

Louvain School of Management

What drives customer participation in loyalty programs?

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Introduction

Relationship marketing, both in research and in practice, has increasingly gained in importance over the last decades and loyalty programs have become a widely used customer relationship management tool (Robert W. Palmatier, Dant, Grewal, & Evans, 2006). Whereas in the past, loyalty programs were reserved to the big retailers, they are now used across all sectors. Supermarkets, perfume stores, gas stations, hotels, airlines, coffee shops, and even banks implement loyalty programs hoping to retain their customers.

From a company's perspective, introducing loyalty programs represents a way of increasing or at least maintaining a customer base in times of severe competition and price pressures (De Wulf, Odekerken-Schroder, de Canniere, & Claudia van, 2003; Evanschitzky et al., 2012).

From a consumer's perspective, consumers continue to enrol in loyalty programs, but only rarely become active members, an active member being one who earns or redeems at least once a year (Berry, 2015). In the U.S., households hold memberships in 29 loyalty programs, but are only active in 12 of them. The corresponding figures in the 2013 report were 22 and 9, indicating a decline of two percentage points in the active membership rate (Berry, 2015). These figures obviously put into question the effectiveness of loyalty programs.

Indeed, reviews regarding the effectiveness of loyalty programs are mixed. Some researchers claim that well designed loyalty programs may increase repeat-purchase rates, willingness to pay price premiums, advocacy, and share of wallet, whereas others question their impact on customer loyalty and company profitability (McCall & Voorhees, 2010).

Although previous research has been focused on various aspects of loyalty programs, relatively little is known about the factors that drive customer participation in loyalty programs. Yet, for loyalty programs to be successful, they require active

participation and thus, understanding the motivations and brakes to customer participation in loyalty programs is fundamental. Our study seeks to fill the gap in this area of research.

Therefore, the aim of this master thesis is to determine the factors that lead customers to participate or not in loyalty programs. Thus, we will study customers' attitude and behaviour towards loyalty programs to address the following research question:

What drives customer participation in loyalty programs?

More specifically, our research will be focused on the two following sub-questions:

- What are the factors that **motivate** customer participation in loyalty programs?
- What are the factors that **impede** customer participation in loyalty programs?

As regards the structure, this thesis will be divided into two main parts: the literature review and the practical part.

In the first part, we will study the theoretical concepts related to our research problem in order to develop a conceptual framework and to get a better understanding of our research problem. Loyalty programs are based upon relationship marketing and thus, it only seems natural to start our literature review by exposing the concept of relationship marketing. Next, we will focus on equity theory as this will allow us to comprehend what motivates consumers to participate in a relationship with a firm. Customer loyalty being at the centre of loyalty programs, we will explore this concept before turning our attention towards loyalty programs. We could not end our literature review without considering eventual negative outcomes of loyalty programs, which is why we will close this part by discussing customer frustration in loyalty programs.

In the second part, we will expose the qualitative study that we have conducted. We will start by defining the context of our study as well as the research problem. Then, we will detail the methodology followed by the analysis technique used for this study. Afterwards, we will present and discuss our study results before advancing a number of

scientific and managerial recommendations. We will close this part by exposing the limitations of our research.

Finally, we will conclude this thesis by summarizing the key elements of our study and by highlighting the scientific and managerial implications of our study.

Part 1: Literature review

The first part of this paper aims to provide a theoretical framework for our research by reviewing the existing literature related to customer participation in loyalty programs. As loyalty programs are part of relationship marketing activities, we consider it essential to dedicate the first chapter of this literature review to the concept of relationship marketing. In fact, understanding the theoretical background and the objectives of relationship marketing as well as the factors that influence its effectiveness will allow us to better comprehend the rationale behind loyalty programs. Many researches have referred to equity theory to explain customers' motivation to participate in a relationship with a firm which is why the second chapter will focus on equity theory and its implications for loyalty programs. Next, we will turn our attention towards the main purpose of loyalty programs, namely customer loyalty. Indeed, we believe that it is vital to get a clear understanding of what customer loyalty is and how firms can stimulate customer loyalty to be able to analyse loyalty programs and their effectiveness. Therefore, chapter three will focus on customer loyalty whereas chapter four will concentrate on customer loyalty programs. To have a clear comprehension of the subject, we will also need to consider the eventual negative outcomes of loyalty programs which is why the last chapter will analyse customer frustration in loyalty programs.

1. Relationship marketing

We will start this chapter by exploring the concept of relationship marketing and exposing its benefits and drawbacks. Afterwards, we will analyse the factors that influence the effectiveness of relationship marketing before ending this chapter with a brief conclusion.

1.1. Definition and theoretical foundation

The notion of relationship marketing was officially introduced by Berry (1983, p. 25) who described relationship marketing as "attracting, maintaining, and enhancing customer relationships". Morgan and Hunt (1994, p. 22) argued that relationship

marketing does not solely occur between buyers and sellers and thus, proposed a definition that embodies all forms of relational exchange: "Relationship marketing refers to all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges". Later, Parvatiyar and Sheth (2000, p. 8) defined relationship marketing as "the ongoing process of engaging in cooperative and collaborative activities and programs with immediate and end-user customers to create or enhance mutual economic value, at reduced cost". Despite the divergences in the above three definitions, they all illustrate that relationship marketing focuses on individual relationships between the firm and its customers and/or other marketing actors, that these relationships are long-term oriented and that there exist benefits for both parties (Parvatiyar & Sheth, 2000; Sin, Tse, Yau, Lee, & Chow, 2002). For reasons of clarity and consistency, I will refer to the seller as the party that implements the relationship marketing with the aim of strengthening the relationship with the customer (Robert W. Palmatier et al., 2006).

Relationship marketing is often proposed in contrast to transaction marketing. While relationship marketing is a long-term approach that aims to build and preserve lasting connections with existing customers, transaction marketing is a short-term approach that attempts to make the sale and look for new customers (Kumar, Bohling, & Ladda, 2003; Zineldin & Philipson, 2007).

Advocates of relationship marketing state that relationship marketing leads to loyalty which in turn engenders company profitability (Kumar et al., 2003). However, recent studies have shown that the relation between loyalty and profitability is not as strong as commonly believed and that loyal customers do not necessarily lead to a higher profitability. Indeed, for some customers the cost of building and maintaining relationships exceeds the income generated. In other words, there are two types of customers; those with a short-time horizon and those with a long-time horizon. Nonetheless, a company needs both types of customers. Short-time customers, or transactional customers, provide cash flows which are essential for the company to survive in the short run whereas long-time customers guarantee profitability in the long run. Thus, relationship marketing cannot always be considered the most appropriate solution and rather than opting for either the one or the other approach, companies need

both transaction and relationship-oriented approaches to survive. With regards to relationship marketing, companies should proceed to an extensive analysis to identify the right customers for investing in relationship building (Kumar et al., 2003; Zineldin & Philipson, 2007).

Relationship marketing has proven beneficial for both parties; the seller and the customer. On the one hand, relationship marketing activities engender stronger customer-seller relationships and thereby, improve the seller's financial outcomes including sales growth, share of wallet and profitability (Robert W Palmatier, 2008). Additionally, relationship marketing has many organizational benefits such as higher retention, reduced price sensitivity and opportunities for up-selling and cross-selling (Jones et al., 2015). On the other hand, customers enjoy numerous advantages like special treatment, confidence, social and time-savings (Jones et al., 2015).

Nonetheless, some drawbacks have also been identified. Indeed, relationship marketing efforts are sometimes negatively perceived by consumers. Sharing personal information with companies is still an issue for many consumers (Ashley, Noble, Donthu, & Lemon, 2011). Besides this, consumers are nowadays overloaded with companies' marketing efforts and are suspicious towards companies that wish to build a relationship with them (Jones et al., 2015). They feel used and manipulated as they have the impression that companies do not reciprocate and only aspire to gather consumer information and increase sales.

In addition to that, some customers simply do not wish to develop relationships with companies (Jones et al., 2015; Kumar et al., 2003). Therefore, it is fundamental for companies to segment their customer base and concentrate their relationship marketing efforts on those customers that are truly interested in building relationships.

As Kumar et al. (2003) pointed out, a customer may repeatedly buy from a firm for various reasons, including convenience or high switching costs, which not necessarily imply a true intention to develop a relationship. Thus, it is crucial for companies to identify the customers that have a high degree of relationship intention which means that they have a high "willingness of a customer to develop a relationship with a firm while

buying a product or a service attributed to a firm, a brand, and a channel” (Kumar et al., 2003, p. 667). Indeed, those customers present many advantages for a firm, such as low price sensitivity, low cost to serve, high word-of-mouth promotion, and high company advertisement. As a result, the profitability, which is the ultimate objective of the firm, increases with the duration of the customer’s stay. Firms can influence the relationship intention of their customers by increasing the perceived firm equity, the perceived brand equity, and the perceived channel equity.

Besides relationship intention, consumers’ attitude towards relationship marketing also plays an important role. Jones et al. (2015) argued that consumers’ attitude towards relationship marketing has a strong positive impact on their likelihood of developing a relationship with a company and thus, badgering consumers that are not interested in developing relationships with relationship marketing materials has the opposite effect and may ultimately lead them to switch companies. This underlines the need for a company to know his customer and his preferences in order to improve his attitude towards relationship marketing and thereby, its likelihood to positively respond to the company’s relationship marketing efforts.

1.2. Relationship marketing effectiveness

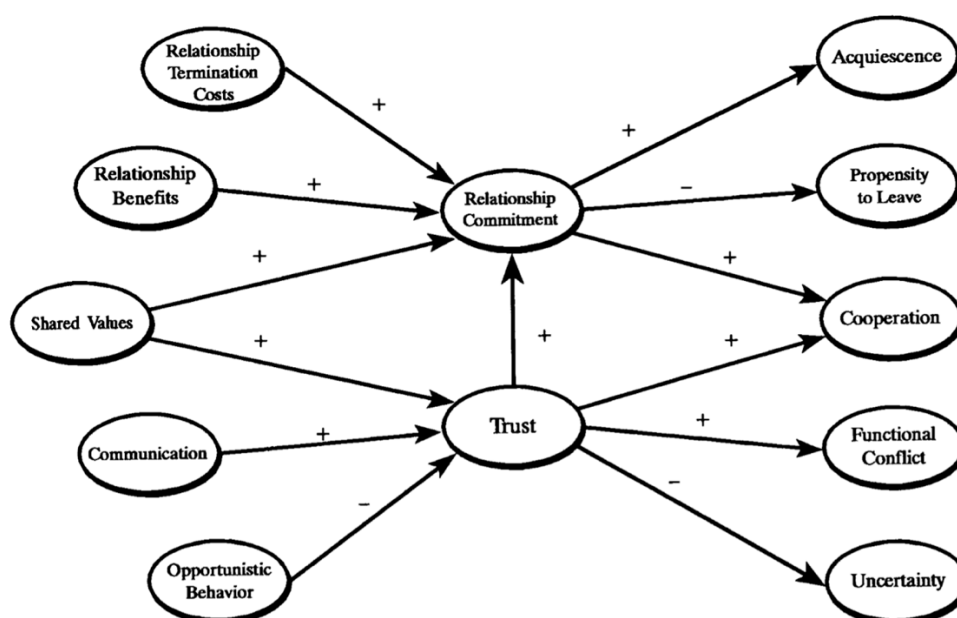
A considerable amount of research has been dedicated to the factors influencing the success of relationship marketing. Most research is based upon a conceptual model in which relational constructs mediate the effects of relationship marketing strategies, also called antecedents, on outcomes. Yet, researchers fail to agree about which relational mediator is key to performance outcomes. Thus, the following section will analyse the relational mediators that play a role in the effectiveness of relationship marketing.

1.2.1. The commitment-trust theory

According to Morgan and Hunt (1994), relationship commitment, defined as “an enduring desire to maintain a valued relationship” (Moorman, Zaltman, & Deshpande, 1992, p. 316), and trust, defined as “a willingness to rely on an exchange partner in whom one has confidence” (Moorman, Deshpande, & Zaltman, 1993, p. 82) are the key

components of successful relationship marketing. Their findings indicate that the presence of relationship commitment and trust engenders, among others, cooperative behaviours which are at the essence of relationship marketing. Therefore, they position relationship commitment and trust as key mediating variables in a firm's relational exchanges with its partners. Furthermore, commitment is positively influenced by relationship termination costs and shared values whereas trust is affected by communication, opportunistic behaviour and shared values (Morgan & Hunt, 1994). Figure 1 provides an overview of the factors influencing the mediating variables and of the outcomes generated by the mediating variables (Morgan & Hunt, 1994).

Figure 1. Relationship Commitment and Trust: the key mediating variables of relationship marketing.



Reprinted from "The Commitment-trust theory of relationship marketing," by R. M. Morgan, & S. D. Hunt, 1994, *Journal of Marketing*, 58(3), p. 22. Copyright 1994 by American Marketing Association.

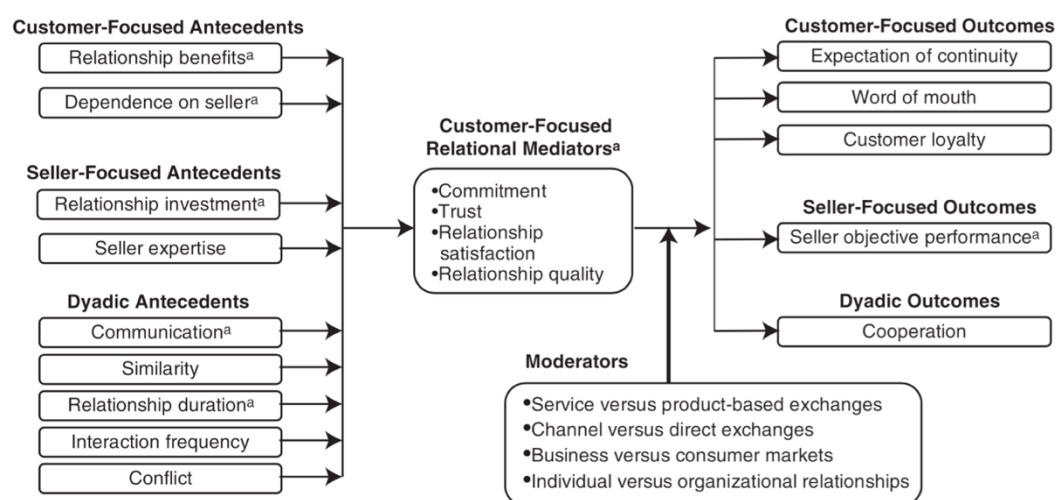
1.2.2. A meta-analytic framework

However, Palmatier et al. (2006) demonstrated that the linkage between antecedents, relational mediators and exchange outcomes is more complex than that. In their meta-analysis, they identified four relational mediators (i.e., commitment, trust, relationship satisfaction, and relationship quality) that connect the antecedents and outcomes, which are both classified as "customer-focused", "seller-focused" or "dyadic"

depending on the perspective. Figure 2 allows a better understanding of their analysis by depicting the different links that exist between the antecedents, the relational mediators, and the outcomes (Robert W. Palmatier et al., 2006). Their study supports the general idea that relationship marketing and strong relationships positively influence performance.

Nevertheless, they also reveal that relationship marketing strategies have distinctive effects across the different relational mediators which in turn affect outcomes differently. For example, customer relationship benefits have the strongest influence on commitment whereas relationship investments, which comprise the time, effort and resources invested in building relationships from the seller's perspective, have the least effect on commitment. Likewise, commitment has the greatest impact on customer loyalty whereas relationship quality, described as an "overall assessment of the strength of a relationship" (Robert W. Palmatier et al., 2006, p. 138), has the greatest impact on seller objective performance. These findings indicate that there is no such thing as the most effective relationship marketing strategy or the key relational mediator. Rather, markets should focus on building relationships that are strong on all its key aspects and on targeting strategies to address specific relational aspects.

Figure 2. Relational Mediator Meta-Analytic Framework of Relationship Marketing.



Reprinted from "Factors Influencing the Effectiveness of Relationship Marketing: A Meta-Analysis," by R. W. Palmatier, R. P. Dant, D. Grewal, & K. R. Evans, 2006, *Journal of Marketing*, 70(4), p. 137. Copyright 2006 by American Marketing Association.

1.2.3. The role of customer gratitude

Additionally, Palmatier et al. (2006) notice that the existing relational-mediated framework is lacking one or more mediators in order to be comprehensive. Thus, Palmatier, Jarvis, Bechkoff, and Kardes (2009) analyse the effect of gratitude followed by a desire to reciprocate on performance. Gratitude typically occurs after receiving a benefit and has two components: affective and behavioural. The affective component refers to feelings of gratefulness for receiving a benefit whereas the behavioural component relates to actions undertaken to respond to the benefits received. Regarding its role in relationship marketing, gratitude not only mediates a stronger effect on performance outcomes than commitment but also enhances customer's trust in the seller resulting in an improved relational performance. Due to the feelings of gratitude induced by relationship marketing, customers feel the need to reciprocate and engage in positive gratitude-based behaviours. This obviously leads to higher sales but also initiates a cycle of reciprocation and thereby, reinforces the overall relationship.

These findings are of great importance as they provide a basis for new strategies that managers can implement to improve the effectiveness of their relationship marketing (Robert W. Palmatier et al., 2009). First of all, sellers should design programs in a way that they increase the customers' perception of the seller's free will. Offering flexible and customizable programs positively influences the customer's perception of free will and thus, has a great impact on his feelings of gratitude or his need to reciprocate. Secondly, sellers should carefully choose the moment and the value of the relationship marketing benefit. Indeed, the customer's gratitude increases with the need for the benefit and the perceived value of the benefit. Thirdly, sellers should enable customers to reciprocate soon after receiving a relationship marketing benefit as their feelings of gratitude tend to decline in time.

To conclude, when correctly implemented and directed towards the right customers, relationship marketing has many potential benefits. Regarding the effectiveness of relationship marketing, various relational constructs mediate the effects of relationship marketing strategies on outcomes but there is not one strategy or one mediator central to the success of a company's relationship marketing. Marketers should start by determining the relational aspects they wish to target as well as the outcomes they desire to obtain through their relationship marketing. This will guide their decision with regards to which strategy and relational mediator to focus on. Among the most common mediators are trust, relationship commitment, relationship satisfaction, relationship quality, and gratitude. Ultimately, marketers should make sure to build strong overall relationships. Now that we have a better understanding of the concept of relationship marketing, it remains to be determined what drives consumers to participate in a relationship with a firm, which will be the focus of the next chapter.

2. Equity theory

Many researchers have built upon equity theory to explain consumers' motivation to participate in a relationship with a firm, which is why we will discuss equity theory in this chapter. We still start by describing the principles of equity theory. Next, we will apply the concept of equity theory on relationship marketing, and particularly, on loyalty programs, before ending this chapter with a brief conclusion.

2.1. Theoretical foundation

Establishing and maintaining buyer-seller relationships is at the basis of relationship marketing. However, managing an effective relationship in a consumer context characterized by intense competition and price pressures remains a challenge (De Wulf et al., 2003). Therefore, it is fundamental to understand what drives consumer participation in an exchange relationship with a firm.

Equity theory states that "people compare the ratios of their perceived outcomes to their inputs with the corresponding ratios of others" (Samaha, Palmatier, & Dant, 2011, p. 102). Equity theory is closely linked to the concept of fairness. Indeed, exchanges tend to be considered as fair when the ratio of input and outcomes is the same for all participants (Darke & Dahl, 2003). More specifically, people compare the ratios of their perceived outcomes relative to inputs with the corresponding ratios of others to make assessments about two distinctive categories of unfairness or injustice, namely distributive justice and procedural justice. The former relates to who received what, or unfairness of the outcome, whereas the later refers to how it was received, or unfairness of the process (Henderson, Beck, & Palmatier, 2011).

Therefore, inequity appears when the perceived inputs and/or outcomes are not in balance with the perceived inputs and/or outcomes of the referent (De Wulf et al., 2003). In other words, inequities emerge when the ratios of input and outcomes are not perceived as fair. The perception of inequities, or the perception of fairness, will influence the level of satisfaction as well as the behaviour of the parties involved. More specifically, the party with the lower ratio will display feelings of dissatisfaction, anger, or

resentment, whereas the party with the higher ratio will exhibit positive feelings and increased satisfaction (Darke & Dahl, 2003; De Wulf et al., 2003).

Generally, people respond to perceived inequities by adapting their own inputs or by initiating a punitive behaviour that penalizes the other party with the aim of restoring a more equitable state (Samaha et al., 2011). In the context of buyer-seller relationships, perceived unfairness may lead customers to punish the seller and thereby, deepen the negative effects of existing conflict. As a consequence, perceived unfairness has a strong negative impact on the quality of a relationship and damages relationship marketing activities, and subsequently, firm performance.

2.2. Equity theory and loyalty programs

Based upon the principles of equity theory, customers should receive benefits or rewards in accordance with their own relative efforts or inputs (Samaha et al., 2011). Indeed, if consumers consider the costs associated with their participation in a relationship marketing program such as a loyalty program as too elevated, they will avoid engaging in the program (Ashley et al., 2011).

Therefore, De Wulf et al. (2003) argue that equity theory plays a role in the consumer's decision process regarding his participation in a loyalty program. More specifically, both the participant and the provider of the program will have to renounce to something and they expect the cost of renouncing to be offset by the advantages received. On the one hand, the participant trades some freedom of choice regarding the provider selection for the rewards offered by the loyalty program. On the other hand, the provider is willing to add extra value for the participant through customer rewards as he expects the net present value of the long-term relationship with the participant to be positive.

As a conclusion, equity theory states that people should receive benefits or rewards proportional to the relative efforts or inputs they provide. Perception of equity or inequity directly leads to fairness judgements, which has a significant impact on the buyer-seller relationship. Applied to relationship marketing programs, perceived unfairness has a strong negative effect on the success of the program.

3. Customer loyalty

As discussed in the first chapter, increasing customer loyalty represents one of the main objectives of relationship marketing which is why this chapter will focus on the notion of customer loyalty. First of all, we will expose the theoretical foundation of customer loyalty and present customer loyalty as a two-dimensional construct composed of attitudinal and behavioural loyalty. Then, we will briefly discuss the different types of loyalties before focusing on the main drivers of customer loyalty. Finally, we will analyse the difference between customer loyalty and customer program loyalty followed by a short conclusion.

3.1. Definition and theoretical foundation

Achieving customer loyalty constitutes an elementary marketing goal which is why customer loyalty is more than often at the centre of marketing efforts (Watson, Beck, Henderson, & Palmatier, 2015). Through their loyalty programs, companies hope to develop customer loyalty to ultimately increase profitability. Yet, there is no universally agreed definition of customer loyalty.

According to Jacoby and Chestnut (1978), loyalty is determined by three conditions. Firstly, on a cognitive level, the consumer is able to prove that the chosen brand is superior to its competitors. Secondly, on an emotional level, the consumer must evidently prefer the brand to others. Thirdly, the consumer must have the intention to purchase the brand again.

Watson et al. (2015) argued that from a conceptual standpoint customer loyalty can be defined as “a collection of attitudes aligned with a series of purchase behaviours that systematically favour one entity over competing entities” (Watson et al., 2015, p. 803), but suggested that empirical definitions should add a temporal aspect. Therefore, the definition by Oliver (2014) seems appropriate as he includes the notion of stability over time by describing loyalty as “a deeply held psychological commitment to repurchase a product or repatronize a service in the future despite obstacles or disincentives to achieve the consumption goal” (Oliver, 2014, p. 23).

For Lichtlé and Plichon (2008), loyalty is determined by “the persistence, consistency, coherence and tendency of the relationship over time, as well as the capacity of the consumer to resist brands that do not belong to his loyalty set” (Lichtlé & Plichon, 2008, p. 127). Indeed, they argue that the exclusive aspect of loyalty is not mandatory and that having multiple loyalties should be understood as being loyal to several brands within a set rather than being disloyal.

Historically, two main approaches have emerged, namely the attitudinal and the behavioural approaches. However, some argue that customer loyalty should not be explained by one or the other approach, but should rather be considered as a two-dimensional construct. Thus, the following section will further detail the two-dimensional concept of customer loyalty.

3.2. A two-dimensional approach

3.2.1. Attitudinal approach

According to the attitudinal approach, a consumer is loyal when he has developed a positive attitude towards a brand (Lichtlé & Plichon, 2008). In this way, attitudinal loyalty refers to attitudinal preference as well as commitment towards the brand (Bennett & Rundle-Thiele, 2002). Strong attitudes have an impact on many customer performance-related behaviours. Thus, customers with a strong positive attitude may resist competitors’ offers even when they are better (Watson et al., 2015).

Generally, attitudinal loyalty is measured using repurchase intention, price tolerance, resistance against better alternatives, intention to advocate the product or service, and word-of-mouth (Baloglu, 2002; Lichtlé & Plichon, 2008; Szczepanska & Gawron, 2011). Furthermore, attitudinal loyalty can either be measured via its antecedents or via its outcomes. On the one hand, antecedents comprise consumer commitment and consumer attachment. For instance, customers may be asked how much they like the brand or how much they feel committed to the brand (Uncles, Dowling, & Hammond, 2003). On the other hand, outcomes or consequences include consumer

recommendation and positive word-of-mouth. For example, customers may be questioned if they will recommend the brand (Uncles et al., 2003).

3.2.2. Behavioural approach

The behavioural approach states that a consumer is loyal when he regularly buys the same brand (Lichtlé & Plichon, 2008). Thus, behavioural loyalty involves repeated purchases that are obviously beneficial for a firm's financial performance (Watson et al., 2015). However, proponents of the behavioural approach often ignore the possibility that repetitive purchase behaviour may stem from reasons other than loyalty, such as lack of alternatives (Watson et al., 2015).

According to the behavioural approach, loyalty may be measured via purchase or visit frequency, time or amount spent at every visit, (re)purchase probability, purchase sequence, retention rate, and switching behaviour (Baloglu, 2002; Lichtlé & Plichon, 2008; Szczepanska & Gawron, 2011). As these measurements are based upon customer behaviours that are easily observed, it seems evident that behavioural measurements are less difficult to implement and monitor than attitudinal measurements (Lichtlé & Plichon, 2008).

3.2.3. Mixed or composite approach

The mixed or composite approach indicates that a favourable attitude towards a brand must be accompanied by repurchase behaviour (Lichtlé & Plichon, 2008). Accordingly, a loyal customer is one who repeatedly purchases a brand as a result of positive feelings towards the brand. Thus, the mixed or composite approach refers to loyalty as being composed of attitudinal and behavioural elements, which is also the approach that we will adopt throughout this paper.

To conclude, customer loyalty requires both a favourable attitude and repeat purchase behaviour. On the one hand, focusing on behaviour alone prevents capturing the motivations behind the purchases. By studying behaviour alone, one ignores if the repeat purchase occurs for reasons of convenience or true loyalty (Baloglu, 2002; Lichtlé

& Plichon, 2008). On the other hand, focusing on attitude does not provide any explanations regarding competitive effects, familiarity and situational factors (Baloglu, 2002). Therefore, customer loyalty should be considered as a two-dimensional construct, composed of attitudinal and behavioural elements.

Nevertheless, measuring loyalty remains a challenge. There are various measures suggested by literature, some including attitudinal elements, some including behavioural elements and some even including both. Given that we conceptualize loyalty as being composed of attitudinal and behavioural aspects, it only seems logical to consider loyalty measures that assess both attitudes and behaviours. Besides this, studies have shown that both aspects of loyalty together have a greater impact on objective performance than either alone (Watson et al., 2015).

3.3. Loyalty typology

Based upon the cross-classification of attitudinal and behavioural loyalty, a loyalty typology can be established. Figure 3 (Baloglu, 2002) shows the four different types of loyalty: low (or no) loyalty, spurious loyalty, latent loyalty, and high (or true) loyalty (Baloglu, 2002). First of all, customers with low loyalty are characterized by a weak attitudinal attachment and low repeat patronage. Secondly, those with spurious loyalty express high patronage levels although they are not strongly attached to the brand or company. Thirdly, customers with latent loyalty do not make frequent purchases despite holding a strong attachment to the brand or company. Lastly, those with high loyalty exhibit high levels of both attitudinal attachment and repeat patronage. This classification indicates that loyalty appears under different forms. Therefore, the value of loyalty for a firm is not solely influenced by the level of loyalty, but also by the composition in the customer portfolio (Watson et al., 2015).

Figure 3. Loyalty typology based on attitude and behaviour.

		Attitude	
		Low	High
Behavior	High	Spurious Loyalty	True Loyalty
	Low	Low Loyalty	Latent Loyalty

Reprinted from "Dimensions of customer loyalty: Separating friends from well wishers," by S. Baloglu, 2002, *Cornell Hotel and Restaurant Administration Quarterly*, 43(1), p. 48. Copyright 2002 by Cornell University.

3.4. Drivers of customer loyalty

Throughout literature, three main drivers of customer loyalty have been identified, namely commitment, trust, and satisfaction. First of all, commitment, or the desire to maintain a relationship (Moorman et al., 1992), has proven to be a central antecedent of company loyalty (Evanschitzky et al., 2012). Secondly, numerous researchers have demonstrated a positive relationship between loyalty and trust, also defined as a "willingness to rely on an exchange partner in whom one has confidence" (Moorman et al., 1993, p. 82). For instance, Morgan and Hunt (1994) positioned both commitment and trust as the key mediating constructs of relationship marketing. Thirdly, satisfaction refers to the "overall evaluation of the extent to which the object (e.g. product/service) has fulfilled the customer's expectations over time" (Hansen, Samuelsen, & Sallis, 2013, p. 1161). Even though all three elements have a strong positive effect on company loyalty, commitment and trust are said to play a more important role than satisfaction (Evanschitzky et al., 2012).

3.5. Company loyalty and program loyalty

The notion of customer loyalty typically comprises company or brand loyalty and program loyalty. However, customers loyal to a program do not automatically become loyal to the company or the brand (Evanschitzky et al., 2012). For instance, Uncles et al.

(2003) argued that in case of an attractive program, customers may rather build a relationship with the program than with the brand. Whereas program loyalty refers to a positive attitude towards the benefits of the loyalty program, company loyalty, or brand loyalty, relates to the positive attitude towards the company brand (Evanschitzky et al., 2012).

As the two loyalties differ in their nature, they also have different antecedents (Evanschitzky et al., 2012). As described in the previous section, company loyalty is mainly driven by commitment, trust, and satisfaction which all concern the quality of the relationship between the customer and the company. As for program loyalty, the findings by Evanschitzky et al. (2012) indicate that economic drivers, such as the economic value offered by the program, have a significant effect on program loyalty. In other words, compared to program loyalty, company loyalty is more emotion-based. Although the effectiveness of loyalty programs will be discussed in the following chapter, a major conclusion can already be drawn here. For their loyalty programs to be successful in the long term, companies should focus on offering both emotional and economic benefits to the customers.

To conclude, there is no universal definition of customer loyalty despite its importance in marketing literature. We decided to consider customer loyalty as a two-dimensional construct, composed of attitudinal and behavioural elements. In that way, customer loyalty refers to a favourable attitude towards a brand, accompanied by repurchase behaviour. Based upon the level of each component, attitudinal and behavioural, four different types of loyalty can be distinguished. Finally, the notion of customer loyalty is generally used to describe company or brand loyalty and program loyalty which are two distinctive concepts that should not be confused. Indeed, company or brand loyalty refers to a positive attitude towards the company or brand and is mainly driven by the quality of the buyer-seller relationship whereas program loyalty relates to a positive attitude towards the benefits of the program and is largely stimulated by economic drivers.

4. Customer loyalty programs

Now that we have analysed the concepts of relationship marketing, equity theory and customer loyalty, we will turn our attention towards loyalty programs, which are at the centre of this paper. We will start this chapter by exposing the theoretical background of loyalty programs. Then, we will briefly describe the potential obstacles to loyalty programs before presenting the different types of loyalty programs that exist. Afterwards, we will focus on the underlying mechanisms of loyalty programs. Finally, we will analyse the factors influencing the effectiveness of loyalty programs before concluding this important chapter.

4.1. Definition and theoretical foundation

Many different terms are used to describe loyalty programs, including reward programs, frequency reward programs, loyalty cards and loyalty schemes. In this paper, the term “loyalty program” is used to encompass all these terms and loyalty programs are defined as “any institutionalized incentive system that attempts to enhance consumers’ consumption behaviour over time beyond the direct effects of changes to the price or the core offering” (Henderson et al., 2011, p. 258).

Furthermore, loyalty programs should have the following attributes: they should be structured, long-term oriented, foster loyalty, reward members based on their current or future value to the firm, and adapt its marketing efforts to its members (Dorotic, Bijmolt, & Verhoef, 2012). Firstly, a structured loyalty program means that the program should be membership-based. This enables the program provider to acquire some information about its members which can be used to improve the relationship between both parties. Secondly, loyalty programs should not be introduced for only a short period of time as they are expected to form a long-term investment for both the provider and the members. Thirdly, loyalty should stimulate customer retention and customer share development and thereby, foster attitudinal and behavioural loyalty. Fourthly, loyalty programs should reward customers for their loyalty based upon their current or future value to the program provider. Rewards may for instance consist in discounts, gifts, or preferential

treatment. Lastly, the provider of the loyalty program should make sure that its marketing efforts fit the members, for instance through personalized offers or mailings.

As it is for most relationship marketing programs, loyalty programs' ultimate goal is to increase company profitability. They aim to do so through incrementing sales revenues and preserving the current customer base (Uncles et al., 2003).

The main benefits of a loyalty program include increased customer loyalty, greater advocacy, higher repeat-purchase rates, lower price sensitivity, and stronger attitudes towards brands and retailers (Berman, 2006; McCall & Voorhees, 2010).

Additionally, if the loyalty program keeps track of the customer's purchase history, it has many more perks for the firm, such as access to valuable information on consumers and consumer trends, ability to target specific consumer segments, higher average sales through up-selling and cross-selling, and greater success in implementing product recalls (Berman, 2006).

4.2. Potential obstacles

Despite the previously cited benefits, loyalty programs also face a number of potential obstacles which companies should be aware of (Berman, 2006).

Firstly, in many mature markets, firms offer loyalty programs that are similar with regards to membership provisions, purchase requirements, and rewards. As a consequence, firms are unable to derive long-term competitive advantages from their loyalty programs, but at the same time, they do not want to pull out from their loyalty program commitments fearing they could lose sales.

Secondly, customers often join multiple loyalty programs of competing companies when their product offering and/or their loyalty programs are similar. Thus, they switch loyalty among these programs and are not loyal to one specific company.

Thirdly, firms often fail to choose the most accurate type of program. Indeed, when considering implementing a loyalty program, firms should take a number of variables into account, including the resource levels, the type of customer that they aim to attract, or the degree of managerial commitment to the program.

Fourthly, firms tend to focus too much on monetary or gift rewards. Instead of solely offering discounts or free products, firms may use other benefits to stimulate loyalty based on purchase volumes. Therefore, they may reward their most loyal customers by offering them additional benefits, such as special customer support, personal shoppers, or preferential access to offers, which may be considered as more valuable to these customers.

Fifthly, firms should not use their loyalty program to cover up for ineffective marketing. Indeed, the aim of a loyalty program is to reinforce customer loyalty and thus, a loyalty program should not be the reason that consumers purchase a particular brand or buy from a specific retailer.

Lastly, program privacy issues represent a major potential pitfall. Firms that use customer databases for their loyalty program must ensure that they control the access of sensitive data such as income, social security number and purchase history.

These potential pitfalls underline the need for companies to offer a loyalty program that is suited to the customer's needs and that differentiates itself from those of its competitors.

4.3. Loyalty program typology

There are various ways to categorize loyalty programs. We chose to put forward the classification proposed by Berman (2006), which is based on the complexity of the program and distinguishes four main categories.

Type 1, the most basic format, provides members with an additional discount at the register. Membership is open to all customers and each customer gets the same discount

disregarding of his or her purchase history. Thus, the program does not encourage repeat purchasing and only rewards card ownership instead of loyal behaviour. For example, Acuitis, an optician, provides their members with a 10% discount each time they purchase contact lenses.

Type 2 rewards members by giving them one free item when they have purchased a determined number of units. The firm does not need to maintain a customer database as the customer keeps hold of his or her purchases, often under the form of a card. Examples of type 2 programs include a free juice (Guapa) or a free sandwich (Panos).

Type 3 offers members rebates or points based on cumulative purchases. For this type of program, the firm needs to maintain a database that tracks a member's purchases and points. For instance, members of the loyalty program by Delhaize or Carrefour receive 1 point for each 2€ spent. Once members have collected 500 points, they will get a 5€ voucher.

Type 4 provides members with targeted offers and mailings. This type of program necessitates a comprehensive customer database with customer demographics and purchase history. For example, Uber eats uses its membership program to attract consumers who have not used their service lately through sending them suggestions and discount codes.

All the programs except type 1 are built upon lower-level programs which means that firms can upgrade their program offerings.

4.4. Loyalty program mechanism

According to Henderson et al. (2011), loyalty programs induce a change in consumer behaviour based upon psychological mechanisms from three specific domains; status, habit and relational.

First of all, loyalty programs provide consumers a status which leads to a positive comparison with others. In general, humans are attracted by status-based systems and

the opportunity to elevate their status. Conferring an elevated status to customers may thus motivate them to behave loyally. However, the effects of a possible decrease in status as well as the effects of the envy and hostility felt by other consumers may offset the benefits and thus, should not be neglected.

Secondly, loyalty programs create habits, and thereby, advantageous memory processes. To stimulate the formation of a habit, context stability is required and both initial purchase intention and repeated purchases should not directly be linked to the loyalty program incentives. The habit can be further developed through promoting interaction among consumers, in particular through encouraging social shopping. Indeed, this provides for targeted consumers a stable social context and thereby, strengthens the habit, and for non-target consumers incentives to imitate the behaviours of target consumers.

Thirdly, loyalty programs build relationships which engenders a more favourable treatment by consumers. For some time now firms have understood the multiple benefits that relationship marketing entails and thus, focus on relationship-building loyalty programs. Factors that play a key role in initiating a strong relationship include benevolent motives, discretionary rewards, and communal qualities signalled by the firm. The impact of the relationship is even stronger when consumers develop a relationship with an individual employee as opposed to the overall company and when the program rules are perceived as fair.

4.5. Loyalty program effectiveness

Despite considerable interest and investment in loyalty programs, the number of active members remains relatively low and the impact of loyalty programs on company profitability is more than often called into question. Thus, designing and maintaining an effective loyalty program remains a challenge. Based upon the findings by McCall and Voorhees (2010) and Steinhoff and Palmatier (2016), the elements that determine the effectiveness of a loyalty program can be grouped into four categories; the structure of the loyalty program, the structure of the rewards, the consumer fit with the loyalty program, and the effects of loyalty programs on target and bystander customers.

4.5.1. The structure of the loyalty program

There are two prevailing loyalty program structures, namely frequency reward and customer tier (Dorotic et al., 2012). On the one hand, frequency reward programs grant discounts or gifts to all members who reach a given threshold. They are typically of the form “Buy X amount or times, get a reward”. On the other hand, customer tier programs divide customers into different categories and give them rewards based upon the category they are in. In other words, the value of the rewards grows as the customer increases his cumulative spending within the firm and moves up to a higher category. This type of structure being more complex, it merits further elaboration.

Customer tier programs have proven to be particularly powerful. They give customers a sense of identity and fit, not only with the firm but also with other alike customers (McCall & Voorhees, 2010). Furthermore, tiered programs enable firms to further segment their customers and adapt their rewards to the different customer tiers. To be effective, a customer tier program should meet four requirements (Dorotic et al., 2012). First of all, the firm must establish significant differences between the different tiers. Secondly, the firm needs to discriminate among customers without discouraging those who are sensitive to what they get in comparison to others. Thirdly, the program needs to motivate customers to boost their loyalty over time. Lastly, the firm should not neglect the fact that high-tier customers will be more critical in their evaluations. Indeed, the segmentation of loyalty program members raises high-tier customers’ perception of status which leads to overall positive feelings regarding the relationship, but it may also make them more demanding and vulnerable.

4.5.2. The structure of the rewards

Loyalty programs offer a wide range of rewards which can be differentiated according to their nature and utility.

Regarding the nature of the reward, one distinguishes between direct and indirect rewards. Direct rewards are tied to the provider’s offering or line of business whereas indirect rewards are typically unrelated (Dorotic et al., 2012). Several studies have shown

that the involvement of the consumer influences the evaluation of direct and indirect rewards (McCall & Voorhees, 2010). Indeed, consumers who are highly involved in a product category consider the consistency between the provider and the reward as important and thus, prefer direct rewards. On the contrary, consumers who are less involved in a product category are relatively indifferent between direct and indirect rewards.

As regards utility, most rewards provide either acquisition or exchange utility. On the one hand, acquisition utility refers to direct benefits of the loyalty program and typically includes economic rewards and other tangible rewards (McCall & Voorhees, 2010). Those kind of rewards, also known under the name of hard rewards, generally provide savings through discounts, coupons, rebates or cash (Dorotic et al., 2012). Although hard rewards are favoured among customers, they may decrease customer loyalty as they draw the attention from the brand to the reward, and thereby, lower customers' intrinsic relationship motivation.

On the other hand, exchange utility relates to intangible rewards, also called soft rewards (McCall & Voorhees, 2010). Soft rewards offer psychological and emotional benefits, including preferential treatment, supplementary services or upgrades, special events, entertainment or raised status (Dorotic et al., 2012). They tend to be particularly effective to enhance brand loyalty as they reinforce attitudinal commitment,

4.5.3. The consumer fit with the loyalty program

Another important factor to the effectiveness of a loyalty program is whether the program fits the consumer's identity. Indeed, if the program meets the consumer's needs and he can relate to the benefits of membership, he will probably view the program positively and increase his purchase frequency (McCall & Voorhees, 2010). This view is supported by Ha and Stoel (2014) who demonstrate that the fit between a loyalty program's reward characteristics and a consumer's identity goal will reinforce the consumer's identity congruence which refers to a consumer's perception that his loyalty program membership is important. Thus, consumers who have value-expressive shopping goals will perceive their membership to be more significant when their loyalty

program offers rewards with value-expressive functions whereas consumers with utilitarian shopping goals will perceive their membership to be more significant when their loyalty program offers reward with utilitarian functions. Among the two types of rewards, value-expressive rewards have shown to be more effective. Moreover, the identity congruence can even be further enhanced when the loyalty program distinguishes itself from the other loyalty programs in the marketplace.

4.5.4. The effects on target and bystander customers

Loyalty programs have an impact on two types of customers; target customers, those who receive rewards, and bystander customers, members or non-members of the program who do not get rewards but watch others getting rewarded (Steinhoff & Palmatier, 2016). However, most research solely focuses on the effects of loyalty program on target customers and ignores the effects they may have on bystander customers.

Steinhoff and Palmatier (2016) have demonstrated that a loyalty program induces three kinds of comparisons; with reciprocity norms, with others, and of input-outcome ratios, which all influence the effectiveness of a loyalty program.

Firstly, comparisons with reciprocity consists in comparing expectations about the give and get in a relationship. In the framework of a loyalty program, if this comparison is positive for the target customer, he will express feelings of gratitude and a need to reciprocate which results in an increased loyalty program performance. This is in line with the findings by Palmatier et al. (2009), discussed in chapter one, who stated that feelings of gratitude engender a desire to reciprocate which positively affects firm performance.

Secondly, comparisons with others strongly affect customer status which relates to the customer's perception of occupying an important position within a firm's customer hierarchy. Comparisons among consumers tend to have a positive impact on target customers' status and a negative impact on bystander customers' status and thus, have an opposing effect on loyalty program performance.

Thirdly, comparisons of input-outcome ratios consist in customers comparing their own ratio of efforts to benefits, called internal equity, with the ratio of other customers, called external equity. Based upon their considerations of equity or inequity, customers make fairness judgements. As discussed in chapter two, perceived fairness or unfairness has a strong impact on the quality of a relationship, and subsequently, on relationship marketing programs. Due to cross-customer comparisons, loyalty programs may lead to unfairness perceptions among bystander customers which has a negative impact on loyalty program performance.

As a conclusion, despite the well-known benefits of loyalty programs for both the seller and the buyer, loyalty programs face a significant number of obstacles and designing and managing an effective program remains a challenge. There are a number of factors that influence the effectiveness of a program among which we considered the structure of the program, the structure of the rewards, the consumer fit with the program and the effects of the program on target and bystander customers to be the most significant. When creating a loyalty program, firms need to start by identifying their customers' needs to be able to design a program which is relevant to the individual customer. While deciding on a structure for the program as well as for its rewards, firms must consider the outcomes they want to achieve through their loyalty program. Finally, the effects of loyalty programs on bystander customers should not be neglected as this may help marketers understand "the potential dangers of prioritizing the few at the expense of the many" (Steinhoff & Palmatier, 2016, p. 89).

5. Customer frustration in loyalty programs

As discussed in the previous chapter, designing an effective loyalty program remains challenging. Indeed, loyalty programs frequently fail to achieve their intended objectives which is why we consider it important to discuss the eventual negative consequences of loyalty programs. More specifically, we will define the notion of frustration which may appear as a result of negative experiences with loyalty programs. Furthermore, we will expose a model of customer frustration in loyalty programs to provide a better understanding of the concept. Finally, we will end this chapter with a brief conclusion.

5.1. Definition and theoretical foundation

Loyalty programs aim to be beneficial for both the customer and the company. The former receives rewards for his loyalty whereas the latter benefits from a stronger customer base and increased sales revenues. However, those benefits only occur when customers consider participation in the program as rewarding and have no negative experiences, which is not always the case (Stauss, Schmidt, & Schoeler, 2005). Indeed, participants of loyalty do encounter negative experiences and complaints are numerous, including the rewards being of too little value, the supply of the products advertised as rewards being insufficient and the protection of private data being violated. Therefore, analysing the negative effects that loyalty programs may have on customers seems vital for the proper understanding of loyalty programs.

Frustration refers to a strong negative emotion as a result of the blocking or prevention of a possibly rewarding act or sequence of behaviour (Colman, 2009). Applied to loyalty programs, customer frustration may appear if customers do not receive the rewards promised by the company in exchange for their loyal behaviour or if they consider the benefits as worthless ((Stauss et al., 2005).

Frustration is not to be confused with dissatisfaction. As highlighted by Stauss et al. (2005), frustration differs in several aspects from dissatisfaction. Firstly, the concept of satisfaction relates to both positive and negative expectation disconfirmations whereas frustration solely refers to a negative expectation deviation. Secondly, dissatisfaction

regards the entire spectrum of unfulfilled expectations whereas frustration only concerns the negative consumer experiences in which the expected goal or reward is not accomplished. Thirdly, dissatisfaction may refer to a slightly negative emotion as opposed to frustration which is per definition a strong negative emotion. Fourthly, compared to frustration which supposes that customers have an explicit goal before the experience, dissatisfaction may emerge without customers being aware of their expectations before the experience. Lastly, frustration is based upon the assumption that customers expect to reach the aspired goal due to their previous experiences or promises by the company. However, this precondition is not necessary for the expression of dissatisfaction. As a consequence, frustration can be considered as the special form of a strongly felt dissatisfaction.

5.2. Model of customer frustration in loyalty programs

Figure 4 (Stauss et al., 2005) shows a model of customer frustration in loyalty programs that revolves around three elements: frustration incidents, frustration sensation, and frustration behaviour.

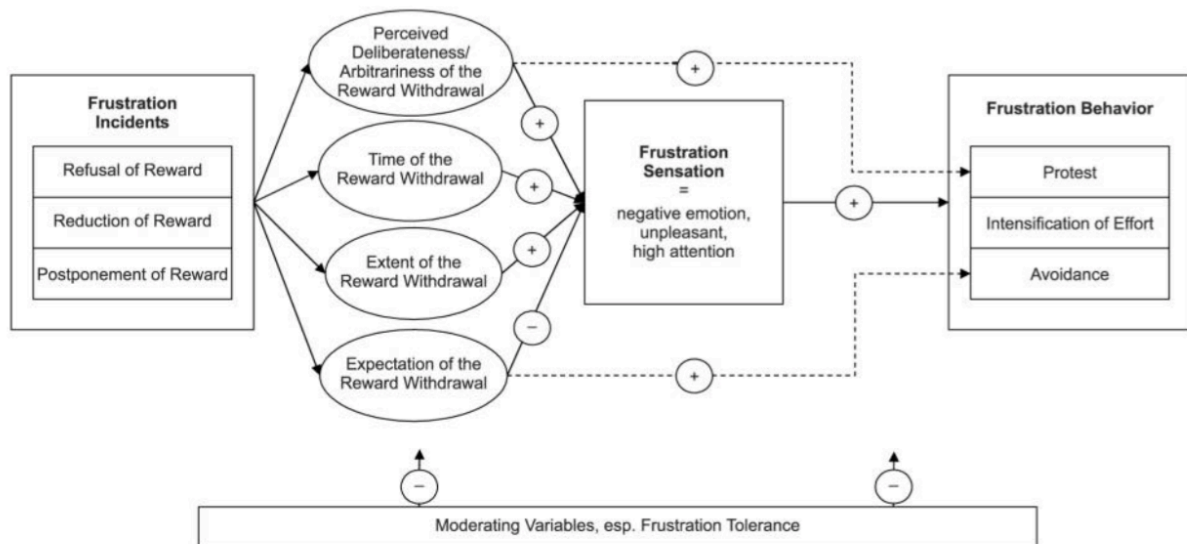
Generally, the model states that frustration incidents, including the refusal of reward, reduction of reward, and postponement of reward, trigger frustration sensation, also described as strong negative emotions, which lead to frustration behaviour. The latter relate to the actions undergone to diminish or eliminate the frustration sensation and comprise intensification of effort, protest and avoidance. More specifically, frustration incidents are either directly related to the loyalty program or to the relationship with the company and thus, the deriving sensation and behaviour differ. Indeed, in the case of relationship-related incidents, the incidents are also caused by the participation in the loyalty program, but the participants' frustration sensation and behaviour are directed towards the company and the relationship with this company whereas in the case of program-related incidents, the participants' frustration sensation and behaviour focus on the program itself.

On the one hand, program-related frustration incidents comprise difficulty of access, impossibility of claiming the reward, worthlessness of the reward, and redemption costs.

The deriving frustration sensation differs according to the extent of the reward withdrawal, the time of the reward withdrawal, the perceived deliberateness of the withdrawal, and the expectation of the onset of frustration. Thus, the participants' frustration sensation is stronger when the extent of the reward withdrawal is intense, when reward withdrawal occurs late, when the reward withdrawal is perceived to be relatively deliberate, and when participants do not expect that they will be frustrated. Furthermore, participants tend to react with avoidance behaviour when the onset of frustration is expected and with protest behaviour when the reward withdrawal is perceived to be deliberate or when the frustration sensation is intense. An intensification of efforts mainly occurs among participants who have not reached an exclusive status in the program yet but believe they can.

On the other hand, relationship-related frustration incidents include discrimination, defocusing, and economization. As participants who experience relationship-related frustration incidents are unable to intensify their efforts to lessen or eliminate the frustration sensation, they choose protest or avoidance behaviour.

Figure 4. Model of customer frustration in loyalty programs.



Reprinted from "Customer frustration in loyalty programs," by B. Stauss, M. Schmidt, & A. Schoeler, 2005, *International Journal of Service Industry Management*, 16(3), p.238. Copyright 2005 by Emerald Group Publishing Limited.

To conclude, firms need to know that frustration may arise among customers who encounter negative experiences with loyalty programs or who consider their participation in such a program as not rewarding. Frustration incidents engender strong negative emotions, referred to as frustration sensation, which in turn lead to frustration behaviour that manifests itself in an intensification of efforts, protest behaviour or avoidance behaviour. Additionally, the relationships between the model elements is moderated by frustration tolerance, which refers to the ability of a person to withstand a frustrating situation for a certain time without responding inadequately (Stauss et al., 2005). This model proves that it is fundamental for firms that customers perceive the core service as well as the quality of the program as satisfactory. Moreover, firms should carefully monitor customers' behaviour so that they are able to react once they detect the slightest sign of frustration behaviour.

Part 2: Practical part

Now that we have reviewed the existing literature on the subject of loyalty programs, we will present the study that we have conducted. We will start this part by briefly explaining the context of our study before introducing our research problem. Afterwards, we will focus on the methodology used for the purpose of our study. We will itemize the overall approach adopted for our research as well as the process used to collect data. Then, we will describe our analysis technique before presenting and discussing our study results. Ultimately, we will end this part by advancing some recommendations and limitations with regards to our research.

1. Context of the study

First and foremost, we will briefly put our study into context before moving onto exposing our research problem.

Our literature review revealed that loyalty programs, as part of relationship marketing programs, have been the focus of considerable interest of researchers and practitioners. However, many loyalty programs still fail to achieve their objectives and the impact of loyalty programs on company profitability has more than often be questioned. This may partially be explained through the scarcity of research focusing on consumers' motivation to participate in loyalty programs. In fact, for loyalty programs to be successful, they require active customer participation and thus, it is fundamental to understand what drives customer participation in loyalty programs. Our study seeks to fill the gap in this area of research.

The study by De Wulf et al. (2003) is one of the few studies that explored the drivers of customer participation in loyalty programs. Based upon the principles of equity theory, the authors realised a quantitative research in which they distinguished between consumer inputs and outputs as attributes influencing customer participation in loyalty programs. Their findings support the theory that consumers aim to maximise the expected outputs while minimising their inputs. Furthermore, their study indicates that

participation costs and program benefits are the main drivers of customer participation in loyalty programs. Despite the significant contributions by De Wulf et al. (2003), this area of research may be further explored.

Whereas De Wulf et al. (2003) adopted a quantitative approach, we choose a qualitative approach to generate new elements that might not be covered by the existing literature. The objective of this study is to understand consumers' attitudes and behaviour with regards to loyalty programs to determine what drives their decision to participate or not in a loyalty program. Understanding the motivations and brakes to customer participation in loyalty programs will enable marketers to increase customer engagement in loyalty programs, and thereby, improve the effectiveness of such programs.

Besides this, the study dates from 2003 and thus, more recent research may be of use. Loyalty programs have evolved over time, and so has consumers' purchasing behaviour. With the rise of the digital age, and more specifically, the ecommerce, there are countless options for loyalty programs. Similarly, the consumer decision journey has changed and consumers have become more empowered. They may also have developed different motives to participate in loyalty programs. However, the rise of the digital age may also have led to the emergence of new barriers to customer participation in loyalty programs. Therefore, we wish to provide a new perspective by putting forward a more recent study on this research topic.

2. Research problem

As we will conduct a qualitative study – the reasons for this choice will be discussed in the subsequent chapter -, we will not formulate any hypotheses a priori. Indeed, through this study, we aim to seek new elements and not to validate or reject some previously established hypotheses. More specifically, we will attempt to detect the underlying motivations and brakes behind customer participation in loyalty programs. Indeed, to be able to determine what drives customer participation in loyalty programs, we need to understand what motivates customers to participate in loyalty programs, but also what hinders them from participating in loyalty programs. Thus, rather than elaborating some hypotheses, we will state some research questions that will guide our study.

As a reminder, our central research question is as followed:

What drives customer participation in loyalty programs?

In other words:

What are the factors that lead customers to participate or not in loyalty programs?

As a consequence, the following associated sub-questions will orient our research:

- For what reasons do consumers decide to enrol and participate in a loyalty program? What are the factors that **motivate** customer participation in loyalty programs?
 - Do customers engage in loyalty programs to save money?
 - Do customers engage in loyalty programs to receive rewards? If so, what type of rewards do they wish to receive; monetary, social, or other rewards?
 - Are there certain types of programmes that are preferred over others?

- For what reasons do consumers refuse to enrol and participate in a loyalty program? What are the factors that **impede** customer participation in loyalty programs?
 - Do customers feel that their ratio of efforts and outcomes is not well balanced? Do they consider the benefits of loyalty programs not to be worth the effort?
 - Do customers refuse to engage in loyalty programs for practical reasons?
 - Or are there deeper reasons such as the concern with privacy issues that hinder customers from engaging in loyalty programs?

3. Methodology

After having put our study into context and exposed our research problem, we will now present the methodology used for this study. We will begin by explaining our choice to adapt a qualitative approach as a method of analysis. Then, we will focus on the data collection, and more specifically, on the data collection method, the interview script, and the sampling method.

3.1. Method of analysis: qualitative analysis

To start with, given that we opted for a qualitative approach, we will briefly introduce the concept of qualitative research.

Qualitative research consists in “the collection, analysis, and interpretation of data that cannot be meaningfully quantified, or summarized in the form of numbers” (Parasuraman, Grewal, & Krishnan, 2007, p. 178). It typically involves non-structured, flexible data collection from a relative small number of respondents. Whereas quantitative research focuses on measurement, qualitative research emphasises on getting a better understanding of the existence and origin of attitudes, interests, and opinions (Bradley, 2010). It aims to do so by using observation, discussion, and projective methods. Although qualitative research does not measure the “amount” of an opinion or an emotion, it may provide an indication of the feelings that dominate.

We decided to opt for a qualitative approach for two main reasons.

First of all, a qualitative approach is the most appropriate for exploratory studies as it aims to generate initial insights, ideas or understanding about a certain issue (Parasuraman et al., 2007). Creswell (2009) argued that a qualitative approach is useful when a concept needs to be understood because there is little research on it, which is the case for our research problem. As previously stated, despite the interest and investment in loyalty programs, there is a lack in research on the motivations behind customer participation in loyalty programs. Therefore, we consider that our research problem merits a qualitative approach.

Secondly, qualitative research provides valuable insights into consumer behaviour (Burns, Bush, & Sinha, 2014). Understanding why people buy and use certain products or services is fundamental for marketers in order to develop the most suitable strategies to influence consumers. Through interviewing a small number of consumers, market practitioners will gain valuable insights into how consumers behave the way they do and how their attitudes and opinions are formed. Thus, qualitative research may provide valuable information to firms with regards to many domains, such as product development, price changes, promotional activities or repositioning. Understanding consumers' behaviour is also crucial for the effectiveness of loyalty programs. Indeed, to incite consumers to enrol and participate in a loyalty program, firms need to understand what factors influence consumers' perception and buying decisions. Hence, a qualitative approach seems to be the most appropriate for our study.

3.2. Data collection: focus groups

Now that we have determined the method of analysis, we will turn our attention towards the data collection process. We will start by determining the data collection method before elaborating an interview script, and finally, decide on a sampling method.

3.2.1. Data collection method

There are various qualitative research techniques used to collect data, the main ones being observation techniques, projective techniques, focus groups, in-depth interviews, and protocol analyses (Burns et al., 2014). For the purpose of this study, we decided to opt for focus groups. Thus, we will briefly define the concept of focus groups before discussing the reasons for this choice.

Focus groups can be defined as “small groups of people brought together and guided through an unstructured, spontaneous discussion for the purpose of gaining information relevant to the research problem” (Burns et al., 2014, p. 151). Generally, focus groups are led by a moderator who introduces the topic, asks the questions, and ensures an open communication that remains focused on the desired topic (Bradley, 2010; Burns et al., 2014).

Furthermore, there are several ways to carry out focus groups including face-to-face, phone conference calls, videoconference sessions, chat groups, and by email (Bradley, 2010). For our study, we decided to stick with the traditional face-to-face groups.

After examining and comparing the various techniques available to collect data, we considered traditional focus groups to be the most appropriate technique for our study for the following reasons.

First of all, Burns et al. (2014) argue that focus groups should be used when the research question requires something to be explored rather than to be predicted. As previously explained, our study consists in an exploratory research.

Secondly, as indicated by Parasuraman et al. (2007), focus groups are generally used to get an understanding of consumers and their perceptions. More specifically, focus groups allow researchers to obtain detailed information regarding consumer needs, motives, perceptions, and attitudes on products or services (Burns et al., 2014). As we aim to understand consumers' behaviour and motives with regards to loyalty programs, we will be interviewing actual consumers. Therefore, focus groups seem to be an appropriate technique to collect data for our study.

Thirdly, focus groups offer a large versatility (Parasuraman et al., 2007). They can be used to gain insight into a wide range of issues, which is why they are also suitable for our research problem.

Lastly, compared to in-depth interviews, focus groups often generate richer insights about the topic being discussed (Parasuraman et al., 2007). Respondents feel more at ease when they are with people that are similar to them and may build on each other's ideas. In that way, focus groups are more likely to generate fresh ideas (Burns et al., 2014). As little is known about customers' motivation to participate in loyalty programs, we aim to get as much information as possible from actual customers. Given that customers, as opposed to experts for example, are generally not used to being interviewed, we believe that they will feel more comfortable in a group discussion than

in a personal interview. Therefore, for the purpose of our study, focus groups will be more productive than in-depth interviews.

Nonetheless, focus groups also represent some drawbacks which should be taken into consideration. Those include lack of representativeness, subjective evaluation of the meaning of the discussions, and high costs per participant (Burns et al., 2014). Indeed, given the size and the selection of the sample, focus groups cannot be considered a representative sample of a larger population. The goal is not to generalize the findings, but to understand consumers' motives, attitudes and behaviour. Furthermore, analysing and interpreting the results of the focus groups remains challenging and is based upon the moderator's subjective evaluation of the participants' statements and interactions. Finally, compared to quantitative data collection methods such as surveys, focus groups are more expensive to perform. In most cases, participant of focus groups get some kind of compensation in exchange for their engagement or are at least offered light snacks and refreshments during the discussion session, which increases the costs per participant.

3.2.2. Interview script

In order to guarantee the smooth functioning of focus groups, it is fundamental to generate a script beforehand. Indeed, a well-elaborated script ensures that each focus group is conducted in a similar way, that the moderator stays on track and on time, and that the questions are put into context for the participants (Simon, 1999).

Generally, a focus group script is composed of three parts (Simon, 1999).

The first part is the opening of the focus group. Thus, it consists in welcoming the participants, introducing the purpose and the context of the focus groups, providing some explanations regarding the conduct of the focus group, and making the introductions (Simon, 1999). Regarding our interview script, we will start by thanking the participants in advance for their input and by explaining that these focus groups take place within the framework of a master thesis. Then we will move onto defining loyalty programs to make sure each member of the group has a proper understanding of this concept. Furthermore, we will highlight the few guidelines that should be respected to ensure the proper

functioning of the discussion groups. We will end the opening part by indicating that the data will be kept anonymous and by making sure that each participant is introduced.

The second part is the part where the questions are asked. Given that focus groups typically last for one or two hours, around five questions should be asked. The first questions are introductory or warm-up questions whereas the remaining questions get at the heart of the topic. Additionally, the questions should be open-ended and move from the general to the specific (Simon, 1999). Based on these guidelines, we will elaborate the questions for our script. The first question, which serves as an introductory question, consists in asking the participants to describe the loyalty programs they participate in. Then, we will move onto more specific subjects, such as the reasons why participants decide to enrol in a loyalty program or the reasons why they refuse to enrol in a loyalty program. We will end this part by asking the participants to describe the key elements that an efficient loyalty program should incorporate. We feel that this question will smoothly close the discussion.

The last part is the closing of the focus group. It wraps up the session by giving the participants an opportunity for further input, by explaining them how the data will be used and by thanking them for their participation (Simon, 1999). This is exactly how we will close our focus group. Indeed, we will ask the participants if they wish to add something before explaining them how the data of the focus groups will be used for this master thesis. Finally, we will end the focus group sessions by thanking the participants for their input.

The full interview script used for both focus groups is set out in Annex 1.

3.2.3. Sampling method

Now that we have decided on a data collection method and generated an interview script, we only need to choose the right participants for our focus groups. In fact, the effectiveness of a focus group largely depends on the group composition.

According to standard industry practice, focus groups are typically composed of 6 to 12 people (Burns et al., 2014). A small group (less than 6 participants) does not produce the energy and groups dynamic necessary for a constructive focus group session whereas a large group (more than 12 participants) often becomes fragmented, and thereby, hinders a natural discussion. For each focus group session, we selected 7 people. Unfortunately, due to last-minute cancellations, only 6 people actually attended each session, which still conforms to the previously cited requirement.

Additionally, participants should not be professional respondents, but should have had some experience regarding the discussion topic (Parasuraman et al., 2007). Obviously, the selection of group members should be in accordance with the purpose of the focus group (Burns et al., 2014). Therefore, we only chose people participating at least in one loyalty program.

Furthermore, focus groups require a certain degree of homogeneity among group members with respect to demographic, socioeconomic, or other relevant characteristics (Burns et al., 2014; Parasuraman et al., 2007). Indeed, participants, who are typically strangers, tend to feel more comfortable when they are surrounded by people who they share similarities with. Those may include age, gender, job situation, household composition, purchase experience, or even leisure pursuits. In our case, we consider significant to have a homogenous group in terms of customer experience with loyalty programs. More specifically, we selected participants according to the number of loyalty programs they participate in. In that way, participants are homogeneous on one criterion but heterogeneous on other criteria, such as gender or job situation, which ensures a comfortable feeling among group members, but also a certain degree of diversity necessary to a fruitful discussion. Therefore, we decided to realise one focus group with people participating in a relatively small number of programs (less than 8) and one focus group with people participating in a relatively large number of programs (more than 8) (see table 1).

To conclude, two focus groups sessions, each with 6 people participating at least in one program, have been realized. Given that most participants were francophone, the discussions were conducted in French. Both focus group sessions have been recorded,

with the agreement of all the participants, and entirely transcribed. The transcripts can be found in Annex 2 and 3.

Table 1. Overview table of participants' data.

Participant	Gender	Age	Occupation	# loyalty programs	# people in household	Responsible household
<i>Focus Group 1</i>						
David	Male	23years	Student	4	1	Yes (50%)
Lisa	Female	27years	Marketing	7	1	Yes
Tina	Female	24years	Student	6	1	Yes
Alex	Male	25years	Student	4	1	Yes
Christophe	Male	30years	Salesperson	6	2	Yes (50%)
Valérie	Female	23years	Job seeking	5	1	Yes (50%)
<i>Focus Group 2</i>						
Lena	Female	26years	Psycho-motor therapist	18	2	Yes (50%)
Caroline	Female	59years	Pensioner	10	3	Yes
Sandra	Female	25years	Speech therapist	10	3	No
Chiara	Female	32years	Teacher	40	1	Yes
Laura	Female	25years	Educator	12	4	No
Gabrielle	Female	23years	Job seeking	8	4	No

4. Analysis approach: thematic content analysis

In this chapter, we will present the technique that we have used to analyse the data that had previously been collected. In other words, we will explain how we examined the information collected through our focus groups. First, we will briefly describe the approach that we adopted to analyse the data and second, we will expose the process that we have followed.

To start with, there are a variety of approaches available to analyse qualitative data. For the purpose of our study, we decided to opt for a thematic content analysis which involves “describing content based on themes” (Isabel, 2013, p. 305). More specifically, the process of thematic content analysis requires identifying themes and categories in the interview transcripts and “attempting to verify, confirm and qualify them by searching through the data and repeating the process to identify further themes and categories” (Burnard, Gill, Stewart, Treasure, & Chadwick, 2008, p. 430).

To facilitate the analysis process, we used a qualitative data analysis software package called ATLAS.ti. However, it should be noted that this program did not analyse the data for us, it only helped us to manage the data.

In practice, we started by importing the transcripts of both focus groups in the computer program before reading them in depth. Then, we moved on to creating quotations, which are segments of a document that we consider interesting or important, and assigning a code to them. A code is typically a word or a statement that sums up what is being said in the text (Burnard et al., 2008).

The process of coding consists in organizing and categorizing the data. Codes may either emerge from reading the document, also called in-vivo codes, or they are predefined based upon the literature (Isabel, 2013). In our analysis process, we used a combination of both types. On the one hand, we created codes derived from our literature review and our research questions. On the other hand, as the process of reading and analysing the data moved forward, we came up with additional in-vivo codes.

Furthermore, the process of coding passes through three stages: open, axial, and selective coding (Isabel, 2013). Open coding refers to the first level of coding in which the data is broken down into codes that are then grouped into categories. Axial coding focuses on identifying relationships between codes and categories and readjusting categories through combining inductive and deductive thinking. Selective coding consists in defining one category as the core category and linking the other categories to that category. With regards to our data, the coding process led to the core category “customer participation in loyalty programs” which is directly linked to two sub categories; “motivations” and “brakes”. Thus, the definition of our core category is in line with our research problem.

After finishing the analysing process and establishing a system of categories, we moved onto detecting the relevant information and selecting the most significant quotations to describe our findings.

Finally, it should be noted that the analysis of qualitative data requires interpreting the study results which obviously involves a certain degree of subjectivity (Burnard et al., 2008). Therefore, it is fundamental to thoroughly analyse the entire data set to ensure a systematic and rigorous analysis process.

5. Results of the study

In this chapter, we will present the results of our study. In accordance with our research questions and our analysis approach, we will first expose the motivations of customers to participate in loyalty programs. Second, we will reveal the brakes that hinder customer participation in loyalty programs.

Table 2 provides an overview of the items we will address hereafter.

Table 2. Motivations and brakes behind customer participation in loyalty programs.

Motivations – Reasons to participate	Brakes – Reasons to not participate
Linked to the benefits of the program ▪ Discounts ▪ Free products ▪ Relevant offers and rewards ▪ Preferential treatment ▪ Immediate benefits	Linked to the program ▪ Personal data release ▪ Participation cost ▪ High participation efforts ▪ Limited program duration
Other motivations ▪ Simplicity of program ▪ High purchase frequency ▪ Love of brand	Other brakes ▪ Benefits: Irrelevant offers and rewards ▪ Excessive amount of emails

5.1. Motivations

In order to provide a better understanding of what drives customers to participate in loyalty programs, we decided to divide the motivations that came up during both focus groups into two categories, namely motivations linked to the benefits of the program and other motivations. As a matter of fact, the benefits offered by a loyalty program are a compelling motivation for customers to enrol and participate, which is why they merit to be addressed separately.

5.1.1. Motivations linked to the benefits of the program

Discounts

Throughout our study, it became very clear that customers participate in loyalty programs hoping to save money. As such it is not surprising that one of the most preferred benefits and the biggest motivation to participate in loyalty programs are discounts. The most popular ways of providing discounts are to offer an amount off or to offer a percentage off. The preference for discounts may be explained by the fact that customers exactly know what to expect from them and that they are able to use them for whatever item they want.

“The discounts.” (Sandra) “It’s more compared to the portfolio, in order to save money.” (David) “If there are discounts, I’ll enrol.” (Lisa) “If I buy for more than 100 euros, I automatically get a discount and I like that.” (Caroline) “The discount will naturally be targeted towards what I’m going to buy.” (David)

Free products

Besides discounts, free products also motivate customers to participate in loyalty programs. Indeed, free products enable customers to save money, but also to discover and test new products. With regards to the type of gifts that are offered, it seems that consumers enjoy receiving both products that are linked to the provider’s offering and products that are unrelated to the provider’s offering. What matters for consumers is that the gifts are of high quality and that they are tailored to their profile, which leads us to the next point.

"I don't know why I especially liked that, but at the place where I used to take my lunch during office hours, after 10 lunches, I got a salad for free." (Lisa) "My favorite system is, as I said before, the thing where you get something for free if you go a certain number of times." (Lisa) "I couldn't resist, I got a card at Autocenter Goedert in Luxembourg because, in fact, when you spend 30 euros for fuel, they offer you a carwash for free. Thus, I couldn't resist, it's really interesting." (Alex)

Relevant offers and rewards

Even though the subject of saving money frequently came up during both focus groups, consumers are not solely motivated by economic interests. Indeed, customers also decide to participate in loyalty programs with the view of receiving relevant offers and rewards. By that, we mean offers, for instance promotions or recommendations, and rewards, for example free or discounted products, that are targeted to the customer's profile, desires and needs. Customers are much more likely to join and actively participate in a program when they consider the benefits as valuable to them.

"And on Booking, it's to get more targeted hotels." (Alex) "Amazon, I'm subscribed to the newsletter, because I know that there will be interesting offers." (Tina) "It needs to be targeted." (Tina) "Therefore, I only enroll if it is interesting for me." (Christophe) "The advantages must also affect me." (Valérie)

Preferential treatment

Furthermore, preferential treatment may not be the main reason for which consumers decide to join a loyalty program, but it is definitely an aspect that they are interested in. Preferential treatment may consist in exclusive access for members to events, sales, promotions or other advantages such as free delivery. Additionally, preferential treatment may also refer to special birthday offers such as a personalized birthday letter or a mail accompanied by a birthday reward. Those rewards may include a voucher, a discount or a gift. Customers welcome such birthday offers because they make them feel special, which ultimately enhances the customer relationship. Preferential treatment is positively perceived by customers and thus, motivates them to actively participate in the program.

“Free delivery for the members was one of the reasons for which I enrolled.” (Sandra)
“Each Wednesday, there is a promotion for the members of the program, it is somehow an event for members, and I love the concept.” (Laura) *“Yes, I also think that offers like that, for birthdays, it’s a nice gesture, not all the brands do that.” (Sandra)* *“Often, you also get something for your birthday, either a voucher or a discount (...) and I think that this is nice. I don’t know, you feel a bit special.” (Laura)*

Immediate benefits

Our study also revealed that it is not only the type of benefit that explains customers’ motivation to participate in loyalty programs, but also the timing of the benefit. Indeed, our study showed that customers are largely motivated by immediate benefits. By this, we mean benefits that are given to customers each time they complete a specific action, typically a purchase, as opposed to benefits that are given to customers after reaching a minimum threshold of points or money spent. For one thing, consumers are much more likely to enrol in a loyalty program if they receive an immediate benefit for joining the program. For another thing, providing consumers with a benefit each time they purchase something will motivate them to come back, and thereby, enhance active participation in the loyalty program.

“You need to feel a punctual benefit and if there is a benefit each time I come back, this will push me to come back” (David). *“It is rather like that, if I will receive something immediately or not.” (David)* *“If they tell me that I will get something at the moment I enroll, then I will immediately enroll.” (Laura)* *“For me, what is really important is to get an advantage immediately.” (Lena)*

5.1.2. Other motivations

Simplicity of program

Another crucial aspect, besides the benefits, is the simplicity of the program, which comprises three different elements. First of all, consumers pay special attention to the sign-up process. Indeed, they are largely motivated to join a loyalty program if the sign-up process is fast and does not demand too much effort. Secondly, consumers are more likely to join a loyalty program when they understand how to earn rewards. Thirdly,

consumers appreciate programs with simple spending rules that do not require too much effort. In that way, they seem to mostly prefer programs with immediate discounts or points based programs that enable them to redeem points for discounts or products.

"If I come frequently, and then, if it is easy or if I need to fill out a form during 3 years." (Tina) *"In fact, for me to enroll, it needs to be easy to do."* (Laura) *"Simplicity of signing up."* (Laura) *"I like that program because it is easy and I frequently go there"* (Lena)

High purchase frequency

Moreover, it became very clear that consumers are largely motivated to participate in loyalty programs when they have a high level of purchase frequency. Thus, customers join loyalty programs when they have bought a few times from the brand or the company or when they are convinced that they will frequently buy from them in the future. In that way, high purchase frequency drives customer participation in the loyalty program, which in turn will stimulate purchase frequency again due to the benefits offered by the program.

"Because I frequently go to that shop, and thus, I tell myself that it is worth it." (Lisa) *"I enrolled because I frequently go there"* (Sandra). *"First, I need to go there often or I believe, I believe at least that I will come back often, otherwise I don't enroll."* (Laura) *"And then, it is true that once I'm enrolled and the program offers great advantages, this will encourage me to shop there."* (Laura)

Love of brand

Finally, some consumers also engage in loyalty programs for the love of a brand. In other words, they join a loyalty program because they love the brand, their product selection or their customer service. Those customers are extremely valuable, as they do not only repeatedly purchase from the brand, but also have a positive attitude towards the brand, which corresponds to the definition of a loyal customer.

"I only have loyalty cards for brands that I love." (Tina) *"I like, I like their selection of clothes, their service and their offers."* (Laura) *"Because I love going there and buying my*

products there. They have a great choice of products and there are all the brands that I like.” (Sandra)

5.2. Brakes

Like in the previous section, to provide a better overview, we decided to divide the brakes behind customer participation in loyalty programs into two categories, namely brakes linked to the program itself and other brakes. Indeed, when collecting the data, we noticed that several elements that hinder customer participation in loyalty programs, were linked to the program itself, which is why we decided to regroup them in one category.

5.2.1. Brakes linked to the program

Personal data release

During our study, it became very clear that the release of personal data within the framework of a loyalty program is a predominant issue among consumers and the main brake on customer participation in loyalty programs. By personal data release, we mean the information customers are asked to provide about themselves when they enrol in a loyalty program, for example name, address information, contact details, or date of birth. In recent years, consumers have become more aware of data privacy issues and thus, their attitudes towards privacy have evolved. This evolution is also seen in loyalty programs, where more and more consumers refuse to join loyalty programs because they are reluctant to sharing their personal data. Besides noticing a general negative perception regarding the release of personal data, we also observed that some customers are by far more sensitive to this issue than others.

“I am against loyalty cards, but only because of the privacy principle.” (Alex) “If I was sure that they would keep the email in-house, and that they would respect privacy, and that they would not send emails if I don’t ask emails, and that they would keep the email, then I would enroll much more.” (Alex) “It is really important that the personal data are not diffused”. (Valérie) “It is because of that that I still refuse.” (Gabrielle) “Online, I’m really shocked sometimes. And otherwise, I know that firms use our data, but I don’t really

know what they do with it. To be honest, I've never thought in depth about that, I guess I somehow just accept that it is like that". (Lena)

Participation cost

Furthermore, customers seem to be relatively reluctant to engage in loyalty programs when there is a participation cost. For customers to be willing to pay a membership fee, the benefits must be very strong and clearly exposed. Indeed, customers seem to perceive the loyalty program as an appreciation for their support. Several of our participants argued that the provider of the loyalty program wants to acquire them as a customer, and thus, there should be no participation cost. Therefore, we may conclude that the existence of a participation cost hinders customers from participating in loyalty programs.

"No that's not normal at all, if they want you to be their customer, why pay."

(Christophe) "There are certain cards where you need to pay 5 euros and then, I am often more reluctant". (Lena) "I have already seen loyalty programs that have a cost, but for me personally, that is not really an option." (Gabrielle)

High participation efforts

Besides being reluctant to pay a fee for their participation in a loyalty program, consumers also want to keep their participation efforts as low as possible. Participation efforts comprise all the activities customers need to undertake to validate their enrolment and to receive the benefits offered by the program. The efforts that came up all the time during our study were a long and complicated sign-up process and the burden related to carrying cards. Among the participants of the focus groups, the majority stated that they refuse to join a loyalty program if they need to fill out a long form or if they need to confirm their membership. However, some participations argued that they would be willing to undertake some efforts if the benefits were worth it. A few also admitted that they refuse to join programs because they own already too many cards and are fed up carrying them always around. This clearly proves that high participation efforts represent a brake to customer participation in loyalty programs.

"Administrative burden." (David) "If you need to fill out an entire form, that's not good at all." (David) "There are shops where you need to fill out a form and then, you need to

subscribe online if you are at home. And then, I don't do it.” (Laura) “I don't like carrying 1000 cards.” (Chiara) “In fact, I will take a look at the advantages and ask myself if it is worth it.” (Valérie)

Limited program duration

Additionally, our study revealed that consumers are less interested in loyalty programs that are limited in time. In other words, if the program requires participants to collect a certain number of points or to spend a certain amount of money during a limited period, consumers will be less motivated to engage in the program. If consumers feel that the benefits will not be available to them, they will get frustrated and as a consequence, they will be likely to drop out of the program. Therefore, we consider limited program duration a fundamental brake to customer participation in loyalty program.

“You needed to go a certain amount of times during a certain period of time, that frustrated me because I never made it.” (Caroline) “If there is a time limit, it is less interesting.” (Lena)

5.2.2. Other brakes

Irrelevant offers and rewards

It is not uncommon that within the framework of a loyalty program, customers complain about the rewards being irrelevant or of too little value to them. This is especially true when the rewards consist in free products. Indeed, customers argue that the gifts don't live up to their expectations, that they are useless or that they do not adequately reward their repurchasing behaviour. In that way, irrelevant offers and rewards may lead to frustration, which ultimately impedes customer participation in loyalty programs.

“I often got gifts that were irrelevant, that were not at all targeted, that were useless.” (Lena) “It is frustrating to receive useless gifts.” (Caroline) “You are annoyed because you bought so much and then, you receive that “ (Sandra)

Excessive amount of emails

Finally, it also became very apparent that consumers are annoyed by the multiple emails they get within the framework of a loyalty program. More importantly, consumers may develop a negative attitude towards a brand or a company and perceive their communication or behaviour as aggressive. Sometimes, an excessive amount of emails even results in consumers unsubscribing from the loyalty program which leads us to the conclusion that too many emails hinder active customer participation in loyalty programs.

"If I really get too many emails, I unsubscribe, final point." (Gabrielle) "I receive that many emails and it annoys me." (Caroline) "If those are emails with promotions, new products, discounts, and if they are too frequent or if they are not of interest to me, if they don't correspond to what I'm looking for, then it annoys me." (Laura) "I think of Yves Rocher, I unsubscribed because in my opinion they were too aggressive." (Lisa)

5.3. Key takeaways

To conclude this chapter, we will present a summary of the motivations and brakes related to customer participation in loyalty programs.

- **Motivations** linked to the **benefits** of the program
 - Discounts: Discounts under the form of an amount off or a percentage off are, together with free products, the most preferred benefits as customers hope to save money through their participation in a loyalty program.
 - Free products: Free products enable customers to save money, but also to discover and test new products.
 - Relevant offers and rewards: Customers appreciate offers and rewards that are targeted to their profile.
 - Preferential treatment: Preferential treatment such as exclusive access to offers or special birthday offers make customers feel valued and enhance the relationship between the provider and the customer.

- Immediate benefits: Customers are much more likely to participate in a loyalty program when they receive a benefit the moment they sign up and/or at each purchase.

- **Other motivations**

- Simplicity of program: Customers highly appreciate programs that have a simple sign-up process, simple earning rules and simple spending rules.
- High purchase frequency: High purchase frequency drives customer participation in the loyalty program, which in turn will encourage purchase frequency again due to the benefits provided by the program.
- Love of brand: Customers who join a loyalty program because of the love for the brand are extremely valuable as they are truly loyal customers.

- **Brakes linked to the program**

- Personal data release: The release of personal information is a predominant issue among customers and the main reason why customers refuse to participate in loyalty programs.
- Participation cost: Customers are less likely to join a loyalty program when there is a participation cost.
- High participation efforts: High participation efforts, such as completing lots of paperwork, discourage people from joining a loyalty program.
- Limited program duration: Customers are less motivated to participate in a loyalty program that is limited in time as opposed to one that is unlimited in time.

- **Other brakes**

- Irrelevant offers and rewards: Offers or rewards that are irrelevant to the customer may create frustration, and thereby, impede customer participation in loyalty programs.

- Excessive amount of emails: An excessive amount of emails negatively impacts the perception that customers have of the program provider and may eventually lead customers to unsubscribe from the program.

6. Discussion and recommendations

In this chapter, we will aim to interpret the results of the study which have been detailed above. Afterwards, we will put forward a number of scientific and managerial recommendations.

6.1. Discussion

First and foremost, we were able to determine eight fundamental **motivations** that drive customers to participate in loyalty programs. Among those motivations, five are linked to the benefits offered by the loyalty program. The mere fact that the majority of the motivations are related to the benefits of the program shows the importance that customers attach to receiving benefits. Additionally, this is in line with the findings by De Wulf et al. (2003) who defined program benefits as one of the main drivers of customer participation in loyalty programs.

More specifically, the motivations linked to program benefits are: discounts, free products, relevant offers and rewards, preferential treatment and immediate benefits. Whereas existing literature mostly focuses on whether consumers prefer hard or soft benefits, we go a little bit further and specify which benefits motivate customers to participate in a loyalty program. Our study pointed out that customers participate in loyalty program hoping to save money which is why it comes as no surprise that discounts and free products are the most preferred benefits. Additionally, our study showed that customers are more motivated to participate in loyalty programs when they receive immediate rewards. However, customers also value getting preferential treatment and receiving offers and rewards that are targeted to their preferences and needs. The latter is consistent with the literature in this area. Indeed, if the program's benefit characteristics fit the consumer's identity, the consumer will perceive his loyalty program membership as important and thereby, be more motivated to participate in the program (Ha & Stoel, 2014; McCall & Voorhees, 2010). Thus, with regards to program benefits, we conclude that customers are mostly motivated by immediate hard benefits combined with soft benefits, which is very much in accordance with the existing literature (De Wulf et al., 2003).

Besides this, the three motivations that are not related to the program benefits are: simplicity of program, high purchase frequency and love of a brand. Whereas the study by De Wulf et al. (2003) has highlighted the importance of purchase frequency in customers' motivation to participate in loyalty programs, it only partially focuses on the simplicity of the program as a factor influencing customers' motivation to participate in loyalty programs. In fact, our study revealed that customers are more likely to participate in a loyalty program when the program is easy to understand and the efforts asked not too high. However, the study by De Wulf et al. (2003) solely invokes participation efforts. Finally, we have identified a motivation that has not been covered by literature yet, namely the love for a brand. This motivation is particularly important, as customers who participate in a loyalty program because of the love for the brand and who are characterized by high repeat patronage, are truly loyal customers (Baloglu, 2002).

Apart from the motivations that lead customers to participate in loyalty programs, we also determined six **brakes** that prevent customers from participating in loyalty programs. Like De Wulf et al. (2003), we identified the release of personal data, participation cost, high participation efforts and limited program duration as factors that discourage customers from participating in loyalty programs. In the study by De Wulf et al. (2003), participation cost appeared to be by far the most important determinant whereas in our study, the release of personal data and high participation costs were also considered as significant factors. With regards to the release of personal information, we noticed a real divergence among participants of our focus groups. More specifically, some participants were really well informed about sharing personal data with companies whereas others were barely aware of this issue. It seemed that those with an extended knowledge on the subject were also those who had a more critical attitude which is probably due to the fact that they know that companies use the personal data of their customers, and thus, are more reluctant about releasing their personal data.

Moreover, our study revealed two additional brakes that hinder customer participation in loyalty programs, namely excessive amount of emails and irrelevant offers and rewards. Indeed, it became apparent that customers are annoyed by the numerous emails they receive from the program provider to the extent that they consider unsubscribing from the program. As indicated by Jones et al. (2015), people are simply

overloaded with companies' marketing efforts. Similarly, customers complain about offers or rewards being irrelevant or worthless to them which is consistent with the findings by Stauss et al. (2005) who explained that customer frustration may arise if customers consider the program benefits as worthless. Customer dissatisfaction or customer frustration may lead customers to unsubscribe from loyalty programs which is why we consider excessive amount of emails and irrelevant offers and rewards as significant brakes to customer participation in loyalty programs.

Besides identifying the factors that drive customer participation in loyalty programs, our study also showed that when deciding to participate in a loyalty program, customers compare their efforts to the expected outcomes, even though this thinking process may be done unconsciously. This is consistent with equity theory which states that parties in an exchange relationship compare their ratios of inputs to expected outcomes (Samaha et al., 2011). Thus, our study is in line with the findings by (De Wulf et al., 2003) who demonstrated that customers aim to minimize their inputs and maximize the expected outcomes when participating in a loyalty program.

Finally, our study also revealed the importance of segmenting the customer base as perceptions, needs and preferences differ among customers. The small sample of our study already provided diverging attitudes and preferences, for instance with regards to privacy issues and participation efforts. Moreover, some customers will simply remain reluctant to participate in loyalty programs. As indicated by Jones et al. (2015) and Kumar et al. (2003), the degree of relationship intention varies from consumer to consumer and there is no interest in badgering consumers that have no intention to develop a relationship with relationship marketing materials. This issue will be discussed further below.

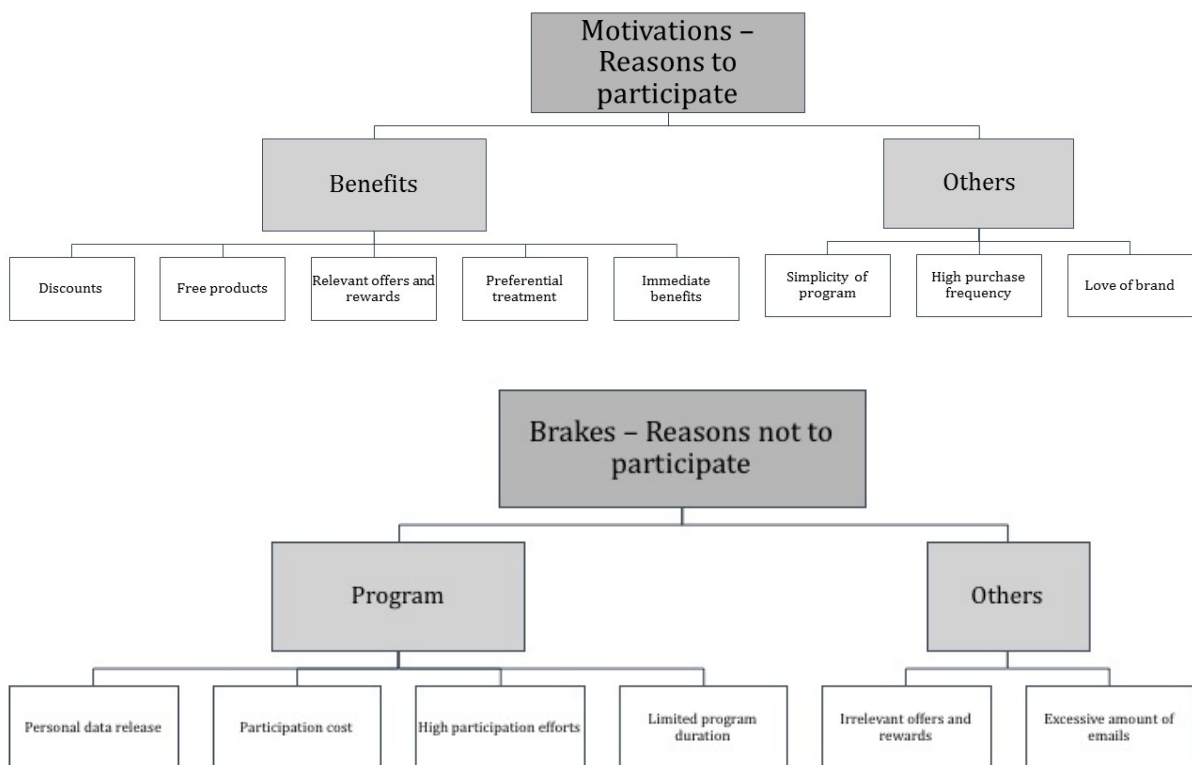
6.2. Recommendations

Now that the results of the study have been clearly exposed and discussed, we will present one main **scientific** recommendation.

Throughout our study, we have highlighted the importance to understand what drives customers' participation in loyalty programs to study the effectiveness of such programs. However, there is to our knowledge no conceptual model that represents the factors influencing customer participation in loyalty programs. Thus, we suggest constructing a model that indicates on the one hand, the factors that motivate customers to participate in a loyalty program, the motivations, and on the other hand, the factors that prevent customers from participating in a loyalty program, the brakes.

Figure 5 illustrates the model that we suggest based upon the findings of our study. To conclude, future researchers could use that model as a starting point for their studies.

Figure 5. Suggestion for a conceptual model of customer participation in loyalty programs.



Apart from the scientific recommendation, we will also put forward some **managerial** recommendations. In other words, these recommendations will be designated to firms that wish to implement a new loyalty program or to firms that wish to improve their existing loyalty program.

To start with, we highly recommend firms to segment their customer base according to customers' profile, and more specifically, their preferences, needs and expectations. Indeed, our study revealed that the motivations and brakes to customer participation in loyalty programs largely differ among customers. Thus, companies first need to decide which type of customer they aim to attract through their loyalty program. They may for instance seek to attract high profitable customers as opposed to the mass. Then, companies may move on to identifying the customer's profile in order to be able to adapt their offer. By that we mean, that companies should come up with a diversity of rewards targeted to the customer's preferences and needs as well as adapt their communication towards the customer. Additionally, companies need to accept that some customers will not be interested in joining their loyalty program and thus, should not concentrate their marketing efforts on those customers.

More generally, we recommend firms to integrate some form of immediate hard benefits in their program as customers are largely motivated by such benefits. More specifically, we suggest creating a reward that customer will receive for enrolling in the program. This will not only stimulate repurchase behaviour, it will also improve the attitude that customers have towards the company. As previously argued, firms should make sure that the program's benefit characteristics fit the customer's profile. Nonetheless, a program should comprise hard benefits, such as discounts or free products, preferably combined with some soft benefits, like special birthday messages or preferential treatment.

Finally, we advise firms to create a loyalty program that is easy to understand and that does not ask too much effort from customers. More specifically, firms should make sure that the signing up process is simple and fast, as too much paperwork will discourage customers from joining the program. Moreover, the spending rules and the earning rules should be simple so that customers know what to expect from the program. As regards

the physical card of a program, some customers perceive carrying cards as a burden whereas others do not mind. Thus, firms may consider a program that uses both physical cards and digital applications to ensure it satisfies the diverging needs of its customer base.

7. Limitations

Our study is subject to a number of limitations which pave the way for future research and which we will discuss hereafter.

First of all, our research was not limited to one particular industry. Indeed, throughout this study, our aim was to determine the overall factors that lead costumers to participate in loyalty programs or not. We ignore if customers' motivation to participate in loyalty program depends on the industry in which the program provider operates. Therefore, future research could examine whether the industry of the program provider has an impact on customers' preferences as well as their motivation to participate in loyalty programs.

Secondly, our research is biased towards relatively young individuals. Although we did not target a specific age group for our qualitative study, our focus groups happened to be majorly composed of individuals aged between 23 and 30 years. We do not believe that customers' motivation to participate in loyalty programs profoundly changes according to the customer's age. However, we need to admit that interviewing more people of a higher age group may have led to different results. Similarly, the participants of the focus groups were majorly of either Belgian or Luxembourg nationality. It seems obvious that conducting a research with people from different countries or cultures would have provided different insights as individuals' perceptions and attitudes are influenced by their cultural and ethnical background. Thus, qualitative research with a more diverse sample could be realised in order to complete our study results. Such research may detect further elements that influence customer participation in loyalty programs and that have not been covered by our research.

Thirdly, as with every qualitative study, our study is based upon a small sample of respondents. Indeed, twelve people have been interviewed, which cannot be considered a representative sample of the population. However, our study provides some significant results as regards customers' motivation to participate in loyalty programs. Those results may be statistically confirmed through future quantitative studies.

Lastly, with the benefit of hindsight, our interview script, which served as a basis for our focus group sessions, may have limited the outcomes of our qualitative study. Indeed, we could have included some projective techniques in our interview script to reveal participants' hidden thoughts, attitudes or motivations regarding their participation in loyalty programs. For instance, we could have asked participants to complete certain sentences or to tell us the first thing that comes in their mind when we state a certain word. This might have helped to collect deeper information and might have made the discussion more dynamic. As a consequence, our interview script may have limited the results of our study.

Conclusion

Throughout this thesis, we studied customers' attitude and behaviour towards loyalty programs in order to get a better understanding of the factors that influence their decision to participate or not in a loyalty program. In other words, our aim was to determine the motivations and brakes to customer participation in loyalty programs in order to fill the gaps in the literature on this topic and to put forward some recommendations for companies that wish to implement or improve their loyalty program.

In order to find elements of responses to our research question, we conducted a qualitative study using focus groups. We decided to adopt an exploratory approach for our study, as our objective was to generate new insights and to get a better understanding of customers' behaviour. The key findings of our study will be presented hereafter.

Based upon the data collected throughout our focus groups, we analysed the motivations and brakes to customer participation in loyalty programs in order to comprehend the reasons for which customers decide to participate or not in loyalty programs. We identified five motivations linked to the benefits of the program; discounts, free products, relevant offers and rewards, preferential treatment, and immediate benefits, as well as three other motivations; simplicity of program, high purchase frequency, and love of brand. Furthermore, we revealed four brakes linked to the program itself; release of personal data, participation cost, high participation efforts, and limited program duration, as well as two other brakes; irrelevant offers and rewards, and excessive amount of emails.

From an academic point of view, our research provides new elements and completes the existing literature on the topic of customer participation in loyalty programs. Based upon our literature review and the findings of our study, we propose a conceptual model that could be used as a starting point for future research.

From a more practical point of view, understanding customers' perceptions and behaviour is fundamental for marketers in order to develop the most suitable strategies

to influence consumers. Through our study, market practitioners gain insights into how consumers perceive loyalty programs and what drives them to participate in such a programs. Furthermore, we put forward some practical recommendations to encourage companies to design more effective loyalty programs.

Despite this progress, further research is required to fully comprehend what drives customers to participate in loyalty programs. Future research may analyse whether the industry of the program provider has an impact on customers' decision to participate or not. In addition to this, future research may use a more diverse sample in order to increase the validity of our results. Quantitative research should also be undertaken to statistically confirm the findings. Finally, it would also be highly interesting to make a distinction between what drives customers to enrol in a loyalty program and what drives them to actively participate in a loyalty program.

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