1-1-2000

Exploring the criteria used by managers to measure the effectiveness of customer loyalty programs

Peter D. Simms
Edith Cowan University

Exploring the Criteria Used by Managers to Measure the Effectiveness of Customer Loyalty Programs

by

Peter D. Simms MBus

A Thesis Submitted in Partial Fulfillment of the

Requirements for the Award of

Master of Business (Marketing).

At the Faculty of Business, Edith Cowan University, Churchlands.

Date of submission: February, 2000.

USE OF THESIS

ABSTRACT

Since the 1970s there has been a paradigm shift away from mass marketing towards the establishment and maintenance of individual relationships known as relationship marketing. Customer loyalty programs can be seen as the tactical strategies that have resulted from this change in focus, as they attempt to retain existing customers by developing a long-term, mutually satisfying relationship. The first of these such strategies was introduced in 1981, and they are still a relatively new and unexplored phenomenon. The limited research on these strategies conducted thus far has shown the many purported advantages to be doubtful at best, yet their number and scope continue to increase exponentially (Bejou, 1997). As a result of this apparent contradiction between the published research and what is being observed in practice, this study used exploratory, qualitative methods to investigate the objectives of management when implementing loyalty programs as well as the criteria they used to assess the effectiveness of these programs.

The sample for this study comprised six managers of several large organisations within Australia. Individual depth-interviews probed managers' motivations for implementing customer loyalty programs and their perceptions of the performance of these programs to date. The results of this study suggest that the objectives behind the implementation of customer loyalty programs may have evolved over time to a more bottom-line orientation. Furthermore, the informants contend that exclusive loyalty is virtually impossible to achieve with a loyalty program, or any other method.

Nonetheless, this research suggests that those loyalty programs offering rewards that aim to improve the value proposition of the core product, may be more successful in terms of differentiation and loyalty. Finally the results suggest that despite the fact that many organisations are forced to offer a loyalty program to maintain their competitive position, if well constructed and well managed there appears to be benefits to the company in terms of marketing flexibility and alternative revenue streams.

Due to the nature of the research design, the objective of this research was not to provide statistical indicators about the performance of sample members' loyalty programs. It is hoped that the findings drawn from the data can enhance the understanding of the customer loyalty program phenomenon, from a qualitative perspective, and thus guide future research into areas in which the current literature is deficient. For example, this study highlighted the confusion that surrounds the definition of a customer loyalty program and the implications this has had for the appraisals of these programs. Further research into this, and other important areas of inquiry raised in this study, may enable academics and practitioners to better explain the continued growth of loyalty programs, and fully understand the real benefits and costs associated with them.

DECLARATION

I certify that this thesis does not, to the best of my knowledge and belief:

(i) incorporate without acknowledgement any material previously submitted for a degree or diploma in any institution of higher education;

(ii) contain any material previously published or written by another person except where due reference is made in the text; or

(iii) contain any defamatory material.

Signature [redacted]

Date 1-6-2000

ACKNOWLEDGMENTS

I would like to thank all my family and friends for the support they have shown over the duration of this study. At certain stages there is nothing more important than having a receptive ear for a good whinge, and for those who generously donated their time (and there were many), it is much appreciated. I would also like to thank Simone for all her guidance and patience. Perhaps more importantly though, was her amazing enthusiasm after reading this paper nearly as many times as I had - a continual source of motivation! Finally, I feel compelled to thank (posthumously) the person who invented the motorcycle, as without this amazingly liberating machine the stress, tension, anxiety, frustration, and all those other wonderful emotions involved in writing, may have ultimately threatened my sanity.

TABLE OF CONTENTS

CHAPTER 1: INTRODUCTION

Background to the Study

The maturity of many global markets, and the resulting intense competition within these markets, has ensured that the task of attracting and retaining customers is now a primary managerial concern (Dick & Basu, 1994). The focus of consumer marketing has shifted away from mass advertising towards an attempt by marketers to reduce consumers' choice by engaging them in ongoing loyalty relationships (Sheth & Parvatiyar, 1995). Customer loyalty programs are the tactical strategies that have emerged from this paradigm shift towards relationship marketing (Sharp & Sharp, 1997), as their focus is on retaining the most profitable customers via the development of a mutually satisfying long-term relationship (Gilbert, 1996).

Chow & Holden (1997) contend that an increase in customer loyalty results in a domino reaction occurring. Revenue increases from a greater number of repeat purchases (Reichheld, 1996), structural costs decrease through servicing experienced customers (Michell & Sanders, 1995), and employee retention also increases due to greater job pride and satisfaction (O'Brian & Jones, 1996). Following the lead of American Airlines, who in 1981 established what was to be the precursor of the frequent flyer program, there has been a proliferation of special marketing techniques termed customer loyalty programs (Sharp & Sharp, 1997). These have been implemented in an attempt to restore eroding levels of customer loyalty caused primarily by the situation that consumers of generic products have no reason to remain loyal, often choosing price and accessibility over a relationship (Palmer & Bejou, 1994).

Considering the pervasiveness of customer loyalty programs in today's marketplace, and the significance of the benefits which they are purported to achieve, there is surprisingly little research conducted on these strategies. Despite the fact that frequent flyer programs, the catalyst for the subsequent rash of loyalty programs, were established nearly twenty years ago, there are still only a handful of papers which attempt to objectively assess their impact (see Gilbert, 1996; Hu, Rex, & Strand, 1988; Kearney, 1989; Mason, 1996; Mowlana & Smith, 1993; Nako, 1992). The overriding conclusion from this research is that while the original motivations behind the strategy were valid, they have become so great in scope that the airlines can neither afford to run them in an efficient manner, nor risk being the first to abandon them.

A review of the literature has shown there to be even less research that critically evaluates the more recent incarnations of loyalty programs. Dowling & Uncles (1997) reviewed the overall performance of loyalty programs with a view to establishing several conclusions that could be used to guide future offerings. They prefaced the article with the suggestion that the implementation of most loyalty programs is based on the marketing strategy of "if you see a good idea, copy it," (1997, p. 71). The result of this was that, contrary to popular belief, the programs did not fundamentally alter market structure. They may protect existing customers, but this is at the cost of grossly inflated marketing expenditure.

The concept of double jeopardy was also introduced as an important consideration of customer loyalty (Fader & Schmittlein, 1993). This concept contends that loyalty is a function of market share. That is, brands with a large market share, as determined by their marketing mix, will have a greater number of buyers who will tend to buy more frequently (Dowling & Uncles, 1997). The implication is that if the marketing strategies designed to induce loyalty cannot achieve this objective, they must produce other outcomes deemed to be of importance to management.

Sharp & Sharp (1997) conducted a quantitative analysis of the ability of Fly Buys to increase the purchase frequency of participant brands. This article is especially relevant to the study because it is the first published study to examine customer loyalty programs from an Australian perspective, and is also one of the few research papers to empirically investigate a frequency program other than frequent flyer programs. Sharp & Sharp (1997) differentiate loyalty programs from other marketing activities by the fact that they are defensive in orientation. The objective is to protect and hold onto existing customers through increasing repeat purchase loyalty, rather than the usual marketing objective of increasing market share. The increase of loyalty levels across the participant brands after the introduction of Fly Buys in Australia was found to be "disappointingly small" (Sharp & Sharp, 1997, p. 479). However, it was also noted that such programs are the only marketing strategy which deliberately attempts to increase repeat purchase loyalty.

Significance of the Study

The significance of this study lies partly in the trend that many organisations are adopting customer loyalty programs contrary to empirical evidence (see Sharp & Sharp, 1997; Dowling & Uncles, 1997; Mowlana & Smith, 1993), and it follows that it would be useful to investigate *why* this is the case. The cost of implementing and maintaining loyalty programs is in many cases exorbitantly high (Nako, 1992), and the degree of homogeneity between them suggests that there is no real differentiation, and hence no competitive advantage to be gained (Kearney, 1989). Despite this, the number and breadth of application of these programs continues to grow rapidly (Chow & Holden, 1997). Consequently, the number of consumers involved in these programs has also grown considerably, for example, approximately 10% of the Australian population are members of the Fly Buys program, and some 93% of business travellers surveyed were linked to at least one frequent flyer program (Uncles, 1999). This suggests that organisations are either ignoring the accumulated research that argues that loyalty programs are not achieving their objectives, or, as these strategies have evolved so too have the reasons behind their implementation.

The preceding sections have demonstrated that there has been insufficient research in this area to facilitate an adequate understanding of the benefits or otherwise of loyalty programs in practice. The vast increase in the numbers both of organisations offering loyalty programs and consumers joining these programs ensures that research into this area is relevant and important for many people. Moreover, the almost complete absence of qualitative investigation into this complex and poorly understood area has also been illustrated. Therefore, there is a need to explore the practical reasons behind the implementation of loyalty programs today, and how these objectives, be they new or previously documented, are measured by corporate management.

Purpose of the Study

The primary aim of this thesis is to qualitatively explore the motivations underlying management's decision to implement customer loyalty programs, and to investigate the criteria used to assess the outcomes. As the focus of the research was on the perceptions of management surrounding these programs, a multi-industry sample was used in order to gain a richer description. This enabled a comparison between experiences with frequent flyer programs and those of other frequent buyer programs such as Fly Buys. The sample units for this thesis included participants in both these programs, as well as Loyalty Pacific, the program manager for Fly Buys. It is anticipated that the data gathered from this research, and the analysis to follow, will provide an insight into why so many organisations are adopting loyalty programs, and whether this will continue to be the case in the future.

Research Question

What are the motivations of management within large corporations in Australia when implementing customer loyalty programs? What criteria are used by management to measure the effectiveness of their current programs?

CHAPTER TWO: LITERATURE REVIEW

This chapter will review the published literature relevant to the research question. Before examining the research related specifically to customer loyalty programs, the predetermining factors that have led to their inception and growth will be examined. The most influential of these has been the growth of relationship marketing. The relationship marketing movement will be described, illustrating the impact it has had on realigning marketing strategies from 'mass' to 'individual'. Central to this movement is the recognition of the importance of customer loyalty to the organisation, and this concept will be defined and discussed. Finally, customer loyalty programs will be examined from an organisational perspective in terms of what objectives they hope to achieve, and whether - according to the research conducted to date - these objectives are being achieved.

Introduction

A broad review of the marketing literature suggests that the discipline has in effect evolved a full 360 degree cycle to return, in principle at least, to its starting point. The very earliest incarnations of marketing revolved around the interactions between a single buyer and seller, a restricted exchange (Bagozzi, 1975). As channels of distribution and communication became more efficient, suppliers were able to simultaneously sell their products to large numbers of customers (Sheth & Parvatiyar, 1995). Further innovations in the physical deployment of goods and the increasingly sophisticated techniques of marketing practitioners characterised the following era of 'mass marketing'

(Kotler, 1972). This involved the segmentation of the global market into homogenous clusters, which were then targeted with mass-customised communications in an attempt to stimulate interest for a commodified product. While this type of marketing has evolved further over the past decade, resulting in what Gummesson (1997) terms 'mega marketing' (e.g. lobbying of public/political opinion) and mega alliances (e.g. the establishment of the European Union as a new stage for marketing), there has been a corresponding movement back towards the origins of marketing – the recognition of the importance of one to one relationships in the market system (Uncles & Laurent, 1997).

This paradigm shift has not only been the result of dissatisfaction with conventional, consumer goods theories in the 1970s (Gummesson, 1997), but is also the result of a number of unique environmental factors. The unprecedented levels of global competition, compounded by the maturity conditions of many product markets, have ensured that the task of attracting and retaining customers is now a primary managerial concern (Dick & Basu, 1994). Evidence of this change has been the shift in focus of consumer marketing from creating brand and store loyalties through mass advertising and sales promotions towards the development of one-to-one relationships (Sheth & Parvatiyar, 1995). The concepts associated with relationship marketing are not new ones, but they have only become practical with the computerised technology of databases (Moriarty & Swartz, 1989). This paper will investigate the relationship marketing phenomenon, and at its core, the concept of customer loyalty. The nascency of these two ideas has resulted in the recent emergence of a marketing technique designed to induce and retain customer loyalty – the loyalty program (Gilbert, 1996).

Relationship Marketing: an Overview

The evolution of marketing, or depending on one's viewpoint, the refocusing of the marketing discipline (Petrof, 1997) described above, can be conceptualised as an increasing concern with the development and maintenance of mutually satisfying long-term relationships with customers, a notion termed 'relationship marketing' (Berry, 1983). Over the past two decades there have been vast quantities of literature published on this subject, and at the risk of over-simplifying the concept, it can be said that the fundamental axiom of relationship marketing is an attempt by marketers to reduce consumers' choice by engaging them in an ongoing relationship (Sheth & Parvatiyar, 1995). However, the definitions of this concept are many and varied. Morgan and Hunt (1994) state that it is the channelling of all marketing activities into the establishment and maintenance of relational exchanges. Dowling and Uncles (1997) define the concept in economic terminology, stating that organisations attempt to change customer choice processes from operating in the spot market to operating in a contractual relationship market. The paradox of relationship marketing arises from the synergistic benefits and strategic advantages to be gained from co-operation with competitors instead of the generally accepted direct warfare. A fundamental axiom of relationship marketing is that to be an effective global competitor one must be a trusted co-operator within some network (see Wilkinson & Young, 1998; Palmer, 1995; Gummesson, 1997; Chow & Holden, 1997; Morgan & Hunt, 1994). This 'network paradigm', the development of services marketing over the past twenty years, and practical experience, combine to form the primary antecedents of relationship marketing (Gummesson, 1998).

In order to conceptualise the notion of relationship marketing, many authors have drawn an analogy to marriage, describing both as satisfying the needs of security and risk avoidance (Palmer, 1995). Perhaps a more comprehensive metaphorical linking of the two occurs if both benefits *and* costs of marriage are considered. Dwyer, Schurr, and Oh (1987) contend that whilst the marital relationship provides companionship, procreation and parenting, it typically forecloses other sexual and social options, results in greater responsibility and entails numerous costs upon dissolution. They describe how the evolution of a buyer-seller relationship characteristically includes similar advantages and disadvantages. While the benefits that can be derived by both parties from such a situation include greater exchange efficiency, reduced uncertainty and social satisfaction, they are countered by problems which can in many ways be more prevalent than the often quoted advantages. For example, the significant mobility barrier which results from the perceived effectiveness of the relational exchange by the buyer, and the opportunity costs that result from this economic monogamy, illustrate the hidden costs associated with any buyer-seller relationship (Gronroos, 1990).

Despite the marriage metaphor being the most commonly used descriptor within the relationship marketing literature (see Palmer, 1995) Wilkinson and Young (1998) believe it is inappropriate because it fails to capture the dynamic process of interaction inherent in a relationship, and propose a new metaphor of dance. They argue that: (1) dancing is comprised of co-ordinated actions between partners, (2) the equally important aspects of leading and following require separate skills, and (3) a dance metaphor enables a more diverse range of relationship situations (e.g. many partners or no partners) to be described than simply marriage or affair. Relationships are built over time on the co-ordinated interactions of the relevant parties, and it is these premeditated actions that will either sustain or undermine the relationship (Reichheld, 1996). Wilkinson and Young (1998) argue that many organisations do not have the power to influence other organisations (lead), and therefore must develop strategies that can successfully respond to the operations of their business partners (follow). Finally, the complex realities of the commercial world mean that many associations cannot be viewed as simply black or white, as with the marriage metaphor. Business relationships may be simple or complex, involve one other party or many (as in a network, or alliance), and may be relatively short in duration, or continue throughout the lifetime of the business (Gummesson, 1998). Both the marriage and dance metaphors highlight the notion that any economic relationship, be it between two firms or a firm and a consumer, must be the result of a carefully managed interaction, and the benefits derived from the association should outweigh the economic and psychological costs of exclusion from normal relational exchanges.

Precursors to Relationship Formation: Trust and Commitment

Trust and commitment are central to successful relationship marketing (Gronroos, 1990), and when both are present the result is said to be increased efficiency, effectiveness and productivity (Morgan & Hunt, 1994). Before examining how each of these antecedents links to the formation of relationships, it is necessary to differentiate between the two. Morgan and Hunt (1994, p. 22) provide the most concise definition of each variable. They describe relationship commitment as when one or more of the exchange partners makes an implicit or explicit pledge to maintain the relationship with maximum effort due to its perceived importance. As a consumer's level of commitment increases, the lower the propensity to switch brands (DuPont, 1998). As brand attitude is central to the repurchase decision in the consumer market (Macintosh & Lockshin, 1997), Morgan and Hunt propose that their definition of commitment becomes similar to that of brand loyalty, which will be discussed later.

Relationship trust occurs when one exchange partner has confidence in another's integrity and reliability, both now and in the future (Morgan & Hunt, 1994). As such, trust becomes a primary determinant of commitment. Trust can thus be conceptualised as both a precursor and consequence of the buyer-seller dyad (Chow & Holden, 1997). Not only does it moderate the risk for the exchange partners due to the shared confidence in each other's integrity and reliability, it also tacitly guarantees expected future benefits, and thereby becomes central to the planning of relational contracts (Houston & Gassenheimer, 1987). These notions of trust are especially important considering that successful relationship marketing attempts to develop a long-term relationship which is 'win-win' in nature (Gummesson, 1997). While buyers expect reliability, quality and continuity of supply, in return sellers expect loyal and predictable buying behaviour (Palmer, 1995). Gummesson (1997) further describes how trust leads to increased customer retention/duration and how this in turn results in greater organisational security and stability, and perhaps, according to Macintosh and Lockshin (1997), a more positive attitude towards the firm by their customers as well.

Morgan and Hunt (1994, p. 24) identified five major determinants of relationship commitment and trust: communication, opportunistic behaviour, relationship termination costs, relationship benefits and shared values. Of these, only two are thought to directly influence trust, and through this indirectly impact upon commitment. Communication is posited to foster trust by enabling the moulding of perceptions, providing a strong basis for expectations, and by assisting in the resolution of disputes (Anderson & Narus, 1991). It is contended that the other precursor of trust is opportunistic behaviour, which has also been defined as "self-interest seeking with guile" (Morgan & Hunt, 1994, p.25). Insofar as trust is based on integrity and reliability, self-serving premeditated behaviour by an exchange partner is likely to lead to a reduction in trust, and in turn, a consequent reduction in commitment shown to that partner (Sheth & Parvatiyar, 1995).

According to Morgan and Hunt (1994), only when trust has been established can commitment be expressed, and commitment is dependent on two factors – relationship termination costs and relationship benefits. The former refers to the exit barriers that the expectation of the costs of relational dissolution may bring (Morgan & Hunt, 1994). These include switching costs which are defined as the one time costs that would be incurred by the buyer when switching from one supplier's product to another (Porter, 1980). The existence of these costs and barriers can induce the individual to remain committed to the relationship, and this concept will be discussed later in the literature review. Despite the continuation of the relationship, the extent to which a partner would be truly committed by a desire to avoid switching costs is debatable (Dick, 1991). The benefits derived from the relationship are a significant factor in the development of commitment, in that if the opportunity cost relative to available alternatives is perceived as favourable, consumers/organisations are more likely to patronise that partner (Sheth & Parvatiyar, 1995).

According to Morgan & Hunt (1994), the only concept that directly influences both relationship trust and commitment is the extent to which relationship partners have shared values or common beliefs about important and appropriate goals, behaviours and policies. While the formation of firstly trust and then commitment are primarily dependent upon tangible behaviours described above, the only concept that appears to have the power to influence both is an intangible such as synchronous values – a fact that may have been ignored in many unsatisfactory buyer-seller relationships (Uncles, 1999). While many organisations strive to offer greater benefits to their relationship partners, or secure their business by making it costly to dissolve the relationship, Morgan and Hunt's (1994) framework suggests that the focus should be on recognising and adopting behaviours and policies that are consistent with those of their customers.

A useful method for further understanding the role which trust and commitment play in the formation and maintenance of relationships is to examine the roles they play within the five general phases of relationships; awareness, exploration, expansion, commitment, and dissolution (Scanzoni, 1979). The critical distinction between the exploration phase and the expansion phase is that the trust established in the exploration stage leads to greater risk taking within the relationship. Consequently, it is this trust that leads to a deepening mutual dependence within the relationship (Dwyer, Schurr, & Oh, 1987). While trust is fundamental in the early evolution and then continuation of the relationship, commitment is the most advanced phase of the dyad's interdependence (Scanzoni, 1979). Not only does it imply a certain degree of exclusivity between the exchange partners, in many cases the information search for alternative partners is virtually precluded (Palmer, 1995).

The preceding discussion shows that the central objective of relationship marketing is understood to be to reduce a buyer's evoked set by nurturing a mutually satisfying relationship between the buyer and the supplier. If this core principle is correct, it can be assumed that in the consumer market the establishment and development of customer loyalty is the key to the formation of a valuable relationship leading to a choice reduction amongst individuals (Sheth & Parvatiyar, 1995), and that the actions of marketers can influence this process (Dowling & Uncles, 1997). The following sections will investigate the concept of customer loyalty, with particular reference to the broad benefits that can accrue to the organisation. The remainder of this chapter will evaluate the major tool that has been employed by marketers to induce this loyalty relationship, namely customer loyalty programs.

Customer Loyalty

In the most basic sense, customer loyalty involves not only building but sustaining a relationship with one's customers (Chow & Holden, 1997). It has been described as an attachment to and a commitment by the customer to a supplier's offering over the long term (Michell & Sanders, 1995). Implied in this definition is that the commitment made by consumers to these specific products/brands is done so at the expense of exercising their market choices (Sheth & Parvatiyar, 1995). Jacoby and Kyner (1973, p.2) have divided loyalty into six segments in the following definition:

> Loyalty can be viewed as a (1) biased (i.e. non-random), (2) behavioral response (i.e., purchase), (3) expressed over time, (4) by some decision making unit, (5) with respect to one or more alternative brands out of a set of such brands, and (6) is a function of psychological (decision-making evaluative) process.

Arising from this definition is the notion that customer loyalty is dependent upon both a measurable behavioural response over time (i.e. repeat purchase behaviour) as well as a psychological or attitudinal commitment to the given brand (Macintosh & Lockshin, 1997). Indeed, Dick and Basu (1994) based their conceptual framework of customer loyalty on the foundation that whilst repeat patronage is an important and traditional measure of loyalty, an equally important requirement is a favourable attitude that is high compared to potential alternatives, a variable termed 'relative attitude'. It is this psychological variable that distinguishes 'pure' customer loyalty and spurious loyalty. Spurious loyalty is defined by Dick and Basu (1994) as those purchases that are guided not by a concomitant strong relative attitude, but simply by exogenous environmental variables. In other words, it is characterised by the influence of situational cues on a consumer's purchase behaviour (Smith & Swinyard, 1983).

Dick and Basu (1994) cite two examples of when spurious loyalty may occur. The first is when the consumer engages in attitude-consistent behaviour, where if the preferred brand is unavailable a substitute from the evoked set is purchased. A second instance in which spurious loyalty may occur is by influencing a consumer's evoked set in the decision process by providing incentives for brand switching (e.g. in-store promotions, reduced prices, etc.). These are just two examples that attempt to illustrate the point that repeat purchase which is not accompanied by a positive relative attitude results in a spurious form of loyalty that can be easily eroded by a multitude of environmental variables. Thus, in many cases what superficially appears to be simply repeat purchase loyalty hides the fact that the consumer is trapped by restricted opportunity (East, 1990), or attracted by transient benefits, rather than committed to the relational exchange (Palmer, 1995). Differentiating between these two different forms of loyalty is critical to correctly assessing the motivations of consumers and thereby selecting the most effective marketing tool to target their needs.

The phenomenon of spurious loyalty has lead many to the erroneous conclusion that loyalty is the same as satisfaction. To mistake customer satisfaction as a surrogate for customer loyalty would be a significant miscalculation, as between 65% and 85% of defecting customers report that they are satisfied or very satisfied with their supplier (Reichheld, 1996). Furthermore, there appears to be little correlation between simply repeat-purchase loyalty and later defection (Ehrenberg, 1988). Bob Wayland (1994, cited in Jacob, 1994, p.215) encapsulates the point by stating: "The conclusion is that it doesn't pay to have satisfied customers; it pays to have loyal ones."

The Loyalty Argument – Advantages and Disadvantages

Now that the term customer loyalty has been defined, this section examines the benefits that can accrue to an organisation from the effective management of the buyer-seller relationship.

It has been argued that customer loyalty should constitute a primary objective of strategic planning because this outcome represents an important foundation for the development of a sustainable competitive advantage (Dick & Basu, 1994). From both an empirical and subjective viewpoint it can be suggested that an increase in customer loyalty results in a domino reaction occurring (Chow & Holden, 1997). There are three second order effects which can arise from the winning of customer loyalty by the consistent delivery of superior value (Reichheld, 1996). First, there is a growth in revenue resulting from repeat purchases and retention (Pearson, 1994). Second, structural costs are lowered (Michell & Sanders, 1995) due to a decrease in the acquisition expenses of new customers and the efficiencies of serving experienced ones (Fornell, 1992). Third, the increase in job pride and satisfaction by better meeting customer needs results in greater employee retention – an outcome which further reinforces customer loyalty and provides organisational benefits such as reduced hiring and training costs and productivity increases (Reichheld, 1996). At the macro level, revenues increase while the cost of acquiring and serving customers decreases (Patterson, 1995). Profit thus becomes the third-order effect of customer loyalty (Reichheld, 1996).

Taking the sequential nature of these benefits of customer loyalty into consideration, the underlying rationale behind an organisation's strategy to win customer loyalty should be "altruistic self-interest" (Wilkinson & Young, 1998). This is a notion which states that the primary objective of firms should be to satisfy their customers, a strategy which indirectly benefits the company via the second and third order effects described above. A prime example of this is the life insurance business where a five percent increase in customer retention (the first order effect) lowers the cost per policy by 18% (Reichheld, 1996). This second order effect then directly influences profits.

Sheth and Parvatiyar (1995) synthesise these multi-layered benefits by postulating that customer loyalty arising from successful relationship marketing has the most significant impact on marketing productivity. These authors argue that a loyal customer base has the potential to make an organisation's marketing more efficient and effective. In many ways, mass marketing has become the technique on which the marketing discipline has been based (Kotler, 1972). However, by its very definition it is incapable of adequately accommodating the great diversity of consumers (Sheth & Parvatiyar, 1995), and the after-effects are often limited (Ehrenberg, Hammond, & Goodhardt, 1994). An illustration of the imprecision that can result from untargeted mass marketing is the fact that in the United States the average yield on 200 billion coupons is no more than two percent (Sheth & Parvatiyar, 1995). One of the key factors influencing the paradigm shift towards relationship marketing is the fact that the focus has shifted from attracting new customers and increasing market share to channelling marketing resources into satisfying existing customers and providing incentives so that they remain so (Gummesson, 1997). Therefore, by targeting existing customers there can be a reduction in the amount of competitive mass marketing required (Rundle-Thiele, Dawes, & Sharp, 1999), and organisations are then able to avoid much of the marketing inefficiency that has become symptomatic of the modern marketplace (Morgan & Hunt, 1994).

It has been widely argued that it is less expensive to retain existing customers than it is to attract and maintain new ones (Sheth & Parvatiyar, 1995; Gummesson, 1997; Wilkinson & Young 1998; Chow & Holden, 1997; Dick & Basu, 1994). This assertion is partly due to the reduction in the wastage of marketing resources described above, and partly due to the fact that as the buyer-seller relationship matures the consumer may become a willing part-producer of the value creating activities normally undertaken by the company (Sheth & Parvatiyar, 1995). For example, such self-service innovations as banking services provided by ATMs and electronic ordering/bill payment facilities mean that the structural marketing costs associated with these activities are reduced, and thereby efficiency is increased. It appears likely that those customers who are involved in a relationship with an organisation, and thus familiar with its operations, will have a greater motivation and ability to engage in these types of service production, and thus reduce organisational costs (Sheth & Parvatiyar, 1995). The by-product of this marketing efficiency arising from customer retention is that any resources will be more appropriately directed towards those customers who provide the greatest value to the company, and thus marketing effectiveness is improved (Reichheld, 1996; Sheth & Parvatiyar, 1995).

While it is likely that a truly loyal customer base can deliver the advantages of greater marketing efficiency and effectiveness eschewed by Sheth and Parvatiyar (1995), and lead to the direct and indirect benefits described by Reichheld (1996), it is also likely that this particular type of consumer behaviour presents problems for the organisation. Both buyers and sellers may be placing themselves at risk due to their decreased awareness of alternative opportunities, and the construction of barriers to prevent the dissolution of said relationship (Chow & Holden, 1997). These two problems are discussed at length elsewhere in this literature review. However, it is sufficient to say that if the relationship does not produce a win-win situation (Gummesson, 1997), inefficiencies for both parties will result, leading ultimately to a wastage of resources (Wilkinson & Young, 1998).

The Determinants of Customer Loyalty

The previous section has illustrated the significant advantages an organisation can derive by successfully implementing a relationship marketing strategy that has the primary objective of winning customer loyalty. Before these gains can be assumed, however, an examination must be made of the variables influencing a consumer's "purposeful choice reduction behaviour" (Sheth & Parvatiyar, 1995, p. 256). That is, what factors will lead to a consumer intentionally reducing the number of brands in their evoked set during the purchase decision? As stated previously, Dick and Basu (1994) developed a conceptual framework that attempts to capture both the cognitive and behavioural determinants of customer loyalty. The basis of this framework is their definition of customer loyalty that contains two components: (1) positive attitude compared to competitor offerings (relative attitude), and (2) repeat patronage. The first aspect of their framework compares the strength of attitude towards the brand against the degree to which the brand is perceived to be differentiated from its competitors. The point of interest arising from this is that a strong positive attitude to the brand is not in itself sufficient to generate a high relative attitude. If there is no perceived differentiation among competitors then all product offerings are seen as equally satisfying, and multi-brand consumers will be the norm. Conversely, a high relative attitude can result from a weak attitude towards the brand that is provisional upon the existence of differentiation between competitors. Therefore, Dick and Basu (1994) argue that even if a brand is poorly perceived in isolation, if it can be positively differentiated from competitors the attitude towards the brand *relative* to other choices will be high.

The second part of the conceptual framework developed by Dick and Basu (1994), and of relevance to this thesis, is the relationship between relative attitude and repeat patronage. This relationship not only demonstrates the combination of 'ingredients' which gives rise to the various states of customer loyalty, but in doing so also suggests the types of strategies that organisations might adopt to induce such a situation. Firstly, it is important to note that the antecedents of what the authors term 'no loyalty' are a lack of differentiation from competitors and a low positive attitude to the brand, resulting in low repeat patronage. Secondly, as described previously, 'spurious loyalty' occurs when the consumer has a low relative attitude towards the brand but still undertakes repeat purchase based on situational cues such as in-store promotions, or familiarity of the brand or store (Smith & Swinyard, 1983). Thirdly, 'latent loyalty', characterised by a high relative attitude but low repeat patronage, would be the area of greatest concern for marketers. This situation would occur if the non-attitudinal influences on consumers, such as situational cues and subjective influences (e.g. interpersonal influences), were equally as important as attitudes in determining purchase behaviour (Dick & Basu, 1994). For example, latent loyalty may exist in the case of convenience products and fast moving consumer goods, where individuals can have a high relative attitude towards the brand but because of external variables including price, availability, and reference group influence, repeat purchase is not expressed.

An understanding of the determinants of customer loyalty from both the antecedents of consumer motivations and the types of strategies that an organisation may undertake, provided by the above framework, is essential in the formulation of efficient and effective marketing programs (Uncles, 1999). A situational analysis will determine the type of loyalty the company is generating, resulting in strategies to improve either the attitude towards the product relative to competitors or the situational/social factors pertaining to the purchase process and/or the product (Dick & Basu, 1994). In addition, the model also illustrates the benefits of loyalty – a decreased search motivation for alternatives (Reichheld, 1996), a greater resistance to opposing communications and strategies (Wilkinson & Young, 1998), and positive word-of-mouth communication (Dick & Basu, 1994).

Switching Costs

While it has been demonstrated how customer loyalty can be broken into behavioural and attitudinal constructs (Palmer, 1995), the challenge for the organisation is to devise strategies that can address both of these issues and deliver the ultimate goal of loyal customers. By its very nature, a long-term relational exchange developed between a firm and a consumer appears to positively impact the firm at many levels. The relationship can contribute to product differentiation by the assumption of product evolution continuing to satisfy existing customers, leads to barriers to prevent the consumer from switching, and thereby results in a strategic competitive advantage (Dwyer et al., 1987).

The building of switching costs is advocated by many researchers and practitioners as one of the best methods of increasing loyalty in both industrial (Dick & Basu, 1994) and consumer markets (Chow & Holden, 1997). In many instances the costs of switching supplier/brand are physical, for example in frequent flyer programs where consumers are rewarded for continued purchases with an accrual of resources. Evidence of this relationship is demonstrated by the fact that sunk costs on the behalf of consumers increases the likelihood of repeat patronage (Dick, 1991). Dick (1991) conducted a study showing that a video store with a similar level of service to a competitor's was chosen more frequently because it had a joining fee. Morgan and Hunt (1994) identify relationship termination costs as one of the major precursors of loyalty, and more specifically it was the *expectation* of total costs that produced both commitment and dependence on the brand. In other words, the actual cost of switching may be low, but it is the consumer's perceived cost of switching/termination that dictates how strong the barrier really is. Psychological switching costs may also dissuade consumers from changing suppliers (Dick & Basu, 1994; Gilbert, 1996). The frustration or annoyance at having to join a new scheme or learning the layout of a different store can result in this type of switching cost.

Despite the apparent benefits that the building of physical and psychological costs seem to confer to the organisation, it can be argued that while the strategies outlined above can influence the behavioural aspect of customer loyalty, the attitudinal construct is not effected. In other words, while the existence of switching costs may result in repeat purchase, it is unlikely that these costs will have a positive impact upon the consumer's attitude towards the brand. Indeed, it has even been suggested that if consumers are faced with high exit barriers or perceived switching costs a consumer revolt may result (Sheth & Parvatiyar, 1995). Nonetheless, if the primary motivation for the continuation of a relational exchange is a desire to avoid termination costs, then any repeat purchase loyalty will be spurious at best (Dick & Basu, 1994).

Chow and Holden (1997) argue against the significance of switching costs by contending that customer loyalty may be a function of a fear of failure in the acquisition process (and the implications of that failure) rather than the perceived cost of changing suppliers. In other words, consumers may stay loyal to a particular brand for no better reason than avoiding the risk of making a poor alternative choice. Furthermore, if loyalty can be achieved when switching costs are low (Chow & Holden, 1997) such as in a commodified consumer market, then the focus of marketing resources should be in reducing the fear of failure surrounding the acquisition process rather than erecting barriers to prevent substitution. Guaranteed buy-back or trade-in, money back satisfaction guarantees and no interest financing, are all examples of strategies designed to reduce the risk surrounding acquisition, an especially important tactic when purchasing an untried or undifferentiated product or brand (Smith & Swinyard, 1983).

The presumption that loyalty can exist in the absence of high switching costs has serious managerial ramifications if it is considered that the majority of existing relationship marketing strategies are founded on the rationale of 'locking in' the consumer – economically and psychologically. It is also contrary to the traditional view, which states that in addition to the critical importance of consistently delivering economic, social, and psychological benefits in each exchange, the creation of structural disincentives for relational dissolution is a useful additional motivator in maintaining the relationship (Dwyer et al., 1987).

Thus far, the discussion of the determinants of customer loyalty has focused on either the consumer's attitude towards the firm's product or their competitor's, or strategies undertaken by the firm that are designed to impact upon the external environment. However, the structure of an organisation also plays an important role in the achievement or otherwise of customer loyalty (Barclay, 1991), as does its culture (Conrad, Brown, & Harmon, 1997). In the advertising industry a number of trends relating to organisational structure have emerged (Michell & Sanders, 1995): (a) the larger the size of the client organisation the greater the loyalty exhibited towards the supplier; (b) companies are prone to select an agency relationship which is synchronous with their self-image; and (c) companies in competitive, mature markets rated the perceived attitudes/policies of the agencies towards them as the single biggest determinant of loyalty. Parallels may be drawn between these trends and the consumer market. Firstly, the more a consumer spends on one particular product category the more likely they are to be loyal to one supplier (Ehrenberg, 1988). Secondly, consumers will tend to support a product/brand which is congruent with their own self-image (Fournier & Yao, 1997). Thirdly, the perceived attitude towards the consumer may be more important to the continuation of the relationship than any other reason, including economic (Stern, 1997).

Thus far, this chapter has described the environment in which relationship marketing has come to be 'in vogue', and examined the determinants of customer loyalty and the benefits to the organisation of this outcome. The analysis of each of these has constituted the necessary preparatory steps to a detailed exploration of the most pervasive (Dowling & Uncles, 1997), yet least understood (Sharp & Sharp, 1997), strategy to induce customer loyalty – the customer loyalty program.

Customer loyalty programs

The emergence of loyalty programs

The preceding sections have underscored that many marketers now have the motivation and desire to engage consumers in ongoing relationships, and that these relationships are more likely to be a corporate bonding (i.e a bond between the individual and the brand itself) rather than between an individual and a salesperson (Sheth & Parvatiyar, 1995). Aside from the economic benefits of customer retention and the fact that relationship marketing is still a relatively new phenomenon, the exponential increase in the number and scope of customer loyalty programs can be largely attributed to market conditions (Bejou, 1997). Factors such as the increasing homogeneity of product offerings and greater consumer cynicism and sophistication have led to an overall reduction in loyalty levels (Duffy, 1998). This has resulted in organisations questioning the effectiveness of traditional advertising and promotion (Uncles, 1994a), and the proliferation of special marketing techniques in an attempt to restore customer loyalty (Sharp & Sharp, 1997).

The formalisation of these marketing strategies can be traced to the airline industry, where the deregulation of the domestic American market precipitated the market conditions described above (Kearney, 1989). Deregulation was the catalyst that led American Airlines to introduce AAdvantage in May 1981, and it was this innovation which provided the framework upon which the current frequent flyer programs and other subsequent loyalty programs are based (Mowlana & Smith, 1993). The fundamental objective of these original programs was to increase brand loyalty amongst business travellers by offering price sensitive customers a reward at little or no cost to the supplier (Mason & Barker, 1996). The primary differentiating point between loyalty programs and other marketing forms is that they are highly defensive activities (Sharp & Sharp, 1997). Therefore the focus is retaining existing customers rather than the ubiquitous marketing objective of gaining market share (Dowling & Uncles, 1997). Loyalty programs, as with many marketing strategies, attempt to create biased behavioural responses, with the significant variation being that loyalty programs use reward motivators to influence decision making (Schmid, 1997).

Perceived or actual benefits?

According to Uncles (1999, p. 2), an organisation can derive potential benefits from a loyalty program in three major areas: securing customer loyalty, data acquisition, and product management. As well as the benefits of customer loyalty that have already been discussed, Pearson (1994) examines the advantages of a loyal customer base from a financial perspective. He argues that to some extent customer loyalty provides a guarantee of future earnings because even if current earnings are low, high loyalty levels indicate a certainty in future cashflows. He further asserts that this will have a positive impact on shareholder value without any necessary impact upon revenue or market share. The benefit of data acquisition is that the organisation can gather quality information on customer needs and wants within the exchange relationship (Dwyer et al., 1987), thus enabling more accurate target marketing and customised promotions (Uncles, 1999). Product management may be enhanced by improved channels of communication from the customer using warranties, customer service hotlines, and other program-derived information to induce cross-selling and streamline product testing (Uncles, 1999).

As well as these broad-based advantages described above, Dowling and Uncles (1997) outline six objectives which companies typically expect loyalty programs to achieve. These can be broken into two groups for evaluative purposes: the first group of three objectives relate to the economic benefits which accrue from loyalty programs, while the second group of three expresses the competitive advantages derived from customer loyalty.

Economic Objectives

1. *Maintain sales levels, margins and profits.*

2. *Generate increased loyalty and therefore the potential value of existing customers.*
3. *Encourage/induce brand extension buying by existing customers.*

(Dowling & Uncles, 1997, p. 72)

By retaining existing customers, companies expect that a negligible increase in market share will be more than offset by the growth in repeat-purchase loyalty (Sharp, 1998). Despite the small increase in market share and actual numbers of customers, the benefits of winning customer loyalty can be summarised by a more complete knowledge about customers' needs and wants, a more tailored product at a lower cost, and as a result of these, reduced marketing costs and the erection of entry barriers to new competitors (Sharp & Sharp, 1997). The delivery of these advantages, however, is dependent upon accurate, timely market research information generated by the loyalty schemes themselves (Morgan & Hunt, 1994). Inherent in any data collected from the members of a loyalty program is the problem that the self-selection of the consumers involved in the scheme is unlikely to be representative of all potential customers (Dowling & Uncles, 1997). This means that further development of the product will be based primarily upon the information gathered from these existing customers, rather than trying to meet the needs of potential customers as well. In addition to this problem of biased data is the fact that whilst vast amounts of information may be generated, the real challenge will be to usefully analyse the data obtained (East & Hogg, 1997).

Many of the potential advantages management expect to gain from customer loyalty programs listed by Dowling and Uncles (1997) have been refuted by both these authors and Sharp and Sharp (1997). The generally accepted outcome of the behavioural change resulting from loyalty is that the cost of serving these customers will be less. However, Dowling and Uncles

(1997) conclude from their empirical research that whilst an individual's attitude and behaviour towards the product/brand are important variables in the determination of cost, they are not as significant as size of order, first versus repeat purchase, etc. They further contend that contrary to the popular view that loyal customers will spend more with the company, this could merely be due to the fact that they buy more of the product category anyway, such as in the airline industry where business travellers could be seen as more loyal than pleasure travellers simply because they purchase more of the product (Uncles, 1999).

Not only are the economic benefits of customer loyalty programs questionable, Fader and Schmittlein's (1993) concept of 'double jeopardy' posits that loyalty is a function of market share, and is unrelated to marketing programs designed to induce this very response. This concept suggests that a product or brand's market share is most closely correlated with customer loyalty. A secondary effect is that brands with a large market share tend to have a greater number of buyers, and these individuals buy more frequently (Ehrenberg, 1997). The double jeopardy then occurs for small brands, whereby they have fewer buyers who buy less frequently. According to this argument, as market share is an antecedent of loyalty, the focus of resources should be on increasing the former and is done so effectively by increasing penetration (more people buying) rather than share of spend (existing customers buying more). Viewed from this perspective, loyalty programs can only be effective in the long term inasmuch as they induce more distributors and retailers to stock the brand. This is one of the most effective methods of getting more buyers (Fader & Schmittlein, 1993), and if double jeopardy exists, will lead to a greater market share and an increase in customer loyalty. Other structural factors associated with a large market share that further reinforce the likelihood of double jeopardy are: a greater advertising budget, more in-store promotions and the resulting top of mind awareness (Reibstein & Farris, 1995).

The preceding discussion of the economic objectives of loyalty programs has suggested that they are most attractive to existing and heavy buyers of the brand. Furthermore, it appears that the mission of these programs is to increase average purchase frequency among existing customers, not penetration. However, this is contradicted by some empirical research that suggests that loyalty programs may not significantly alter repeat purchase levels (Sharp & Sharp, 1997; Kearney, 1989; Nako, 1992). On a more abstract level, the phenomenon of double jeopardy also questions the ability of a loyalty program to increase repeat purchase, hypothesising that the best method of increasing loyalty via market share is to increase the number of distribution outlets (Fader & Schmittlein, 1993). Having said this, Sharp and Sharp (1997) demonstrate that it is possible to alter repeat-purchase patterns to a small degree, and they also note that at the present time loyalty programs are the only marketing strategies which deliberately attempt to do this. However, from the published literature available at the present time their economic effectiveness remains questionable.

Competitive Objectives

1. *Differentiate a parity brand*
2. *Primped the entry of a new parity brand*
3. *Primped a competitor from introducing a similar loyalty scheme*

(Dowling & Uncles, 1997, p. 73)

The three competitive objectives listed above can be considered as negative or defensive outcomes of the loyalty process as they attempt to neutralise the threat of the competition rather than advocate a product's benefits (Sharp & Sharp, 1997). As previously noted, the theoretical rationale underlying the exchange relationship is, or should be, altruistic self-interest. In reality, however, many organisations' programs have diverged from this ideal to focus on the above defensive objectives with adverse consequences (East, Hogg, & Lomax, 1998). A prime case in point is frequent flyer programs, which have evolved from targeting a small, profitable sector of the airline market (business travellers) with the expectation that few rewards would be redeemed, to increasing reward exposure to the general public, and suffering the resulting liabilities this has brought (Gilbert, 1996).

The motivation to launch many loyalty programs is thought to be a desire for competitive parity (Sharp & Sharp, 1997), and it is suggested that this can only lead to an increase in generic program offerings that correspond to homogenous products. The difficulty of this strategy can again be paralleled to the airline industry, which saw American Airlines' competitive advantage eroded within weeks after they introduced AAdvantage, due to competitors launching cheaper and better programs (Hu, Rex, & Strand, 1988). The flaw of introducing a loyalty program purely to maintain competitive parity can further be explained by Patterson's (1995) discussion of novelty. He defines novelty as an individual's lack of experience in similar purchase situations, and argues that this is inversely correlated with expectations and performance perceptions. Therefore, the more unfamiliar an individual is with a purchase situation, the lower their expectations will be. It has become apparent that the outcome of the intense competition which has spawned numerous similar program offerings is consumer familiarity with the concept, and according to Patterson's (1995) hypothesis, a resultant increase in expectations of these programs. It follows that higher consumer expectations can only lead to a greater difficulty in satisfying their needs, and therefore a likelihood of both lower loyalty levels and greater switching to competitors.

Bearing in mind the competitive objectives of loyalty programs listed above, a successful program should create a degree of market 'partitioning' (Sharp, 1998), resulting in a significant reduction in the switching to non-program brands. Partitioning relies on existing customers being both loyal to the given brand and purchasing a sufficient amount to generate adequate revenue. In essence this can be seen as an operational interpretation of the 'Pareto Principle', where it is hypothesised that twenty percent of customers are responsible for eighty percent of a company's business (Fryxell, 1997). The flaw in this theory is that there is empirical evidence which suggests that the majority of heavy users (the type of individual that loyalty programs target) across many product categories, are multi-brand loyal (Dowling & Uncles, 1997). In other words, the most profitable and therefore desirable customers for one company will more than likely hold a similarly revered position in their competitors' companies too (Uncles, 1994b). This suggests that neither brand switching, seen as a final change of allegiance from one brand to another, nor brand promiscuity, which can thought of as spurious loyalty (or purchase based on situational factors), can adequately describe actual consumer behaviour (Fournier & Yao, 1997). Dowling & Uncles (1997, p. 73) proffer the term 'polygamous loyalty' as a more accurate definition, and quote the fact that the average membership of airline loyalty programs is 3.1 per traveller as evidence of consumers' multiple memberships in loyalty schemes. Furthermore, a study conducted by Harris and Uncles (1999, cited in Uncles, 1999) found that not only were 55% of executive air travellers members of more than one program, but that the primary determining factor in carrier choice was getting to meetings on time and with the least inconvenience rather than loyalty to any one carrier.

This evaluation of the commonly-stated competitive objectives of customer loyalty programs indicates that while most schemes do not fundamentally alter market structure (Dowling & Uncles, 1997), and in many cases add significantly to marketing expenditure (Nako, 1992), they *may* protect existing customers to some extent from competitors (e.g. by physical and psychological switching costs). While much of this marketing activity simply maintains the status quo relative to the competition, the benefit of this should not be underestimated as brand loyalty can easily decline if not supported (Farr & Hollis, 1997). On the whole, however, it appears that they merely serve to reinforce the existing consumer perceptions of homogenous product offerings. While consumers have in many ways come to expect the rewards associated with these programs, the programs are too undifferentiated to strongly influence the choice of many consumers (Uncles, 1999). Therefore, instead of creating a partitioning in the market and reducing brand switching, loyalty programs may compound the individual's propensity to be polygamously loyal as they change brands in search of the best reward.

In light of the above discussion it is useful to examine a practical case. Fly Buys has been selected for discussion as it is both Australia's largest customer loyalty program as well as one of the world's largest in terms of per capita coverage (Sharp & Sharp, 1997). It was launched on 29th August, 1994 and after a little over one year had a membership of over three million people (Sharp & Sharp, 1997). This represented one member in every four households (Uncles, 1999). Consumers accumulate points by patronising selected stores and brands, and in return exchange these points for free air travel, accommodation, and other merchandise. The study of this program by Sharp and Sharp (1997) corroborated the literature previously cited, and found that there was only a "disappointingly small" increase in loyalty for the Fly Buys brands themselves (Sharp & Sharp, 1997, p.479). In other words, it appears that the program has had no significant impact on the levels of loyalty shown towards either the brands participating in the program, or more importantly those who have not – a scenario that supports the pervasiveness of polygamous loyalty. This example highlights the belief that it is rare for marketing activity to be able to change the loyalty status quo for established brands (Dru, 1996).

Sharp and Sharp (1997) propose that the normal repeat purchase behaviour that has been found among Fly Buys participants could be explained in part by the fact that Fly Buys is a multiple participant program. This has two ramifications. Firstly, it may be that for many consumers points acquisition is inevitable, and that the nature of the program will allow them to accrue significant numbers of points without altering their purchase behaviour. This notion gains further credence if it is considered that the brands involved already have a high market share in their respective product categories (Sharp & Sharp, 1997). Secondly, while loyalty programs are most attractive to heavy users of all the program's brands, they will inevitably attract new, light users to a given brand resulting in the depression of average purchase frequency (Ehrenberg, 1988). In other words, a significant number of new consumers will be attracted to certain brands, but because they buy so infrequently loyalty levels actually decrease. Despite a small increase in revenue from this phenomenon, the light users within the program are likely to display spurious loyalty, in that they are faithful only until a better program or promotion comes along (Uncles, 1999). A third possible outcome of a multiple participant program is the unexplored impact that brand alliances have on the dilution of an individual brand's equity (Simonin & Ruth, 1998). This raises an interesting question of to what extent do brands that are perceived to have an alliance with many partners (e.g. frequent flyer programs, Fly Buys) risk devaluing their own image.

Determinants of customer loyalty program success

Dowling and Uncles (1997, p.75) raise three psychological factors which have the potential to influence consumer behaviour relevant to customer loyalty programs, and thereby the ultimate success of these strategies. The extent to which loyalty is to the brand or to the program has significance to the organisation as it determines to what degree its customers are exclusively loyal (i.e. to the brand) or spuriously loyal (i.e. only to the promotion). Dowling and Uncles (1997) contend that while the incentive may create a unique selling proposition in low-involvement products, it may be seen as the primary reward for purchase, and thus if it is removed so too is the purchase motivation. They posit that a more appropriate reward for loyalty programs is one that supports the long-term value proposition of the product, such as the GM card which enables participants to accumulate savings when they purchase a new GM car.

How buyers value the rewards offered is the second psychological factor, and there are five elements that combine to determine a program's value: cash value, choice of redemption options, aspirational value, relevance (i.e. how the long until the reward is earned, or the extent to which it is realistically achievable) and convenience (O'Brian & Jones, 1996). For example, frequent flyer programs or other frequency programs such as Fly Buys have high aspirational value due to the exotic rewards (Dowling & Uncles, 1997). Consumers are attracted to the program primarily because of the ability to exchange an accumulation of many everyday purchases for a product they would have not normally contemplated purchasing. Fly Buys also has a clear convenience advantage due to the swipe card concept, but low relevance because the majority of participants will never earn the ultimate reward of a free flight because of the very high number of points required (Uncles, 1999). Whilst few companies have the capability to deliver all five dimensions themselves, the benefits derived from co-branding (e.g. Shell Visacard) should not preclude them from doing so (O'Brian & Jones, 1996). By combining different products or brands it appears likely that the rewards offered by a loyalty program will be perceived to be of greater value across the five elements described above. An additional criteria used to value a program could be the psychological benefits (Dowling & Uncles, 1997). This recognises that emotion is an important variable in many marketing relationships (Bagozzi, 1995), and therefore there is a benefit to the consumer in both participating in the program and the accrual of points towards a predetermined goal.

The final psychological factor which is critical in the success of a loyalty program is the effect of timing. Dowling and Uncles (1997) cite psychological research to support their assertion that immediate rewards, or those programs that provide immediate gratification, will have a greater chance of building loyalty towards the product and not just the incentive. Further to this, if the reward can be achieved in the short-term *and* it is linked directly to the product's value proposition, the prospect of attaining exclusive loyalty will be enhanced (Dowling & Uncles, 1997). Interestingly, many of the most popular loyalty programs in terms of number of members and the most widely copied appear to have the least preferable reward combination – delayed with no link between the product and program, such as in the case of Fly Buys. This would seem to support the idea that many of these programs are little more than sophisticated promotional strategies in which consumers are "bribed with rewards" (Uncles, 1999, p. 6). It is also apparent that while many marketing strategies share the name of 'customer loyalty program', not all of them have the same end objective (Kearney, 1989), and therefore the criteria by which these programs are judged must be reassessed accordingly. So, while some programs may genuinely seek to increase customer loyalty and have their performance justly measured upon this variable, many other programs may exist primarily to increase penetration or maintain competitive parity (Dowling & Uncles, 1997).

Uncles (1999, p. 6) contends that in addition to the above psychological variables that may influence the success of a customer loyalty program, certain financial, competitive, and consumer-related criteria must also be present for a successful program. These criteria are: 1) the main value proposition of the brand must be directly supported by the program, 2) consumers should value any relationship built by the program, 3) the lifetime profitability of the customer is high, and 4) it is demonstrable that it costs less to retain customers than it does to acquire new ones. Not only must these conditions be present for a viable strategy, Uncles (1999) also argues that each of these must be cost-effective relative to other marketing strategies. This means that the program must be justified within its own right as well within the larger framework of the organisation as a whole. The loyalty program must thus produce tangible benefits that exceed its costs, as well as compare favourably in these terms with alternative marketing strategies which must be foregone. To accurately judge this, an effective system of performance assessment must be implemented as part of the loyalty program - something that many organisations have failed to do thus far (Raphel, 1998).

Conclusion

The strengthening inverse correlation between the intensity of competition and the differentiation between product offerings has combined to refocus the discipline of marketing back onto mutually satisfying relationships, and to some extent has created a new paradigm – relationship marketing (Gummesson, 1997). At the core of these long-term relational exchanges is loyalty, forged through trust and commitment. If these relationships are developed and sustained, the benefits of customer loyalty include the economic advantages of retaining existing customers. Defensive advantages, such as the establishment of barriers to prevent competitors from poaching valuable customers or customers from voluntarily switching brands, are also important outcomes from a win-win relationship.

The precursor of the modern customer loyalty program was first introduced in 1981 in the hope that this innovative marketing strategy would be able to win customer loyalty and deliver the corresponding benefits. However, despite the rapid growth of these programs, both in their absolute numbers and in their breadth of application, there has been little empirical research into the effectiveness of customer loyalty programs. There is even less evidence to suggest that they have achieved their desired objectives of increasing loyalty levels amongst existing customers, and differentiation from competitors

(Dowling & Uncles, 1997). To date, it appears as if many consumers are polygamously loyal, and it has therefore been suggested that the only situations in which a loyalty program may be worthwhile are when it neutralises a competitor's competitive advantage by introducing a similar program, results in a wider distribution of the product, or makes a direct link between the reward and the product (Dowling & Uncles, 1997; Uncles, 1999). To this end it is appropriate to examine:

(a) the specific objectives behind the implementation of loyalty programs, and
(b) the criteria used by management to measure the effectiveness of loyalty programs in meeting these objectives.

It is these issues that are of primary interest to this research. The study that is to be outlined in the next chapter will describe how these issues are to be explored and analysed.

CHAPTER THREE: METHODOLOGY

Research Design

The purpose of this thesis is to conduct exploratory research in order to explore the criteria used by management to measure the effectiveness of their existing loyalty programs in terms of their stated objectives for these programs. It is anticipated that the findings from this study, in conjunction with other information, could be used to guide other organisations in the adoption, or otherwise, of similar programs. Before outlining the specific methodological techniques that will be utilised in the gathering of data for this research, it is requisite that the broad research paradigm to be employed is explained. Not only does this orientation guide the entire research process, but it establishes a reference point from which the reader can assess the findings (Holt, 1991). It is evident from the literature review in Chapter 2 that there is a large amount of information pertaining to the antecedents of loyalty and the attributes a customer loyalty program is thought to have. In contrast to this, however, there is a comparative dearth of research on whether these marketing strategies actually achieve their stated objectives. Also, there is conjecture and misunderstanding as to what these objectives really are. Furthermore, the few quantitative studies that have attempted to do this suggest that repeat-purchase patterns amongst consumers show no significant deviations after the introduction of a loyalty program (see Sharp & Sharp, 1997).

It is due to these poorly explained areas in the customer loyalty field that has directed the research of this thesis towards the qualitative paradigm. Not only has there been a marked lack of research into the intangible aspects of consumption, such as the development and maintenance of relationships with suppliers (Bagozzi, 1995), but to use quantitative methods to derive meaning from these inherently social constructs may be inappropriate (Sheth, 1979). Qualitative research, to be used in this thesis, is defined as any type of study which produces findings that are not the result of statistical analysis (Strauss & Corbin, 1990; Glaser, 1992). It also usually involves a naturalistic, interpretive approach (Punch, 1986). As a more flexible methodological approach, qualitative methods are most pertinent when identifying and exploring concepts (Sampson, 1996), generating original theoretical insights (Belk, Wallendorf, & Sherry, 1989), uncovering and understanding hitherto unknown phenomena (Strauss & Corbin, 1990), or examining the nature of an individual's perspectives and experiences (Glaser, 1992). These situations can be directly linked to the research question, as it is concerned with the relatively unexplored area of managements' motivations in implementing loyalty programs, as well as their subjective criteria used to measure the outcomes.

On an abstract level, qualitative studies enable the researcher to "get inside the black box" (Huberman & Miles, 1994, p. 434) of an individual's mind, so that understanding extends beyond merely what happens, to the why and how of an event. The qualitative, exploratory nature of this research has the primary aim of investigating management's perceptions and feelings surrounding loyalty programs (the why and how), rather than a quantitative measure of the program's performance (what and how much).

Sample

The sample units for this research project were six senior managers in large Australian organisations who are central to the strategic and tactical planning of the customer loyalty programs within their companies. A multi-industry sample was chosen as the limited research to date has focused on either frequent flyer programs (see Gilbert, 1996; Hu, et al. 1988; Kearney, 1989; Nako, 1992) or multiple participant programs, such as Fly Buys (see Sharp & Sharp, 1997). The fact that the organisations sampled were involved in either one or both of these types of programs is beneficial in that a broader understanding of the phenomena could be achieved.

Sample Size

The sample used in this study encompassed two representatives from the airline industry, two representatives from the banking industry, one representative from the retail industry, and the program manager for Fly Buys. The airlines and banks run their own loyalty programs as well as participating in the Fly Buys program, while the retail representative is solely a participant in Fly Buys. This sample structure ensured a wide range of perspectives and experiences consistent with both the research question and the exploratory research design. In order to ensure that this research was of value, it was necessary to sample the decision-makers in each of the organisations. However, as the researcher is a WA resident the relatively small sample size was mainly due to the fact that the sample units were located in Melbourne and Sydney, and in order to obtain the information required a face-to-face meeting was necessary. Also, there are a relatively limited number of organisations in Australia involved in large-scale, national loyalty programs. Given the restrictions described above, as many individuals as possible were sampled within the temporal and financial constraints.

Sample Method

The most fundamental issue surrounding the selection of a sample is that of representativeness (McCracken, 1988). Depending on the approach adopted, the researcher chooses either statistical or theoretical representativeness (Johnson, 1990). The former is characterised by randomness, so that one may obtain accurate descriptions or verify theories (Glaser & Strauss, 1967), which will finally lead to conclusions that are generalisable to the entire population (Strauss & Corbin, 1990). In a theoretically representative sample, more commonly found in qualitative research (McCracken, 1988), the primary concern of the researcher is representation in terms of the phenomenon or concepts to be tested (Huberman & Miles, 1994). Exploratory, qualitative research is concerned more with providing information which potential users *may* employ to make generalisable judgements, than producing "an index of transferability" (Lincoln & Guba, 1985, p. 316). Therefore, due to the nature of the research question and design, the sampling technique applied in this study was purposive sampling (Sampson, 1996; Lincoln & Guba, 1985).

Derived from the premise of theoretical sampling, purposive sampling is a non-probability form of sampling that selects respondents not on an opportunistic or convenience basis, but by the informed judgements of the researcher (Johnson, 1990). This selection process is guided by five criteria by which to judge the 'ideal' informant (Johnson, 1990, p.29): their role in the community, the knowledgeability of informants arising from their respective roles, the intrinsic ability of the individual in terms of willingness to co-operate, communication ability, and impartiality. The sample members for this research had by the very nature of their respective jobs both the necessary roles and knowledge relevant to the research question. Willingness to co-operate was demonstrated by the granting of a personal interview and an agreement to discuss all issues within the frame of reference for the study. Given their positions of influence within their organisations, a high level of communication ability was assumed. Impartiality was the only criteria upon which the sample could be questioned. The possible reluctance of respondents to divulge potentially embarrassing information regarding their loyalty program was tempered by the fact that the thrust of the questioning was directed towards management's perceptions, rather than a statistical assessment of the program's performance. Bearing in mind the above criteria, and the fact that a purposive sample will largely determine the nature of the information gathered and analysed (Huberman & Miles, 1994), the sample chosen represented the best compromise between choosing the 'ideal' informants and those sample units which were practically accessible.

Data Collection Method

Given the research objective and the characteristics of the sample, the sole data collection method was individual interviews. According to Denzin and Lincoln (1994, p. 11), the field of qualitative research is characterised by an "embarrassment of choices" in relation to the numerous methods of inquiry and analysis. Despite this abundance, however, in both qualitative research and commercial market research, one of the most widely used techniques is the individual interview (Punch, 1986; Sampson, 1996). From an operational perspective, the primary reason for this is the researcher's ability to quickly develop rapport with the respondent (Belk et al., 1989). One is thus able to get closer to the individual's perspective (Denzin & Lincoln, 1994). This ultimately allows the knowledge domains of the researcher ('scholarship') and the respondent ('savvy') to be focused in a common direction (Pawson, 1996, p. 303). A more pragmatic reason for the widespread use and success of the interview has been the recognition by academics that the standards of scientific rigour can be applied to this qualitative technique (Fontana & Frey, 1994). That is, by thoroughly documenting and justifying the exact interviewing method to be performed, other researchers are able to assess the reliability and validity of the findings produced (Deshpande, 1983).

Pawson (1996) sees the choice of interviewing style as a dichotomous affair between qualitative and quantitative, structured and unstructured, standardization and sensitivity, and so on. On the one hand, a structured approach allows the direct comparison between sample units, but at the expense of responses limited by the identical collection technique (Pawson, 1996). On the other hand, the unstructured approach provides a 'thick description' (Lincoln & Guba, 1985) which is faithful to the respondent, but precludes meaningful comparisons with others (Pawson, 1996). Sampson (1996, p.334) offers several different bases of classification that may be more in keeping with the amorphous nature of 'the interview': its function or role (e.g. exploratory in this case), the approach (e.g. directive), the structural framework, and its length.

Sampson's (1996) classification of the 'focused' or 'semi-structured' interview was used in this thesis as it provides the desired midpoint between Pawson's (1996) structured/unstructured categorisation. The underlying pretext of this type of interview is that the interviewer knows in advance the experiences or behaviour he/she wants the respondent to discuss, but neither the sequence of the questioning nor the parameters surrounding the issues are fixed (McCracken, 1988). In this study, the experiences and behaviours of interest were the criteria used by management to measure the effectiveness of their loyalty programs compared to their initial objectives, and their opinions regarding certain key findings from the literature review.

The focused interview is the most appropriate method for this study as its four differentiating characteristics (Merton, Fiske, & Kendall, 1956) are all pertinent to the research question. Firstly, the respondents in the interview are known to have been involved in a particular concrete situation. The sample for this study uses individuals at the centre of their organisations' decision-making processes regarding customer loyalty programs, and are therefore knowledgeable about the issues in question. Secondly, the focused interview probes situations that have been analysed prior to the interview. Although mention has been made of the lack of research in this area, several quantitative studies have been conducted (e.g. Nako, 1992; Sharp & Sharp, 1997) and their findings incorporated into the preceding literature review. The literature review by necessity neglects the research conducted by the organisations in question that is not available for public scrutiny. Thirdly, the interview proceeds upon the basis of a framework that outlines the major areas of investigation and any relevant theoretical constructs or hypotheses. Due to the time restrictions inherent in the interview, a guide was essential for efficient and effective coverage. The guide used in this research can be found in Appendix A.

Fourthly, the interview is focused on the subjective experiences, emotional responses and attitudes of the respondent regarding the concrete situation. As a result of the exploratory research design, and the difficulty in accessing relevant statistics to use as a comparison, the focus of this study will be on the individuals' perceptions and beliefs. The above discussion has outlined the four characteristics that, according to Merton, Fiske and Kendall (1956), differentiate the focused interview. By listing these factors, and by describing how the circumstances surrounding this study are consistent with these factors, it has been demonstrated that this type of interview is appropriate for the research question.

Data Collection Technique

The flexibility of the semi-structured interview can help in gauging the strength and direction of an individual's responses (Pawson, 1996), and significantly for this study, within the socially constructed parameters of their perceptions and feelings (McCracken, 1988). To investigate the criteria used by management to assess the outcomes of their loyalty programs it was necessary to understand both their role within the organisation as well as the social context in which their responses were made. This ensured that when analysing the data any opinions or observations could be interpreted within this context. Whilst the flexibility permitted the interviewer is the major advantage of this type of interview, it is also the most critical drawback (Sampson, 1996). The lack of comparability resulting from the unstandardised approach and the difficult and time-consuming process of analysis ensure that proper forethought and planning are paramount to a successful outcome (McCracken, 1988). The ways in which these were achieved in this study are discussed below.

In order to ensure that all salient areas were attended to fully in the interview, a basic framework covering the major areas of questioning was used as a guide (McCracken, 1988; Sampson, 1996). These discussion topics were not investigated in any particular order, and were probed in any direction that proved fruitful. These broad topics were:

- the historical aspects of the implementation of the program – the processes and people involved
- measurement techniques used in performance assessment
- a description of the reporting system
- the feelings of the manager(s) surrounding both the implementation of the program and its subsequent performance
- their opinions regarding important findings from the literature review, e.g. that the change in loyalty levels resulting from these programs is disappointingly small.

With the establishment of rapport being central to a good interviewing technique (Belk et al., 1989), it has been suggested that the process should begin with broad, non-threatening questions (Wallendorf & Belk, 1989), or "grand-tour" questions (Werner & Schoepfle, 1987, p. 320). This type of non-directive questioning allows the respondent to talk freely about the issues, while enabling the interviewer to direct proceedings in an unobtrusive manner (McCracken, 1988). Indeed, Johnson (1990) speaks of the greater reliability of informants when reporting frequent or patterned phenomenon, such as that arising from general questioning. As can be seen from the interview guide (see Appendix A), respondents were probed initially on areas that required few subjective observations or the disclosure of possibly sensitive information, e.g. the historical aspects of the program, or the reporting system.

Despite the fact that a general opening would appear important in achieving the objectives of the interview, Sampson (1996) cautions that while the main function of the interviewer is to allow the respondent to reply openly and honestly, respondents must also be confined to discussing relevant issues. Reinforcing this view, Glaser (1992) strongly contends that the questions should directly relate to what the interview is empirically about, further highlighting the importance of the interview guide. Once the interviewer has identified key terms or statements made by the respondent, the grand-tour opening is followed by more specific questions which check the veracity of respondents' statements (Fontana & Frey, 1994). The expectation is that general questioning will lead to the development of rapport, and a reliable reporting of the events in question. In each interview the strategy described above was adhered to, with the most contentious issues or subjective questions raised only after the interviewer felt that an adequate level of rapport had been developed.

When conducting individual interviews, attention must be paid not only to what is said but to how one's 'presentational self' is perceived (Fontana & Frey, 1994). In this study, the sample units were all business executives. Therefore, in order to garner rapport through a positive first impression, business attire was worn to all interviews. McCracken (1988) suggests that striking a balance between formality and informality of the presentational self is critical to the investigator/respondent relationship. He contends that formality in dress, attitude and language lead to an impression of professionalism and credibility. The positive ramifications of this are the ability of the investigator to ask personal questions without the fear of offending, and the willingness of the respondent to divulge confidential information in confidence. By conducting interviews in the atmosphere of a business meeting, once rapport had been established sensitive issues were raised and answered without fear of from either party. For example, many respondents made comments 'off the record' or noted that they 'said too much' in response to certain questions.

Informality of manner, displays to the respondent that the investigator understands the difficult and complex world in which they live (McCracken, 1988). This empathetic approach was utilised in the construction of questions, where the interviewer should, "think theory, talk everyday common sense English" (Glaser, 1992, p.25). This was especially relevant to the development of rapport in this research, as despite the high level of knowledge the sample members possessed, they were not familiar with many of the terms and theories prevalent in the literature. Therefore, while it was necessary to probe the relevant issues raised in the literature review, the questions had to phrased in such a way as to allow understanding of the concepts, but also to empathise with their almost universal feelings of disdain for 'academics' and their results.

Thus far, the strategies discussed have related to the macro-management of the broad issues surrounding the focused interview – preparation, dress and the building of rapport. While these are undoubtedly critical areas in data collection, attention must also be paid to the underlying details inevitable in such a social process. The detection and recognition of non-verbal cues is imperative to the accurate 'reading' of the interview (Fontana & Frey, 1994; Dean & Whyte, 1958). Non-verbal messages allow the interviewer to establish rapport with respondents by mirroring their body language. In addition to the importance of body language, Fontana and Frey (1994) argue that not only is it important to phrase questions and concepts carefully, but that which is not said by either the interviewer or respondent is equally important in understanding the issues at hand. For example, in many of the interviews when investigating the performance assessment of the programs, no mention was made by the respondents of qualitative measures. When probed further it was admitted that qualitative research was ad-hoc and/or inadequate. Their reluctance to divulge this information initially, or the absence of a full response, indicated both the low importance placed upon qualitative measures and the recognition that the organisation was remiss in making this judgement.

Recognising the importance of that which is not said in an interview may also be complimented by feigned ignorance on the behalf of the interviewer. This is a strategy that can elicit a more full and concrete explanation from the respondent (Wallendorf & Belk, 1989). The use of this tactic obliges respondents to fully explain behaviour which is taken for granted and to verbalise assumptions that have become so culturally and socially bound that they are below the individual's perception threshold (McCracken, 1988). Due to the exploratory nature of this research, commonly used terms were probed to determine exactly what the respondents' perceptions of these concepts really were. 'Loyalty' and 'loyalty programs' were prime examples of cases in which the interviewer feigned ignorance, and this allowed respondents' definitions of these key ideas to be added to the theoretical definitions so that hopefully a richer understanding may result. As noted previously, the objective of this research was to assess managements' feelings and perceptions, therefore the focus was on the way individuals believed things to be, rather than on the "so-called objective truth" (Nachman, 1984, p.536).

Aside from the obvious ulterior motives of wanting to present their organisations' programs in the best possible light, idiosyncratic factors may cause an incomplete reaction to the subject by respondents (Arnould & Wallendorf, 1994). In this study, issues such as the respondent not wanting to lose face, concerns over confidentiality, and time constraints, among others, could have prevented a full and frank account from emerging. This situation demanded interviewer vigilance, so that any discrepancies between expressed sentiments and those expected from the literature were recognised as a signal to focus questioning in this area. McCracken (1988, p. 31) terms these discrepancies "counterexpectational data", and conceptualises the research process in terms of a literature review generating expectations that the data can defy. An example of such a discrepancy occurred over the issue of whether loyalty programs stimulated primary demand for the product. The theoretical definition of a loyalty program and the research that has been published to date suggest that this is both an unattainable and inappropriate objective for such a strategy. However, contrary to this was the assertion by all respondents that loyalty programs were an important acquisition strategy, thus leading to an unexpected line of questioning.

Data Analysis

The analysis of the data collected was guided by Huberman and Miles' (1994, p. 429) definition of data analysis and its three linked sub-processes: data reduction, data display, and conclusion drawing/verification. According to Huberman and Miles (1994), data reduction occurs initially with the formulation of a research question, followed by a further narrowing of the potential data available when the sampling units and data collection method(s) are decided upon. The preceding literature review and methodology can be seen as the data reduction process of this thesis. The data display phase, which will be described in further detail in this section, involves the organisation and compression of information so that conclusions may be drawn. The final subprocess, conclusion drawing and verification, is the researcher's interpretation that is drawn from the displayed data.

The first and perhaps most important process of organising and compressing the collected data is that of noting patterns and themes (Huberman & Miles, 1994). This process of analytic induction, whereby the transcripts are scanned line-by-line, or by sentence or paragraph (Strauss & Corbin, 1990), develops a working schema which is modified and refined on the basis of subsequent cases (Haley, 1996). Due to the small sample size, the number of categories arising from the data did not warrant a statistical or computer-aided analysis of the data. An intensive examination of the transcripts that paid particular attention to the identification of common themes was the primary analysis method utilised. This was achieved by transcribing each interview into Microsoft Word documents, followed by key word/phrase searches to identify common themes or concepts, as well as extensive reading and re-reading of the transcripts.

Consideration of the overall plausibility of an informant's account and comparison with other accounts are two of the most effective ways of detecting distortion, be it conscious or unconscious prevarication (Dean & Whyte, 1958), and therefore these strategies were also a key component of the data analysis. After the preliminary analysis had been conducted, follow-up phone calls were made to several respondents to clarify certain points. This enabled certain issues to be resolved to the researcher's satisfaction, as well as allowing these respondents to express any new thoughts or feelings. For example, a respondent had drawn an analogy between when loyalty programs may be beneficial to an organisation and a see-saw. A follow-up phone call not only clarified this issue, but allowed the respondent to expand upon his initial idea.

Apparatus

The majority of interview data were captured using a dictaphone. This resulted in a verbatim transcription, and subsequently led to a richer understanding of the topics under discussion. It has been noted that respondents tend to become habituated to the presence of recording equipment (Belk et al., 1989), therefore any distortion arising from the use of this apparatus can be minimal. However, due to the confidentiality concerns of two respondents, interview data were captured using only hand-written notes.

As noted in the analysis section, what informants fail to say in conjunction their non-verbal cues can often be very insightful. To this end, extensive note-taking was conducted following each interview so that details such as body language and other behavioural traits relevant to the proceedings were documented as accurately as possible.

Limitations

Strauss and Corbin (1990) believed that the skills required for conducting qualitative research include being able to critically analyse situations, recognising and avoiding bias, and obtaining valid and reliable data. To ensure that this study produces an insightful and faithful end result, the following sections will describe the specific limitations of this study and outline how their impact upon the research was minimised.

Sample Bias

The preceding discussion has already described the purposive sampling method employed in this research. This method is based on the premise that, contrary to statistical sampling, bigger is not always better (Johnson, 1990). The limitation to this non-random method, however, is the inability to describe the *magnitude* of the relationship between or among variables (Glaser & Strauss, 1967). Sampson (1996) counters this by arguing that due to the time-consuming and expensive nature of qualitative research, and the fact that it is usually exploratory, the quantification of results is not necessarily a desirable objective.

Despite this, a richer description could have emerged had a wider sample of industries and informants been selected. Other constraints that may have resulted in a sample bias were the time restrictions placed upon a Master's thesis, the limited financial resources of the researcher, and the distance involved in making face-to-face contact with the sample units. Bearing in mind these restrictions the purposive sample chosen was the most appropriate in terms of potentially yielding information relevant to the research question, while still being practically accessible.

Methodological Bias

The concept of trustworthiness, both in the data collection and the findings, is the point on which the qualitative researcher is most often criticised (Lincoln & Guba, 1985). To challenge these concerns, Lincoln & Guba (1985, p. 294) posit that the researcher must demonstrate the inappropriateness of conventional methods, and propose and defend the use of alternative methods. Both of these criteria have been met in this thesis, not only in this chapter, but also in the literature review. It has been illustrated how the quantitative research on loyalty programs that has been published to date fails to explain *why* there has been the unprecedented growth in these strategies. This chapter has argued that qualitative research is better able to explain poorly defined or misunderstood areas. Furthermore, it is suggested that research methods and their findings should be judged solely on the insights generated, and the extent to which the reader is convinced by these insights (Holt, 1991).

Response Error

Whether voluntary or deliberate, response biases have the ability to distort the discovered relationship between variables (Presser, 1995). Given that the data collection method was a face-to-face interview, and that the topic of inquiry was the perceived performance of a significant organisational strategy, the extent to which informants gave full and non-biased responses must be questioned. Relevant to this study is the bias known as impression management, where informants shade their responses to make themselves look good, or to produce a socially acceptable response (Calsyn & Winter, 1999). It may have been important for the informants, both from a personal point of view and from an organisational perspective, to present their loyalty programs in perhaps an overly positive light. However, it has already been noted how effectively rapport was established over the duration of each interview, and this combined with the apparent genuineness of informants leads to the suggestion that response bias was not a major problem. Furthermore, continual assurances of anonymity by the researcher, such as were made in this study, can reduce the effects of impression management (Catania, 1999).

Catania (1999) reports that answering certain questions when posed in a face-to-face context may threaten self-esteem, which could lead to a distorted response in order to avoid this consequence. This may have been the case when informants were questioned on the performance of their companies' loyalty programs, where an admission of unsatisfactory performance could have been perceived as reflection on their ability. These biased responses may be limited by reducing any threat or distress inherent in the interview process, and thus result in less distorted disclosures (Catania, 1999). Any threat to self-esteem in this study, and therefore the threat of biased responses, was reduced by informing the sample members in advance of the types of questions to be asked, and giving them the opportunity to verify the transcript of their interview before the analysis began.

In the recognition of the above sample and methodological limitations in this study the constraints within which the research was conducted are acknowledged. Whilst this may impinge on the generalisability and quantification of the findings, the exploratory nature of the work and the restrictions inherent in a Master's thesis dictate that many of the biases are beyond the researcher's control.

CHAPTER FOUR: RESULTS

The objective of this chapter is to identify and elaborate upon the commonly recurring themes drawn from an analysis of the respondents' transcripts. Occasional references will be made to literature relevant to specific points, however, a broad discussion of the overall findings relevant to the literature is undertaken in chapter five.

In the interests of confidentiality, any direct quotes from the interview transcripts in this chapter will be coded as follows: airline industry representative (AR), banking industry representative (BR), and Fly Buys representative (FBR). This final category includes both the retail representative and the program manager of Fly Buys in order to maintain the confidentiality of these respondents.

Loyalty Program Definition

It is clear that in the view of the people who are running these marketing strategies, the term, 'customer loyalty program' is a misnomer that has existed from the inauguration of these programs in 1981. While the original loyalty program of United Airlines was a marketing strategy designed to increase retention and acquisition, the following results will illustrate that today these strategies aim to achieve objectives as diverse as increasing profitability to maintaining competitive parity. It is questionable whether increasing loyalty has ever been the sole objective of such programs. The moniker 'customer loyalty program' is one which has been applied by both industry members and academics purely for convenience. It encompasses a raft of similarly-constructed programs run by many industries with widely differing motivations and end objectives. It could be further suggested that industry has perpetuated this term in the hope that consumers will see the strategy as something other than a purely profit-seeking activity.

What the majority of the literature on the area thus far has failed to acknowledge is that there are very few *true* loyalty programs in the market. That is, from the published research and the data collected, it appears that few loyalty programs have increasing customer loyalty as their primary objective.

> A distinction must be made between loyalty programs and frequency programs (BR 1).

> I think it's worth making sure that we describe it [*the organisation's loyalty program*] as a reward program, as opposed to a loyalty program necessarily, which has wider connotations of relationship building, and intercommunication and recognition, and loyalty in itself is a bigger subject than just a program (BR 2).

As discussed in Chapter Two, loyalty program, by its very definition of attempting to lock in existing customers by engaging them in a mutually satisfying relationship, must have non-profit objectives such as increasing loyalty levels or improving the consumer's attitude towards the company. As evidenced by the above comments, it would appear that several of the sampled programs do not necessarily contain these features. Fly Buys, co-branded credit cards and everything but the top echelons of frequent flyer programs appear to be reward or frequency programs.

> We use bonus points to get people off to a fast start. If you're to take Fly Buys out using the our card in conjunction with your purchasing habits, where you shop, it's the fastest way to get points (BR 1).

This statement illustrates that the primary objective of the sampled programs is to provide the consumer with an incentive for a specific behaviour, for example, buy product X this week and get double points, or fly to destination Y and get discount accommodation. From the perspective of the organisation, it is suggested that the aim of these rewards may be to encourage consumer spending on products that will provide greatest benefit to them, be it through profitability, awareness of a new product, or competitive strategy. These types of strategies may increase retention over the short or even long term, but by their very nature it appears likely that the consumer will only become loyal to the reward, and hence be loyal to similar rewards offered by any other competitor.

Perhaps one of the best examples in the Australian market of a *true* loyalty program is that offered by the airlines at the very top levels of their frequent flyer programs. For these very frequent travellers there is little incentive in collecting frequent flyer points simply because they do not value the reward and it is unlikely to hold any aspirational value for the individual.

> It's not their frequent flyer points that'll get them on there because a lot of those people don't want to go on another bloody plane after they've finished flying for business (BR 1).

According to the airline respondents, frequent travellers will continue to use predominantly the same airline because of the differential service they experience and the relationships they build with the people associated with that company. They suggested that fast check-ins, first-class lounges, and correspondence with the airline CEO not only increase retention amongst these passengers but may also engender an actual affinity towards the brand that seems lacking in a purely reward-based program.

Loyalty program objectives

Data obtained from informants in this study suggested that the objectives behind the implementation of the programs were as numerous and diverse as the composition of the programs themselves. As the name of a customer loyalty program suggests, one of the major considerations behind its implementation is to retain existing customers - an especially significant objective given the mature nature of the retail and airline industries. While customer retention was a unanimous objective according to the respondents, the justification of this objective another example of the confusion that surrounds these marketing strategies.

> You could argue it's something to thank your best customers, thank your customers for their business (BR 1).

This much quoted objective, from the literature and the respondents, puts a publicly acceptable shroud over the underlying aims of loyalty programs. The objectives of increasing profitability and maintaining competitive parity (to be discussed below) are at the same time more complex yet more achievable than increasing customer loyalty. Not only do virtually meaningless descriptions of loyalty programs, such as that of the banking representative above, mislead the public to some extent, perhaps more importantly, it appears that researchers attempting to investigate the effectiveness of these programs have thus far used these superficial statements as criteria for success and thereby condemned many programs to 'failure'. While the end result of a loyalty program may provide an organisation's best customers with a reward, the following discussion suggests that the motivation behind the program is far more commercially orientated.

Increasing Profitability

The ability of a loyalty program to increase profitability was one of two fundamental objectives to become apparent from the data collected. Especially significant was the way in which consumer spending could be realigned to produce greater profit for the company rather than simply increasing the margin or reducing costs. This more profitable realignment of spending was achieved in two ways. Firstly, by the provision of extra rewards or incentives linked to the loyalty program, spending could be channelled to those services or products which were either most profitable to the company, or where they had the greatest resources invested and could thus increase the return on this investment.

> What we're trying to do with a loyalty program is to get them to centralise their spending to our medium. So our credit card, as opposed to a QANTAS Telstra Visa, or a Diners, and to pull out the card instead of paying with cash (BR 1).

> The objective for us was not so much market share. I mean obviously we wanted to maintain our market share, but it was more about channel realignment for us. What we were trying to do was drive volume through our primary network of service stations rather than I guess our secondary network (FBR 1).

The second strategy by which the informants attempted to more profitably realign consumer spending, and closely linked to the first strategy, was via the establishment and continual development of a database arising from information generated by the loyalty program. If an organisation can better target those consumers who are the most profitable, the potential benefit is not only increased revenue, but increased revenue in those areas that are of most benefit to the organisation.

> The database enables us to provide service to people, and it's allowing us to target offers to people which we believe quite genuinely provide significant revenue that we wouldn't achieve otherwise (AR 1).

It should be noted that, firstly, for retailers with cash customers this is virtually the only practical and effective way that they can generate this information. Secondly, the database may also demonstrate that the most profitable consumers are not necessarily the heaviest users of the product segment. The advantage of these two profit-based strategies, if successful, is that profitability can be increased while the margin, level of service and other variables are held constant. That is, the basic product proposition to the customer remains the same, but by altering the method of consumer spending from the rewards offered by the loyalty program and the database it is built on, greater profitability can result.

Competitive Parity

The second fundamental objective behind the adoption of these programs, according to the respondents, is competitive parity. While many managers sampled tried to downplay its importance, it has been suggested by Ehrenberg (1997) that in an open market consumers must perceive the product to be of at least equal value to the competitor's. The significance of the consumer's perception of value is increased by the prevailing mature market conditions and relatively undifferentiated products in the sampled industries, ensuring that any product which does not offer perceived equal value will struggle to be competitive.

> I think we came to the conclusion at one stage we had to do it because everyone else was doing it and you have to howl with the wolves (AR 2).

> At the time of the program's introduction we were the only bank not to have one and as a result were losing a lot of business (BR 2).

So while there is a distinct competitive advantage for a first mover in this type of situation, this advantage will be quickly eroded as competitors attempt to neutralise the situation - as with the introduction of the first frequent flyer program by United Airlines followed by similar competitor offerings only weeks later (see Hu, Rex & Strand, 1988). From this point of view it is possible that many organisations who have introduced loyalty programs are not actually adding value to their product, but simply using them as a tool of equalling the value of their products relative to their competitors.

> ...you've got a herd mentality. It's probably a big reason actually. CEO says company X has got one, we need a loyalty program (BR 2).

Despite the negativity apparent in this quote, it appears that a well devised, well researched and well run program may still meet the objective of increasing profitability by realigning the spending of both existing and new customers. By the same token, however, a program which is hastily introduced and designed solely to neutralise the advantage of a competitor may become a burden to that organisation.

> The programs were ill conceived, badly executed and unprofitable - there're not viable, they don't return the investment (BR 1).

Loyalty Program Sub-Objectives

Consumer Acquisition

The issue as to whether customer loyalty programs actually help to attract new customers will be discussed elsewhere in this chapter, but there was a widely held belief amongst respondents that loyalty programs played a role in customer acquisition. The foundation of this claim is perhaps not based upon the traditional idea of a unique selling point, or a superior product, but simply on the argument of competitive parity ensuring the acquisition of new customers.

> They are primarily a retention strategy, but are also an acquisition strategy because of parity (BR 2).

In other words, if all other variables are equal the consumer will choose the organisation *with* a loyalty program (acquiring new customers), and those organisations that do not maintain parity are unlikely to attract as many new customers and may actually lose business.

Consumer Retention

The objective of retention is primarily grounded in a company's desire to develop a base of information about each consumer (Reichheld, 1996). From the respondents' statements already examined, this data can then be used to profitably realign the spending of customers, but more importantly, identify those customers that are most profitable to the company. Viewed in this way, retention becomes not the end objective of a loyalty program, but the first stage in a process that will ultimately lead to an increase in profitability. This assumes that if a customer stays loyal for long enough to provide useful information to the database, they can be more accurately targeted to better satisfy their needs, and from the company's perspective, induced through the loyalty program to purchase products that generate the greatest profit. Furthermore, the long-term retention of customers may be unrealistic. This arises due to the undifferentiated nature of many programs within the sample, and the conclusion, from the literature and the respondents, that many consumers appear to be members of more than one program. If, however, retention is viewed solely as a means of building a useful store of information for further profit seeking activities, this may be a more achievable and realistic position for that objective in a loyalty program.

In the opinion of the sample members, the concept of exclusive loyalty was a trait rarely witnessed in competitive consumer markets, and even then would more likely result from cultural, social or psychological factors rather than any marketing strategy.

> It's not black and white. There's no such thing as total loyalty but there is discrete loyalty where you make the choice based on the brand, the product, the service and the loyalty program if everything else is equal (BR 2).
>
> It's much easier for consumers to switch, and ours is a real switching product, so if this [*customer loyalty program*] is a tool that we can use to sway people away from switching then it's a valuable tool (FB 1).
>
> There are very few companies around that will necessarily have the complete loyalty of the customer. If you can get them to cross the street to go in, as opposed to going into their competitor, that's probably as good as it gets (BR 1).

Compounding the perceived lack of loyalty in the consumer goods market is the findings from both the literature and respondents' data that many of the most frequent users of a product category are likely to be polygamously loyal. If this is the case, it appears that retention then assumes a more tenable position by becoming part of a sequential process leading to profitability. This recognises that consumers are unlikely to be exclusively loyal over the long-term, and therefore the focus should be on using the information gathered in the early stages of their relationship with the organisation to increase profitability in the future.

> You will see a lot of people who are in both camps, and that of course defeats the purpose a little bit doesn't it? I have no recipe to avoid that (AR 2).

> ...that's very much a characteristic of the Australian market - people who are heavy consumers will be members of more than one program (FBR 2).

The above market conditions appear to support the findings of the literature which contend that while retention is an integral part in the development of a successful loyalty program, the majority of consumers will not remain exclusively loyal to one particular brand (Uncles, 1999), or cluster of brands (Uncles & Laurent, 1997), and thus the loyalty program's oft-quoted end objective of increasing the level of exclusive loyalty amongst existing customers is inherently unattainable. It is the utilisation of the information generated from any degree of retention over time that may have a greater impact on the success of the programs sampled, and what has been suggested as their ultimate objective - increasing the company's profitability.

Meeting Consumer Demands

The final sub-objective behind the implementation of a loyalty program to arise from the interviewing of the respondents was that of meeting consumer demands. The discussion of this area by most respondents represents a departure from the assumed key objective of rewarding the most loyal customers. The manipulation of consumer spending to better benefit the company and the more effective targeting of the product to profitable customers so that they increase their spending were found to be paramount to the implementation of the sampled programs. Despite this, the recognition by several of the companies that the customer loyalty program had in many ways become part of their core product due to the demands and perceptions of the consumer is a grudging acknowledgement of the way in which an organisation's profit generating activities are shaped by consumer trends. In addition to the influence of consumers as a whole have had on the evolution of loyalty programs, the significance of several key customers should not be overlooked.

> You have to satisfy those people [*very frequent users*] because they spend so much money, and they are also important as far as their company is concerned. They play certain roles within their organisation...opinion leaders or whatever you like to call them, that's important (AR 2).

The respondents from the banking and airline industries, in particular, made it clear that they rely heavily on the profits generated from institutional customers, and it is the decision-makers or opinion leaders within these companies to whom loyalty programs should appeal. So whilst it appears that the majority of consumers dictate that an organisation must have a loyalty program of some sort, and effectively decides which program succeeds and fails, the organisations sampled also felt the need to be particularly sensitive to the needs of corporate buyers. Despite the continuing debate over just how rewards earned by an individual using products on behalf of a company should be allocated (Myer, 1999), it appears likely that satisfying this particular market is as important to profitability of the sampled programs as satisfying individual consumers.

The Issue of Profitability

The preceding sections have suggested that the primary goal of customer loyalty programs may be to induce consumers, via the provision of a reward, to purchase products that provide the greatest profitability to the company. In accordance with this purely bottom-line focus, it is important that the programs themselves provide a return for the substantial investment on the company's behalf. In the six companies investigated, the size of this investment was clearly demonstrated by the fact that the loyalty programs for each had long outgrown the marketing department, and was now a separate entity in itself. That is, the loyalty program was run independently to other marketing strategies, was staffed by employees whose sole responsibility was the loyalty program, and was run by managers who reported directly to the CEO or equivalent, rather than the marketing director. Despite the supposition in the literature that the major organisations in many industries can no longer be competitive without a loyalty program (Gilbert, 1996), the vast amount of shareholders' funds invested (Pearson, 1994) indicate that these strategies should be profitable in their own right. This issue, of whether loyalty programs generate profits in excess of their costs, is justified in the paragraph below.

Many of the respondents sampled were adamant that their companies simply would not entertain a strategy of such magnitude that was not fiscally sound. The argument that it is impossible to measure a consumer's loyalty towards a brand, and therefore the effectiveness of a loyalty program, was dismissed by several respondents who argued that they simply measure what they can. In other words, they measure the ability of the program to realign consumer spending to maximise profitability, and any concomitant increase in loyalty or favourable attitude towards the brand is an intangible extra.

> So we're constantly analysing, both at what I call a macro level and a micro level, the overall revenue flow and where frequent flyers fit into that and all aspects of the program (AR 1).
>
> So we therefore think what sort of profitability we're going to earn out of it [*the promotion*] and then what points we're going to have to burn [*give out to members*] to do that. So everything we do is calculated in that respect (BR 1).

These comments further highlight the proposition that loyalty programs appear to be focused solely on revenue-raising strategies, and are managed and assessed purely on a commercial basis. The lack of qualitative research by the companies into the needs satisfaction of their customers appears to indicate that non-profit outcomes such as increasing loyalty or awareness, are perceived by management to be of low priority to the success of these programs.

> The performance assessment of Fly Buys is primarily statistical analysis. Not much qualitative research is conducted due to the cost involved (FBR 2).
>
> We don't go out and talk to people as much as we should, but it's all a function of time and budget in this day and age (BR 2).

Not only is the business case of the sampled programs as a whole investigated to determine its viability, each component of the program such as printing costs or the cost of a promotion is examined to ensure it is built on a sound business case. An example of this has been the inaccurate assumption that as the programs developed over time and grew in both size and scope, the cost of running them outstripped the return that they generated.

> In the earlier stage of it [*the program's evolution*] we were adding a whole series of partners and credit card partners - that didn't add significantly to the cost of running the program, but what it did was to create another distribution channel (AR 1).

The argument is that the adding of partners, such as hotel chains and credit cards, resulted in a marginal cost increase but a huge increase in the distribution network as points were sold to these third parties. If this example from the airline industry is extrapolated to other programs in other industries, it can be suggested that while the cost of maintaining these programs has increased over time, so too have the ways in which revenue can be generated. The Fly Buys program, for example, has been continually refined by adding new partners to the program, and introducing new ways for consumers to collect rewards. This adherence to basic economic principles is illustrated by the following quote:

> We won't do anything with our loyalty programs that's not commercially sound business (AR 1).

Aside from the reality of having to ensure a return for shareholders, the respondents were also conscious that their loyalty programs must be tightly constructed and managed due to the inherent threat of contingent liability (i.e. liability arising from the potentially crippling value of unclaimed rewards). This is particularly the case with frequent flyer programs, and culminated in the death of Pan American Airlines after flying the majority of their passengers for free in the final months (Hu et al., 1988). The major Australian organisations have had the luxury of observing various schemes in practice before launching their own product onto the market.

> In Australia and also in Europe because the loyalty programs came along considerably later, we were able to set them up so they were more commercially sound. We could learn from the bad experiences of the American programs (AR 1).

In reality, it appears unlikely that the sampled organisations will be bankrupted by the liabilities accumulated by their loyalty program. For example, airlines now only have a limited number of seats available each flight for reduced prices or free tickets.

> So what I'm saying is that it's only a small percentage of those seats, certainly not more than 10%, that are available for reduced tickets or those on mileage points. So yes, sometimes it can be quite difficult for our customers to redeem their points for the flight that they want (AR 2).

> We make it quite clear that there's a limited number of seats available on the aircraft so you always ensure that there's a portion of the revenue that's associated with frequent flyer redemption and a portion of it that's straight up revenue (AR 1).

Despite this load allocation virtually eliminating the direct financial risk of unclaimed frequent flyer points, it ignores the indirect impact of customers finding it difficult to claim rewards (Myer, 1999). While this safeguard protects the company from errors made in the past, if the increasing numbers of consumers who are earning rewards fail to receive these, or have undue difficulty redeeming their points, the resulting negative publicity and loss of goodwill could lead to a decrease in loyalty.

A Win-Win Situation

The airlines, by way of the fact that frequent flyer points have become the most popular and desired currency for loyalty programs (East et al., 1998), find themselves in the enviable position of generating revenue from their programs regardless of whether people are actually using their services. The airlines' partners, be it a hotel, bank or supermarket chain, must purchase the points that they distribute to their members in advance for cash. So, from the airlines' perspective, even if passengers have accumulated enough points for a free flight, be it through Fly Buys, their credit card, or from staying at a certain hotel, that seat has already been pre-paid by any one of the airlines' partners.

> We've got to remember that of even the frequent flyer redemption demand a fairly large and a growing portion of that are the points that we are being paid for by our partners now, which is good business in its own right (AR 1).

By comparison the partners, such as the banks and other retailers, must generate a profit in excess of what it costs them to purchase the points in the first place. As the core of the banks' business is being able to track the movement of money through their customers' transactions, it is relatively easy for them to determine whether their program is profitable.

> ...we make more money than we give out in points, we're not into a situation where extra spend generated by the card is going to be losing us money (BR 2).

> The bank is a conservative institution, run by bankers who don't do anything unless it's business capable. I suppose we are lucky because we are one of

> the institutions that can actually figure out the business case for and against, whereas some of the other organisations probably have a far greyer picture of what it's doing for them (BR 1).

Despite the above statements appearing to indicate that it is relatively easy for partners to determine whether their programs are profitable, this is not guaranteed. Bearing in mind the fact that partners must pay for frequent flyer points in advance, in addition to the other associated costs with running the program, it is possible that an increase in profits may not always be the result.

In the case of Fly Buys and its participant organisations, the outsourcing of data management and analysis ensures that the managers have an accurate picture of the performance of the program as a whole, as well as that of each promotion.

> We pick up transactions every day from each of our sites, they come back and are consolidated into basically a file here which then goes to Compaq and that processes all the transactions down there for us. We get a daily report, but then we've got on-line access to the system and then we measure things like promotions on a weekly and monthly basis depending on what type of a promotion it might be (FBR 1).

Once again, the transactional nature of the program lends itself to a relatively straightforward statistical analysis of purchases to determine whether the objectives of the program have been met - i.e. does it generate revenue in excess of the running costs and is spending being realigned to the most beneficial/profitable areas.

Non-Profit Objectives

Thus far the discussion of the major objectives behind these programs and the subsequent justification of their viability has centred purely on economic performance indicators. However, the following statement alludes to the fact that customer loyalty programs may have non-profit objectives as well.

> Though in some instances you may, if you put everything together from the standard points and the bonus points from different activities, you might actually be in the occasional scenario where you may be onto a loss leader (BR 1).

Despite the continued protests that none of the organisations would persist with a strategy which was not profitable, here is recognition that the management of at least one organisation may at some point run their program at a loss. This may simply be due to the fact that for competitive reasons the company cannot reconsider their position regarding a loyalty program, or possibly an acknowledgement that these strategies can deliver advantages not solely based on profit.

> So you've got the softer issues that you can't measure. Where it's actually generating interest and retention for you anyway (BR 1).

It appears that while the primary justification for the continuation of these programs may be an increase in profitability, there are intangible benefits that companies do not attempt to measure, resulting in little importance being placed on these determinants of success. Benefits that the program can generate such as awareness, loyalty towards the brand, or positive word of mouth, appear, from the responses of interviewees, to be variables that are not cost effective to measure. This may suggest that either insufficient resources have been allocated to adequately measure the performance of these programs, or that these more intangible objectives are not perceived by management to be central to the program.

Customer Loyalty Program Advantages

The preceding section illustrated the strongly-held belief of respondents that at the macro level customer loyalty programs are profitable. The purpose of this section, and encapsulated in the following response, is to examine what component benefits arise from these programs that may ultimately lead to profitability.

> It allows us to attract customers that we didn't have before, it allows us to retain customers that we wouldn't retain without the program, and it gives us a communication channel that we wouldn't have without the program (AR 2).

From this statement and those from other respondents, there are two fundamental benefits of loyalty programs that emerged from the research: 1) the acquisition of new customers, and 2) the development of a database that may lead to other advantages, such as accurately determining the needs of existing customers and being able to target these customers more efficiently and effectively.

Customer Acquisition

In many respects, whether loyalty programs generate new customers for a brand can be seen as one of the most contentious issues, both theoretically and in practice. The literature review indicates that the primary objective of a true customer loyalty program is thought to be to retain existing customers, and thereby the attraction of new customers is of secondary importance. However, given that many consumers appear to be polygamously loyal, a loyalty program that does not also attract new business may struggle in the future (see Kearny, 1989). As discussed elsewhere in this chapter, it was the belief of the sample members that loyalty programs can play an important role in stimulating new business for their particular organisation. Nonetheless, the following examples will show that as in the literature, there were many contradictions as to what extent this was the case.

Assuming the figures provided by the following two sample members were correct, it is possible to conclude that these respondents believe that customer loyalty programs do indeed attract new customers.

> So saying that loyalty programs do attract new business is completely wrong as it fails to recognise that by the way you develop the program you're broadening the customer base that's being exposed to your frequent flyer currency we're constantly bringing in new people who have not flown with us before. Also we have more than a thousand people joining the frequent flyer program every day....again in my view if we didn't have that loyalty program a lot of those people would be joining up with a competitor program (AR 1).

> Our loyalty program is a very important part of our [*customer*] acquisition strategy. We have had over 800,000 new members since the inception of our program (BR 2).

These impressive figures must be countered by the fact that it is virtually impossible to determine what proportion of these acquisitions would have joined the company regardless of whether they were offered a loyalty program, or perhaps more importantly, what proportion were attracted to the product category as a whole *because* of the loyalty program. In addition to this is the fact that there is no guarantee of the long-term profitability of these *new* members, who may simply be attracted to the current incentives offered in the program, and switch brands as soon as a better reward is offered.

The acknowledgement by two of the respondents that their loyalty programs did not stimulate customer acquisition was surprisingly honest. From the research findings documented in the literature (see Uncles, 1999; Sharp &

Sharp, 1997; Kearny, 1989) it appears unlikely that loyalty programs generate new business for a product category, or to a lesser extent, an individual product. However, given the statements by some respondents that highlighted the importance of loyalty programs in attracting new business, and the potential loss of face admitting otherwise, the following statements were unexpected.

> We are doing some new business, but that's still only attracting Fly Buys customers and Fly Buys customers might be 20% of your customers (FBR representative 1).

> ....because you don't really generate new business, not with loyalty programs, I agree with that. But that's possibly not even the intention (AR 2).

These quotes suggest that while large numbers of people may be joining loyalty programs many of them may already be existing customers. If this is the case, the associated expense of the programs sampled is the cost of maintaining competitive parity, while the benefit of parity is not losing existing customers to another program.

The other side to this argument is that while loyalty programs may to some extent cannibalise an organisation's existing market, by the provision of aspirational rewards they may also bring new individuals to that product category. Perhaps the best example of this situation is in the airline industry, where via the on-selling of points to partner companies, consumers from many different industries start to accrue frequent flyer points.

> ...you're broadening the customer base that's being exposed to your frequent flyer currency...you end up with people having a flying experience that perhaps have never had it before (AR 1).

Seen from this perspective, loyalty programs can be seen as a valid acquisition strategy, albeit that any new customers attracted to the product category in this fashion will more than likely be loyal only to that reward which stimulated their interest and not the brand. While airlines are the most obvious recipients of a boost in new customers resulting from the distribution of frequent flyer points, other industries may also attract new consumers using this strategy. Banks, for example, could induce customers to start using a credit card in return for frequent flyer points, and retailers may encourage consumers to use a particular product or brand because it carries bonus points for a period of time. This argument is further enhanced if it is considered that points accumulated in many of the larger programs can be used to claim rewards across a variety of different industries. This means that heavy users of one, or several, product categories can use their accrued value to claim a reward in a previously untried or lowly patronised category.

Database Development

The second fundamental benefit of a customer loyalty program to informants was the development of a database of customers and its many subsequent uses.

> Everyone wants access to the database, that's what it really comes down to. The most valuable asset of a program like Fly Buys is its database (FBR representative 1).

> Loyalty programs are really vital for the retail industry as they have no idea who their customers are or what they spend. Therefore the provision of a swipe card enables them to record and track data on cash purchases (FBR representative 2).

In the first instance, the very acquisition of significant amounts of data on customers' demographic characteristics and spending patterns may provide management with the tools, and perhaps the confidence, to utilise the programs to greater effect. Not only are managers better able to build profiles of their existing customers, but as previously discussed, the volume of new business generated by the program enables an assessment of the type of customer being attracted to the brand. By synthesising information from both existing and new customers it was argued by the respondents that the organisation's product can be more accurately positioned and targeted.

> We're increasingly using the data available to us to match the value proposition with the customer, which is what this data really allows us to do... (BR 1)

> So part of what you're doing here all the time is working out what your customers do value (AR 1).

Considering the maturity of the markets in which most organisations now find themselves operating, the above comments demonstrate the importance of recognising exactly what customers value in a product. The reward-based nature of most of the sampled loyalty programs results in a successful strategy being dependent upon rewards that are both worthwhile and sought after by the consumer. This can only be achieved when an accurate profile of customers is established, and perhaps more importantly, when the patterns of this spending can be traced over time - both of which appear possible from a database generated from the loyalty programs sampled.

A second order benefit which arises from more accurate targeting of a product is an increase in the efficiency of marketing efforts.

> ...we're using it more and more as a direct marketing tool (FBR 1).

> Now if we didn't have that database we'd effectively have to do all our advertising, what we call above the line, which is in newspapers, on radio and television and that sort of thing (AR 1).

The provision of a ready-made database can supply the foundation for an effective direct marketing campaign, and this may result in the redirection of marketing resources away from other forms of mass marketing. For sampled organisations, one of the primary objectives behind the implementation of a loyalty program has been to capture customer information so that the organisation may better understand what their customers value, and how they are perceived relative to their competitors. The following response appears to illustrate that by outsourcing their data tracking and analysis to experts it is possible for a loyalty program's database to provide a more accurate means of marketing to both existing and potential customers.

> We look at the number the number of participants in the program that are shopping with us on active basis and I guess also on an inactive basis, we look at the average spend per customer on the program per month and per visit, and from this we're then able to plan our promotional strategy (FBR 1).

It should not be assumed, however, that simply because an organisation has large amounts of information generated from their loyalty program their database will be used effectively.

> Useable information is hard to find in all that - no matter what anyone tells you. Unless you ask the right questions and look at it from the right perspective there's billion and billions of rows of stuff that you won't get anything out of (BR 1).

Unless this difficulty is realised at a strategic level, it would seem that the program can only ever operate as a one dimensional reward strategy that ignores one of the major advantages to be derived from this type of scheme, namely, a database that should enable more accurate marketing and the provision of rewards that are perceived by the consumer to be of value.

A Mutually Satisfying Relationship?

Thus far the benefits of loyalty programs to emerge from the data have centred on the ability of these strategies to retain existing customers, and the ability to offer rewards that will be more attractive to customers based on a better understanding of customers' needs and preferences. Little mention was made by the respondents of utilising these programs to achieve the much vaunted objective of building mutually satisfying relationships (Gummesson, 1997; Reichheld, 1996). One respondent alluded to this concept:

> So for us it becomes an efficient distribution channel in terms of distributing information, or communicating with people (AR 1).

Despite the stated bottom-line orientation of these programs, the apparent absence of any consideration given towards building a relationship with the customer beyond the superficial link to a reward is surprising. While many organisations communicate with their customers in the form of statements, reminders, and other information-based forms, this appeared to be seen as simply an extension of the reward aspect of the program. Meaningful communication with the consumer that may lead to some degree of loyalty is that which is relevant to the individual and is perceived to be motivated by more than simply revenue raising objectives. In reality though, the underlying aim of some of the communications distributed through loyalty programs sampled can be summarised by the following statement:

> The marketing communications arising from the database are a very useful tool, as witnessed by the spike in the call centre when any offers are released in these documents (BR 2).

It thus appears that the sampled managers of loyalty programs perceive communication with the consumer to be beneficial insofar as it provides an effective and accurate distribution channel for reward-based promotions. If this is the case, it appears that the motivation to communicate with the consumer is to increase short-term profitability, and not because of any desire to enter into a long-term relationship with the customer.

While in many industries an organisation cannot be competitive without a loyalty program, the benefits associated with the great flexibility of marketing options provided by the program may outweigh the cost of involuntarily adopting it. The advantages of implementing these strategies are further reinforced when one considers the situation of the banks. The nature of their business means that they store information on every customer transaction, and therefore forgo one of the major benefits of loyalty programs - developing a database - yet they still find them a profitable and viable strategy.

> We can actually do that [*gather information about our customers*] without a loyalty program because of the information that is created through transactions, and we can actually model the customers to determine which ones are our best customers. But we're looking at it as a means of retaining customers and centralising their spend (BR 1).

This suggests that despite the fact that the banks already have a comprehensive database of their existing customers spending habits over time, they can generate a sufficient return to shareholders to justify the establishment and maintenance of a customer loyalty program. That is not to say that the customer will exhibit greater loyalty towards the brand, simply that as a multi-layered marketing strategy it can allow flexibility and accuracy in the way in which the consumer is targeted. In addition, a well developed loyalty program also appears to deliver tangible benefits to the organisation in the form of increased profits and the realignment of spending to more profitable areas.

Determinants of customer loyalty program success

Balancing The See-Saw

This section will discuss the composition of a loyalty program that the respondents believe will most likely lead to success. However, they noted that before implementing a loyalty program it is important to ensure that the existing market conditions are conducive to implementing such a strategy in the first place, and that the basic value proposition offered to the consumer is competitive.

> In order for a loyalty program to be successful there must be a careful balancing, and you can think of it like a see-saw, there must be a balance between the benefit to the consumer and the benefit to the participant company, and there must also be a balance between the product category and the market conditions (FBR 2).

This chapter has underscored the extent to which these strategies are profit-orientated. However, this response would suggest that while making the company more profitable is a valid objective, the program must offer something that is perceived to be of benefit by the consumer. If the company focuses too heavily on its own objectives and fails to adequately satisfy the consumer, then it is unlikely that the program will be successful. It also illustrates the point that any organisation contemplating introducing such a loyalty program should consider whether, given their product category and position within the market, they can really benefit from it.

Part of the Strategic Whole

Once the broad considerations of the relevant market conditions have been addressed, the actual composition of the program can be analysed and structured in order to best meet the organisation's objectives. From the research emerged three primary determinants of success when operating a customer loyalty program: (1) that it be seen as a tactical strategy which forms part of the strategic whole, (2) that the program and any rewards offered link back to the core product, and (3) that the program must continually evolve and innovate. The first determinant of success was a strongly recurring theme, unanimous to all respondents, and embodied by the following response:

> Loyalty programs must be part of the marketing mix and culture of the organisation. The whole organisation must adapt to the program. For example there's no point introducing a loyalty program if the product is no good, no money is spent on advertising and the image is wrong (FBR 2).

It has been argued that in the past the print media, and to some extent the organisations themselves, have artificially inflated the true value of these strategies (Uncles, 1994b). If this is the case, the managers of these programs are faced with the reality of trying to meet the objectives set, while at the same time creating more realistic expectations for their own organisation, shareholders, the media, and the public. To this end, all respondents stressed that the success of a loyalty program was obviously based upon the construction of the program, but perhaps more importantly, this success was dependent upon the other variables in the marketing mix.

> I think it's one of a suite of things that you need to do either to maintain your market share, or maintain your profitability (FBR 1).

> So you've got to have the right product, right offering, right value proposition, right service delivery, right pricing, right relationship, and right

> communications. So a loyalty program will not generate customer loyalty if the rest of that mix is crap (BR 1).

> ...the passenger wants to travel from A to B, he wants to travel very fast and very comfortable, and at any given time. If that's the case and you can satisfy that, and in addition you also have a good loyalty program it adds to the attractivity of your product (AR 2).

The above comments would suggest that the success of the program itself, in terms of profitability and acquisition of customers, depends upon on other variables in the mix *and* the loyalty program. Therefore, according to the respondents, customer loyalty is a product of the marketing mix, of which the loyalty program is only a part. This further reinforces the respondents' views that the balance a loyalty program must have between the product category and the market conditions. If the provision of a reward is not central to the purchase decision, or the variables that are important in the purchase decision are not competitive, then a loyalty program will be of little value.

Despite the doubt surrounding the ability of the loyalty programs sampled to increase exclusive loyalty, it appears that they are still an important variable from the consumer's perspective.

> ...like for our industry often convenience of location is the most highest rated driver of consumer behaviour, but there's a number of things that rate highly. We've just undertaken some research and having loyalty programs is still seen as like in the top five drivers for consumers (FBR 1).

This suggests that while loyalty programs in isolation cannot generate business for the organisation, they are an important strategy for an organisation to complement its existing marketing mix. Furthermore, if loyalty programs are perceived by the people who run them to be a tactical strategy that is part of the strategic whole, they may only be successful in terms of a secondary strategy for generating customer acquisition and profitability, after the individual is attracted to the organisation by its core product proposition in the first place.

Linking the Reward to the Core Product

The second perceived key determinant in the success of a customer loyalty program to emerge from the research was the importance of continually linking the program, as a whole as well as any rewards offered, back to the core product. The rationale behind this strategy is that consumers will identify with the brand more because any rewards offered or improvements in service will further cement the relationship between the consumer and the brand.

> ...our research showed that what people fundamentally wanted were things that were core around their travel experience (AR 1).

> Since the program's inception the bank has subsequently introduced more of these bank related products/rewards - this ties the rewards back into core bank products (BR 2).

Traditionally, aside from the ubiquitous free air travel, loyalty programs have offered consumers a multitude of possible rewards for their continued business, such as hotel accommodation, rental cars, consumer appliances and even jewellery. However, bearing in mind the significance of the other variables in the marketing mix in attracting customers, as discussed above, it would seem beneficial for organisations to use their loyalty programs as a tool to enhance their core products, be it through differential pricing or service. If the accrual of points is perceived to ameliorate a product that the consumer already finds favourable then it is likely that repeat purchase business will be the result.

Continual Innovation

The final determinant that the respondents believed would lead to a successful customer loyalty program was the constant evolution and innovation of the program. They argued that the way in which points are awarded, the rewards that are offered, and the value proposition to the consumer should be perpetually modified in an attempt to maintain any competitive advantage. In a broad sense, the reasons for this can be summarised by the following response:

> ...you've got to, one, stay on the same playing field, and two, you've got to look after your own customers and stop them looking elsewhere (BR 1).

Firstly, because one of the primary objectives of loyalty programs to emerge from the research was a desire for competitive parity, any organisation has to at least match the value or benefits offered by a competitor's loyalty program. It has been suggested in this study that the consumer is likely to choose a company with a loyalty program, if everything else is equal. Therefore, if everything *is* equal, and both companies offer a loyalty program, the consumer may base the purchase decision on whichever loyalty program offers them the greatest perceived benefit. With the intense competition in many Australian consumer markets, it appears likely that any programs that do not continually improve their value proposition to the customer will struggle to maintain market share.

Secondly, to ensure existing customers are satisfied with the program, the perceived value to them must continue to increase.

> So fine, you've got a loyalty program. Now if you just left it sitting where it was it may not be all that useful a tool, but you're constantly looking at ways to evolve so you constantly maintain some sort of competitive edge with your loyalty program (AR 2).

In the case of the airline industry, each evolution of the program has added to its value as perceived by the customer while at the same time provided some benefit to the organisation. The introduction of partners, such as hotels and rental car chains, has meant that consumers can earn points from a variety of products, and the airlines are able to on-sell points to these third parties. The most recent evolution, the establishment of airline alliances, has meant that consumers can earn points on a selection of airlines, while the individual airlines derive synergistic benefits from not having to operate on as many routes, or provide as many ground services. Other industries too have successfully evolved their programs:

> Fly Buys has gone through a change relatively recently where it was restructured to allow people to earn at lower thresholds. So it therefore meant, and it's coming through in the figures, that people are pulling their cards [*both their credit card and Fly Buys card*] out more often because they know they can collect points for a lower threshold (BR 2).

This is a prime example of a program evolution that, from a consumer's perception, adds value to the product and provides revenue to the organisation at no extra cost. From the bank's perspective, consumers are more likely to use their credit card because of the lower earning threshold for Fly Buys, but this increased spend comes at no cost to them due to the fact while the threshold is lowered, the points required to earn a reward are increased respectively. For example, while every five dollars spent earns one frequent flyer point, as opposed to the previous structure where one point was earned for every twenty dollars, the number of points required to earn a reward has increased by roughly fourfold.

Targeting the Most Profitable Customers

It has been illustrated that it is important to evolve a loyalty program to not only match what is offered by competitors, but also to retain existing customers. However, in order to maintain a competitive advantage and ensure success in the long-term, the unanimous response from the informants was that one specific tactic, in relation to the loyalty program, must be pursued - actually targeting the most profitable customers.

> So part of what you're also trying to do with your loyalty program is to actually target, and work out how you do target, your more valuable customers (AR 1).
>
> But increasingly we're putting more and more offers out to different profiles of people, and profitability is one of the factors we use in defining the target audience...so that's where it's going, and that's what data which is coming off the back of these programs is allowing companies to do. To actually differentiate price, product and service to the individual (BR 2).
>
> The future of loyalty programs is targeting the most profitable customers - the 80/20 rule. For example, in the US supermarkets are starting to offer different prices to different customers depending on how much they spend with that store (FBR 2).

Now that the large loyalty programs sampled either outsource their data analysis or have the hardware and software capability to do it themselves, the most profitable individuals can be more readily identified. As discussed previously in this chapter, the only program sampled that had been restructured to take advantage of this information has been the airlines', who via their tier status structure offer differential service to members depending on their profitability to the company. If organisations that are running loyalty programs wish to continue operating them in a profitable fashion, it is suggested that not only should they follow the lead of the airlines into differential service, but also the inevitable progression of these programs towards the types of differential pricing being trialled in the US and Europe. Under this strategy frequent buyers receive not only an increase in the level of service, such as in frequent flyer programs, but also lower prices than the first time buyer (East et al., 1998). If this true targeting of the most profitable elements to an organisation is embraced, customer loyalty programs may reach their potential and possibly come close to delivering the hypothetical objective of increasing loyalty levels.

> Loyalty programs will, by the function of connecting information on individuals as opposed to mass, allow companies to make proper loyalty propositions based on price, service, and product to the individual. The value proposition fits them more exactly so then they'll get real loyalty (BR 1).

This chapter has analysed the responses of the sample and described the major themes to emerge from the research. The findings from the data suggest that not only does the definition of a loyalty program need to be more closely examined, the primary objectives of these programs may be more profit-orientated than previously thought. The respondents' statements regarding the benefits that accrue to their organisations from operating their loyalty programs were analysed, as were the determining factors they perceived necessary for a successful program. The following chapter will summarise the major findings of the study and relate them to the literature.

CHAPTER FIVE: DISCUSSION AND CONCLUSIONS

This chapter draws conclusions from the previous chapter, and relate these to the major findings from the published literature. It focuses on those issues relevant to the research question, namely, what were the objectives behind the implementation of programs sampled, and what criteria did managers use to measure the effectiveness of their outcomes. Following this discussion, the broad limitations of this study will be briefly described. Finally, future research directions that have arisen from this exploratory research will be suggested.

Definitions and Objectives

The literature contends that loyalty programs are differentiated from other marketing strategies by the fact that they are primarily defensive activities focused on both maintaining existing customers and getting these customers to spend more (Sharp & Sharp, 1997; Dowling & Uncles, 1997). While this may be the case, it is clear from the responses of the sample members that several of the national programs are considered by the program managers to be simply reward programs with a more traditional bottom-line orientation. Thus, as described in the previous chapter, a distinction may be made between loyalty programs and reward programs. If loyalty programs are seen as building a mutually satisfying long-term relationship with existing customers (Gummesson, 1997), encompassing a shift in the very culture of the organisation (Reichheld, 1996), then reward programs, such as Fly Buys and the majority of frequent flyer programs, may be seen as the modern incarnation of a more traditional marketing strategy. In other words, it appears that reward programs are more a tactical strategy rather than a corporate mission that is central to every facet of business.

Certainly, reward or frequency programs attempt to maintain market share, but the critical divergence between these and loyalty programs is that the attraction of the first time user is of equal importance as retaining customers, and that the strategy may only be successful so long as the reward is still attractive to the consumer and not replicated by a competitor. This latter difference is due to the fact that reward programs, by their very nature, induce the consumer to perform a certain behaviour in exchange for a tangible benefit (Uncles, 1999). As in any economic transaction, an exchange will occur if both parties perceive the outcome to be of value, both in isolation, and in the context of the competition's offerings. A true loyalty program, on the other hand, attempts to alter consumer behaviour by establishing a strong favourable attitude towards the brand (Dick & Basu, 1994). Therefore, if this is achieved, the relationship that has been established with the consumer is a primary purchase determinant rather than the organisation offering the best give-away or reward.

The responses of informants regarding the objectives behind the implementation of Australia's largest customer loyalty programs differ substantially from the objectives reported in the literature review. Dowling & Uncles (1997) outlined the purported major objectives that organisations expect to achieve from a loyalty program. Firstly, they said they should increase the loyalty levels of existing customers, resulting in lower marketing costs and greater knowledge of customer needs and wants, thereby encouraging brand extension buying by existing customers. Secondly, they should enable the differentiation of a parity brand, whilst simultaneously establishing switching costs resulting in a disincentive for consumers to change brands. Considering the undifferentiated nature of many Australian consumer markets, any strategy that could potentially distinguish one product from its competitors, while simultaneously inducing customers to remain with that brand, would obviously be of significant benefit to any organisation.

The failure of nearly every program that has been investigated to meet these objectives has resulted in numerous researchers questioning not only the viability of many existing programs but the rationale underlying their conception (Sharp & Sharp, 1997; Hu, Rex & Strand, 1988; Kearney, 1989; Mowlana & Smith, 1993; Nako, 1992; Gilbert, 1996). From the data collected, if judgement of the success of loyalty programs is to be based solely upon these presupposed objectives, then there is no question that the program offerings of the sample companies could be considered failures. However, if it can be assumed that the objectives 'increase loyalty' and 'differentiation' have evolved to become 'increase profitability' and 'maintain parity', then these programs may rate as a qualified success.

It can further be argued that the traditional objective of a loyalty program - increasing the levels of customer loyalty amongst existing customers - is inherently unattainable due to the fundamental characteristics of consumers. The likelihood that consumers will buy from a repertoire of brands over time (Uncles & Laurent, 1997) and are thus multi-brand loyal (Dowling & Uncles, 1997), appears to be the only real area of congruence between the published literature and the data generated in this study. The suggestion by the published literature and some respondents that it may not be possible to generate exclusive loyalty by any marketing strategy would appear to contradict the very existence of loyalty programs. However, the evolution of these schemes to focus on more tangible, profit-based outcomes has resulted in potentially effective strategies still being judged upon an anachronistic definition. The continuing use of inaccurate terminology surrounding loyalty programs has lead to the unfounded perception, based on an irrelevant objective, that these strategies exist primarily to promote the non-profit activities of the organisation. The findings from this study suggest that increasing profit and remaining competitive within a given market may be the most important focus of these programs, and therefore, at the very least, the way in which they are perceived by academics should be re-examined.

Are They Profitable?

On the issue of whether loyalty programs are profitable to the participant organisation, there is again a significant disparity between the findings from the published literature and the information provided by respondents. The common finding from the handful of papers that objectively assess the impact of frequent flyer programs is that with the increased provision of rewards and the huge numbers of people enrolled in the programs, the airlines can no longer afford to run them effectively (see Gilbert, 1996; Hu, Rex & Strand, 1988; Kearney, 1989; Mason, 1996; Mowlana & Smith, 1993; Nako, 1992). According to the results of this study, this may not be the case for several of the major loyalty programs in Australia, and especially not for the airlines. As discussed, it appears that the programs investigated are designed to increase profit, and their performance is assessed predominantly on bottom-line objectives. From the respondents' perspectives, the ability of these programs to drive profitability from the centralisation of consumer spending is paramount to each organisation. Specifically, the critical benefit is the way in which spending may be realigned to those products or channels from which the company can derive the greatest benefit, in terms of profit, or return from investment. It seems unlikely that publicly-owned institutions would invest such huge amounts of resources without providing a return for shareholders. From the airlines' points of view, by selling points to partners their distribution channels are effectively increased as well as generating revenue regardless of the actual capacity they achieve. This cash flow is further enhanced if it is considered that a third of frequent flyer points are never redeemed (Myer, 1999). Therefore, the airline receives all of the revenue for the points they sell, but only pay the costs of providing two thirds of the service - the rest being profit. From the partners' perspective, they are able to monitor both the costs and effectiveness of every promotion or strategy by the databases and dedicated software which track every transaction, ensuring they are able to determine whether they generate more revenue than they pay for in points. The evolution of the loyalty programs sampled, in which performance assessment and the strategies for generating revenue are undergoing continual innovation, appears to suggest that, for the most part, these are profitable strategies for their respective organisations.

The construction and tight management of modern loyalty programs has virtually eliminated the threat of contingent liability where huge numbers of people claim rewards at the same time, as in the case of Pan-Am. According to the literature (Myer, 1999) and the sample members, only between five to ten percent of seats are now available for reduced or free tickets. A point ignored by the respondents was that while the risks to their organisations were minimised, the difficulty in consumers actually claiming their rewards, and the possible negative impact upon the brand that results, has greatly increased because of these safeguards (Myer, 1999). A respondent's statement that his loyalty program may occasionally run at a loss suggests the presence of non-profit objectives. Therefore, anything that may affect the consumer's attitude towards the brand, such as a difficulty in claiming rewards, should be seriously considered. More intangible outcomes, such as increasing awareness or maintaining parity with competitors, may be justification to continue with an unprofitable strategy. Despite this, the fact that none of the organisations represented in the study seriously attempt to measure these variables may be an acknowledgement of either management's perception of their limited importance in the success of the programs, or that the difficulty in measuring these variables would not provide sufficient benefit for the cost.

Customer Acquisition

The issue which generated perhaps the greatest equivocation between the sample members and the literature was that of customer acquisition. The majority of the published papers reviewed that dealt with loyalty programs took the failure of these strategies to attract new customers as a foregone assumption, because the underlying premise is to lock-in existing customers (see for example Sharp & Sharp, 1997). It is suggested here, however, that the rationale behind these strategies is now to increase profitability, and maintain competitive parity, and therefore the acquisition of new customers can be seen as a valid and achievable goal. The sheer numbers of people enrolling in these schemes is superficial proof of this, yet it must be questioned how much of this is 'new' business. The extent to which consumers enrolling in a loyalty program are a cannibalisation of an organisation's existing markets, and perhaps more importantly, the extent to which these customers are new to the product category must be assessed before a final judgement can be made. From the respondents' responses it appears that the majority of 'new' customers to these programs may indeed already be existing consumers of that brand, but this should not totally preclude the potential of loyalty programs to acquire new business through capitalising on emerging trends. The increasing propensity of consumers to use air travel and non-cash forms of money, for example, may be turned to competitive advantage if this behaviour is rewarded. Moreover, by maintaining a loyalty program an organisation may prevent the loss of business simply by maintaining parity with their competitors. In many industries the provision of a loyalty program has become a cost of business (see for example Dowling & Uncles, 1997; Kearney, 1989), and in such a situation the withdrawal of the program would conceivably result in a significant loss of existing customers, but also the loss of new business because of a perceived inferior value proposition. Therefore, it appears that a loyalty program, in effect, forces companies to pay for customers they would have otherwise attracted, and significantly increases the costs associated with maintaining competitive parity. This may be countered to some extent by the potential new business that may flow from capitalising upon emerging consumer trends, however, this link is yet to be demonstrated.

The Potential of a Database

Uncles (1999) contends that aside from securing customer loyalty, the other fundamental benefit to arise from a loyalty program is the acquisition of data. Despite the research that suggests that increasing profitability and maintaining competitive parity are the primary objectives of these marketing strategies, organisations are still potentially able to reap the benefits associated with data acquisition. While it is suggested that it may be difficult for loyalty programs to deliver the ideal of customer loyalty, their structure ensures that customer data can be gathered over time as individuals collect points towards their rewards. In this context, repeat purchase or retention is viewed as the foundation of a comprehensive database that will lead to greater profitability, rather than being perceived as the sole outcome by which the program's success is measured (Sharp & Sharp, 1997).

The establishment and maintenance of a comprehensive database should theoretically enable an organisation's marketing efforts to become more efficient and effective (Reichheld, 1996), and this appeared to be the case in the programs sampled. The recognition by the program managers that these programs provided the opportunity for more accurate targeting of their products and promotions was evidenced by the channelling of marketing resources away from above-the-line advertising to direct marketing and promotions based primarily on information generated from the loyalty programs. This, combined with the continual innovation of the technological tools used to analyse the data, a task increasingly being outsourced, suggests that the organisation has a better understanding of what the consumer values, and how their product is perceived in comparison to their competitors' products.

Nevertheless, it should be noted that there is not always a natural progression from customer retention to a database that allows more efficient and effective marketing. The supposition by East and Hogg (1997) that the real challenge of these strategies is to usefully analyse the data obtained is echoed in this research. This study suggests that to have a successful loyalty program, the notion that technology can be used as a strategic weapon (Teal, 1996) needs to be recognised at a strategic level. A database producing useful information requires resources and commitment to make it central to the organisation's marketing functions. It also requires individuals who are able to synthesise expertise in computer analysis of data with a knowledge of existing and potential marketing strategies. If properly established and operated, these programs can offer a flexibility and accuracy in marketing strategies that may partly offset the associated costs of the necessity of providing a loyalty program to operate in certain markets. In other words, despite the high costs involved in maintaining a loyalty program, it appears that there may be advantages to organisations of using their programs' database to reduce above-the-line marketing costs and increase the flexibility of their promotions. Despite these potential benefits, it appears that from the responses of the sample, some of the organisations in this study are not utilising their databases to their fullest extent. This may be due to an ignorance of the possible benefits afforded, or through a reluctance to allocate the necessary resources to an area in which it may be difficult to measure success on the bottom line.

Determinants of Success

Thus far, this chapter has attempted to reconcile the research data regarding loyalty program objectives and their potential benefits with a critical review of the literature. It is apparent, though, that before these objectives or outcomes can be contemplated a number of determining factors must be present. It appeared that by far the most significant determinant of success, directly stated by the respondents and continually alluded to in the literature (Uncles, 1999; Reichheld, 1996), was that loyalty programs are a tactical part of a strategic whole leading to profitability and ultimately customer loyalty. As previously discussed, perhaps the major reason behind the perceived 'failure' of so many programs is that they have been judged on their inability to increase customer loyalty, in isolation from the rest of the organisation's activities (see for example Sharp & Sharp, 1997; Nako, 1992). The respondents concurred that a loyalty program can only be successful if the other variables in the marketing mix are attractive to the consumer and complement the program. This would appear to confirm various theoretical concepts from the literature, such as Fader and Schmittlien's (1993) double jeopardy, where loyalty is considered a function of market share arising from the marketing mix. These two perspectives - that loyalty programs do not appear to increase customer loyalty on their own, and that as a marketing strategy they can only be successful if the marketing mix is right - suggest that a company's core value proposition (i.e. product, price, placement and service) is the primary factor in a consumer's purchase decision. It appears likely that only when the value proposition is perceived to be equal to a competitor will peripheral inducements, such as a loyalty program, impact upon the choice. Dowling and Uncles (1997) contend that a loyalty program will be most effective for high-involvement products. However, the findings from this study appear to suggest that for lower-involvement products a loyalty program may be a strong differentiating factor as the value proposition is more likely to be similar across the product category.

In light of the above discussion, if a loyalty program only becomes relevant to the purchase decision after the consumer is attracted by the marketing mix, this study and the literature suggests that a program which provides rewards that enhance the core product may theoretically be the most successful in terms of customer acquisition and retention (Dowling & Unlces, 1997; Uncles, 1999). Loyalty programs, such as Fly Buys, that rely solely on aspirational rewards unrelated to the product to attract customers, can only expect spurious loyalty from consumers *if* all other marketing mix variables are perceived to be equal. That is, this type of program may only be successful so long as the basic product is perceived to be of equal value *and* any reward offered is perceived to be of greater value than that offered by the competition. If the reward is not differentiated, there is no incentive for the consumer to stay with that brand in particular. On the other hand, a program that can add value to the core product, for example a first class lounge or an express check-in, appears to generate a competitive advantage of sorts in that individuals are motivated by the potential to purchase a superior product in a category that they are already predisposed to.

The potential benefit of this link between the reward and the product was witnessed by the recognition of sample members that their programs needed to evolve so as to add value to both their rewards and their core product. O'Brian and Jones (1996) contend that consumers value the rewards offered by cash value, choice of redemption options, aspirational value, relevance (i.e. how long until the reward is earned, or the extent to which it is realistically achievable) and convenience. The previously discussed restructuring and modification of the programs sampled, such as the introduction of partners or the lowering of points thresholds, has meant that many of these value elements are constantly increasing. Therefore, if the value of rewards is ever increasing, perhaps this is further justification for a more economical differentiation strategy that uses rewards to enhance the core product, rather than to attract customers with the size of the give-away.

Summary

While it can be argued that customer loyalty programs have come to stand for less than what they were originally intended (East et al., 1998), they have also come to stand for much more. It is questionable whether the utopian objective of customer loyalty was ever truly contemplated by the organisations in this study, let alone achieved. However, the continual evolution of loyalty programs in which the technological and strategic innovations increasingly provide greater flexibility in marketing operations, suggests that these strategies may remain an important facet of many organisations' revenue streams. For the companies sampled, their loyalty programs have come to personify their entire operation - for better or worse (as per Duffy, 1998). A loyalty program is perceived by the consumer, and portrayed in the media, as being representative of an organisation's core product and promotions (Schmid, 1997). Regardless of the actual importance that these strategies play in acquisition, retention or profit, it is suggested that in many Australian consumer markets the failure to offer a loyalty program, or perhaps worse, to offer a loyalty program that is negatively received, may have a severely detrimental effect on these outcomes.

At the present point in time, this research suggests that a well structured and maintained program has the ability to generate large amounts of consumer data and to potentially realign consumer spending into more profitable channels *if* the individual is attracted to the core product's value proposition in the first place. It is unclear the extent to which these strategies stimulate consumer demand for the product category, but again, it appears that they may only stimulate new business on a secondary level after the customer has been attracted by the perceived value of the core product. This research suggests that until organisations provide the commitment and resources to offer loyalty programs that supply differential product, pricing and service, the full potential of these strategies to increase customer loyalty may remain unexplored.

The aim of this paper was to investigate both the motivations of management when implementing customer loyalty programs and the criteria they used to measure the effectiveness of the outcomes. The major findings from this exploratory research are:

- there appears to be very few 'loyalty' programs in the pure sense of the word, most are simply strategies that reward consumers for repeat purchase
- the research suggests that the primary motivations for launching loyalty programs are to increase profitability and maintain competitive parity
- loyalty programs provide benefits to the organisation of greater information about their consumers and increased marketing flexibility
- the overall profitability of these programs in terms of opportunity cost and whether they stimulate primary demand for the brand or the product is unclear
- it appears likely that much of the information generated from these programs is not being utilised to its fullest potential
- for a loyalty program to be successful it is suggested that it is viewed as only part of the mix that includes product, price and distribution variables, and
- a reward that improves the core product, or the value proposition to the consumer is more likely to be successful than one which does not

Limitations

Inherent in the exploratory design of this study was the inability to generalise the findings or insights beyond the sample. The purpose of this research was to explore the relatively poorly defined area of customer loyalty programs from an alternative, qualitative perspective. In doing so, the objective was to provide insights into loyalty programs that could be followed up with further research. Despite this, the small sample size, dictated by geographical and financial constraints, ensures that the preliminary investigation into this area is limited in application. In addition, the fact that only national loyalty programs run by large organisations were sampled further confines the scope of this research.

The other major limitation to this study was the potential for informants to be less than truthful when describing sensitive, or potentially embarrassing information to the researcher in a face-to-face situation. This situation was compounded by the fact that only one representative from each organisation was interviewed, ensuring that information captured from one respondent could not be compared with another individual from the same organisation. These issues have previously been discussed in the methodology. However, the question surrounding the reliability of the data and any subsequent findings merely serves to highlight the exploratory nature of this study and the need for further research in customer loyalty programs.

Future research directions

The first, and most logical, area in which further research needs to be conducted is into the definition of customer loyalty programs. The definition of these programs, from which their primary objectives flow, has been the most important determining factor in the way they have been judged by researchers. There is evidence in this research to suggest that as loyalty programs have evolved in their breadth of applications over time, so too have the objectives behind their implementation. If a clearer understanding of the reasons organisations launch these programs is obtained, then it may be possible to achieve a more accurate assessment of their performance in the future.

A second area for future research is the area that caused the greatest contention, not only between the sample members and the literature, but between the sample members themselves - the ability of customer loyalty programs to stimulate customer acquisition. Given the difficulty in winning the loyalty of polygamously loyal consumers, several informants argued that these programs were a key component in their customer acquisition strategy. Further investigation needs to be conducted into the extent to which customers joining loyalty programs are new to that product category, new customers to a particular organisation, or merely cannibalised from their existing customer base. Linked to this issue of customer acquisition is the need to determine the types of rewards that will be most attractive to potential customers. Researchers and sample members alike suggest that the most attractive rewards are those that link back to the core product, such as a first-class lounge for airline customers. However, outside of the airline industry it appears that these types of rewards are in the minority. Furthermore, these conclusions come from only the organisational perspective, therefore, consumer research is required to discover what types of rewards consumers value, and the attributes of loyalty programs that are attractive to each individual.

Finally, it appears that further investigation is required into the organisational and market conditions in which a loyalty program may be successful. The literature suggests that high involvement products, or those with a low market share or a poor marketing mix, may not benefit from the introduction of a loyalty program (see Dowling & Uncles, 1997). This is countered by some of the statements made by respondents in this study. The literature argues that programs introduced merely to neutralise the threat of a competitor's program will have little benefit, yet this study suggests that a failure to maintain competitive parity is likely to have adverse consequences. As a result of this confusion, research into the antecedent market variables that lead to a successful customer loyalty program may result in a greater understanding of the phenomena as a whole.

Depending on the outcomes of any of the above research areas, it may also be worthwhile investigating the effect on an organisation if they were to withdraw their loyalty program. Common to both the literature and the informants was a belief that loyalty programs have become an unavoidable cost of business in many industries. As a result of this it could be beneficial to assess both the net impact of allocating the resources consumed by a loyalty program to other strategies, and the impacts on consumers' perceptions of organisations that did not offer a loyalty program.

LIST OF REFERENCES

Anderson, J., & Narus, J. (1991). Partnering as a focused market strategy. *California Management Review*(Spring), 95-113.

Arnould, E. J., & Wallendorf, M. (1994). Market-oriented ethnography: interpretation building and marketing strategy formulation. *Journal of Consumer Research*, 16(2), 239-267.

Bagozzi, R. P. (1975). Marketing as exchange. *Journal of Marketing*, 39(October), 32-39.

Bagozzi, R. P. (1995). Reflections on relationship marketing in consumer markets. *Journal of the Academy of Marketing Science*, 23, 272-277.

Barclay, D. W. (1991). Interdepartmental conflict in organisational buying: the impact of the organizational context. *Journal of Marketing Research*, 28 (May), 145-59.

Bejou, D. (1997). Relationship marketing: evolution, present state, and future. *Psychology & Marketing*, 14(8), 727-736.

Belk, R. W., Wallendorf, M., & Sherry, J. F. (1989). The sacred and the profane in consumer behavior: theodicy on the odyssey. *Journal of Consumer Research*, 16(1), 1-38.

Berry, L. (1983). Relationship marketing. In L. Berry, G. Shostack, & G. Upah (Eds.), *Emerging perspectives on service marketing* (pp. 25-28). Chicago: American Marketing Association.

Calsyn, R. J., & Winter, J. P. (1999). Understanding and controlling response bias in needs assessment studies. *Evaluation Review*, 23(4), 399-417.

Catania, J. A. (1999). A framework for conceptualizing reporting bias and its antecedents in interviews assessing human sexuality. *The Journal of Sex Research*, 36(1), 25-38.

Chow, S., & Holden, R. (1997). Toward an understanding of loyalty: the moderating role of trust. *Journal of Managerial Issues*, 19(3), 275-298.

Conrad, C., Brown, G., & Harmon, H. (1997). Customer satisfaction and corporate culture: a profile deviation analysis of a relationship marketing outcome. *Psychology & Marketing*, 14(7), 663-674.

Dean, J. P., & Whyte, W. F. (1958). How do you know if the informant is telling the truth. *Human Organisation*, 17, 34-38.

Denzin, N. K., & Lincoln, Y. S. (1994). Entering the field of qualitative research. In N. K. Denzin & Y. S. Lincoln (Eds.), *Handbook of Qualitative Research* . California: Sage Publications.

Deshpande, R. (1983). Paradigms lost: on theory and method in research in marketing. *Journal of Marketing,* 47 (Fall), 101-110.

Dick, A. (1991). *The impact of sunk costs on customer loyalty.* Buffalo: State University of New York.

Dick, A. S., & Basu, K. (1994). Customer loyalty: toward an integrated conceptual framework. *Journal of the Academy of Marketing Science,* 22(2), 99-113.

Dowling, G. R., & Uncles, M. (1997). Do customer loyalty programs really work? *Sloan Management Review,* Summer, 71-82.

Dru, J. (1996). *Disruption: overturning conventions and shaking up the marketplace.* New York: John Wiley and Sons.

Duffy, D. (1998). Customer loyalty strategies. *Journal of Consumer Markets,* 15(5), 435-448.

DuPont, R. (1998). Relationship marketing: a strategy for consumer-owned utilities in a restructured industry. *Relational Marketing*(Winter), 11-16.

Dwyer, F. R., Schurr, P. H., & Oh, S. (1987). Developing buyers-seller relationships. *Journal of Marketing,* 51(April), 11-27.

East, J. (1990). *Changing consumer behaviour.* London: Cassell.

East, R., & Hogg, A. (1997). The anatomy of conquest: Tesco versus Sainsbury. *Journal of Brand Management,* 5(1), 53-60.

East, R., Hogg, A., & Lomax, W. (1998). The future of retail loyalty schemes. *Journal of Targeting, Measurement and Analysis for Marketing,* 7(1), 11-21.

Ehrenberg, A. (1988). *Repeat buying facts, theory and applications.* New York: Oxford University Press.

Ehrenberg, A. (1997). *B.E. or not B.E.* Paper presented at the 43rd Annual Advertising Research Foundation Conference, New York.

Ehrenberg, A., Hammond, K., & Goodhardt, G. (1994). The after-effects of large scale consumer promotions. *Journal of Targeting, Measurement and Analysis for Marketing,* 2(2), 115-124.

Fader, P. S., & Schmittlein, D. C. (1993). Excess behavioral loyalty for high-share brands: deviations from the Dirichlet model for repeat purchasing. *Journal of Marketing Research,* 30, 478-493.

Farr, A., & Hollis, N. (1997). What do you want your brand to be when it grows up: big and strong? *Journal of Advertising Research*(November/December).

Fontana, A., & Frey, J. H. (1994). Interviewing. In N. Denzin & Y. Lincoln (Eds.), *Handbook of Qualitative Research* . California: Sage Publications.

Fornell, C. (1992). A national customers satisfaction barometer: the Swedish experience. *Journal of Marketing*, 51, 1-21.

Fournier, S., & Yao, J. (1997). Reviving brand loyalty: a reconceptualization within the framework of consumer-brand relationships. *International Journal of Research IN Marketing*, 14, 451-472.

Fryxell, D. (1997). The 80% solution. *Writers Digest*, May, 12-25.

Gilbert, D. (1996). Relationship marketing and airline loyalty schemes. *Tourism Management*, 17(8), 575-582.

Glaser, B. G. (1992). *Emergence vs. forcing: basics of grounded theory analysis.* California: Sociology Press.

Glaser, B. G., & Strauss, A. (1967). *The discovery of grounded theory.* Chicago: Aldine Publishing Co.

Gronroos, C. (1990). Relationship approach to the marketing function in service contexts: the marketing and organization behavior interface. *Journal of Business Research*, 20(1), 3-12.

Gummesson, E. (1997). Relationship marketing - the emperor's new clothes or a paradigm shift? *Marketing and Research News*(February), 53-60.

Gummesson, E. (1998). Implementation requires a relationship marketing paradigm. *Journal of the Academy of Marketing Science*(Summer), 242-249.

Haley, E. (1996). Exploring the construct of organisation as source: consumers' understanding of organisational sponsorship of advocacy advertising. *Journal of Advertising*, 25(2), 19-35.

Holt, D. B. (1991). Rashomon visits consumer behavior: an interpretive critique of naturalistic inquiry. *Advances in Consumer Research*, 18, 57-62.

Houston, F., & Gassenheimer, J. (1987). Marketing and exchange. *Journal of Marketing*, 51(October), 3-18.

Hu, M., Rex, S., & Strand, S. (1988). Frequent flyer programs: problems and pitfalls. *Business Horizons*, 52-57.

Huberman, A. M., & Miles, M. B. (1994). Data management and analysis methods. In N. Denzin & Y. Lincoln (Eds.), *Handbook of Qualitative Research* . California: Sage Publications.

Jacoby, J., & Kyner, B. (1973). Brand loyalty vs. repeat purchasing behavior. *Journal of Marketing Research,* 10, 1-9.

Johnson, J., C. (1990). *Selecting ethnographic informants.* California: Sage Publications.

Kearney, T. (1989). Frequent flyer programs: a failure in competitive strategy, with lessons for management. *The Journal of Services Marketing,* 3(4), 49-59.

Kotler, P. (1972). A generic concept of marketing. *Journal of Marketing,* 36(April), 46-54.

Lincoln, Y., S., & Guba, E., G. (1985). *Naturalistic Inquiry.* California: Sage Publications.

Macintosh, G., & Lockshin, L. S. (1997). Retail relationships and store loyalty: a multi-level perspective. *International Journal of Research in Marketing,* 14(5), 487-497.

Mason, G., & Barker, N. (1996). Buy now fly later: an investigation of airline frequent flyer programmes. *Tourism Management,* 17(3), 219-232.

McCracken, G. (1988). *The long interview.* California: Sage Publications.

Merton, R. K., Fiske, M., & Kendall, P. L. (1956). *The focused interview.* Glencoe, Ill.: The Free Press.

Michell, P. C., & Sanders, N. H. (1995). Loyalty in agency-client relations: the impact of the organizational context. *Journal of Advertising Research,* 35(2), 9-22.

Morgan, R. M., & Hunt, S. D. (1994). The commitment-trust theory of relationship marketing. *Journal of Marketing*(July), 20-38.

Moriarty, R., & Swartz, G. (1989). Automation to boost sales and marketing. *Harvard Business Review*(January/February), 100-108.

Mowlana, H., & Smith, G. (1993). Tourism in global context: the case of frequent flyer programs. *Journal of Travel Research,* Winter, 20-27.

Myer, R. (1999, August 20). Frequent flyer schemes bank up on airlines. *The West Australian,* pp. 37.

Nachman, S. R. (1984). Lies my informant told me. *Journal of Anthropological Research,* 40, 536-555.

Nako, S. (1992). Frequent flyer programs and business travellers: an empirical investigation. *Logistics and Transportation Review*, 28(4), 395-414.

O'Brian, L., & Jones, C. (1996). Do rewards really create loyalty?, *The Quest For Loyalty* . Boston: Harvard Business School.

Palmer, A. (1995). Measuring and managing buyer-seller relationship life cycle. *Management Research News*, 18(12), 25-31.

Palmer, A., & Bejou, D. (1994). Buyer-seller relationships: a conceptual model and empirical investigation. *Journal of Marketing Management*, 10, 495-512.

Patterson, P. G. (1995). A conceptual model of customer satisfaction for business-to-business, professional services. *Advances in Services Marketing and Management*, 4, 169-193.

Pawson, R. (1996). Theorizing the interview. *British Journal of Sociology*, 47(June), 295-314.

Pearson, S. (1994). How to achieve return on investment from customer loyalty - Part 1. *Journal of Targeting, Measurement and Analysis for Marketing*, 3(1), 9-17.

Petrof, J. (1997). Relationship marketing: the wheel reinvented? *Business Horizons*(November/December), 26-31.

Porter, M. (1980). *Competitive strategy: techniques for analyzing iIndustries and competitors*. New York: Macmillan.

Presser, S. (1995). Sex, samples, and response errors -- the social organization of sexuality: sexual practices in the United States. *Contemporary Sociology*, 24(4), 296.

Punch, M. (1986). *The politics and ethics of fieldwork*. California: Sage Publications.

Raphel, N. (1998). The future of loyalty marketing in the supermarket industry (part two). *Direct Marketing*(March).

Reibstein, D., & Farris, P. (1995). Market share and distribution: a generalization, a speculation and some implications. *Marketing Science*, 14(3), Part 2.

Reichheld, F. (1996). Loyalty-based management, *The Quest For Loyalty* . Boston: Harvard Business School.

Rundle-Thiele, S., Dawes, J., & Sharp, B. (1999). *An empirical investigation of the relationships between three types of loyalty*. Paper presented at the Australian and New Zealand Marketing Academy Conference, Sydney.

Sampson, P. M. (1996). Commonsense in qualitative research. *Journal of the Market Research Society,* 38(October), 331-339.

Scanzoni, J. (1979). Social exchange and behavioral interdependence. In R. L. Burgess & T. L. Huston (Eds.), *Social Exchange in Developing Relationships* . New York: Academic Press, Inc.

Schmid, J. (1997). Loyalty marketing: boom or bust? *Target Marketing,* 20(8), 34-37.

Sharp, B. (1998). Comment on the future of loyalty schemes: can loyalty schemes reduce customer vulnerability. *Journal of Targeting, Measurement and Analysis for Marketing,* 7(1), 22-24.

Sharp, B., & Sharp, A. (1997). Loyalty programs and their impact on repeat-purchase loyalty programs. *International Journal of Research in Marketing,* 14(5), 473-486.

Sheth, J. (1979). The surpluses and shortages in consumer behavior theory and research. *Journal of the Academy of Marketing Science,* 7(4), 414-426.

Sheth, J. N., & Parvatiyar, A. (1995). Relationship marketing in consumer markets: antecedents and consequences. *Journal of the Academy of Marketing Science,* 23(4), 255-271.

Simonin, B. L., & Ruth, J. A. (1998). Is a company known by the company it keeps? Assessing the spillover effects of brand alliances on consumer brand attitudes. *Journal of Marketing Research,* 35(February), 30-42.

Smith, R., & Swinyard, W. (1983). Attitude behaviour consistency: the impact of product trial versus advertising. *Journal of Marketing Research,* 20(August), 257-267.

Stern, B. (1997). Advertising intimacy: relationship marketing and the services consumer. *Journal of Advertising,* 26(4), 7-19.

Strauss, A., & Corbin, J. (1990). *Basics of qualitative research.* California: Sage Publications.

Teal, T. (1996). Service comes first: an interview with USAA's Robert F. McDermott,, *The Quest For Loyalty* . Boston: Harvard Business School.

Uncles, M. (1994a). Do you or your customers need a loyalty scheme? *Journal of Targeting, Measurement and Analysis for Marketing,* 2(4), 335-350.

Uncles, M. (1994b). The seven perils of loyalty programmes. *The Marketing Society Review*(Autumn).

Uncles, M. (1999). *Consumer loyalty marketing: management and research challenges.* Paper presented at the Market Research Society of Australia Annual Conference, Perth, WA.

Uncles, M., & Laurent, G. (1997). Editorial. *International Journal of Research in Marketing,* 14, 399-404.

Wallendorf, M., & Belk, R. W. (1989). Assessing trustworthiness in naturalistic consumer research. In E. Hirschman (Ed.), *Interpretive Consumer Research* . Provo, UT: Association for Consumer Research.

Werner, O., & Schoepfle, G. M. (1987). *Systematic fieldwork: foundations of ethnography and interviewing.* California: Sage Publications.

Wilkinson, I., & Young, L. (1998). *Thoughts about competing: beyond relationship marketing.* Paper presented at the 1998 Research Conference on Relationship Marketing, Emory University, Atlanta.

APPENDIX A: INTERVIEW GUIDE

- the historical aspects of the implementation of the program – the processes and people involved
- measurement techniques used in performance assessment
- a description of the reporting system - how information flows between operational and strategic areas
- the feelings of the manager(s) surrounding both the implementation (why) of the program and its subsequent performance
- their opinions regarding important findings from the literature review,
    - ⇒ e.g. that the change in loyalty levels resulting from these programs is disappointingly small.
    - ⇒ loyalty programs don't stimulate primary demand - very important for a mature homogenous market. Does their defensive orientation compound this??
    - ⇒ are economic (i.e. profit) considerations or competitive considerations more important (i.e. competitive parity, differentiation)? If the latter are customer loyalty programs becoming increasingly homogenous thus decreasing the differentiation of the product?
    - ⇒ views on double jeopardy - loyalty by market share from marketing mix. Are customer loyalty programs the best method of increasing penetration (i.e. increasing share)? Opportunity cost - how does their return on investment compare with other strategies
    - ⇒ views on polygamous loyalty? i.e. heavy users across many product categories are multi-brand loyal. Is this compounded by homogenous programs?
    - ⇒ do consumers expect rewards and are loyalty programs and the provision of these rewards an unavoidable cost of doing business