

CAN CONSUMER PRIVACY CONCERN BE A THORN FOR LOYALTY PROGRAMS?

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ABSTRACT

Every day, large amounts of personal information are collected by private companies from consumers through multiple sources. Loyalty programs are one of the most popular tools, used to gather such information. Information that is used to offer more personalised options and to target more effectively their promotions. However, many consumers are still attracted to such programs because of the rewards and other benefits offered. Privacy concerns over loyalty programs seem to take their toll. According to a Colloquy (2015) report the numbers of active members is dropping and one of the main reasons cited in the report is privacy concerns. Declining numbers and increased privacy concerns raise the question of how concerned consumers appreciate the benefits offered by loyalty programs and how their satisfaction and loyalty are affected. Apparently, loyalty programs cannot always guarantee loyalty (Nielsen, 2013) as a large portion of consumers demand better protection of their privacy (Madden, 2014) and decline to subscribe to such programs over privacy concerns (Maritz, 2013). The objectives of this study are firstly to examine the underlying reasons behind consumers' privacy perceptions and secondly to investigate how such perceptions alter consumers' appraisal of the benefits offered by the loyalty program as well as satisfaction with the program and consumer loyalty. Based on a review of the relevant literature a set of testable hypotheses was developed.

To test the hypothesised relationships, survey data were collected from a sample of 984 consumers through an online panel in US. Structural Equation modelling and mediation analysis were the main statistical techniques used. Analysis revealed a strong effect of privacy perceptions on both the perceived value of the program's benefits and satisfaction with the program. Results suggested that retailers should place more emphasis on the perceived control of information rather than trying to soften consumers perceptions of the risks related to privacy. Additionally the total effects of perceived privacy to both satisfaction with the program and loyalty are substantial and cannot be ignored by practitioners. One implication is that companies should provide clearer privacy policies, more transparency and more power to their customers. The loyalty program benefit perceptions that are affected more by information control and perceived risk are the symbolic and hedonic benefits. Utilitarian benefits appear to be affected to a lesser extent. In general it was revealed that the total impact of hedonic and symbolic benefits on customer loyalty is significantly higher than that of the utilitarian benefits. Hence, practitioners should look carefully on the structure of the hedonic and symbolic benefits in conjunction to their consumer privacy policy.

[References upon Request]