



CENTER FOR RETAILING

CFR EARLY INSIGHT #25

LOYALTY PROGRAMS REVISITED

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Center for Retailing (CFR) at the Stockholm School of Economics has a mission to provide high-level academic education and to conduct world-class research on retailing in close collaboration with the Swedish retail industry. CFR Early Insight is a breakfast seminar series through which CFR faculty members share insights from ongoing research projects. The series provides a platform for employees at our partner companies to meet and discuss current challenges in retailing.

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¹Savings based on 2 store trips per week. Excludes time spent shopping online.

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²Savings based on 140 gallons per month per family & 16 miles consumed per gallon.

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per year³

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³Savings based on 2 deliveries per week vs. non-member \$795 fee.



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SEPHORA

a loyalty program (LP)
= *an integrated system of marketing actions that aims to make member customers more loyal*

e.g., Leenheer et al 2007

CHARACTERISTICS OF A LOYALTY PROGRAM



Aims to promote (attitudinal and behavioral) loyalty



Based on some form of membership



Long-term in nature



Rewards members based on their buying behavior



Enables ongoing marketing activities tailored to members

(Dorotic et al 2012)


WHAT DO WE KNOW ABOUT THE EFFECTS?

- Vast literature with mixed results
- Mixed approaches: experiments, surveys, observations
- Two recent contributions indicate that, overall, positive effects are to be expected:

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<https://doi.org/10.1007/s11747-019-00652-y>

ORIGINAL EMPIRICAL RESEARCH

The effects of loyalty program introduction and design on short- and long-term sales and gross profits

Malika Chaudhuri¹ · Clay M. Voorhees²  · Jonathan M. Beck³

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Full Length Article

When do loyalty programs work? The moderating role of design, retailer-strategy, and country characteristics☆

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The effects of loyalty program introduction and design on short- and long-term sales and gross profits

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Key findings:

- Average increase of 7% in total sales and 6% in gross profits in the first year following the introduction (compared to a matched set of control firms).
- An average increase of 11% in total sales and 6% in gross profits after three years (relative to the same set of control firm).
- Additional lifts due to earning mechanism, tiers (progressive) and fees, although the effects of fees on profit only materialize over time

Data from 322 publicly-traded firms that introduced an LP between 2000 and 2015. 149 were retail firms.

Full Length Article

When do loyalty programs work? The moderating role of design, retailer-strategy, and country characteristics☆



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Key findings

- A positive effect on sales productivity of basic LPs, but the effect disappears for complex programs (tiers and multivendor program)
- The impact is lower for discounters
- The impact is lower when more competitors have LPs
- Note: focus on sales means that we can't assess profit impact

Data from 358 grocery banners from a cross-section of 27 countries, of which 245 (68%) had a LP in 2015

SOME DIFFICULTIES WHEN EVALUTING EFFECTS OF LP

- Contingent on industry, market, and design
- Customers self-select into the program, making comparisons between members and non-member less informative
- The evaluation of a program should align with the goals of the program

CONTINGENCIES

Industry:

- The effects are strong in retail, as indicated by weaker effects in hospitality, entertainment, food & beverage. In communications effects are stronger.

Market conditions:

- The effects are weaker in markets where more competitors are offering loyalty programs.
- The impact is higher in countries that are more individualistic and long-term oriented.

Design:

- The earning mechanism is the most important driver of sales and gross profit.
- Tiers can be positive, but not in a retail (grocery) context.
- Fee-based program are effective in terms of sales, but profit impact varies.

DESIGN ELEMENTS

- Earning mechanism
 - Reward Timing: Immediate vs. Delayed
 - Reward Fit: Direct vs. Indirect
 - Reward Type: Financial vs. Mixed
 - Reward Currency: Monetary vs. Fictional
- Program Structure
 - Program Tiers: Single vs. Hierarchical
 - Program Partnerships: Single vs. Multivendor
- Enrollment
 - Membership Cost: Free vs. Fee

Hagström, Haberg, Rosengren 2022

LOYALTY PROGRAM DESIGN ELEMENTS

Based on top 100 Northern American loyalty programs

- Earning mechanism
 - Reward Timing: Immediate vs. Delayed (3% vs. 48%, intermittent/balanced: 49%)
 - Reward Fit: Direct vs. Indirect (56% vs. 16%, balanced: 28%)
 - Reward Type: Financial vs. Mixed (54% vs. 46%)
 - Reward Currency: Monetary vs. Fictional (14% vs. 86%)
- Program Structure
 - Program Tiers: Single vs. Hierarchical (40% vs. 60%)
 - Program Partnerships: Single vs. Multivendor (58% vs. 40%, n/a: 2%)
- Enrollment
 - Membership Cost: Free vs. Fee (90% vs. 10%)

LOYALTY PROGRAM DESIGN ELEMENTS

Based on 245 grocery banners from 27 countries, in 2015

- Earning mechanism
 - Reward Timing: Immediate vs. Delayed (vs. 76%)
 - Reward Fit: Direct vs. Indirect (vs. 9%)
 - Reward Type: Financial vs. Mixed (n/a)
 - Reward Currency: Monetary vs. Fictional (n/a)
- Program Structure
 - Program Tiers: Single vs. Hierarchical (vs. 16%)
 - Program Partnerships: Single vs. Multivendor (vs. 14%)
- Enrollment
 - Membership Cost: Free vs. Fee (0%)

CUSTOMERS SELF-SELECT INTO THE PROGRAM

Does LP membership lead to loyalty or does loyalty lead to LP membership?

	Market share %	Market share rank	# Chains visited by customers	% Loyalty program members	SOW LP members	SOW Non-LP members	Difference SOW LP/Non-LP members
Albert Heijn	24	1	4.56	82	.37	.13	.24
Super de Boer	9	3	5.04	59	.32	.11	.21
Edah	8	4	5.07	75	.30	.02	.28
Integro	7	6	5.18	49	.44	.07	.37
Konmar	3	9	5.53	47	.33	.03	.30
COOP	1	17	4.95	72	.35	.01	.34
Jan Linders	1	18	5.08	63	.37	.09	.28
Average			5.06	64	.36	.07	.29

AFTER CONTROLLING FOR SELF-SELECTION

Δ SOW*

.057

.034

.056

.030

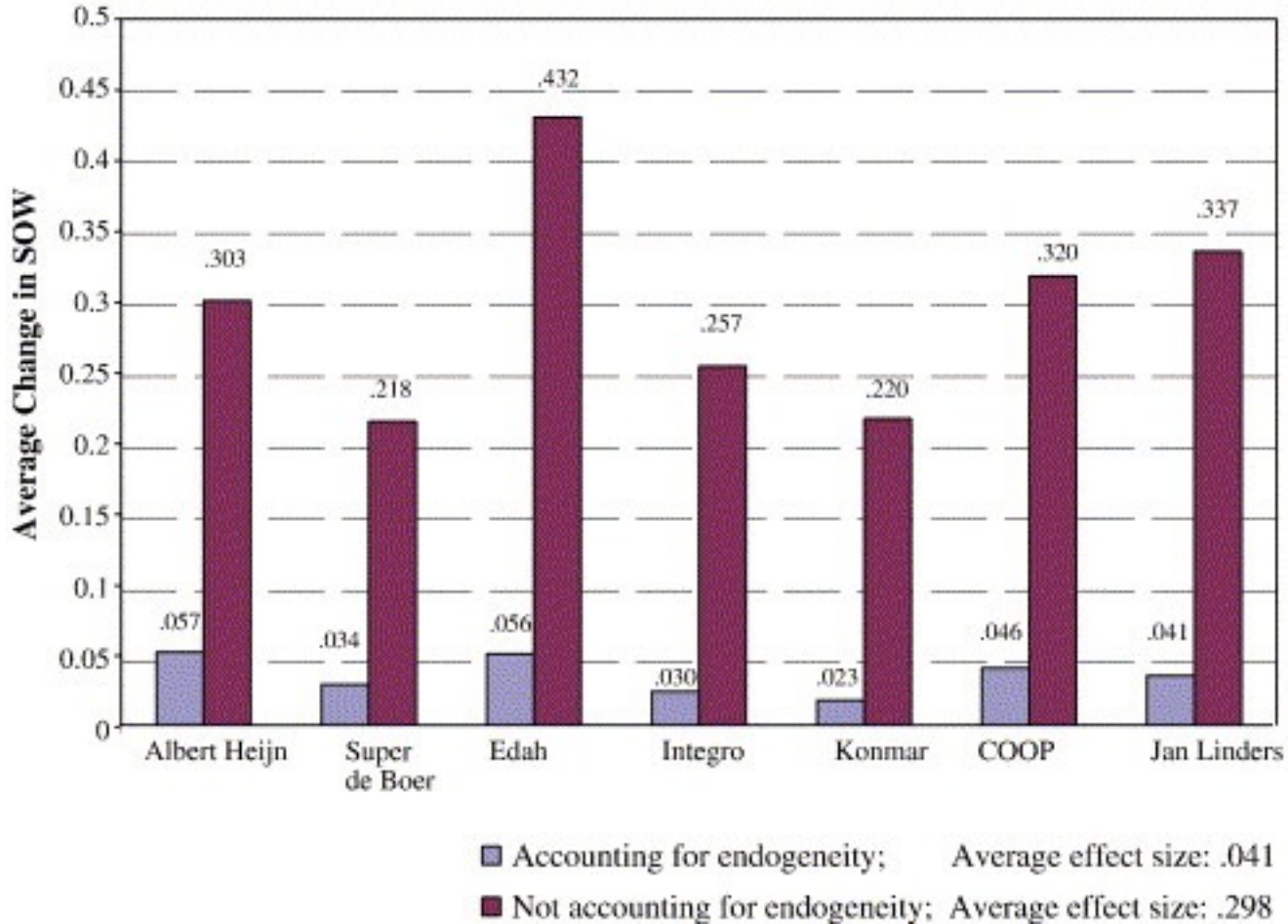
.023

.041

.046

.041

Average predicted change in share-of-wallet due to becoming a member of the focal chain's program (keeping everything else constant).



Leenheer et al (2007)

ILLUSTRATION: MEMBERSHIP FEE (BEAUTY/SELF-CARE)

	Members	Non-members	Difference
Before	12	6	2x
After	39	4	10x?
Additional purchases	+ 27		
Economic benefits	9	-	1/3
Other benefits	18	-	2/3

(USD/month)

Iyengar et al (forthcoming)

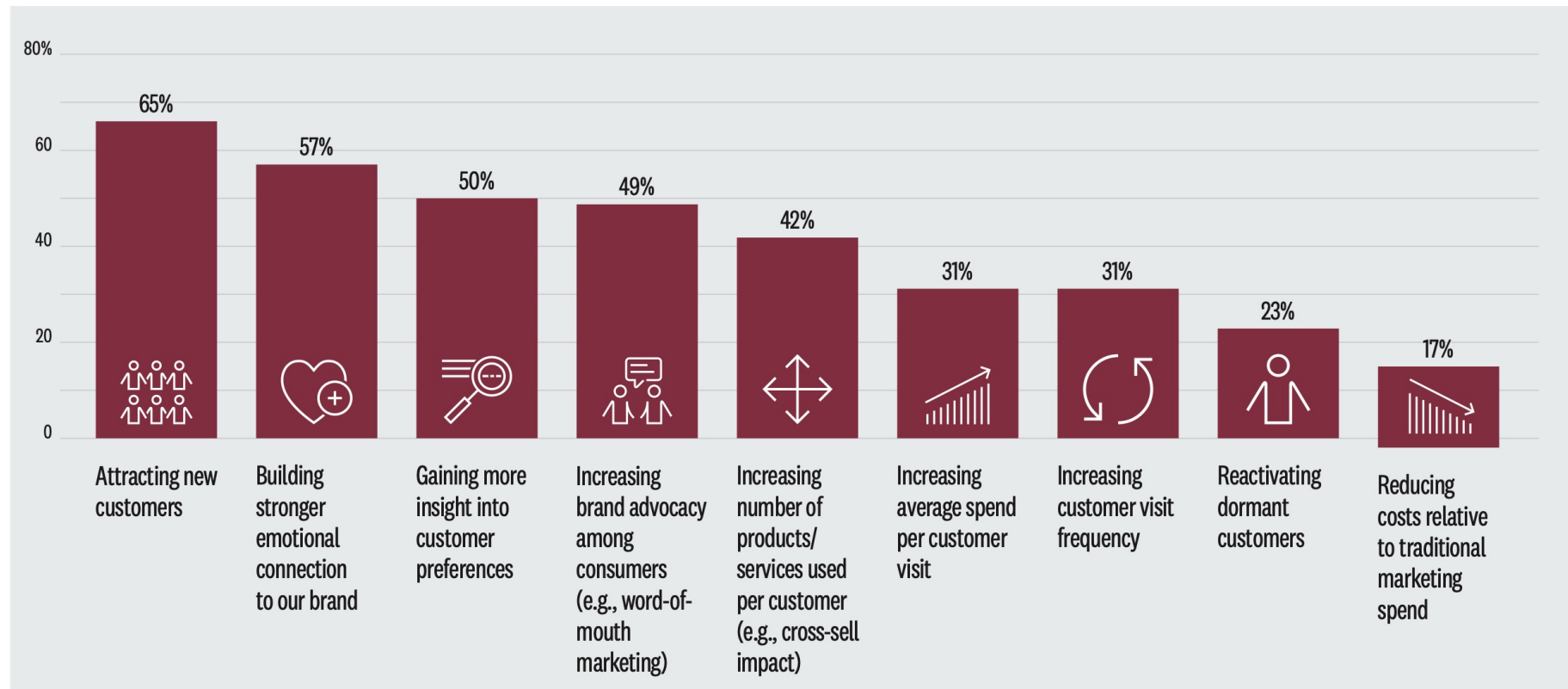


WHAT ARE THE GOALS OF THE PROGRAM?

FIGURE 2

TOP LOYALTY GOALS: ATTRACTING NEW CUSTOMERS, BUILDING EMOTIONAL CONNECTIONS

What business goals are primary drivers for investing in customer loyalty initiatives?



CUSTOMER RELATIONSHIP STAGES

- Acquisition
 - Perceived value is important. Focus on making it easy to enroll and to understand the earning mechanism. Direct and monetary rewards are preferred.
- Onboarding
 - Gratitude is important. Focus on reward value, visibility, and exclusivity. Effects are enhanced if reward are immediate and perceived as fair.
- Expansion
 - Preferential rewards are perceived to have higher value. Focus on soft and indirect rewards. Expansion and retention is augmented when rewards are delayed and target customers' motivation and entitlement.
- Retention
 - Understanding and taking advantage of customer habits is key. Focus on maintaining customer motivation through status-exclusive rewards. Surprises beyond purchase-based rewards are likely to be helpful.



2021 Beauty Insider Benefits

All members earn 1 point per \$1 spent.



Savings

	INSIDER Free to join	VIB Spend \$350	ROUGE Spend \$1000
Beauty Insider Cash › <small>Apply 500 points for \$10 off your purchase</small>	●	●	●
Seasonal Savings Events ›	10% off	15% off	20% off
Free Standard Shipping ›	\$50 min.	\$35 min.	No min.
Dollar Savings Offer ›	\$15 off	\$20 off	\$25 off
Points for Discount Events ›	●	●	●
Rouge Reward › <small>Exchange 2500 points for \$100 off your purchase</small>			●



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AMAZON PRIME EXAMPLE

Convenience sample of Amazon prime members (n= 310)
Price paid varied between USD 39-79, or free trial.

Table 2

Summary of results from Study 1.

Study 1	Fee mean vs. free mean		F-value	p
H1: fee vs. free				
H1a: more favorable attitude toward program	6.18	5.97	4.92	p < .05
H1b: higher behavioral loyalty	5.87	5.14	30.79	p < .001
H1c: focus more on benefits	5.93	5.67	7.93	p < .01
H1d: perceive as better value	5.79	5.12	31.59	p < .001
Post-hoc tests			t	p
Favorable attitude → re-join			2.71	p < .01
Behavioral loyalty → re-join			4.11	p < .001
Perceived value → re-join			6.65	p < .001
Cost → re-join			8.55	p < .001
Years → re-join			2.03	p < .05

Paying members appreciate the program more

The more you pay the more likely you are to continue

Ashley et al (2016)

REVISITING CHARACTERISTICS OF A LOYALTY PROGRAM

-  Aims to promote **(attitudinal and behavioral) loyalty**
-  Based on some form of membership
-  Long-term in nature
-  Rewards members based on their **buying** behavior
-  Enables ongoing **marketing activities** tailored to members

(Dorotic et al 2012)

TO SUM UP

- When revisiting LPs, it is useful to define the goal of the LP for different customers. This enables retailers to adopt the LP design to relationship stages rather than applying a one-size-fits-all approach. As retail business and consumer demand is changing, there is room to focus on other types of behaviors than loyalty and add earning mechanisms and rewards to other relevant outcomes.
- Introducing a LP can increase sales and gross profits in both the short and long term, but the effects will depend on the industry, market, and design. When it comes to LP design, the earning mechanism is the most important driver. Direct and immediate rewards have the most positive effects when new programs are introduced.
- Fees can make customers more engaged in the program and stimulate sales but might lead fewer customers to join. It might be beneficial to tailor fee-based programs to certain customer groups. A complex combination of rewards make consumers more likely to join a fee-based program.

MAY 11

Next CFR EARLY INSIGHT

Ideas, feedback, comments?
Please tell us by e-mailing karl.strelis@hhs.se