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Loyalty Programs and their Marketing Effectiveness: A Literature Review

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Abstract

Loyalty programs have become increasingly popular among marketers as they strive to establish and maintain customer loyalty. These programs typically reward customers based on their purchase history and are structured in levels. The development of technology and customer relationship management (CRM) initiatives has led to a wide range of loyalty program designs. However, all loyalty programs aim to increase customer loyalty and foster positive relationships with profitable customer segments. This study provides a comprehensive synthesis of existing literature on loyalty programs. The review was conducted in a structured and systematic manner to ensure the relevance and rigor of the contribution to the literature. Results indicate that the study of loyalty programs is a multifaceted field, and scholars have used various approaches to explain underlying processes. The research presented in this paper offers a valuable contribution to the existing literature on loyalty programs. The findings will be useful for both academicians and practitioners seeking to enhance their understanding of loyalty programs and their effectiveness in building customer loyalty. This study highlights the importance of loyalty programs in maintaining and improving customer relationships and suggests avenues for further research to enhance our understanding of this complex field of marketing. The study makes ample contribution to the extant literature on this topic.

Keywords: Customer loyalty, loyalty programs, customer relationship management, brand loyalty

Introduction

Marketing efforts are considered effective when they result in an increased response rate (Baltas, 2003) ^[1]. Any person who seeks a response from the other party, called a prospect, is a marketer. The response can be a vote, a subscription to a service, or a purchase of the marketed product (Kotler *et al.*, 2016) ^[12]. Most of the time, marketing literature mentions purchase by a new client as a pertinent response and repeat purchase by an old client as a success of the marketing efforts. A new purchase is about "making customers" and a repeat purchase is about "keeping customers".

Customers who make repeat purchases of a specific brand are known as loyal customers, and the attribute ascribed to them is brand loyalty. Repeat purchases are linked to the concept of loyalty and various terms are used in this context, including customer loyalty and brand loyalty. It is discussed as a part of brand equity. Practically, it is a part of the promotion mix of any marketer. With the advancement of the customer relationship approach and the strategic use of technology for the same, loyalty management is seen as an important element of the strategic domain of customer relationship management. Many scholars are of the view that loyalty among the target audience can be enhanced via loyalty and affinity programs under the umbrella of CRM initiatives. A loyalty program is a scheme to reward the customer on the basis of their purchase history. On the managerial side, it is introduced to induce and enhance the loyalty of the targeted audience (Yi, Youja e&

Hoseong, 2003) ^[23]. By enhancing the enjoyment and value of particular consumers, a loyalty program seeks to enhance client retention in lucrative sectors (Bolton *et al.*, 2000) ^[3]. Although the goal of all the loyalty programs is the same, they vary in the design of the reward schemes, and as a result, there are many types of loyalty programs in practice including point programs, cashback system, monetary programs, non-monetary schemes, etc. (Ruzeviciute & Kamleitner, 2017) ^[17]. Academic research has increased in tandem with the rise of this practise of customer retention and customer relationship management. This resulted in a disjointed body of knowledge that must be systematically synthesised in order to draw meaningful conclusions. The above understanding will be practically useful for marketers and academics working in this field. A thorough literature review identifies research gaps and suggests future research directions (Paul & Criado, 2020) ^[15] and the current study is a true reflection of this fact.

Literature Review

Many studies have been conducted in the past that analyze loyalty programs and their marketing effectiveness. Previous research defined loyalty programs, studied related aspects, and examined their impact on purchasing behavior. These past studies include a few literature reviews that comprehend the findings of the existing literature. For example, Henderson *et al.* (2011) ^[9] is a literature review conducted in 2011 that proposed fifteen distinct and useful propositions for future

research with regards to the theoretical underpinning of loyalty programs research. Owing to the fact that literature exploded after this study, it is necessary to undertake a comprehensive review in the field. More recently, Chen *et al.* (2021) [5] reviewed the literature using the TCCM framework (Paul & Rosado-Serrano, 2019) [16]. This review had a flaw with regard to the methodological approach used therein; that disallows one to draw conclusions that fall outside of the framework's scope. The current study aims to fill the identified gaps that exist in the previous literature reviews.

Research Methodology

The reviewed academic resources were identified using the most useful research database that is accessible free of charge, i.e., Google Scholar. In order to identify the search string, keywords from some relevant recent publications were studied. The identified keywords were employed to dig up a total of 33 articles relevant to the research objectives (published from 2010 to 2021). Then, extracted articles were

screened and eliminated from the further review process. After the title screening and abstract reading, a total of 14 articles published from 2010 to 2021 were retained for the analysis. Publications included for analysis were fully read and conclusions were drawn.

Analysis and Results

The analysis of the selected studies was undertaken with specific research objectives in mind. The analysis was aimed at comprehending the findings, inferring the research gaps, and ultimately predicting the future research direction of this research stream. Bibliometric information for the selected sample of articles is also presented in the table below in order to provide quantitative support for this review study. Full-text reading enables a full-fledged and in-depth postmortem of the studies that form the corpus for the current study. The methodological approach adopted by the current study ensures that it comes out as quality-wise excellent research.

Table 1: The synthesis of current body of knowledge.

Title of the Study	Source	Type of Study	Methodology	Major Findings
“The impact of customer involvement in airline loyalty programs: A multi-group analysis. (Limberger <i>et al.</i> , 2021) [14]”	“Tourism and Management Studies”	Empirical study using primary data	Multi-group analysis (MGA) using Partial least squares structural equation modeling (PLS-SEM)	<ul style="list-style-type: none"> There are significant differences in the relationship between hedonic benefits and perceived functional value between consumers with high and low involvement. Consumer loyalty to the company should increase as a result of their satisfaction with the LP.
“Effectiveness of Loyalty Programs in Customer Retention: A Multiple Mediation Analysis. (Fook & Dastane, 2021) [7]”	“Jindal Journal of Business Research”	Empirical study using primary data	Structural equation modeling using IBM SPSS AMOS 24	<ul style="list-style-type: none"> Loyalty programs have a significant positive impact on customer retention. Brand association has a full mediation effect when tested parallel to customer satisfaction. When BA was tested distinctly, it showed partial mediation and CS showed no mediation. Additionally, CS and BA both showed sequential partial mediation.
“The economic worth of loyalty programs: An event study analysis. (Faramarzi & Bhattacharya, 2021) [6]”	“Journal of Business Research”	Event Study	Event based calculation of standardized cumulative abnormal return	<ul style="list-style-type: none"> The implementation of loyalty programs has a positive impact on firm value. When the perceived risks of purchase are lower, the value of loyalty programs increases.
“Effectiveness of gamification strategy to increasing shopee’s customer loyalty in shopee’s marketing public relations. (I <i>et al.</i> , 2021) [10]”	“International Conference on Industrial Engineering and Operations Management Monterrey”	Empirical study using primary data	Coefficient of determination and Structural Model analysis	<ul style="list-style-type: none"> Gamification strategies have a direct positive impact on customer loyalty (effectively by 77.8%). It was particularly effective for users of age 16-30 years.
“The effects of loyalty program introduction and design on short-and long-term sales and gross profits. (Chaudhuri <i>et al.</i> , 2019) [4]”	“Journal of the Academy of Marketing Science”	Empirical study using secondary data	Difference-in-difference analysis	<ul style="list-style-type: none"> “In the short term, introducing an LP can increase sales and gross profits, and these positive effects are sustained long term.” However, the effects on gross profits do not become significant until the second quarter following the introduction of the LP, and their overall impact on performance lags significantly behind sales.
“The similar versus divergent effects of pride	“Journal of Business	Four experimental studies using primary	ANOVA and other related procedures varying as per need	<ul style="list-style-type: none"> “While both pride and happiness can increase repurchase intentions

and happiness on the effectiveness of loyalty programs. (Septianto <i>et al.</i> , 2019) ^[19] ”	Research”	data	of each study	<p>after a frequency rewards system, only pride (vs. happiness) increases repurchase intentions differently after a customer tier program.”</p> <ul style="list-style-type: none"> • Furthermore, the effects of these emotions are mediated by two distinct pathways: positive affect intensity (for frequency reward programs) and signaling motives (for customer tier programs).
“Loyalty program activity: make B2B customers buy more. (Kwiatk & Thanasi-Boçe, 2019) ^[13] ”	“Marketing Intelligence and Planning”	Empirical study using primary data	Logistic regression models	<ul style="list-style-type: none"> • In a linear LP, the frequency of rewards has the greatest impact on sales, followed by the duration of past purchase and amount of points redeemed. The intensity of an LPA influences a company's expected sales.
“Social media, customers' experience, and hotel loyalty programs. (Sánchez-Casado <i>et al.</i> , 2019) ^[18] ”	“Tourism Analysis”	Empirical study using primary data	EFA and Regression generally used in survey research	<ul style="list-style-type: none"> • Hotel customers' level of expertise clearly determines their level of satisfaction with loyalty programs.
“Loyalty Programs Benefits and Customer Loyalty: The Mediating Role of Customer Satisfaction. (Kosgei <i>et al.</i> , 2018)”	“International Journal of Economics, Commerce and Management, United Kingdom”	Empirical study using primary data (cross sectional research design)	Hayes' PROCESS macro and the four steps mediation process	<ul style="list-style-type: none"> • The benefits of loyalty programs and customer satisfaction have a significant impact on customer loyalty. • Customer satisfaction mediates the indirect relationship between loyalty program benefits and customer loyalty. • To increase customer loyalty, hotels must establish amenities that enhance the relationship between LP benefits and customer loyalty.
“Attracting new customers to loyalty programs: The effectiveness of monetary versus nonmonetary loyalty programs. (Ruzeviciute & Kamleitner, 2017) ^[17] ”	“Journal of Consumer Behaviour”	Six sequential studies	Between-subjects analysis	<ul style="list-style-type: none"> • Monetary rewards elicit a strong attractiveness premium, both for individual rewards and for entire reward programs. • Across industries, the more monetary loyalty program was consistently perceived as more appealing. • Even when consumption goals were varied (hedonic vs. utilitarian), the effect persisted. • Monetarism is a powerful temptation for consumers that managers cannot ignore.
“Understanding loyalty program effectiveness: managing target and bystander effects. (Steinhoff & Palmatier, 2016) ^[20] ”	“Journal of the Academy of Marketing Science”	“Two lab experiments and a survey.”	For experimental studies: between-subjects factorial design with a control group and for survey study: PLS-SEM	<ul style="list-style-type: none"> • Loyalty programs have opposing effects on the loyalty and sales of target and bystander customers. • While rule clarity reduces both negative bystander and positive target effects, reward visibility increases both. • Exclusive rewards provide a way to mitigate negative bystander effects while not affecting targets.
“Customer-company identification and the effectiveness of loyalty programs. (Kang <i>et al.</i> , 2015) ^[11] ”	“Journal of Business Research”	Empirical study using online panel data	PLS-SEM	<ul style="list-style-type: none"> • Customer loyalty is increased by program loyalty and customer-company identification. • Customer-company identification can transform program loyalty into company loyalty, lowering the company's latent financial risk.
“The effects of loyalty programs on customer loyalty: The mediating role of customer value	“African Journal of Business Management”	Empirical study using primary data	Structural equation modelling	<ul style="list-style-type: none"> • The role of utilitarian value in promoting customer loyalty is more significant, which has certain implications for retailers in designing effective

and the moderating role of relationship benefits. (Tang Saili, 2012) [21]"				loyalty programs.
"Consumer learning as a determinant of a multi-partner loyalty program's effectiveness: A behaviorist and long-term perspective. (Frisou & Yildiz, 2011) [8]"	"Journal of Retailing and Consumer Services"	Empirical study using longitudinal data	Longitudinal research methodology using multiple models and tests.	<ul style="list-style-type: none"> The effectiveness of a loyalty program is not solely dependent on the program. Firms should take specific measures to help their customers familiarize themselves with the program's rules in order to obtain the loyalty behaviours.

Source: Author's own analysis.

Findings

Numerous studies have been undertaken in the past to measure the marketing effectiveness of loyalty programs. These studies have been conducted in various contexts and industries, using distinctive samples and employing unique research methodology to reveal new scientific insights in relation to loyalty programs. Concepts and constructs that have been studied are hedonic value, perceived functional value, customer involvement, brand association, customer retention, value of the firm, customer satisfaction, customer loyalty, utilitarian value of the LPs, gamification strategies, artificial intelligence, firm performance, sales, gross profits, perceived purchase risk, pride, happiness, frequency of LP usage, company-customer identification, etc. Most of the studies are quantitative in nature with the employment of primary data, secondary data, online panel data, and longitudinal data. Some of these are experimental in nature, and one is event study. Methodological approaches used are partial least squares structural equation modeling, structural equation modeling, standardized cumulative abnormal return, difference-in-difference analysis, ANOVA, logistic regression models, EFA, CFA, Hayes' PROCESS macro, four step mediation processes, between-subjects analysis, etc. Findings are comprehended in the table presented above and major argument of all the studies indicate the importance of using LPs.

Future Research Directions and Conclusions

The current study discovered numerous serious flaws in previous studies' external validity, internal validity, sample selection, and sample size determination. The increasing use of LPs by businesses and customers necessitates more extensive and comprehensive research efforts. Other metrics for LP introduction, the effect of LP introduction among smaller firms and other markets, and knowing the optimum level of frequency when designing an LP are some suggested areas to investigate. Furthermore, future scholars should take a qualitative approach.

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