DETERMINANTS OF LOYALTY CARD USAGE FREQUENCY – A MULTI-LEVEL ANALYSIS

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ABSTRACT

Loyalty programs have become a central part of firms' customer relationship marketing strategies and their popularity is still rising: Despite of the benefits associated to loyalty program participation, members of loyalty programs do not always turn out to be loyal card users (e.g., Colloquy Loyalty Census 2009; Mauri 2003). Active program participation, however, is an important condition that has to be fulfilled in order for firms to benefit from intended consequences of loyalty programs such as a greater ability to target special consumer segments basing on insights derived from consumer transaction data (Berman 2006). Since card usage frequency is a central indicator for loyalty program success, the present paper contributes to existing research by investigating both, individual level and program level determinants of loyalty card usage frequency. From a managerial perspective, it is highly relevant to determine if differences in firm actions are reflected in differences in loyalty card usage frequency across loyalty programs.

Our conceptual model consists of two levels. At the individual level, we build on the customer equity concept as conceptualized by Rust, Lemon, and Zeithaml (2001, 2004). In essence, we propose that three different aspects influence usage intensity: (1) value equity, (2) relationship equity, and (3) brand equity. At the program level, we conceptualize that program-related variables and industry characteristics contribute to the effectiveness of loyalty programs.

Thereby, we mainly anchor our study in Theory of Planned Behavior (Ajzen 1991) and in Social Identity Theory (Tajfel and Turner 1986). Theory of Planned Behavior is used to justify value and economic based determinants and hindrances to use the loyalty card as well as consumers' experiences related to loyalty programs, while Social Identity Theory provides a theoretical basis for socio-relational and psychological determinants of loyalty card usage frequency.

In order to test the conceptual model empirically, the customer level data ($n = 779$) is "nested" in the loyalty program level data ($n = 33$). Thereby, we seek to obtain individual drivers of loyalty card usage frequency as well as program-related factors and involvement within certain industries to explain between-group differences. Given the hierarchical structure of the data, hierarchical linear modelling (HLM) is an adequate method for analysis and hence applied in this study.

Our findings reveal, that on the individual level consumer program-related customer satisfaction, social benefits and brand attitude are associated with loyalty card usage frequency. Having said this, loyalty program providers should try to build personal relationships with the customer, satisfy customers' needs to express their membership (e.g., the self-identity) to out-group members, and try to bind customers emotionally. Regarding the value equity drivers of loyalty card usage frequency, reducing the perceived efforts of using the loyalty card constitutes an important determinant whereas the perceived attractiveness of the rewards provides no significant effect. With regard to consumers' experiences with loyalty programs, we suggest firms to focus their communication budgets on motivating newly acquired customers to use the program regularly as well as on inexperienced card users who are not already familiar with using loyalty cards.

On the program level, a status function and the associated relational benefits enhance social identity with the loyalty program (Dutton, Dukerich, and Harquail 1994), and strengthen the relationship between customers and loyalty program, whereas a rebate or bonus function show no significant impact on loyalty card usage frequency. Besides, we suggest that a payment function contributes negatively to loyalty card usage frequency due to an increase in complexity, a lack of perceived usefulness or perceived difficulty of use (Taylor and Todd 1995). Moreover, we could not find evidence that members of fee-based loyalty programs are more motivated in actually using the loyalty card as a result of their idiosyncratic investments than members of non-fee-based loyalty programs. However, entry fees are found to strengthen the link between satisfaction and usage intensity of the loyalty program. Nevertheless, if customers have to pay an entry fee, customer's brand attitude affects loyalty card usage frequency even negatively. Furthermore, our findings indicate that the higher the level of involvement within a certain industry, the lower the loyalty card usage frequency. Hence, in high involvement conditions, the product/service is more important than the rewards and benefits associated with the loyalty program (Dowling and Uncles 1997; Rothschild and Gaidis 1981). The fact that brand attitude is less important to explain loyalty card usage in high involvement industries provides additional support for this argument. Hence, under high involvement conditions, loyalty programs should be linked closer to the product/service in order to enhance the value proposition of the product/service.

References Available on Request