

the strongest 'consumer-brand bonds' are multifaceted in nature. There are two opposing views that shed light on this issue. Proponents of multiple participant programs justify their view by asserting that these types of programs create the opportunity to become loyal to different products. This is in line with the idea of 'divided loyalty' where loyalty is divided among a variety of brands within a product category (Sharp & Sharp, 1997; Dowling & Uncles, 1997). Therefore, it would be reasonable to suggest that an organisation whose loyalty program focuses on a single product may steer members away from being loyal. Conversely, opponents of multiple participants believe that such a structure does not imply exclusivity and therefore detracts from the objective of loyalty programs.

While a multiple participant structure may attract new and light buyers, its effects do not encourage long-term loyalty, as it only affects the penetration levels of that product while the repeat purchases remain the same (Sharp & Sharp, 1997). It is also thought that the structure would promote loyalty to the program as opposed to loyalty to the product, which again defeats the purpose of loyalty programs. Results of this study indicated that the latter explanations by Sharp and Sharp, rather than the former explanations of Fournier and Yao best match the attitude held by the program members in this study. Respondents commented that implementing a program that allows for multi-participants only detracts from the goal of loyalty programs – long-term loyalty. This is primarily due to the belief that loyalty should be exclusive.

A majority of respondents stated that the only real advantage and role of multiple participant programs is that they contribute to the acceleration of

accumulating points. This was also noted in Sharp and Sharp's (1997) research findings. This however, is at a risk of detracting from long-term loyalty to a single brand, product or service. It was also found that a multiple participant structure may induce loyalty to a program rather than to a brand. In conclusion, it could be seen that the implementation of a multiple participant structure may not assist a program in achieving its objective of loyalty. According to the results of this study, it appears likely that by concentrating on a single brand/organisation rather than multiple brands/organisations, the objective of loyalty programs may be better served.

Concluding Thoughts

In conclusion, there are several significant findings that arise based on a comparison of the results of this study and the discussion in Chapter 2. According to the findings, two of the most significant attributes of customer loyalty programs in this study that may lead to long-term consumer loyalty are rewards and communication. The findings suggest that during the initial stages of a relationship, the monetary value of rewards acted as the primary purchase motivator to entice program members to purchase products affiliated with loyalty programs. Over time and as a relationship develops between an organisation and a member, the monetary emphasis on rewards may become a secondary factor. According to the results of the study, rewards are seen not only as tangible objects but also as a sign of gratitude and recognition for the members' conscious efforts to purchase brands affiliated with their programs. It is suggested that this is one of the primary explanations why the program members sampled place such importance on rewards. Furthermore, the gratitude and

recognition perceived by members represented by rewards is another reason why they believe rewards should be a constant throughout the loyalty cycle. Communication was the second attribute of loyalty programs that, according to this study, played a significant role in the development of long-term loyalty. The results suggest that regular communication between an organisation and its members may help reinforce the relationship between them, as well as assist in enhancing members' positive perceptions of an organisation.

Loyalty components such as trust, communication, satisfaction, perceived price, quality and value were also found to be significant in the development of long-term loyalty. Trust was found to act as a foundation for the establishment of relationships and therefore is essential to the loyalty process. While value, satisfaction and communication all play a vital role in the process of loyalty, results indicated that a combination of these components were needed to work together in order to establish loyalty. Respondents also inferred that these components needed to be maintained throughout the lifetime of a membership in order to establish loyalty. Commitment, according to the study, can only result once loyalty has been established.

While this chapter has summarised both the main points found in the literature review and contrasted this to the findings of the study, the following chapter specifically discusses the significance of the convergence of the different approaches in assessing the loyalty building attributes of customer loyalty programs and concludes this thesis.

CHAPTER 6

CONCLUSION

The purpose of this exploratory research was to identify which attributes of customer loyalty programs, if any, were seen by program members to result in consumer loyalty to a brand or organisation. There are several reasons for the execution of this research which make it significant. Firstly, while literature relating to the loyalty concept is abundant, an argument exists that the concept has not been fully grasped and that there is a lack of research contributing to the understanding of brand loyalty (Fournier & Yao, 1997; Jacoby & Chestnut, 1978, Dick & Basu, 1994). In addition, while research on customer loyalty programs has been expanding, much of the literature concentrates on the popularity of these programs, commenting on their success or failure and the ability of these programs to achieve their objective of obtaining long-term consumer loyalty. Such literature is primarily anecdotal. Moreover, few of the academic studies that are peer reviewed have focused on the loyalty-building attributes of customer loyalty programs.

Much of the existing literature and studies into brand loyalty are drawn from either an attitudinal approach (using preference and liking) or from a behavioural approach (repeat purchases). Brand loyalty literature stemming from the former approach typically focuses on the components of loyalty. Studies employing an attitudinal approach are concerned more with the *how* and *why* of loyalty development rather than with whether loyalty has been achieved. On the other hand, studies

adopting behavioural approaches are concerned more with measures of loyalty rather than an understanding of how loyalty is developed. Behavioural measures typically assess loyalty based on factors such as penetration, market share, share of wallet and repeat purchases. Such measures focus on whether a change has been brought about in any of the above factors. Literature relating customer loyalty programs to attitudinal measures has thus far not been found within the public domain, however this may exist within the private domain. On the other hand, research associating customer loyalty programs with behavioural measures is typical. Many of the studies that attempt to assess the effects of customer loyalty programs have done so from a behavioural approach, based on the belief that because programs reward members for their purchase behaviour, success can be measured by behavioural methods. Despite this, it has been recognised that behavioural measures have not been adequate in assessing the effects of loyalty (Dick and Basu, 1994), much less customer loyalty programs.

Several studies have now acknowledged that a gap exists between attitudinal and behavioural approaches (see Baldinger & Rubinson, 1997; Farr & Hollis, 1997). In particular, it has been identified from a broad review of the brand loyalty customer loyalty program literature, that an attitudinal approach which explores customer loyalty programs is lacking. Thus this study attempted to combine the behavioural and attitudinal approaches, as well as incorporating theories from relationship marketing so that loyalty building components could be generated and used to assess customer loyalty programs.

As conveyed in Chapter 2, the marketplace has seen the implementation of a plethora of customer loyalty programs, yet little research has focused on which loyalty-building attributes of customer loyalty programs bring about long-term loyalty. Rather, measures have focused on whether loyalty programs have altered a brand's market share, penetration and share of wallet. However, as previous research and results of this study indicate, focussing on such measures may be inadequate. While an effective loyalty program may be portrayed favourably by these traditional measures, such measures fail to determine whether a long-term behavioural change has occurred and what factors have brought about this change. Currently, there are some measures that attempt to assess behavioural changes brought about through the use of loyalty programs, such as repeat purchases. However, it has also been recognised that while such measures are a good indicator in assessing purchase behaviour, they are unable to determine how this behavioural change has come about. Moreover, measures of the effectiveness of customer loyalty programs should also focus on the attributes of programs in order to determine which, if any, affect long-term consumer loyalty.

Another factor that distinguishes this study from other loyalty studies is the incorporation of theories from relationship marketing. Current literature on relationship marketing has exponentially increased, however literature that incorporates theories of relationship marketing with customer loyalty programs has only recently been published. Results from this study suggest that the formation of relationships between an organisation and its program members may be a crucial process to the development of loyalty. Through components such as satisfaction,

value, trust and effective communication, it is suggested that over time a relationship develops, which in turn affects customer retention. It is suggested that over time and through the development of relationships, loyalty develops. Furthermore, respondents in this study hold that commitment is a result of loyalty and is perceived to have a stronger emotional bond than loyalty. Hence, commitment, as indicated by program members, may also eventuate from the development of loyalty.

Of most significance in this study is the fact that this research focuses on the consumer's perspective. From a broad review of the brand loyalty literature and customer loyalty program literature, it was recognised that research incorporating the two theoretical areas (attitude and behaviour) has so far only focused on the organisation's perspective. This may be attributable to management's belief that because customer loyalty programs are aimed at developing and maintaining customer loyalty towards a brand, measures of their effects must be based on economic outcomes (such as profitability, market share and penetration). However, to neglect the views of consumers is to misunderstand the rationale behind customer loyalty programs and to inadequately assess the effects of these programs. As a result, the issues under investigation in this study are from a consumer's perspective.

The following section will summarise the most significant findings of this study. The findings are a result of 24 semi-structured focused interviews with program members and are discussed in five parts. Firstly the importance of the convergence of attitudinal and behavioural measures in assessing customer loyalty programs is reviewed. The second section deals with the notion of relationship

marketing, specifically discussing the importance and the role relationships play in loyalty programs. Thirdly, the effect of a multiple participant structure within a loyalty program is examined. The structure of rewards implemented in loyalty programs is dealt with in the fourth section, with primary attention given to the use of instant versus delayed rewards, the direct or indirect value proposition of rewards, as well as the importance of gratitude and recognition. Finally, the findings regarding the linking of loyalty programs are considered. It is important to highlight that any recommendations offered are based on the results of interviewing 24 program members, and are given on the premise that further research into this area will be conducted in the future.

An Integration

The research findings suggest that while it is possible to alter the behavioural repeat-purchase patterns of consumers through the use of customer loyalty programs, understanding the attitudes of program members is essential in order to alter their behaviour. The results suggest that behaviour is subordinate to attitude. Furthermore, it was also discovered that attitudinal measures may have a predictive effect on behaviour as found by Baldinger and Rubinson (1996). In order to understand what motivates the purchase behaviour of program members, researchers need to first discover and understand what attributes of loyalty programs influence a member's behaviour. It is then proposed that behavioural measures be used to assess the effects of those attributes in altering members' behaviour in the long-term. Hence, this study demonstrates the importance of incorporating both attitudinal and behavioural measures in assessing consumer loyalty.

Relationship Marketing

The notion of relationship marketing was found to play a significant role in assisting customer loyalty programs achieve their goal of long-term customer loyalty. According to the study, components such as satisfaction, trust, value and communication, all play an influential role in the development of relationships. These components were also found to assist loyalty programs in the process of building loyalty. Results from the study indicate that without these components being established and maintained during the loyalty process, customer retention would not occur and neither would the development of a one-to-one, long-term relationship. The study also identified that program members sampled placed great importance on the level of service received and product quality. Respondents maintained that if a certain level of satisfaction was not met, this would have a detrimental effect on the development of a relationship.

Multiple Participants

According to the study, the attraction of multiple participant programs appeared to be based solely on members' belief that they assisted in the acceleration of the accumulation of points. It was also discovered that the function of multiple participant programs detracted from the objective of loyalty programs rather than assisting in developing long-term loyalty. Furthermore, the results suggested that if loyalty were to be established, such a structure may induce loyalty to a program instead of to a brand or organisation.

Rewards Structure

While there were negative perceptions of loyalty programs among some of the study's program members, there was also a consensus that loyalty programs are a good defensive technique to instill consumer loyalty and to defend the organisation against competitor influences. The key to a program's success, according to findings, may be the implementation of a reward structure that enables program members flexibility. Allowing members to choose between an instant or a delayed reward structure will determine the type of rewards (e.g., smaller or bigger prizes) offered to them. According to program members sampled, flexibility meant that members could choose between options which suited their expenditure patterns and therefore gain more value from their programs. It was also discovered that while rewards may be needed to drive members' behaviour, it appears likely that these rewards should support the organisation's mission, the product/service provided by that organisation, and the loyalty program. Moreover, the findings suggest that incentives should not come in the form of 'discounts', but rather a rewards value proposition should directly support the program and the organisation providing that reward. The results indicated that programs that segregate their members into different levels and offer different types of rewards according to the level would better cater to the shopping behaviour of the different segments. This approach may be more economical to the organisation in the long run. Furthermore, by structuring a program in this manner, program members are made to feel more valued and recognised for their conscious effort to purchase products affiliated with loyalty programs.

Gratitude and recognition, according to the study, are two of the most important aspects that lead to long-term loyalty through the use of customer loyalty programs. It appears that a successful program would be one that offers an incentive structure that gives members flexibility and options, provides value and satisfaction throughout the loyalty process, uses effective personalised communication and establishes and maintains a relationship between an organisation and its members.

Linking Purchase to a Reward

Respondents of this study indicated that because rewards were regarded as a sign of gratitude and recognition, the ability to link a reward to a particular purchase was important for members to perceive that they were being valued. Therefore, the results suggest that it is important to program members that organisations make an effort to link the rewards provided by a loyalty program to the organisation that runs that loyalty program.

Limitations

One of the primary concerns surrounding this study is the selection of a small sample size. In particular, of most concern is the generalisability of interpretations (Lincoln & Guba, 1985; Glaser & Strauss, 1967). That is, results produced from this study are heavily influenced by the researcher's abilities and perceptions (Anderson, 1982). However, the goal of this study is not to produce conclusive evidence but to explore and provide a foundation for further investigation.

Another limitation of this study is the fact that a lone researcher conducted the research and analysis. Indeed, while the involvement of several researchers would provide different perspectives on the topic, the constraints of a Masters thesis dictate that this is the case.

Future Research Directions

As this research is only an exploratory study of the attributes of customer loyalty programs that result in consumer loyalty, the purpose of this study is not to produce conclusive evidence but to explore, sharpen and provide concepts for subsequent research. It is hoped that this study provides a clearer understanding of the attributes of customer loyalty programs on which subsequent studies could concentrate. Presented below are several future research questions that are suggested by the findings.

Do customer loyalty programs affect the differing types of loyalty as identified by Rundle-Theile, Dawes and Sharp (1998) (i.e., attitudinal loyalty, share loyalty and differentiation loyalty)?

Are loyalty measures sufficiently sensitive to discriminate between the different types of loyalties?

Are customer loyalty programs only relevant to certain levels of loyalty? How do consumers define these levels of loyalty?

Despite the negative perceptions of some program members, why do they continue to actively participate with their programs?

Do those program members who better match the targeted customer profile of certain loyalty programs benefit more from their membership than those who do not?

As the customer loyalty program phenomenon is relatively new within the marketing arena, much of the information provided in this study relied on the existing loyalty literature. As was identified, a gap exists between the various theoretical approaches used in assessing loyalty. Hence, this exploratory study attempted to bridge this gap by converging both attitudinal and behavioural approaches as well as incorporating theories from relationship marketing to assess the loyalty building attributes of customer loyalty programs. It was found that all of the loyalty components identified, except bonds, were important in the development and maintenance of loyalty to the program members sampled. It was also found that of the loyalty building attributes of customer loyalty programs, the most significant to respondents were rewards and communication. In particular, as the relationships developed over time, gratitude and recognition become significant loyalty drivers. This study provides a foundation for subsequent research into the customer loyalty program phenomenon. Further research will assist in a more in-depth understanding of the loyalty components of customer loyalty programs.

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APPENDIX A

Interview Guide

STATE: gender, age, marital status, occupation

Customer loyalty programs

- Definition
- Membership
- Likes/Dislikes
- Attraction
- Shopping effort
- Multiple participant structure
- Time barrier
- Points barrier

Rewards

- Perception
- Direct/indirect structure
- Direct/indirect support
- Instant/delayed
- Aspirational value

Loyalty

- Loyalty v Promotions
- Loyalty v Commitment

Relationship marketing

- Importance to loyalty process

- Components: trust, bonds, value, communication, satisfaction

Behaviour

- Repeat purchases = loyalty
- Individual Preference v Laziness

Attitude

- Affects on behaviour
- Liking v Preference