

Creating effective loyalty programs knowing what (wo-)men want

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Creating Effective Loyalty Programs Knowing What (Wo-)Men Want

Valentina Melnyk

Creating Effective Loyalty Programs Knowing What (Wo-)Men Want

Proefschrift

Ter verkrijging van de graad van doctor aan de Universiteit van Tilburg, op gezag van de rector magnificus, prof.dr. F.A. van der Duyn Schouten, in het openbaar te verdedigen ten overstaan van een door het college voor promoties aangewezen commissie in de aula van de Universiteit op maandag 19 december 2005 om 14.15 uur door

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To my husband, my brother and my parents

Preface

It had always been my dream to do a Ph.D. in England. So, while finishing my Master's degree at the Free University, Amsterdam, I was applying at several universities in the United Kingdom. I was accepted at two places, but problems arose with the scholarships at both places. I'll leave out the details on the variety of emotions I experienced. One thing that helped me was a Ukrainian saying, "Whatever God does NOT give- is for better". Although, at that stage, I found it very hard to believe.

Now I do!!! So, first, I would like to thank God for not letting me go to U.K. What happened afterwards is more suited for a plot of a fantastic story, than as the intro for a serious Ph.D. dissertation. My group-mate from Amsterdam, while traveling to his internship in Alkmaar, found a newspaper in the train. While the newspaper was in Dutch (which he did not speak), it attracted his attention. He looked through the newspaper and saw an advertisement for a Ph.D. in Business at Tilburg University. Somehow he remembered that I was interested in doing a Ph.D., so he ripped out the ad and brought it to me. Those interested in numbers may calculate the probabilities of the guy stepping into the right train, right car, right seat, being curious enough, and take the trouble of ripping out the ad. So, I would like to thank Slavik (wherever you are now), for finding and bringing me the ad. That's how I learned about Tilburg.

The first person I saw in Tilburg was Jan Benedict Steenkamp, when – having been admitted - I came here to have a brief look at my future work place. Later he also became my first-year promoter. I am grateful to Jan Benedict for his first-year supervision and for teaching me to "cut the crap" and go directly towards the goal. I credit him the skill of never giving up to find the right literature for backing up a point. Most importantly, I am grateful that during our very first meeting he forgave me (and probably even forgot by now) my innocent question if he had any Italian origins (somehow his name in combination with his endless energy suggested that to me). Otherwise, I guess I would not be here.

I would like to thank Rik Pieters, who introduced me to Consumer Behavior and Psychology. His patience and strict guidelines about how to write an introduction to articles helped me to take my first steps in academic writing.

I am very grateful to my supervisors Tammo Bijmolt and Stijn van Osselaer. First of all, for their agreement to be my supervisors. I am grateful to Tammo for giving me enough freedom and for encouraging my own opinion and problem solutions. I credit Tammo that I now feel I have enough strength to be an independent researcher- which is the major outcome of a Ph.D. Besides, I am very grateful for his help in providing the data for chapter 4.

I have benefited enormously from the guidance of Stijn van Osselaer. I am very grateful to Stijn for always being there for me, for patiently listening to my opinion and finding time to explain why I should do things differently, for guiding me through all the steps and hidden stones of designing an experiment and for teaching me how to write for the A journals (at least, that is what we aim for). Stijn, your offer to start a new project together was the biggest academic compliment for me!!!

Further, I would like to thank the members of my dissertation committee - Prof.dr. Els Gijbrecchts (Tilburg University), Prof.dr. Ran Kivetz (Columbia University, USA), Prof.dr. Rik G.M. Pieters (Tilburg University), and Prof.dr. Jan Benedict E.M. Steenkamp (Tilburg University) for their time and effort in reading my thesis.

I'd like to thank people who helped me to survive these turbulent years of Ph.D. in Tilburg. First of all, I am indebted to Romana Negrea for not only providing me a roof over my head, but most importantly, for all our conversations, for all her support, friendship and ability to listen without being judgmental. I could not have even dreamed about a better housemate and friend, especially during the first year of my Ph.D. I would also like to thank Ingrid van Heerde for her understanding and making me feel welcome in a foreign country.

I am grateful to all my Tilburg colleagues for their support. Special thanks to my office-mate Ralf van der Lans for always trying to calm me down if I worried too much (which I guess was the case most of the time). For these four years since I know Ralf, I have always admired his calmness in any situation. Dirk, teaching a course together, chatting and playing squash was great fun! After talking to you, I always felt more optimistic and knew I would survive no matter what. Anick, our trip to the SCP conference was fantastic! Marta and Maciej, all the spontaneous things we did together helped me to remember that there is still life outside Ph.D. I am grateful to all Ph.D. students of the Marketing Department- the feeling that you are not alone and we all are surviving together definitely helped. In fact, I did

not regret not going to England, because the quality of Ph.D. program at Tilburg University is undoubtedly better.

I thank my colleagues at the Free University, Amsterdam for their confidence in me and for making me feel welcome even after finding out that I could not stay there for long. And, honestly, I cannot imagine a better boss than Ruud Frambach. I also would like to thank all my friends, my in-laws, and my extended family who have had confidence in me since I was a small girl.

When it comes to the dearest people in your life, it is always difficult to find the right words... I can never express how grateful I am to my family (my parents and brother) for their unconditional love and support. I always felt they would stand behind me no matter what and their confidence in me made me so much stronger. I am very grateful to my mother Olga and my father Leonid for teaching me the value of a good education. Thanks to their support and motivation I always wanted to get a Ph.D. My brother Vladimir's belief that I am better than I actually am, made me want to be a better person. I always felt we are a family and are always there for each other. I am very grateful for everything I am to my family.

Harald, I am so grateful that God did not let me go to England... Otherwise, I could have missed you in my life. Your love, endless patience, understanding, support, reliability and a wonderful sense of humor not only helped me to complete my PhD, but most importantly just made me a happy woman. Thank you for being in my life!!!

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Boris Akunin, Fantastika, 2005

* A real woman will never betray her beloved one, or her child for an idea, motherland or even for the sake of the whole mankind. But a real man will never betray an idea, motherland, not even mentioning the fate of the mankind, for the sake of his beloved women or child.

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Chapter 1: Introduction

Loyalty programs (e.g., frequent flyer programs) started to boom in the late 1990s, under the main premise that it is cheaper to keep existing customers than to attract new ones (Kumar and Reinartz 2005). Recent articles in the Wall Street Journal show that managers spend a lot of effort introducing, maintaining and changing loyalty programs (Bank 2003; Binkley 2003; Lieber 2003). For example, in Europe, in the retailing sector alone about 350 million loyalty cards were issued in 1999 (Kumar and Reinartz 2005). In the Netherlands, 37% of Dutch retailers have adopted loyalty programs (Leenheer and Bijmolt 2003). Loyalty programs are perceived to be the key way for companies to develop customer loyalty towards their brands, stores, and services (Yi and Jeon, 2003). However, the debate whether loyalty programs actually enhance customer loyalty still continues among marketing scientists and practitioners. The goal of this dissertation is to identify factors that make loyalty programs work. In particular, we look at consumer characteristics (in particular, gender) and loyalty program characteristics (such as design elements of loyalty programs), which lead to effective loyalty programs.

This chapter introduces the definitions of the main constructs and the outline of the dissertation.

1.1. Definitions of Key Constructs in this Dissertation

Customer Loyalty

Loyalty has many different forms: e.g., loyalty to a partner, a family, to a store, a brand, a company, a country (also known as patriotism). It implies that a person stays committed and acts in the interest of another entity (to who he/she is loyal) even when he/she gets another (possibly a more attractive) alternative (Oliver 1999). In marketing, customer loyalty has attracted a lot of attention from scientists over the past decade (e.g., Bhattacharya and Sen 2003; DeWulf, Odekerken-Schröder, and Iacobucci 2001; Oliver 1999).

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Loyalty in marketing is often viewed in terms of specific behavioral outcomes. These outcomes ideally should include at least one of the following (based on Kumar and Reinartz 2005):

- Increase in basket size
- Purchase frequency acceleration
- Decrease in price sensitivity
- Increase in share of wallet or in share of category requirements
- Increased retention rate
- Increased membership duration
- Increase in Positive Word-of Mouth (WOM) communication

In contrast to these definitions of loyalty, which are based on specific behavioral outcomes, Jacoby and Chestnut (1978, p. 82) stressed that "before one could speak of loyalty he/she must have the opportunity of being disloyal". Some authors have indicated that the commonly-used definition of loyalty as repeat purchase behavior (or related measures) is not sufficient and can be misleading because it does not fully reflect consumer's resistance to switch to a competitor (Mellens et al. 1996; Newman and Werbel 1973; Oliver 1999). For example, consumers might regularly shop at multiple stores- a phenomenon known as polygamous loyalty. Moreover, repeat purchase might indicate habitual buying (inertia) rather than loyalty (Assael 1998).

Inertia refers to the consumer reluctance to switch away from a previously purchased brand, all other things being equal (Corstjens and Lal 2000). Inertia is a rational behavior that just helps consumers to simplify their decision making rule by choosing, *ceteris paribus*, the status quo option, provided that they were satisfied with it (Samuelson and Zeckhauser 1998). However, whenever something changes, e.g., another company lowers its price and the price difference covers the thinking costs, consumers are likely to switch to this more attractive option (Shugan 1980).

In contrast to inertia, loyalty implies commitment to a specific option despite any situational circumstances (Chaudhuri and Holbrook 2001). And thus, coming back to the previous example, if another company lowers its price, loyal customers still do not switch there (Dick and Basu 1994). In fact, it was shown across multiple studies that price is almost

irrelevant for loyal customers and they are actually willing to pay higher price for the same product (Chaudhuri and Holbrook 2001; Yoo et al. 2000). Thus, the invulnerability of a consumer to a potentially better competitive offer is the key difference between loyalty and habitual buying, also known as inertia.

From an economic point of view customer loyalty is irrational, because it implies that people stick to a status quo option despite having an opportunity to switch to a better one; even when the price difference covers the switching costs. Such "irrational" loyal behavior may include, for example, increase in the expenditures, knowing that it would not be rewarded (Lal and Bell 2003) or voluntarily choosing to paying a higher price for the same product (Chaudhuri and Holbrook 2001; Van Osselaer, Alba, and Manchanda 2004)

Therefore, we primarily view customer loyalty as the extent to which customers go beyond economic rationale in their devotion to a specific firm, e.g., are invulnerable to an at least as good or even better competitive offer once they have an opportunity to choose. In this view, customer loyalty is defined as *a deeply held commitment to rebuy or repatronize a preferred brand, service or store consistently in future, which results in actual corresponding behavior despite situational influence and marketing efforts having the potential to cause switching behavior*. This definition is a slight modification of Oliver's (1999b, p. 34) definition to include store loyalty.

Loyalty Programs and Their Effect on Customer Loyalty

Enhancing customer loyalty is of key importance to companies, because loyal customers are believed to be more profitable (Kumar and Reinartz 2005). For example, loyal customers typically do more repeat business, develop larger tolerance towards the downsides of the company, develop resistance to the competitive offers and become less price sensitive (Sharp and Sharp 1997; Cigliano et al. 2000). Therefore, it is not surprising that marketers were interested in a tool that would allow enhancing customer loyalty. Loyalty programs were created specifically as the marketing instrument to enhance customer loyalty.

However, despite of their popularity, many loyalty programs are ineffective and fail to stimulate the desired loyalty of customers (Yi and Jeon, 2003; Dowling and Uncles, 1997; Cigliano et al, 2000). For example, Sharp and Sharp (1997) demonstrated that only two out of

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six loyalty programs yielded an effective deviation in repeat purchase loyalty. A McKinsey report shows that the first companies that introduced a loyalty program among US and European retailers, obtained an 1-3 percent revenue increase in groceries and 5-8 percent revenue increase in department stores during the first year of the loyalty programs. The results of later entrants were shown to be worse (Cigliano et al., 2000).

Some companies failed to create effective loyalty programs. This ineffectiveness of loyalty programs (combined with typically high costs associated with maintaining them) made them terminate or modify their loyalty programs (Kumar and Reinartz 2005). For example, Safeway terminated its loyalty program in April 2000, while Continental Airlines recently downgraded some types of rewards for their customers (Kumar and Reinartz 2005). On the other hand, there are multiple examples of companies that enjoy the effectiveness of their loyalty programs and even broaden them, e.g., Tesco, UK, Marriott hotels (Binkley 2003). Therefore, it is crucial to managers to understand which factors contribute to the success of some loyalty program and to the failures of others.

Here we define a loyalty program as a systematic effort of a company, which includes an integrated system of incentives that aims to create or increase customer loyalty (based on Bolton, Kannan, and Bramlett 2000; Kivetz and Simonson, 2003). Typical features of loyalty programs include the following. First, loyalty programs provide a systematic set of rewards for customers to stimulate certain behavior. These rewards can be of two types: utilitarian (also known as hard rewards) and non-utilitarian (soft rewards). Utilitarian rewards are monetary rewards, which may include discounts, savings, coupons, cash rewards, free products, etc. (Chandon, Wansink, and Laurent 2000). Non-utilitarian rewards do not provide direct monetary value; instead they provide psychological or emotional benefits. This type of rewards may include preferential treatment, magazines, special attention, extra service for members only, etc (O'Brian and Jones 1995). Second, typically, a loyalty program provides their members with a loyalty card, which also enables stores to differentiate between members and non-members (Van Heerde and Bijmolt 2005) and collect data about their clients (Rossi, McCulloch, and Allenby 1996; Leenheer 2004). Finally, a loyalty program is typically long lasting (see Lal and Bell 2003 for exceptions).

Although multiple studies showed that the effect of a loyalty program on customer loyalty to a large degree depends on the design of this loyalty program (Chandon, Wansink, and Laurent 2000; Kivetz 2005; Kivetz and Simonson 2002, 2003), there are several gaps in the literature that need to be addressed. In particular, despite the increasing level of adoption of non-utilitarian elements by companies (see Coviello, Brodie, Danaher and Johnson 2002), to the best of our knowledge there are no empirical studies that investigate the effect these elements have on customer loyalty. We also do not know how non-utilitarian elements of loyalty program designs affect loyalty compared to utilitarian ones. Therefore, in this research we will focus on investigation of which elements of a loyalty program design actually contribute to the increase in customer loyalty.

Gender and Gender Identity

Recent academic research has discovered important differences in cognitive processes and behavior of male and female consumers (e.g., Brunel and Nelson 2000; Fisher and Dubé 2005; Holt and Thompson 2004; Meyers-Levy 1988, 1989; Meyers-Levy and Maheswaran 1991; Meyers-Levy and Sternthal 1991). In addition, some studies suggest that there might be fundamental differences in both male and female customer loyalty and in their responses to loyalty programs (Kivetz and Simonson 2003; Mittal and Kamakura 2001).

It is important to note the difference between the gender itself (i.e. biological gender, or sex) and gender identity (i.e., psychological gender). *Gender* refers to an individual's biological sex, i.e., whether a person is a woman or a man (Deaux 1985). Usually by the age of about two or three years old children become aware of their biological sex (Money and Ehrhardt 1996).

Gender identity refers to individual's psychological gender, i.e., a degree to which an individual identifies or thinks of him/herself in terms of masculinity and femininity personality traits (Palan 2001). For example, assertiveness, competitiveness and focus on individual goals are strongly associated with masculinity; whereas understanding, caring, sensitivity and passion are strongly associated with the femininity trait (Bem 1974; Cross and Markus 1993). Unlike biological gender, gender identity is more driven by culture and social norms in a given society (Lerner 1986). After children become aware of their biological

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gender they also learn the culturally-derived gender norms (Kuhn, Nash, and Brucken 1978). Thus, depending on a society and family values, some men may be more feminine than masculine; while some women might be more masculine than feminine. Gender identity is correlated with biological gender; however, the strength of this correlation is constrained by cultural stereotypes of appropriate feminine and masculine behavior (Constantinople 1973).

In this research we explore gender differences in customer loyalty and response to loyalty programs. We mostly focus on the biological gender itself (rather than on the gender identity) because it is more commonly used in marketing practice for market segmentation.

1.2. Main Contributions and Outline of the Dissertation

Problem statement

The main goal of this dissertation is to investigate how to make loyalty programs effective. Previous research suggests that among factors that contribute to the success of loyalty programs loyalty program design and consumer characteristics are the most crucial ones (Kumar and Reinartz 2005). In addition, these are also the factors that managers of the loyalty programs can relatively easy influence (the design elements) or take into account (consumer characteristics). Therefore, in this dissertation we focus on the effect of utilitarian and non-utilitarian design elements of loyalty programs and of consumer characteristics (in particular, gender) on customer loyalty.

Thus, the main problem statement of this dissertation is to investigate:

What are the main and interaction effects of gender and non-utilitarian elements of loyalty program design on customer loyalty?

The central problem statement will be answered through the following research questions:

1. *Do men and women differ in their customer loyalty? If so, how?*
2. *Do men and women differ in their response to non-utilitarian elements of loyalty programs? If so, to which elements men and women respond the strongest?*
3. *How do utilitarian and non-utilitarian elements of loyalty program designs affect loyalty?*

Contributions

The main contributions of this dissertation on the theoretical and managerial side are summarized below. First, we make the following contributions to the research on *consumer loyalty*:

- a. We bring initial empirical insight into the nature of male and female consumer loyalty in the presence of competing theories (chapter 2).
- b. We investigate gender differences in customer's response to loyalty programs (chapter 3).
- c. We demonstrate empirically that customer loyalty does not necessarily have to be "bought" by utilitarian elements (e.g., discounts or savings) of loyalty program design (chapters 3 and 4).
- d. We investigate the effectiveness of loyalty programs not only after the loyalty program introduction but also at the stage of its termination (chapter 4).

Second, we contribute to the theory of *gender identity*. Whereas closeness of relationships and their individual versus group nature are confounded in the literature (Baumeister and Sommer 1997; Gabriel and Gardner 1999), we show that the essential difference in loyalty between man and women is not so much the closeness of relationships, but the individual versus group distinction *per se* (chapter 2).

In addition, our research provides important managerial insights:

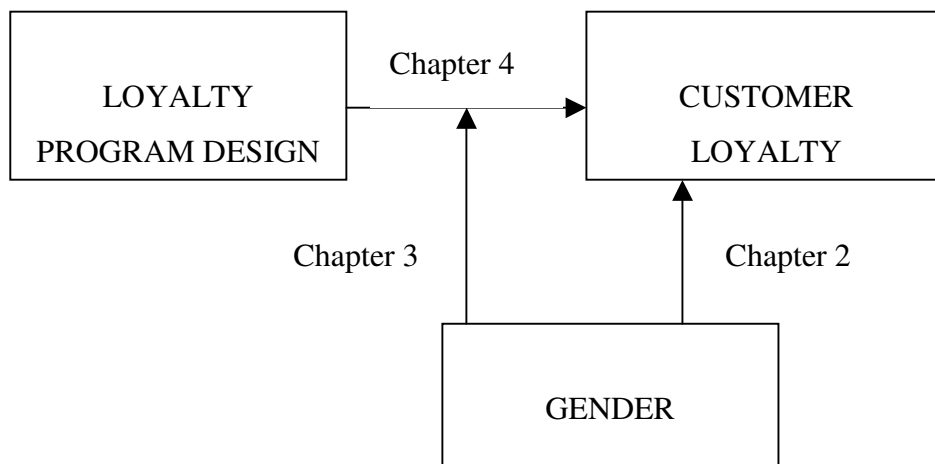
- a. We demonstrate that strategies to enhance customer loyalty of male and female consumers should differ and provide managerial insights on which factors are important for each of the genders (chapter 2).
- b. We demonstrate which elements of loyalty programs are the most effective to enhance customer loyalty for male and female consumers (chapter 3).
- c. We show which elements of loyalty program work best after an introduction of a loyalty program and remain effective after its termination and provide managerial insights on advantages and disadvantages of each of the commonly used utilitarian (discounts and savings) and non-utilitarian (diversification between members and non-members and personalization) elements of loyalty programs (chapter 4).

Outline of the dissertation

The dissertation investigates the research questions across three research projects, described respectively in chapters 2, 3 and 4. The framework of the dissertation is presented in Figure 1.1.

In Chapter 2 we investigate gender differences in customer loyalty. We do it based on four experimental studies. Chapter 3 builds on the findings of Chapter 2 and investigates gender differences in response to loyalty programs. In particular, we show which elements of loyalty program design enhance customer loyalty for each of the genders. The research methods we use in this chapter include three experimental studies and a survey across 5341 customers, who have day-to-day experience with loyalty programs.

Figure 1.1: Framework of the Dissertation



Chapter 4 investigates the effect of utilitarian (discounts and savings) and non-utilitarian (diversification between members & non-members and personalization) on customer loyalty (change in retention). We study the effect of utilitarian and non-utilitarian elements of loyalty program on behavioral loyalty based on consumer responses (using the survey among 5341 consumers) to 22 currently operated loyalty programs in the Netherlands.

Chapter 2: Gender Differences in Consumer Loyalty

Abstract

Across four studies we demonstrate that males are not inherently less or more loyal consumers than females. Instead, we find that male and female consumer loyalty are fundamentally different in nature. Whereas females tend to be more loyal than males to individuals, such as individual service employees, males, more than females, concentrate their loyalty at the level of groups or larger group-like entities such as companies. Implications for the theory of gender differences and managerial implications are discussed.

2.1 Introduction

Research on sexual infidelity suggests that men tend to be much less loyal than women (e.g., Baumeister, Catanese, and Vohs 2001). For example, Hansen (1987) found that 35.2% of male student vs. 11.9% of female students had sexual intercourse outside a committed dating relationship. In marital heterosexual relationships after ten years of marriage 30% of males and 22% of females reported instances of non-monogamy (Blumstein and Schwartz 1983). A similar pattern occurs in committed homosexual relationships, with gay men reporting a higher incidence of cheating on their partner than gay women (Blumstein and Schwartz 1983). Despite the commercial importance of infidelity, most consumer researchers are not directly interested in gender differences in sexual loyalty. However, given increasingly strong evidence of similarities between interpersonal and consumer relationships (e.g., Aggarwal 2004, Fournier 1998), these findings may be of interest from a consumer loyalty perspective.

Consumer loyalty has been the object of intense interest in both the business and academic worlds (e.g., Oliver 1999; Reichheld 2001). In fact, the concept of consumer loyalty is at the heart of Customer Relationship Management (see, e.g., Rust, Zeithaml, and Lemon 2002) and is the *raison d'être* of omnipresent loyalty programs (see, e.g., Kivetz

Chapter 2: Gender Differences in Consumer Loyalty

2005; Kivetz and Simonson 2002, 2003; Roehm, Pullins, and Roehm 2002; Sharp and Sharp 1997; van Osselaer, Alba, and Manchanda 2004 for research on consumers' responses to loyalty programs).

At the same time, academic research has discovered important differences in cognitive processes and behavior of male and female consumers (e.g., Brunel and Nelson 2000; Fisher and Dubé 2005; Holt and Thompson 2004; Meyers-Levy 1988, 1989; Meyers-Levy and Maheswaran 1991; Meyers-Levy and Sternthal 1991). These differences are reflected in the widespread use of gender as a segmentation variable in marketing practice.

Despite the importance of consumer loyalty on the one hand, and gender differences in consumer behavior on the other hand, little is known about the existence and nature of gender differences in consumer loyalty. In this research, we make a start at filling this void. We conducted four studies that contribute to the literatures on consumer loyalty and on gender differences in consumer behavior by showing fundamental differences between male and female consumer loyalty. In addition, we contribute to the literature on gender identity by testing the implications of two competing theories of gender identity (Baumeister and Sommer 1997; Cross and Madson 1997) and by disambiguating the factors that underly gender differences in many areas of behavior.

2.2 Theoretical Background

Loyalty

Loyalty has many different forms--for example loyalty to a partner, a family, a country (patriotism), but also to a brand or a company. Loyalty implies that a person stays committed and acts in the interest of another entity (to who he/she is loyal) even when he/she gets another, possibly more attractive alternative (Oliver 1999). In marketing loyalty is often viewed in terms of specific behavioral outcomes, such as repeat-purchase rate (Sharp and Sharp 1997) or related measures, such as increased usage frequency and share of wallet (Corstjens and Lal 2000). However, Jacoby and Chestnut (1978, 82) stressed that "before one could speak of loyalty he/she must have the opportunity of being disloyal". Some authors have indicated that the commonly used definition of loyalty as repeat purchase behavior is

not sufficient and can be misleading because it does not reflect consumers' resistance to switch to a competitor (Newman and Werbel 1973; Oliver 1999). Moreover, repeat purchases might indicate habitual buying (inertia) rather than loyalty (Assael 1998). Dictionary definitions often go even further and define loyalty in terms of feelings- of allegiance, attachment, or commitment. In sum, there is substantial disagreement about the exact definition or nature of the loyalty concept. This problem is further aggravated by the difficulty consumers have to reliably introspect their feelings, thoughts, and motivations. In this article, we shy away from participating in this debate and will focus on purchasing intentions of a product associated with the object of loyalty in the presence of a realistic alternative.

Female and Male Loyalty

Research on intimate relationships and infidelity, consistent with popular stereotypes, suggest that women are inherently more loyal than men. This would be consistent with a popular perspective of the fundamental differences between men and women in Western cultures. Summarizing this perspective, Cross and Madson (1997) argue that women, more than men, see themselves as interdependent. They strive to feel connected to other people. Interrelatedness with society, social relationships and social groups is a more important part of their identity than it is for men. Women focus on maintaining relationships. In contrast, men in Western cultures see themselves more as independent, are more individualistic, and strive for uniqueness and individuality. To men, the concerns of society, family members, or other people are secondary to the individual's.

These fundamental differences in self-construal and life goals can explain why women tend to be more loyal in intimate relationships, as women are more motivated to establish and maintain the interdependence that comes with intimate relationships and men feel threatened by this interdependence. The same fundamental differences may suggest that Western women would be more likely than Western men to be loyal consumers. If women tend to strive more for establishing and maintaining relationships to people and social contexts, they may do the same for relationships with brands, service personnel, and companies.

Chapter 2: Gender Differences in Consumer Loyalty

In a conceptual article, Baumeister and Sommer (1997) critique the evidence for a distinction between a female focus on interdependence and a male focus on independence. Citing a fundamental human need to belong (Baumeister and Leary 1995), Baumeister and Sommer (1997) propose a different view on the fundamental distinction between Western men and women. According to this view, which hitherto remains largely untested empirically (but see Gabriel and Gardner 1999), men and women are inherently equally interdependent, but women tend to focus on establishing and maintaining close relationships with specific individuals, whereas men tend to focus on establishing and maintaining relationships with more abstract and larger groupings of people. This view has very different implications for consumer loyalty than the view of females as more interdependent and males as more independent. The idea that women tend to focus narrowly on intimate dyadic bonds and that men tend to focus on a broader social structure consisting of larger numbers of people implies that males on average are not necessarily more or less loyal consumers than women, but that male and female consumer loyalties are of a different nature. It is possible that men are more likely to be loyal to companies, which function at a more abstract, and larger-sphere, group level, whereas women are more likely to be loyal to individual employees.

In summary, the two streams of literature inspire different predictions. Research on male and female sexual loyalty in intimate relationships, as well as theories holding that females tend to have a more interdependent orientation whereas men are more independently oriented, suggest that females tend to be more loyal consumers than males. An alternative theory, however, suggests that male and female consumer loyalty are not necessarily a matter of one gender being more or less loyal than the other. In the latter case, male and female loyalties are intrinsically of a different nature, with men being relatively more loyal than women to companies and women being relatively more loyal to individual employees.

2.3 Study 1

The view of females as interdependent and males as independent (e.g., Cross and Madson 1997) suggests that females should be more loyal consumers than male consumers across the board. In contrast, the view of females and males as equally interdependent but in different ways, suggests that males should be more loyal than females when the object of

loyalty is a more abstract, larger group entity. Therefore, in study 1, we assessed consumer loyalty in a scenario in which the object of loyalty was a more abstract, group entity (a university).

Method

Twenty-three female and 41 male university students enrolled in a course at a Dutch university were asked to read the following scenario (in English):

Dr. [actual professor's name], the instructor of the Marketing Tactics course, which you will have to take as an obligatory course next year, asks your opinion about the adoption of a new textbook for his course. Both of the offered books are in English and are believed to be of about equally good quality. The final decision on which book should be adopted for the Marketing Tactics course at [name of own] university next year strongly depends on students' opinion.

Participants were then asked to vote which book they would prefer to adopt for next semester. Each book had two authors, whose names and affiliations were mentioned. The first author of one of the books was affiliated with the students' own university but was not the instructor mentioned in the scenario reproduced above. The first author of the other book was affiliated with a rival university of similar standing nearby. The second authors of both books were affiliated with well-known American universities. All author names were fictitious, so that students could not have any form of relationship with the specific authors. To correct for effects of specific author names, order, and the American universities, all four author names and the names of the American universities were mentioned in the same order for all participants, but the affiliations of the first authors were counterbalanced between participants. The book information also included the price of the books. The book co-authored by an unfamiliar faculty member of the students' own university was always priced at EUR 35.00 whereas the book co-authored by the rival university's unfamiliar faculty member was always priced at EUR 34.00 (so that the rival option seemed more attractive). Before giving their vote, the participants were reminded that the choice they were about to

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make would impact the choice of the book that they would have to purchase next year. Next, participants indicated, on a binary scale, which book they voted for. After participants gave their vote they were asked to fill out a separate survey, which included a question to list their gender. After filling out the second questionnaire, participants were debriefed. The participants in this study were not compensated for their participation.

Results and Discussion

Eighty percent of the male participants voted for the book co-authored by an unknown professor affiliated with their home university. Fifty-two percent of the female participants chose the cheaper book co-authored by someone from a rival university. A binary logistic regression showed this difference to be statistically significant ($b = 1.50, p < .01$). These results suggest that female consumers are not always more loyal than male consumers. Because participants had no individual relationships with any of the fictitiously named authors, the results are also consistent with the idea that male consumer loyalty, more than female consumer loyalty, is focused toward more abstract and group entities such as companies. Evidently, study 1 is but a single and simple scenario study that leaves open a number of alternative explanations, including the explanation that female participants were merely more price-sensitive than male participants. Study 2 addresses the idea that female consumers are more loyal than male consumers to personal relationships, for example with employees, whereas males are relatively more loyal to more abstract, group entities such as companies. We do this in a situation where price is not a salient factor.

2.4 Study 2

In study 2 we exposed male and female participants to two scenarios in which an employee changes jobs and participants had to decide whether they would remain with the company or follow the employee to another company. Each participant received only one of the two scenarios.

Study 2A

Method

Thirty female and 87 male undergraduate students volunteered to participate in this study for extra course credit. They were asked to read the following scenario (in Dutch), to indicate their response, and to indicate their gender.

Imagine that you have a mobile phone subscription, which is now expiring, at company X. You are satisfied with the company and thinking about prolonging your subscription. You are talking about this with an acquaintance, who worked at company X and assisted you to get the subscription last time. He/she now works at mobile company Y (the closest competitor of X) and offers you a subscription with this company Y on the same conditions as you have at company X. What is the likelihood of you switching to company Y (1=definitely stay with X; 4=indifferent between X and Y; 7=definitely switch to Y)?

Results

Female participants ($M_{\text{female}} = 3.77$) indicated a significantly stronger inclination to follow the employee to a competing company than male participants ($M_{\text{male}} = 2.95$; $t(115) = 2.14$, $p < .05$). This is consistent with the idea that, relative to male consumer loyalty, female consumer loyalty is more directed toward closer individual relationships and less toward more abstract, larger groupings of people such as companies.

Study 2B

Method

Twenty-six female and 96 male undergraduates volunteered to participate in this study for extra course credit. They were asked to read the following scenario (in Dutch), to indicate their response, and to indicate their gender.

Imagine that you often use copy shop A. You have always been satisfied with copy shop A. In addition, the person at the counter was always very friendly to you. Now a new copy shop has opened and this person has moved to this new copy shop B. Prices and quality of both copy shops are the same. What is the

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likelihood of you switching to company B (1=definitely will stay with A;
4=indifferent between A and B; 7=definitely switch to B)?

Results

Female participants ($M_{\text{female}} = 4.58$) indicated a significantly stronger inclination to follow the employee to a competing company than male participants ($M_{\text{male}} = 3.96$; $t(61) = 2.31$, $p < .05$). This is again consistent with the idea that, relative to male consumer loyalty, female consumer loyalty is more directed toward closer individual relationships and less toward more abstract, larger groupings of people such as companies.

Discussion

The results of studies 2A and 2B show that when choosing between individual relationships with company employees and the company itself, female consumers are more likely to go for the individual relationships than male consumers. This is consistent with the idea that female consumer loyalty (relative to male consumer loyalty) is directed more toward closer individual relationships whereas male consumer loyalty (relative to female consumer loyalty) is geared more toward more-abstract, group entities such as companies. However, in studies 2A and 2B, favoring the individual relationship is always accompanied by the need to switch companies, whereas favoring the company requires no switching. Thus, it is possible that men are merely more inert consumers than women. Another issue in the studies reported thus far is that it is possible that the differences in loyalty between the sexes have nothing to do with gender per se, but are caused solely by unmeasured other factors that happen to covary with sex (i.e., biological gender) in our participant pool. Of course, from a managerial perspective this may not be an important issue. As long as biological gender predicts differences in consumer loyalty, one may not care that the effect is really completely driven by other factors than masculinity or femininity. However, these other factors may not reliably covary with biological gender across contexts. In addition, there is a theoretical interest in knowing whether gender identity per se really has an impact on consumer loyalty. Thus it is important to show that even when controlling for biological genders, there is still an effect of masculinity/femininity (i.e., gender identity or psychological gender). To do this, we measure

gender identity and test its relationship with loyalty behavior in a linear regression that also includes biological gender and its interaction with gender identity as control variables. Thus, in study 3, we measure gender identity and keep the opportunity for inertia constant across options.

2.5 Study 3

Study 3 has the same general set-up as studies 2A and 2B, with the exception that now both loyalty to the employee and loyalty to the company require a switch and that we add measures of psychological gender (also known as gender identity). Gender identity refers to the extent to which an individual thinks of him/herself as masculine or feminine (Spence 1993).

Method

Fifty-six female and 78 male undergraduate students volunteered to participate in this study for extra course credit. They were asked to read the following scenario (in English).

Imagine you used to buy your bread in a small bakery shop X. You were very satisfied with the bread and the bread seller, who was always friendly to you. Unfortunately, the bakery recently closed down because the shopping center in which the bakery was located, was replaced by a retirement home. You know that the seller now works in another bakery Y. You also know that there is another bakery Z in town, which belongs to the same chain as the first bakery (X). If you had to choose next time where to buy your bread, where would you go (given that the distance from your home to Y is about the same as to Z, and prices are similar)?

Participants then indicated their response using a 7 point scale ranging from 1 (*definitely will go to Y*) to 7 (*definitely will go to Z*) and where 4 indicates indifference between Y and Z. Next, participants filled out the short version of the Bem Sex Roles Inventory (BSRI) (Bem 1974; Stern, Barak, and Gould 1987), which has been shown to be a valid and reliable measure of gender identity (Aylor and Dainton 2004; Campbell and

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Thompson 1997; Palan, Areni, and Kiecker 1999). Finally, participants were asked to indicate their biological gender and were debriefed.

Results

Based on the results in study 2, we expected that female consumers would exhibit a stronger tendency than male consumers to follow the employee instead of the company. Results confirmed this expectation ($M_{\text{female}} = 3.80$; $M_{\text{male}} = 4.81$, $t(132) = 2.79$, $p < .05$).

We also expected to find differences between male and female participants in terms of gender identity. The masculinity and femininity subscales of the Bem Sex Roles Inventory showed acceptable levels of reliability (Cronbach's α was .80 and .89 for femininity and masculinity respectively). Following Bem (1974) we computed the androgyny score which "reflects the relative amount of masculinity and femininity that the person includes in his or her self-description, and as such, it best characterizes the nature of the person's total sex role" (Bem 1974, 158). As expected, the difference between masculinity and femininity (i.e., androgyny) was significantly higher for male than for female participants ($M_{\text{male}} = -.38$; $M_{\text{female}} = -1.00$; $t(99) = -3.19$, $p < .01$).

More importantly, the results indicate an effect of gender identity on consumer loyalty ($b = .49$, $t = 3.05$, $p < .01$, linear regression with androgyny as independent variable). To assess the effect of gender identity while controlling for biological genders, we ran a linear regression using likelihood of store choice as the dependent variable and biological gender, gender identity (i.e., androgyny), and their interaction as independent variables. We found significant main effects for both biological gender ($b = .97$, $t = -2.26$, $p < .05$) and gender identity ($b = .57$, $t = 2.33$, $p < .05$) in the predicted directions but no significant interaction effect ($b = .32$, $t = .97$, $p > .10$). This suggests that even after controlling for biological gender, more masculine/less feminine participants exhibited a significantly stronger tendency than less masculine/more feminine participants to follow the company instead of the employee, and that this gender identity effect is not significantly different for males versus females.

Discussion

Results in study 3 are again consistent with the idea that female consumer loyalty (relative to male) is directed more toward closer individual relationships whereas male consumer loyalty (relative to female) is geared more toward more-abstract, larger social entities such as companies. In addition, study 3 suggests that the difference between males and females found in study 2 is not merely a difference in consumer inertia. Finally, study 3 shows that the relationship between gender and consumer loyalty is not restricted to biological gender, but extends to gender identity, indicating that the results are not completely driven by alternative correlates of gender. The fact that a significant effect of biological gender remains may indicate that gender identity is not the only driver of the loyalty differences between the genders. However, it is also possible that gender identity does completely drive the results, but that both biological gender and the Bem Sex Roles Inventory are imperfect and not completely correlated measures of underlying gender identity.

Studies 1 through 3 suggest that male consumer loyalty, more than female consumer loyalty, is focused more on abstract groupings such as companies relative to closer personal relationships. This is consistent with the idea that male and female loyalties are inherently different. However, the within-participant designs of studies 2 and 3 do not allow us to draw conclusions about these two types of loyalty separately. That is, we cannot determine if male consumers are more loyal to less close groups than females, if female consumers are more loyal to closer individual relationships than males, or both. In addition, the relative nature of studies 2 and 3 does not allow us to reject the possibility that despite differences in the nature of their consumer loyalty, males might be more loyal consumers than females across the board. In studies 2 and 3, participants had to be loyal to something, be it a person or a company. They were not allowed to be completely disloyal. The fact that, given that a person has to be loyal, males are more likely to be loyal to the company than females does not exclude the possibility that males are more likely to be loyal than females even when the object of loyalty is an individual. Study 4 addresses this issue by manipulating individual versus group relationships between participants, allowing a disloyal response.

Another issue that we would like to address is that there is no clear distinction between closeness of relationships and the individual versus group character of these

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relationships. In the literature (e.g., Baumeister and Sommer 1997; Gabriel and Gardner 1999), the distinction is always between females' focus on close personal relationships versus males' focus on less close, more abstract group relationships. Thus, closeness of relationships and their individual versus group nature are confounded and it is not clear to what extent each of these factors drives the results. Although the two factors are always confounded, the literature on gender differences in self-construal (e.g., Baumeister and Sommer 1997; Gabriel and Gardner 1999) seems to stress the closeness dimension--females caring about a small number of close relationships whereas men care about a large number of less close relationships. This might be taken to suggest that closeness of relationships is the critical difference. However, in study 3 we find that female consumers tend to be loyal to a merely friendly bread seller. This is presumably not perceived to be a very close relationship, suggesting that the individual versus group difference by itself may have an influence on male versus female consumer loyalty. This hypothesis would be consistent with recent findings that even very young human male infants tend to be more attentive to displays showing a group of puppets while female infants tend to attend more to displays of a single puppet (Benenson, Duggan, and Markovits 2004). In study 4, we test the hypothesis that female consumer loyalty is geared more towards individuals whereas male loyalty is geared more towards groups, controlling for level of closeness.

2.6 Study 4

In study 4, we manipulated individual versus group objects of loyalty between participants while controlling for closeness of the relationship.

Method

Seventy-five female and 89 male undergraduate students volunteered to participate in an experimental session that included this study in exchange for a EUR 7 fee. Participants were randomly assigned to the group or the individual condition. Participants in the individual condition were asked to read the following scenario (in English):

Imagine the following situation. The company where you work plans a Christmas celebration. You have volunteered to go buy the Christmas cake for

the celebration during your lunch break (the company pays for the cake). The closest bakery is within a 5-minute walk from the company. However, you know that somebody you went to high school with, but never had much contact with during or after your high school days, owns and runs a bakery store, which is on the other side of the town (about 30 minutes by bike). At this moment it is raining outside. You also know that your former classmate cannot know that you need to buy a cake, thus, if you buy it in the closest bakery he/she will not find out about that. The quality of the cakes is the same in both stores.

Participants in the group condition read the same scenario, with the exceptions that "somebody" was replaced by "a group of people," "classmate" was replaced by "classmates," and "he/she" was replaced by "they." Participants then indicated what they would choose on a 7 point scale where 1 indicated that the participant would definitely buy the cake at the closest bakery, 7 indicated that the participant would definitely buy the cake at the classmate's or classmates' bakery, and 4 indicated indifference. To control for level of relationship closeness, participants were also asked to answer the following question: "How close is your relationship with your former classmate(s)?" on a scale ranging from 1 (*not at all close*) to 7 (*very close*). The order of this measure and the buying intention measure was counterbalanced. The effect of interest (i.e., the interaction between gender and group versus individual) was not affected by relationship closeness or order (all p 's > .10). Thus, relationship closeness and order will not be considered further. Finally, participants indicated their gender and were debriefed.

Results and Discussion

An ANOVA with likelihood of store choice as dependent variable and individual versus group, gender, and their interaction as independent variables yielded the predicted effect. There was a significant cross-over interaction between gender and individual versus group ($F(1, 160) = 10.38, p < .01$), suggesting that male consumers are more loyal to groups than female consumers are ($M_{\text{female-group}} = 1.68; M_{\text{male-group}} = 2.41, t(65) = -2.13, p < .05$);

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whereas female consumers are more loyal to individuals than male consumers are ($M_{\text{female-individual}} = 2.66$; $M_{\text{male-individual}} = 1.71$, $t(60) = 2.44$, $p < .05$). Simple contrasts also suggest that male consumer loyalty is geared more toward groups than to individuals ($t(73) = -1.95$, $p = .05$) whereas the reverse is true for female consumer loyalty ($t(54) = 2.61$, $p < .05$). Results showed no main effect of gender ($F(1, 160) = .17$, $p > .10$), indicating that there was no evidence that males are inherently more loyal consumers than females or vice versa. There was also no significant main effect of the individual versus group factor ($F(1, 160) = .30$, $p > .10$). Thus, there is no evidence that consumers overall are more loyal to a single person than to a group of people.

In sum, study 4 shows no general difference between males and females in the extent of their consumer loyalty and instead suggests that male consumer loyalty, more than female consumer loyalty, is geared toward groups whereas female consumer loyalty, more than male consumer loyalty, is geared toward individuals.

2.7 General Discussion

Summary

Across four studies, we find a coherent pattern of gender differences in consumer loyalty. We do not find evidence for across-the-board, main-effect differences in consumer loyalty between the sexes. Instead, our results suggest that male consumers tend to be relatively more loyal than female consumers to companies whereas female consumers tend to be relatively more loyal than male consumers to individual employees. Findings that measures of gender identity yield the same result as gender *per se* suggest that this effect is not due (completely) to non-gender factors that happen to correlate with gender. In addition, we replicate the company versus employee effect in a group-of-employees versus individual-employee setting. This study suggests that male consumer loyalty, more than female consumer loyalty is centered on relationships with groups or entities such as companies that involve larger numbers of people. Female consumer loyalty seems to be centered more than male consumer loyalty on individual, person-to-person relationships, such as relationships with individual employees.

Contributions

Consumer Loyalty

This research makes two contributions to the study of consumer loyalty. First, different theories about female and male gender identity (e.g., Baumeister and Sommer 1997; Cross and Madson 1997; see also Meyers-Levy 1988, 1989) inspire different predictions, especially about male consumer loyalty. For example, Cross and Madson (1997) argued that Western males see themselves as, and strive to be, independent, whereas Western females are geared more towards interdependence with other people. The theory is consistent with differences found between males and females in terms of sexual loyalty in intimate relationships. This might be taken to suggest that males are inherently less loyal consumers than females. Our results are at variance with this prediction. In our studies, we find that males are not less loyal than females across the board, but that male and female consumer loyalty are different in nature. Female consumers are more loyal than male consumers to individuals, such as individual employees in stores. In contrast, male consumers are more loyal than female consumers to groups of people and companies. These results are consistent with the alternative theory of gender identity by Baumeister and Sommer (1997). Thus, our first contribution is to bring initial empirical insight into the nature of male and female consumer loyalty in the presence of competing theories.

Second, our results go beyond showing consistency with Baumeister and Sommer's (1997) theory. Baumeister and Sommer (1997) hold that males and females have a need for interdependence, but that female identity depends more heavily on the formation and maintenance of a few, close personal relationships. The relationships in our experiments, as is the case for most consumer relationships in the real world, were not all that close. These were not the type of very involved close relationships that each person has only very few of. To the extent that female identity relies only on very close relationships, females may be expected to be less loyal than men in all but the very closest consumer relationships (e.g., Fournier 1998; Muñiz and Schau 2005). In contrast, our results suggest that the essential difference is not so much the closeness of relationships, but the individual versus group distinction *per se*.

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Gender Identity

In addition to their implications for consumer loyalty, our findings may have implications for the study of gender identity in general. First, we contribute to the debate about female and male gender identity as being a matter of inter- and independence versus different types of interdependence. Our results are more on the side of different types of interdependence (Baumeister and Sommer 1997), instead of differences between the genders in level of interdependence (e.g., Cross and Madson 1997). Second, we add to the Baumeister and Sommer (1997) theory by teasing apart the relationship closeness element and the individual versus group element of gender identity. Whereas closeness of relationships and their individual versus group nature are confounded in the literature, our findings suggest that the individual versus group factor by itself has a differential impact on males versus females. That is, female gender identity seems not to be focused only on close relationships and male gender identity is not just focused only on more abstract, less close relationships—female gender identity may also be more focused on individuals and less on groups than male gender identity, regardless of the closeness of the relationship.

Marketing Implications

On the more practical front, our findings have clear implications for the management of consumer satisfaction and loyalty. In general, our findings suggest that companies targeting female consumers depend much more than companies targeting male consumers on relationships between individual employees and customers. Whereas male consumers may be satisfied with an anonymous relationship with a store or brand, and are unlikely to switch their patronage when specific employees disappear, female consumers demand more personal, one-to-one relationships. Female consumers' allegiances may be more with specific employees than with a store, store chain, brand, or firm. This may have implications for power and appropriability between a company and its employees. For companies targeting female consumers, the customer relationship is controlled more by specific service employees and less by the company or brand than for companies targeting male consumers. Thus, employees in companies serving female consumers may often be able to appropriate a greater share of the companies' revenue than employees in companies serving male consumers. Finally, our results suggest that differences occur even at a less abstract level than a store or

brand. Merely moving from one contact to a small group of contacts, such as from a personal banker or hairdresser to a team of bankers or hairdressers, may have a stronger negative effect on female than on male consumers' loyalty.

Future Research

Although we have started to provide some answers, our findings also raise many new questions. For example, we have conducted our studies with participants who mostly hailed from Western cultures. To the extent that our results were driven by masculinity/femininity and masculinity/femininity differences between males and females vary across cultures, we may find that other, for example Eastern, cultures show different patterns of male and female loyalty.

Another factor of potential interest is the role of identity salience. In our studies, we found strong sex differences despite the fact that nothing in our scenarios or loyalty measures highlighted gender, which was always elicited after the loyalty measures. Thus, the salience of gender identity likely was low. A number of studies (e.g., Forehand, Deshpande, and Reed 2002; Reed 2004; Wooten 1995) suggest that identity salience can have a large influence on consumer behavior. It is possible that the effects we found would be even stronger in situations in which gender identity is more salient.

In our studies, we have focused mostly on relatively shallow bonds with personnel, brands, or companies. An additional avenue for future research would be to explore gender differences in the presence of the more intimate bonds some consumers have with products and brands. For example, Fournier (1998) describes "committed partnerships" and "best friendships" which seem to go beyond the realm of the relationships studied here. The same is true for the relationships brand community members have with their brands (e.g., Muniz and O'Guinn 2001; Muñiz and Shau 2005).

It would in general also be important to explore the boundary conditions of our effects. Our results indicate that to find group effects for men, the group can be as small as three people. It is, however, unclear where the exact boundaries of this effect lie.

Finally, more research is needed to explore the apparent differences between our findings and the finding by Kivetz and Simonson (2003) that female consumers' response to

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loyalty programs depends more than male consumers' response on idiosyncratic fit, or the extent to which a reward is easier to achieve for them than for other consumers. In contrast to our results, this finding seems quite consistent with a view of female and male consumers as having a more interdependent versus more independent self-construal. Interdependent female consumers may think about how easy it is to reach a reward relative to others, whereas independent male consumers may not even think about others and how easy or hard it is for them to obtain a reward. However, there are a number of alternative explanations that would be consistent with the view of female consumers as focused more on individual relationships whereas male consumers are focused more on group relationships. For example, idiosyncratic fit may be much more salient and more easy to determine when consumers compare to more concrete examples of specific others, as female consumers might be likely to do, than when comparing to larger groups of consumers. For example, when comparing oneself to a non-differentiated group, the conclusion will often be that one is within the range of the group. In contrast, when comparing to the same number of individuals one-at-a-time, consumers can determine their individual position in the distribution. That is, to determine idiosyncratic fit, consumers have to differentiate individuals within a group, which would be exactly what we would expect of female consumers.

Conclusion

Our studies suggest that male and female consumers differ significantly in terms of the object of their consumer loyalty. Whereas females relative to males tend to be loyal to individuals, such as individual service employees, males relative to females concentrate their loyalty at the level of groups or larger group-like entities such as companies.

Chapter 3: Gender Differences in Consumers' Responses to Loyalty Programs

Abstract

Our research shows that male and female consumers respond differently to elements of loyalty program design. As predicted, females respond more positively than males to personalized attention in loyalty programs, whereas males respond more positively to loyalty programs that make their high membership status visible to other customers. We discuss managerial implications for the design of loyalty programs.

3.1 Introduction

Recent articles in the Wall Street Journal show that managers spend a lot of effort introducing, maintaining and changing loyalty programs (Bank 2003; Binkley 2003; Lieber 2003). Loyalty programs are perceived to be a key way for companies to develop customer loyalty towards their brands, stores and services (Yi and Jeon, 2003). Therefore, it is not surprising that loyalty programs have attracted a lot of attention from marketing scientists over the last decade (e.g., Drèze and Nunes 2004; Kim, Shi, and Srinivasan 2001; Van Heerde and Bijmolt 2005).

Nevertheless, despite their popularity, many loyalty programs are ineffective and fail to stimulate the desired loyalty of customers (Yi and Jeon, 2003; Dowling and Uncles, 1997; Cigliano, Georgiadis, Pleasance, and Whalley 2000). For example, Sharp and Sharp (1997) demonstrated that only two out of six loyalty programs yielded an increase in repeat purchase loyalty. A McKinsey report shows that the first companies that introduced a loyalty program among US and European retailers, obtained an 1-3 percent revenue increase in groceries and 5-8 percent revenue increase in department stores during the first year of the loyalty programs. The results of later entrants were shown to be worse (Cigliano et al. 2000). Hence,

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creating a loyalty program that really increases customer loyalty is challenging, but still possible.

Recent research shows that the effects of the loyalty program on customer loyalty are highly dependent on the specific program design (Drèze and Nunes 2004; Kivetz and Simonson 2002, 2003; Roehm, Pullins, and Roehm 2002). In particular, type of rewards that a loyalty program provides (e.g., Kim, Shi, and Srivivasan 2001; Roehm, Pullins, and Roehm 2002; Yi and Jeon 2003) and their congruency with the effort required from a customer to obtain them (e.g., Kivetz 2005; Kivetz and Simonson 2002, 2003) are among the key design elements contributing to the effectiveness of a loyalty program.

An intriguing finding in the recent literature suggests that male and female consumers differ significantly in their level of loyalty to companies (Mittal and Kamakura 2001; Steenkamp and Burgess 2002). Chapter 2 of this thesis has demonstrated that male and female loyalties are different in nature, with females being relatively more loyal to individuals (such as employees) and males being relatively more loyal to groups or larger group-like entities (such as companies). These findings suggest that customer loyalty of men and women might be driven by different factors. Therefore, male and female consumers might also respond differently to various loyalty program designs. In fact, Kivetz and Simonson (2003) found that females are more sensitive to the idiosyncratic fit of a loyalty program than men. However, until now, the literature has not explicitly addressed gender differences in consumers' responses to different elements of loyalty programs.

The goal of our research is to explore gender differences in response to loyalty programs. We contribute to the literature on loyalty programs by investigating the effects of specific elements of loyalty programs for each of the genders. Our second contribution is on the side of attitudinal characteristics of loyalty programs. Previous research focused mostly on the effect of utilitarian characteristics on effectiveness of loyalty program such as savings (Lal and Bell 2003, Van Osselaer, Alba, and Manchanda 2004), discounts (Zhang, Krishna, and Dhar 2000) or combined currency pricing (Drèze and Nunes 2004). In contrast, we are interested in the effectiveness of non-utilitarian design elements that have become increasingly popular, in particular within the Customer Relationship Management (e.g., Lemon, White, and Winer 2002; Rust, Zeithaml, and Lemon, 2002; Verhoef 2003) approach.

In this research we address two types of non-utilitarian elements of loyalty program designs that are currently used by companies: personalized attention and visibility of a customer's high status to other customers. Specifically, we focus on how both genders react to each of these two elements of loyalty programs.

Apart from our contribution to the growing interest in the role of gender differences in the recent marketing literature (e.g., Fisher and Dubé 2005; Holt and Thompson 2004; Meyers-Levy and Sternthal 1991), this study may help managers to tailor loyalty programs to the needs of males and females, especially because data on gender is commonly available to the managers of loyalty programs.

3.2 Design of Loyalty Programs

We define a loyalty program as a systematic effort of a company, which includes an integrated system of incentives that aims to create or enhance customer loyalty. The benefit such a loyalty program provides for the customers is not necessarily material, but instead may include preferential treatment, special attention, etc.

Research shows that the effects of loyalty programs on customer loyalty are highly dependent on the specific program design (Kivetz and Simonson 2002; Roehm et al. 2002; Yi and Jeon 2003; Van Osselaer, Alba, and Manchanda 2004). Whereas it has been extensively shown that utilitarian elements (e.g., discount, saving points, etc.) may elicit a positive response on behavioral loyalty (Drèze and Nunes 2004; Lal and Bell 2003) much less is known about non-utilitarian elements (e.g., personalized attention).

O'Brien and Jones (1995) suggested: "rewards that motivate a customer to change his or her behavior have as much to do with psychology as with economics" (p.80). The evidence from the recent literature supports this view (DeWulf, Odekerken-Schröder, and Iacobucci 2001). For example, Bowman and Narayandas (2001) showed that highly loyal customers actually value quality of interactions with the company more than utilitarian rewards. Similarly, not only the material rewards provided by a frequent flyer program but also the preferential customer treatment were shown to be the most important relationship-related drivers of customer loyalty (Rust, Lemon, and Zeithaml 2004). These findings suggest that

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besides the utilitarian elements, an effective loyalty program might equally be built on inspirational non-utilitarian stimuli.

According to theorizing on the fundamental human need to belong (Baumeister and Leary 1995), "true" loyalty (Dick and Basu 1994) can only be achieved if a person is sure that the partner cares about his/her interests. Thus, one of the ways in which loyalty programs work is by making people feel like special customers. However, depending on the loyalty program, this can be achieved by multiple ways. Recent research in marketing suggests that there are at least two ways in which companies can achieve this. The first approach suggests providing customers with personalized attention (e.g., Aggarwal 2004; Coviello, Brodie, Danaher and Johnston 2002; DeWulf, Odekerken-Schröder, and Iacobucci 2001); the second one is providing customers with a distinctive status (e.g., Grier and Deshpande 2001).

3.3 Gender Difference in Response to Personalized Attention

The first design factor we explore is personal attention in the sense of the loyalty program differentiating rewards based on personal characteristics of the individual loyalty program member. Loyalty programs differ greatly in the extent to which rewards are personalized. For example, some clothing stores send coupons to their mostly female patrons on their birthdays. Other, comparable stores, tend to send such coupons centered on holidays or fashion seasons. Although at a quite superficial level, the first practice, which takes a person's birthday into account, is more personalized than the second.

The literature suggests that men and women might differ in their response to personalized attention. In a conceptual analysis Cross and Madson (1997) suggested that females develop interdependent self-construal, while men develop independent self-construal. Thus, females might be more dependent on others and as a result, be more sensitive to how they are being treated by those others. In a similar vein, female (in contrast to male) self-worth and self-esteem concepts were shown to be more dependent on the relationship with other people (Josephs, Markus, and Tafarodi, 1992). In fact, some studies have demonstrated that female behavior is more driven by communal concerns (e.g., "To have people around me who will encourage me") than male behavior (e.g., Meyers-Levy 1988). In terms of response to loyalty programs this might imply that women might be more dependent on the interaction

quality and the way they are being treated by the company. Consistent with this view Kivetz and Simonson (2003) found that females are more sensitive to idiosyncratic fit, than males- i.e., women were more likely to join a loyalty program when they believed that the program is more favorable for them than for others. This suggests that women might have a stronger need to be treated in a more preferential way than others compared to men.

A different stream of literature elicits similar predictions. Baumeister and Sommer (1997), based on an extensive review of the literature, suggested that unlike men who are more oriented towards group relationships, females are seeking for closer dyadic relationships. There is some support in the literature for this view (Gabriel and Gardner 1999; Smith, Murphy, and Coats 1999). For example, Smith et al. (1999) have demonstrated that men tend to be group members for a significantly longer period of time than women. Consistently, chapter 2 of this thesis concludes that women are more loyal to individual employees than to more abstract groups, i.e., companies. Thus, if female consumers are focused on individual, person-to-person, relationships, it is possible that female consumers are more responsive to being treated as an individual person. We therefore propose:

Proposition 1: Loyalty programs with personalized design will stronger increase the likelihood to join the program for female consumers than for male consumers.

3.4 Gender Difference in Response to Visibility of Member's Status

Another way in which loyalty programs might make people feel as special customers is by rewarding them with a high status. However, depending on the loyalty program this can be achieved either in a way visible for other customers (e.g., in the airline industry, Gold-members together with first class passengers have an advantage to enter the plane first, while other passengers have to wait and can see who are the priority passengers) or in an invisible way (e.g., in some supermarkets, loyalty program members obtain special discounts, while paying at the checkout). Recent research in marketing suggests that distinctiveness of consumer's status has a powerful effect on their behavior (Grier and Deshpande 2001; Forehand and Deshpande 2001). Therefore, especially those loyalty programs that enable visibility of customer's high status are likely to enhance customer loyalty.

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Multiple theories suggest that female and male consumers might react differently to the visibility of their status (Baumeister and Sommer 1997; Cross and Madson 1997). For example, in their conceptual analysis Baumeister and Sommer (1997) suggested two important points. First, males are more oriented to larger groups, while females are more focused on close dyadic relationships. Second, citing evolutionary theories, the authors suggested that men are more concerned about their status than women are: "the achievement of dominant status has long been a way for men (but not for women outside of the domestic circle) to achieve power over others" (Baumeister and Sommer 1997, p. 39). This view is also consistent with the sexual strategies theory, which suggests that the best strategy for men to win in both intersexual and intrasexual competition is to display their resources, i.e., status (Buss 1988; Buss and Schmitt 1993; Tooke and Camire 1991). These two points suggest that men might have a stronger need than women to communicate their status to larger groups. Communicating to groups is often best done by one-to-group instead of one-to-one communication. Carrying visible signs of loyalty program status are an excellent manner for one-to-group communication. For one-to-one communication, widely visible signs of loyalty program membership are less necessary and are less useful means of communication. Thus, to the extent that males are focused more on group relationships whereas females are focused more on individual relationships, male consumers are expected to respond more positively to loyalty programs designed to visibly display member status.

In addition to Baumeister and Sommer's (1997) theory, the idea that men might be more responsive to visibility of their status than women, is also consistent with the view that men develop an independent (rather than interdependent) identity (Cross and Madson 1997; Meyers-Levy 1988). Cross and Madson (1997) suggest that individuals with an independent self-construal may have relationships with others for individualistic goals such as demonstrating uniqueness by asserting dominance over others. Visible displays of status, thus, might be very attractive means to achieve males' individualistic goals. In fact, findings of studies on possessions confirm this suggestion. Men were shown to especially value and display items that represent their real or desired high status (e.g., trophies and other attributes of inherited or achieved status), in contrast to women, who valued items that provided connection with other people (e.g., photos) (Belk and Wallendorf 1997; Dittmar 1989, 1992;

Wallendorf and Arnould 1988). Thus, the theory of gender identity also predicts that men might be more responsive to loyalty programs that make their high status visible to other consumers.

Besides theoretical evidence there is some empirical evidence that suggests that men are more likely than women to change their behavior when they are visible to others. For example, Eagly (1986) in a meta-analysis on helping behavior found that men are especially more helpful than women in a presence of other people. Similarly, Kleck et al. (1976) reported that unlike women, men displayed a higher intensity of pain (facial, physiological, and subjective) in response to electric shocks when they were alone than when they knew they were observed. Finally, Fisher and Dubé (2005) demonstrated that males reported different viewing experience and different attitude towards an advertisement depending on whether they watched it alone or with another male. The authors did not find these differences for females. These studies suggest that men might be more susceptible to visibility than women. Especially when this visibility is related to higher status we may expect that males will be motivated to show stronger response than females.

In contrast to males, visibility of high status can be undesirable for females for two reasons. First, females are more inclined to a modest behavior than men, especially in situations with a possibility of hurting other people' feelings (Cross and Madson 1997; Heatherington, Daubman, Bates, and Ahn 1993). For example, Heatherington et al. (1993) demonstrated that female students were more modest when they had to reveal their expected grade point average (GPA) to a low-performing student. Second, evolutionary theories suggest that unlike physical attractiveness, high status has been a rather undesirable characteristic for a woman to be socially accepted (Baumeister and Sommer's 1997; Baumeister and Vohs 2004; Buss and Schmitt 1993). Based on the theoretical and empirical evidence discussed above, we propose:

Proposition 2. Visibility of program status affects male response to loyalty programs more positively than female response.

Overview of the studies

We test our propositions with three scenario-studies and with survey data. In study 1 we investigate whether personalized attention increases the likelihood to join a loyalty program more for females than for males. In study 2 we investigate whether visibility of status increases the likelihood to join a loyalty program more for males than for females. In study 3 we replicate study 2 to check if the effect relates not only to a choice of loyalty program but also to the likelihood to increase spending. Finally, we present a survey with male and female responses to personalization and visibility across multiple loyalty programs.

3.5 Study 1

In Study 1, we tested the hypothesis that female consumers are more responsive to loyalty program personalization than male consumers. We did this by manipulating, within-participants, the extent to which two loyalty programs base their rewards on a personal characteristic of their members (i.e., birth date) and by asking male and female consumers which program they would join. It is worth mentioning that targeting customers based on personal characteristics is actually used by managers of some stores in the Netherlands. For example, the clothing chain *Setpoint* collects data about their customer's sizes and sends corresponding personalized coupons.

Method

Twenty-five female and 27 male undergraduate students were approached in the university library, and they agreed to participate in this study. They were not compensated for their participation. Participants were asked to read the following scenario:

Imagine you want to become a member of a DVD/Video rental store's loyalty program. You have two options, store A and store B. Both stores offer the same discount to loyalty program members: half-price movie rentals during one two-week period per year.

Store A implements this discount in the following way:

The two half-price weeks are randomly chosen by the store (a member gets informed about them at the beginning of the year).

Store B implements this discount in the following way:

The two half-price weeks are the two weeks subsequent to the member's birthday (a member gets informed about them at the beginning of the year)

Apart from these differences, the stores and their loyalty programs are exactly the same. To become a member of any of the two stores you need to fill in a form, indicating your name, home address, and date of birth. Thus, both stores require you to fill out exactly the same information. Both stores have about the same assortment and same prices. If you visit the store regularly, the overall material benefits are about the same in both stores.

Next, participants were to answer the following question: "If you had to choose one program to become a member of, which of these two stores would you choose?" Participants indicated their response using a 7 point scale ranging from 1 (*definitely store A*) to 7 (*definitely store B*) with 4 indicating indifference. As a manipulation check, participants were then asked to answer: "Which store gives you most personal attention?" (on 7-point scale ranging from 1 [*definitely store A*] to 7 [*definitely store B*] where 4 indicated *equally much*). We also included a number of questions to check for possible alternative explanations. Three questions assessed the importance of privacy concerns to the participant and the extent to which each of the two stores was seen to infringe upon its members' privacy. Participants were also asked to answer five items adapted from Steenkamp and Baumgartner's (1992) arousal-seeking scale, which probe for attitudes toward predictability and surprises.

Results

As intended, participants thought that store B, which based its rewards on a member's birthday gave participants more personalized attention than the store that determined the timing of rewards at random ($M_{\text{birthday}} = 5.73$, which is significantly different from the neutral

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midpoint of 4 ($t(51) = 11.12, p < .001$). Thus, store B is perceived to give more personal attention.

Female participants had a stronger preference to join the personalizing store than male participants did ($M_{\text{female}} = 5.44$ vs. $M_{\text{male}} = 3.96, t(50) = 3.36, p < .01$). This suggests that females respond more positively to loyalty programs that take individual, personal characteristics of their members into account.

There was no support for an alternative explanation in terms of privacy concerns. Answers to the questions about privacy concerns showed that male and female participants did not differ in their assessment of the stores' privacy infringement (main effect of sex ($F(1, 50) = .897, p > .10$), interaction effect of sex * store ($F(1, 50) = .034, p > .10$). Participants perceived the personalizing store ($M_{\text{storeB}} = 2.88$) to be infringing upon customers' privacy more than the randomizing store ($M_{\text{storeA}} = 2.52; t(51) = -2.02, p < .10$). However, female participants were significantly more concerned with privacy than male participants ($M_{\text{female}} = 5.64; M_{\text{male}} = 4.22; t(50) = 3.80, p < .001$). Thus, if anything, the main result that females prefer the personalizing store is opposite to what one would expect based on a privacy explanation.

Another potential alternative explanation is that males might appreciate uncertainty relative better than females, and therefore prefer the random two-week discount period over the one that is known based on someone's birthday. This explanation can be ruled out in this case because there is no significant ($p > .10$) sex difference in preference for uncertainty vs. certainty ($M_{\text{female}} = 3.54; M_{\text{male}} = 3.81; t(50) = -.95, p > .10$).

Discussion

The results in Study 1 suggest that female consumers are more responsive to loyalty programs that take individual, personal characteristics of their members into account. This is consistent with the idea that female consumer loyalty is geared more than male consumer loyalty toward individual, personal relationships (Baumeister and Sommer 1997). It is interesting to see that the level of personalization needed in Study 1 to achieve differential responding by male and female consumers is quite shallow. Female consumers do not just respond more positively in the presence of close personal relationships. Rather, it seems that

anything that makes a relationship individual or personal, anything that makes the commercial exchange or communication one-to-one, instead of one-to-more-than-one, can lead to differential responding by male and female consumers.

Study 1 explores a feature of loyalty program design, personalized attention that seems to appeal especially to female consumers. The next question, of course, becomes what features appeal especially to male consumers.

3.6 Study 2

In study 2 we manipulated the visibility of loyalty program status and asked male and female participants to indicate how likely they would choose to purchase from one company over the other.

Method

Thirty-two female and 40 male undergraduate students volunteered to participate in an experimental session that included this study in exchange for a EUR 7 fee. They were asked to read the following scenario:

Imagine you want to travel around the world. Imagine there are two airlines that sell such a ticket for the same price. Both of these airlines have loyalty programs. According to the rules of both airlines' loyalty programs, buying an around-the-world ticket would immediately qualify you to become a Gold-level frequent flyer (because you need to fly 25,000 miles to qualify for Gold-level memberships and flying around the world gives you more than 25,000 miles). Among other advantages, both airlines offer free name-and-address tags for their Gold-members' luggage. Airline A provides plain white tags to its Gold-members, which do not identify you publicly as a member with Gold status. Airline B provides gold-colored tags, which do reflect your Gold status. Apart from the difference in the color of the luggage tags both airlines and their loyalty programs provide the same benefits, prices, privileges, and service to their Gold-level members.

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Participants were then asked "Which of these two airline companies would you choose to buy your round-the-world ticket from?" on a 7-point scale ranging from 1 (*definitely choose airline A [with the white tag]*) to 7 (*definitely choose airline B [with the gold-colored tag]*) and where 4 implied neutrality (*indifferent between A and B*). Next, participants answered a manipulation check question: "Which of the two airlines makes your Gold-member status most visible to other people?" (on a 7-point scale from 1=*definitely airline A (with white colored tag)*; 4=*equally much*; 7=*definitely airline B (with gold-colored tag)*). To control for participants for whom the scenario would be less relevant and meaningful, we also asked participants to indicate the number of yearly air trips they typically normally make.

Results

The answers to the manipulation check question were in line with expectations. Participants thought that the airline providing gold-colored tags made membership status most visible ($M_{\text{visibility}} = 6.57$, which is also significantly different from the neutral midpoint of 4; $t(71) = 24.63$, $p < .001$). In addition, male and female participants did not differ significantly in their answers to this question ($t(70) = -.60$, $p > .10$).

Consistent with our expectation that male consumers respond more positively to visibility of loyalty program status than female consumers, we find that males indicated a higher average likelihood of choosing the airline with the gold-colored tags for gold-members over the airline with the white tags for everyone ($M_{\text{male}} = 4.55$) than females ($M_{\text{female}} = 3.81$). Statistically, the difference was marginally significant when all participants were taken into account ($t(70) = 1.71$, $p < .10$). When participants with less expertise with commercial air travel were removed, by using only the participants who typically flew at least once per year, the difference between the sexes was statistically significant ($t(45) = 2.80$, $p < .01$).

3.7 Study 3

In Study 3 we replicated Study 2 using a different product category, a different dependent variable, and a between-participants manipulation of visibility.

Method

Fifty female and 58 male undergraduate students volunteered to participate in an experimental session that included this study in exchange for a EUR 7 fee. We manipulated visibility between participants. Participants in the low visibility condition were asked to read the following scenario:

Imagine that the supermarket you usually shop at offers a loyalty program. After you accumulate 1000 Euros of purchases at the supermarket within a 6-month period, you become a Gold-Level member of the loyalty program. As a Gold Member, you are entitled to use a special super-fast express checkout lane. To allow the express lane cashier to see whether a shopper is entitled to express lane checkout Gold-Level members present the cashier with their Gold-Level membership card.

In the high visibility condition, the latter sentence was replaced with the following sentence: "To allow the express lane cashier to see if a shopper is entitled to express lane checkout, Gold-Level members shop with a special Gold-Level shopping basket or cart, which has a bright gold-colored handle." After reading the scenario, participants were asked: "What is the likelihood that you would start spending more in this store to become a Gold member as soon as possible?" using a 7 point scale ranging from 1 (*very unlikely*) to 7 (*very likely*). To check the manipulation, participants were then asked: "How easy is it for other customers to see that you are a Gold Member?" on a scale from 1 (*very invisible*) to 7 (*very visible*). Finally, to control for alternative explanations involving negative emotions towards a Gold status members, (e.g., envy) we measured the negative emotions: envy, jealousy, frustration, anger, and irritation using items adopted from Richins (1997).

Results

The answers to the manipulation check question were as expected. Average ratings of Gold membership visibility to other customers were higher in the high-visibility condition ($M_{\text{high-visibility}} = 5.02$) than in the low-visibility condition ($M_{\text{low-visibility}} = 3.45$; $t(106) = -4.83$, $p < .001$). This difference did not significantly depend on sex ($F(1,104) = .005$, $p > .10$).

To analyze the main dependent variable, perceived likelihood of spending more to become a Gold member, we performed an analysis of covariance with low vs. high visibility, sex, and their interaction as the independent variables of interest. We also included negative emotions and its interaction with sex as covariates. The main result in Study 3 confirms the hypothesis that male consumers respond more positively than female consumers to more visible signs of loyalty program status. Whereas the main effects of gender ($F(1, 102) = .02$, $p > .10$) and visibility ($F(1, 102) = .04$, $p > .10$) were not statistically significant, their interaction was ($F(1, 102) = 5.77$, $p < .05$).

Follow-up contrasts indicated that for males, increased visibility led to higher likelihood ratings of spending more to become a Gold member ($M_{\text{males/high-visibility}} = 3.30$, $M_{\text{males/low-visibility}} = 2.42$, $t(44) = -1.86$, $p < .05$, 1-tailed). For females, increased visibility even had a marginally significant *negative* effect on the perceived likelihood to start spending more ($M_{\text{females/high-visibility}} = 2.31$, $M_{\text{females/low-visibility}} = 3.00$, $t(48) = 1.58$, $p < .10$, 1-tailed). Neither negative emotions ($F(1,102) = .84$, $p > .10$) nor its interaction with sex ($F(1, 102) = .13$, $p > .10$) had a significant relationship with likelihood to start spending more. Thus, alternative explanation in terms of negative emotions towards Gold members can be ruled out.

Discussion

Results in Studies 2 and 3 suggest that male consumers respond more positively to visibility of loyalty program status than female consumers. Because visible rewards are an excellent form of one-to-group communication, this finding is again consistent with the idea of male consumer loyalty being driven more by group relationships and less by individual relationships.

3.8 Study 4: Survey Validation of Experiment Results

Method

The survey was a part of a bigger survey across the Netherlands. The respondents (5341; females 2149 and males 3202) were customers who have day-to-day experience with numerous loyalty programs in the Netherlands.

Procedure

A large-scale survey has been conducted in The Netherlands, as part of the so-called Relationship Builder project in collaboration with the Carlson Marketing Group. The project studies customer relationship management in general and loyalty programs in particular. Six companies from six different industries, namely financial services, food industry, oil industry, telecom, utilities, and retailing, participated in the project. Each company provided a random sample of 10000 customers. In the Spring of 2004, these customers were contacted by e-mail with the request to fill in an internet-based questionnaire. The questionnaire consisted of a confidential company-specific part and a general part on customer relationship management and loyalty programs. In the latter part, respondents had to indicate their membership of loyalty programs. Next, each respondent selected one of these loyalty programs and answered several additional questions such as perceived effectiveness of the program. The response rate was about 9%, which is a common response rate for the Internet based surveys (Alreck and Settle 2004).

Measures

Participants were asked to which extent they appreciated some specific elements (related to visibility) available across multiple existing loyalty programs. Variables (see table 3.1) were measure on a 5-point scale from (1=totally disagree; 5=totally agree).

Results of the t-tests are presented in table 3.1. The results on the visibility measure "I find it unpleasant that other clients see that I get better treatment as a loyalty program member" show that women find visibility much more unpleasant than men ($M_{\text{male}}= 2.67$, $M_{\text{female}}= 2.89$, $p<.001$). In addition, the t-test on the item "*I do not mind that non-members see*

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that I receive special benefits as a loyalty program member" is marginally significant ($p < .10$, 1-tailed), and the corresponding means are in the right direction ($M_{\text{male}}=3.15$, $M_{\text{female}}=3.11$). Hence, visibility of their special status in a store is considered more desirable by men than by women, which is consistent with the findings of experiments 2 and 3.

Table 3.1. Results of t-tests

<i>Variable</i>	# <i>females</i>	# <i>males</i>	<i>Mean</i> <i>females</i>	<i>Mean</i> <i>males</i>	<i>t</i>	<i>p</i>
<i>Visibility-related measures</i>						
1. I do not mind that non-members see that I receive special benefits as a loyalty program member	2126	3139	3.11	3.15	-1.40	.163
2. I find it unpleasant that other clients see that I get better treatment as a loyalty program member (R)	2139	3202	2.89	2.67	7.70	< .001

All items are measured on a 5-point scale: 1= "*totally disagree*"; 5= "*totally agree*".

3.8 General Discussion

Summary

Across three experiments and a survey, we find a coherent pattern of gender differences in consumer loyalty and the way consumers respond to loyalty programs. We look at male and female consumers' responses to differently designed loyalty programs. Consistent with the idea that female consumers are geared more toward one-to-one relationships, we find that design elements that make a loyalty program more like a one-to-one relationship appeal particularly to female consumers. This effect is found even when the design elements, such as timing a reward based on a member's birthday, create only a very shallow similarity to a personal relationship. Finally, we find that male consumers respond particularly well to a design element that facilitates one-to-group communication. That is, male consumers respond more positively to design elements that broadcast their loyalty program status by making that status easily visible to others.

Contributions

First, we contribute to the literature on customer loyalty (Oliver 1999) by showing empirically that customer loyalty does not necessarily have to be "bought" by discounts or savings. Instead, loyalty programs aimed to enhance customer loyalty might implement such non-utilitarian and, perhaps, less costly designs such as personalized attention and visibility.

Second, our findings may have implications for the study of gender identity (Cross and Madson 1997). We show that even very superficial differences in treatment may yield gender differences. For example, simply framing a loyalty reward in a more personal way by timing it in terms of a member's birthday can already yield differential responses by males and females. Thus, it is possible that subtle framing or priming manipulations may already lead to different behavioral responses by males and females.

Our findings have clear and direct implications for the design of loyalty programs. First, personalizing communication and benefits to give a program a more personal, one-to-one look and feel should particularly benefit loyalty program response by female consumers. Design elements should signal the recognition of a female consumer as an individual person, no matter how subtly. Second, male response to loyalty programs should be enhanced by making positive levels of status widely visible. Whereas gold cards, platinum luggage labels, and elite check-in lines may not do much for many women, male consumers may find them an excellent way to communicate to the group.

On the more practical front, our findings have clear implications for the management of consumer satisfaction and loyalty. In general, our findings suggest that companies targeting female consumers depend much more than companies targeting male consumers on relationships between individual employees and customers. Whereas male consumers may be satisfied with an anonymous relationship with a store or brand, female consumers demand more personal, one-to-one relationships. The latter effect can be utilized by giving the relationship between female consumer and brand or firm a more personal feel, even if the level of personalization is quite superficial.

Future Research

Although we have started to provide some insights into gender differences in response to loyalty programs, our findings also raise many new questions. First, it is possible that visibility in some cases, that are not associated with a high status, might actually decrease behavioral loyalty for men. For example, recent research illustrates that in the presence of an audience men are more concerned than women with the congruency of their behavior with the corresponding gender stereotype (Fisher and Dubé 2005; Kring and Gordon 1998). One of the typical masculine traits is associated with autonomy, which includes standing alone, self-sufficiency and not admitting dependence on others (Eagly, Wood, and Diekmann 2000; Holt and Ellis 1998). Therefore, men are likely to avoid stereotype-incongruent behaviour in public not to appear weak or powerless (Fisher and Manstead 2000). In addition, behavior of others that is perceived as threatening to men's autonomy is also likely to be rejected (Baumeister and Sommer 1997). With respect to loyalty programs, men might consider for example, accepting personalized attention, as one of their stereotype incongruent behaviors for a number of reasons. First, it might imply that a man needs more care or has higher needs in comparison with other customers, which contradicts with the self-sufficiency and independence stereotypes. Second, the whole idea of building a relationship (even at a customer-company level) and learning more about a customer might be perceived by men as a threat to their autonomy. Therefore, even if men intrinsically enjoy personalized attention (by for example attributing it to their uniqueness), in public they might be inclined to avoid it. Therefore, it is possible that visible personalized attention, by being stereotype incongruent for men, might decrease their behavioral reaction to loyalty programs.

Second, we have conducted our studies with participants who mostly hailed from Western cultures. For example, it is possible that Eastern cultures show different patterns of male and female responses to loyalty programs. The reason is that in cultures with a more collectivistic background the attitude (for both females and males) towards showing off in a group and towards personalized attention might differ from more individualistic Western cultures (Hofstede 2001; Fisher and Manstead 2000).

Another factor of potential interest is the role of identity salience. In our studies, we found strong gender differences despite the fact that nothing in our scenarios or main

measures highlighted gender. Thus, the salience of gender identity was likely low. A number of studies (e.g., Forehand, Deshpandé, and Reed 2002; Reed 2004; Wooten 1995) suggest that identity salience can have a large influence on consumer behavior. It is possible that the effects we found would be even stronger in situations in which gender identity is more salient. Finally, our research opens broad opportunities for further exploration of role of gender in response to loyalty programs.

Conclusion

Our studies suggest that male and female consumers differ significantly in terms of the object of their consumer loyalty and in how they respond to loyalty programs. Females respond more positively than males to personalized attention in loyalty programs, whereas males respond more positively to loyalty programs that make their membership status highly visible. We hope that this study generates additional research in this area.

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Chapter 4: What Makes Loyalty Programs Work

Abstract

Based on survey among 5341 consumers about 22 loyalty programs, our research shows that, across the board, loyalty programs enhance customer loyalty. However, contrary to common marketing practice, we find that utilitarian elements of loyalty program design fail to stimulate customer loyalty. In particular, we find that discounts have marginally significant negative effects on customer retention, while the effect of saving points is insignificant. In contrast, non-utilitarian design elements are more effective in creating customer loyalty. We find that a simple non-utilitarian diversification between members and non-members is a powerful tool in creating sustainable customer loyalty that would last even if a loyalty program stops. We discuss implications for loyalty program design.

4.1 Introduction

The ultimate goal of loyalty programs is to create or enhance customer loyalty to companies (Bolton, Kannan, and Bramlett 2000; Kim, Shi, and Srinivasan 2001; Rust, Lemon, and Zeithaml 2004). However, very often these programs fail to stimulate the desired increase in customer loyalty (Sharp and Sharp 1997). In addition, introduction and maintaining of loyalty programs is often very costly (Cigliano, Georgiadis, Pleasance, and Whalley 2000; Kumar and Reinartz 2005). Thus, understanding factors that contribute to the success of loyalty programs is of crucial importance to firms.

Recent research shows that the effects of loyalty programs on customer loyalty are highly dependent on the specific program design (Drèze and Nunes 2004; Kivetz and Simonson 2002, 2003; Roehm, Pullins, and Roehm 2002). Depending on the design, a loyalty program may include utilitarian (e.g., savings, discounts, etc.) and/or non-utilitarian (or attitudinal) elements (e.g., extra service, preferential treatment etc.). While the importance of

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both utilitarian and attitudinal elements of loyalty programs was stressed in several studies (e.g., Dowling and Uncles 1997; O'Brien and Jones 1995; Oliver 1999), empirical studies on loyalty program effectiveness mostly focused on utilitarian elements of loyalty programs such as saving points (Lal and Bell 2003; Kivetz and Simonson 2002; van Osselaer, Alba, and Manchanda 2004), discounts (Zhang, Krishna, and Dhar 2000), cash rewards (Kim, Shi, and Srinivasan 2001) or combinations, e.g., using saved points (airmiles) as currency (Drèze and Nunes 2004). These utilitarian elements of loyalty program designs have one aspect in common—they create monetary benefits for customers and thus enhance behavioral loyalty.

The Customer Relationship Management (CRM) approach (Rust, Zeithaml, and Lemon 2000; Verhoef 2003) suggests that implementation of relationship-oriented strategies might enhance behavioral loyalty via changes in customer attitudes. Such strategies put more emphasis on the quality of interactions between companies and customers and imply customers' diversification (Reinartz and Kumar 2000) and customization or personalization of a firm's products or services (Coviello, Brodie, Danaher, and Johnston 2002; Dellaert and Stremersch 2005). For example, Fornell et al. (1996) demonstrated that customization, which implies an individual approach to customers, is one of the most important factors contributing to customer retention. Such an approach is different from a more commonly used utilitarian approach, because it suggests that behavioral loyalty can be enhanced via attitude change rather than via creation of financial benefits.

Recently, managers have adopted both diversification and personalization approaches in a range of marketing activities, including loyalty programs (Coviello, Brodie, Danaher, and Johnston 2002). For example, besides traditional utilitarian elements, some loyalty programs in the Netherlands offer extra services and organize special events for members only (diversification) and send personalized offers to some of their clients (customization). However, it is unknown whether loyalty programs that implement non-utilitarian strategies are particularly successful. In case they are, they could be a less costly alternative to utilitarian rewards (see Aggarwal 2004).

The goal of this paper is to explore the relative effectiveness of non-utilitarian and utilitarian loyalty program design elements on behavioral loyalty. Our research makes several contributions. First, we contribute to the literature on Customer Relationship Management

(Rust, Zeithaml, and Lemon 2000) by investigating the effects of member vs. non-member diversification and personalized treatment of customers (personalization) on behavioral loyalty, i.e., customer retention. Second, we contribute to the theory on attitudinal drivers of loyalty (Dick and Basu 1995, Oliver 1999) by showing empirically the effect of non-utilitarian elements of loyalty program design on behavioral loyalty. Third, we investigate the effectiveness of loyalty programs not only at their introduction stages, but also at their hypothetical termination stages. This distinction is crucial for companies that have recently terminated (e.g., Safeway) or consider terminating their loyalty programs. From a theoretical point of view, this approach allows separating loyalty to a store from loyalty to a loyalty program (Yi and Jeon 2003) and estimating persistence of customer's response to a loyalty program (see Dekimpe and Hanssens 1999). Finally, we focus simultaneously on the effectiveness of the multiple design elements across 22 currently operating loyalty programs, using a sample of 5341 Dutch households. This contrasts with extant research on loyalty programs, which either focused on one specific loyalty program (e.g., Reinartz and Kumar 2003; Drèze and Hoch 1998) or on a specific loyalty program design element (e.g., Kivetz and Simonson 2002, 2003).

The rest of the chapter is organized as follows. First, we provide a theoretical background for the effect of non-utilitarian and utilitarian elements on customer loyalty and the difference between these effects at the stages of loyalty program introduction and termination. Second, we describe the data and empirical model we use to estimate the effects. Then we discuss the results and draw theoretical conclusions. Finally, we discuss the implications of our results for the managers of loyalty programs and we finish with limitations and future research.

4.2 Theoretical Background

The development of the CRM approach enables companies to put more emphasis on the quality of relationships with their customers (DeWulf, Odekerken-Schröder, and Iacobucci 2001; Lemon, White, and Winer 2002; Kumar and Reinartz 2005). This implies a shift from a more traditional transactional marketing approach, which optimizes discrete economic transactions, to a relational approach to marketing, which optimizes continuing

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interactive relationships between a company and a customer (Coviello, Brodie, Danaher, and Johnson 2002). Recent research in marketing demonstrates that consumer's attitude and behavior towards a company strongly depends on the type of the company's relationship norms with consumers (Aggarwal 2004). The relational approach to marketing suggests that customers should be targeted in a more personal way, which in turn creates trust, enhances customer attitude, and stimulates their behavioral loyalty (Chaudhuri and Holbrook 2001). In reality, however, while such approach is possible for small companies with a small number of customers, in the mass markets such personalized interactions are often problematic (see Bhattacharya and Bolton 2000).

One of the possible solutions is development of customer databases, (e.g., via loyalty programs), which create the opportunity for companies to segment their customers and thus, enable more personal relationships with customers. This type of relationships can be achieved via specific loyalty program design elements. For example, loyalty programs may include the following two relational elements. First, non-utilitarian *diversification* between members and non-members, implies treating the two different groups of customers differently (e.g., by offering members extra service, etc.). Second, personalization, implies treating different individual customers differently (e.g., via direct mail, personalized offers, etc.).

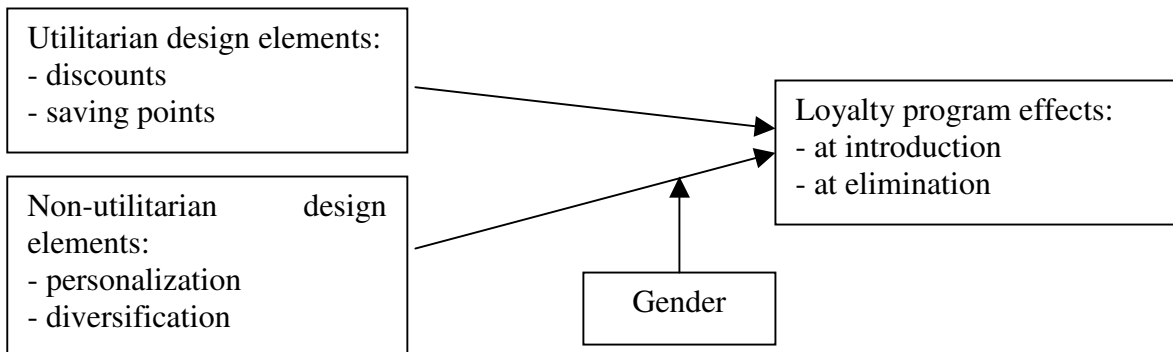
The current marketing literature provides some evidence that non-utilitarian (or psychological) benefits of loyalty programs are at least as effective in creating behavioral loyalty as the utilitarian (or monetary) elements (Aggarwal 2004; Chandon, Wansink, and Laurent 2000; Kivetz and Simonson 2003; Roehm, Pullins, and Roehm 2002). For example, Chandon, Wansink, and Laurent (2000) concluded that non-monetary (non-utilitarian) promotions might be more effective in retaining customers than monetary (utilitarian) promotions, while utilitarian elements only enhance trial. Similarly, Aggarwal (2004) demonstrated that although monetary rewards sometimes have a positive effect on customer loyalty, non-monetary rewards are often not only cheaper but also more effective.

The reason for potential success of non-utilitarian (psychological) elements of loyalty program is in the heart of the theory on customer loyalty. The theory suggests that a change in consumer's attitude is a necessary condition to create sustainable loyalty (Dick and Basu 1994, Dowling and Uncles 1997, Oliver 1999). For example, Jacoby and Chestnut (1978)

stressed that attitudinal commitment is an essential element of loyalty and suggested that beliefs, attitude, and conation of a consumer should be taken into account to explain loyal behavior. Later, Oliver (1999) in his conceptual framework proposed that behavioral loyalty is preceded first by commitment, followed by affective (i.e., attitudinal) commitment. In fact, this conceptualization of loyalty is also consistent with the Theory of Reasoned Action (Fishbein 1967), which predicts that a change of attitude leads to the corresponding change in the behavior. In addition, multiple empirical studies demonstrated that affective commitment enhances behavioral loyalty (Chaudhuri and Holbrook 2001; Zeithaml, Berry, and Parasuraman 1996). Thus, loyalty programs that are directed at enhancing customer's attitude towards the company, rather than at direct stimulation of behavior, might be a key to creating behavioral loyalty. However, although the theory suggests that non-utilitarian elements might have a positive effect on customers' behavioral loyalty, there is little empirical data to substantiate the suggestion. It is also not clear whether the non-utilitarian design elements currently used by managers are effective.

Figure 4.1 presents our general study framework. We study the effects of utilitarian (discount and saving points) and non-utilitarian (personalization and diversification between members and non-members) elements of loyalty program designs on customer loyalty. In particular, we investigate the effects of each of these design elements on customer loyalty at two stages: after the loyalty program was introduced and if the loyalty program would be terminated. We also account for the potential moderating effect of gender on non-utilitarian design elements. Below we discuss the theoretical background for each of the arrows specified in the study framework.

Figure 4.1: Study Framework



The Effects of Non-Utilitarian Design Elements on Customer Loyalty

The literature provides several examples of consumers forming affective relationships with companies and brands (Fournier 1998; Muniz and O'Guinn 2001; Muniz and Shau 2005). However, these demonstrations tend to pertain to rather special relationships at the deeply involved end of the spectrum. Most customer relationships are much less profound, suggesting that non-utilitarian effects may be small in most situations. On the other hand, some studies suggest that a customer's mere sense of membership with respect to a company is in itself sufficient to enhance customer retention (Bhattacharya, Rao, and Glynn 1995; Bhattacharya and Sen 2003). The main reason is that sense of membership (or belongingness) to one company reduced or obviated the need to belong to another company (Baumeister and Leary 1995). This suggests that loyalty programs, by means of creating a sense of membership, might be a tool to enhance customer loyalty. We believe that there are at least two ways in which loyalty programs can stimulate sense of membership and enhance behavioral loyalty.

First, multiple studies in psychology have demonstrated that even arbitrary categorization of people into groups is sufficient to produce inter-group behavior and thus, enhance behavioral loyalty (e.g., Brewer 1979; Brewer and Gardner 1996; Tajfel, Billig, Bundy, and Flament 1971). This implies that if a customer is a member of a loyalty program with a diversification between members and non-members s/he can start perceiving

him/herself as "this store's shopper" and behave accordingly. In the context of loyalty programs, we define *diversification* as the splitting of customers into loyalty program members and non-members (Van Heerde and Bijmolt 2005), and providing extra non-utilitarian benefits to the first group of customers that are not provided for the second group. These non-utilitarian elements include extra service for members-only and/or organization of special events organized for members-only. Such diversification may give members a feeling of being treated as special, by evoking an automatic comparison with non-members (Feinberg, Krishna, and Zhang 2002; Kivetz and Simonson 2003). Such a feeling is powerful enough to have a positive influence on the customer's choice of the company and thus, enhance retention (Kivetz and Simonson 2003).

Second, another potential way of enhancing customer's affective commitment is *personalization*. Baumeister and Leary (1995), in their theory of fundamental need to belong, suggest that any stable affective commitment can only be achieved if a consumer believes that the company cares about him/her personally. This suggests that especially those loyalty programs that demonstrate care about customers' personal interests can succeed in creating customer loyalty towards a particular store. In a similar vein, O'Brien and Jones (1995) suggested that sustainable customer loyalty, resulting in a long-term commitment, could be built only if a company rewards their customers with "special services and attention" (p. 75). Similarly, Bhattacharya, Rao, and Glynn (1995) concluded that showing dedication to the customer is a necessary condition to enhance his/her affective commitment to this organization and thus, loyalty. One of the possible ways to demonstrate to customers that a company cares about them personally is personalization. We operationally define *personalization* as the extent to which members of loyalty programs are reached in a personalized way and/or get customized offers (Anderson, Fornell, and Rust 1997).

Utilitarian Elements of Loyalty Program Design

There is theoretical support in favor of utilitarian elements of loyalty programs. First, due to the very fact of providing direct financial benefits to customers (assuming that customers act rationally), utilitarian elements of loyalty programs such as discounts can enhance customer choice (Blattberg, Briesch, and Fox 1995) or loyalty (Rothschild and

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Gaidis 1981). Second, in a competitive environment the costs of choosing between multiple alternatives are high, therefore it might be more profitable for consumers to stick to some satisfactory stable alternative, provided that the difference in monetary benefits covers the thinking costs (Shugan 1980). Thus, utilitarian elements of loyalty programs, that provide a stable, known in advance, discount or constant saving points schemes can enhance behavioral loyalty by minimizing consumers' thinking costs. Third, utilitarian elements, especially saving points, might stimulate consumer inertia by creating additional switching costs, and thus enhance behavioral loyalty (Rothschild and Gaidis 1981; Corstjens and Lal 2000). Fourth, customers might attribute the received discount to their own effort, which, in turn, induce positive emotions and thus, stimulate customers to re-patronize the same store again (Kivetz 2005; Schindler 1998). Finally, consumers might often overestimate the value of the reward they obtain from loyalty programs and try to maximize this value rather than the utilitarian outcome itself (Hsee, Yu, Zhang, and Zhang 2003; van Osselaer, Alba, and Manchanda 2004).

However, there are four theories that predict a negative effect of utilitarian elements on customer loyalty. First, self-perception and attribution theories, which describe how consumers explain the causes of events, predict that if loyalty is caused by purely economic stimuli, customers attribute their behavior purely to external causes (Dodson, Tybout, and Sternthal 1978; Jones and Davis 1965). Thus, consumers might attribute their purchase behavior to the loyalty program (e.g., discounts and saved points they obtain), but not to their own underlying preferences for the company.

Second, behavioral learning theory suggests that utilitarian rewards might train consumers to become more sensitive to deals (Rothschild 1987). This would imply that getting a deal (e.g., discounts or points) in one company might stimulate customers to search for further deals, which, in turn, might result in obtaining multiple loyalty cards from different companies and using them interchangeably. Thus, unless there is only one store in the market with a loyalty program that offers a discount, discounts might decrease loyalty rather than increase it. Consistently, this notion finds a lot of support in the marketing literature (Dick and Basu 1994; O'Brien and Jones 1995; Oliver 1999; Yi and Jeon 2003). For example, O'Brien and Jones (1995) warned that building loyalty programs on purely

economic basis, i.e., by giving only discounts or savings as a reward, can create chronic switchers, who routinely shop for the best deals at multiple places.

Third, if a consumer often receives monetary rewards in a specific company, his/her reference price perception of this company may change (Winer 1986). As a result, customers might value the company less if it gets a "cheaper" image (Raghubir and Corfman 1999).

Fourth, the theory of psychological reactance suggests that people might react against attempts to control or influence their behavior (Brehm 1966; Brehm and Cole 1966). Thus, consumers might perceive loyalty programs with utilitarian elements as intended to influence their behavior, which might give rise to reactance and decrease customer retention (Kivetz 2005).

Empirical findings about the effect of utilitarian elements on customer loyalty show mixed results. On the one hand, several studies in marketing provide evidence that purely utilitarian rewards of loyalty programs (discounts, savings, coupons, etc.) have a positive impact on different aspects of behavioral loyalty (e.g., Bolton, Kannan et al. 2000; Lal and Bell 2003). On the other hand, there is empirical evidence suggesting that utilitarian elements have a negative effect on behavioral loyalty (Dodson, Tybault, and Sternthal 1978). Chandon, Wansink, and Laurent (2000) found that monetary promotions in some cases (e.g., those associated with hedonic products) actually decrease market shares. Bell and Lattin (1998) demonstrated that "large basket" consumers are more willing to re-patronize stores with an EDLP format, rather than stores that offer discounts. Finally, there are studies that show mixed evidence. For example, Ailawadi, Lehmann, and Neslin (2001) found that deals and coupons enhance market penetration, but have surprisingly little impact on customer retention. In addition, some studies also suggest insignificant effect of utilitarian elements on customer loyalty. For example, in the context of paid membership, Bhattacharya (1998) reported that utilitarian rewards like "gift shop discount" and "free admissions" were not necessary conditions for customer retention.

To conclude, both theory and empirical results provide mixed support for the effect of utilitarian elements on behavioral loyalty.

Moderation Effect of Gender on Non-Utilitarian Elements of Loyalty Program

Recent marketing studies find that gender has a significant impact on both customer loyalty (Mittal and Kamakura 2001; chapter 2 of this thesis) and customers' responses to loyalty programs (Kivetz and Simonson 2003, chapter 3 of this thesis). With respect to loyalty, chapter 2 of this dissertation suggests that men are more loyal to more abstract groups, such as companies, while women are more loyal to individual relationships. In addition, research suggests that females might be more responsive to personalization elements of loyalty programs than males (chapter 3 of this dissertation). This could be due to the fact that personalization might create a sense of a more dyadic relationship, to which women are more sensitive (Baumeister and Sommer 1997). In fact, empirical findings of Mittal and Kamakura (2001) who showed that women are more loyal to their car dealers are consistent with this proposition.

There is also some evidence suggesting that women might also be more responsive to diversification than men (Kivetz and Simonson 2003). For example, Kivetz and Simonson (2003) found that unlike males, females are more sensitive to idiosyncratic fit, i.e., they are more likely to join a loyalty program if they think that it would be easier for them to obtain the rewards than for the others. This suggests that women compare themselves with others more than men. Thus, in case a woman is a member of a loyalty program, it is possible that diversification between members and non-members will create a sense of superiority compared to non-members. To test this prediction, we explore both the direct effect of gender on loyalty and the interaction effect between gender and non-utilitarian elements of loyalty programs.

Simultaneous Usage of Utilitarian and Non-Utilitarian Elements

A study of Coviello, Brodie, Danaher, and Johnson (2002) across 308 firms within multiple Western countries, including the USA, revealed that, in one way or another, relational aspects of marketing are implemented by all types of firms. It is worth noting, however, that most commonly relational strategies are used in combination with more traditional transactional ones (Coviello, Brodie, Danaher and Johnson 2002; Homburg, Workman, and Jensen 2000). With respect to loyalty programs this implies that even if

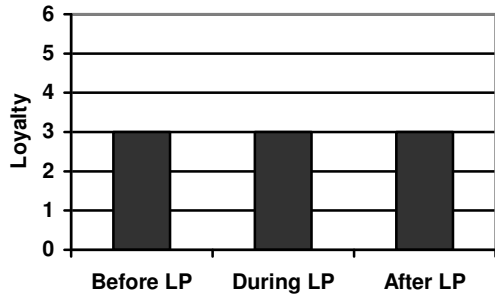
companies use some non-utilitarian loyalty program elements, they most likely are used in addition to more traditional utilitarian elements. Therefore, in this research we explore the effects of both of non-utilitarian and utilitarian elements of loyalty programs simultaneously.

Effect of a Loyalty Program on Behavioral Loyalty at Its Introduction vs. at Its Termination

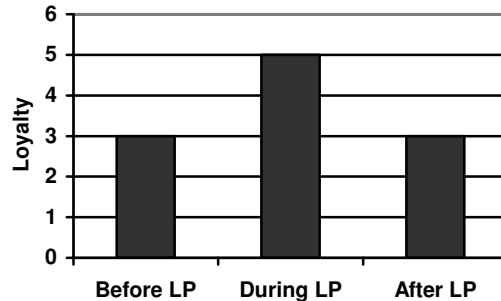
Although the majority of loyalty programs nowadays are intended to last for a (very) long time, there are multiple examples of both temporary programs (Lal and Bell 2003) and terminations of the existing ones (Kumar and Reinartz 2005). For example, Safeway terminated its loyalty program in April 2000 (Kumar and Reinartz 2005). However, despite the managerial importance of studying the impact of terminating a loyalty program the literature fails to provide a systematic assessment of this impact.

Ideally, a loyalty program enhances customer loyalty towards a store, which implies that the desired deviation in customer behavior will be sustained even after a loyalty program is discontinued (Dick and Basu, 1994; Oliver 1999). However, there are at least two reasons why this might not be the case. First, it is possible that a loyalty program creates loyalty towards the program itself, rather than towards the company (Yi and Jeon). This may happen if consumers, for example, attribute their loyal behavior to the deals they receive from the loyalty program rather than to the store (Dodson, Tybout, and Sternthal 1978). If such a loyalty program gets terminated, it is very likely that loyalty towards the company decreases (or: remains unchanged at best) because the stimulus that evoked the consumer's reaction is not present anymore. Second, the theory of loss aversion (Kahneman and Tversky 1979) suggests that losses loom larger than gains. Thus, especially if consumers lose elements of loyalty programs they enjoyed, their loyalty towards the company may not only decrease, but also become lower than if there had never been a loyalty program (Chandon, Wansink, and Laurent 2000; Hardie, Johnson, and Fader 1993).

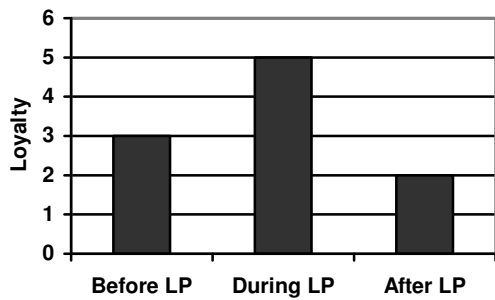
Figure 4.2: Four Possible Scenarios for the Effects of Loyalty Program (LP) Introduction and Termination on Loyalty



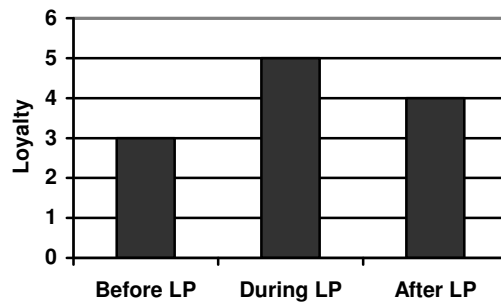
a: no effect due to LP



b: gain during LP = loss after LP



c: gain during LP < loss after LP



d: gain during LP > loss after LP

To summarize, multiple scenarios are possible with respect to the effects of the loyalty programs on customer loyalty. The first possibility is that a loyalty program does not have any significant effect on customer loyalty (see Figure 4.2a). Provided that a loyalty program does have some positive effect on loyalty after during its existence the following three scenarios are possible. First, the effect of a loyalty program during its introduction might completely disappear as soon as a program is terminated (see Figure 4.2b). Dekimpe and Hanssens (1999) refer to such a situation as "*business as usual*, i.e., temporary marketing activity that creates temporary incremental results" (p.398). Another possibility is that the decrease in loyalty due to the loyalty program termination is larger than the corresponding increase during loyalty program introduction (Figure 4.2c). This prediction would be consistent with the theory of loss aversion (Kahneman and Tversky 1979). However, if

loyalty programs indeed enhance consumer loyalty, then the picture will be the reverse (Figure 4.2d). This scenario is described by Dekimpe and Hanssens (1999) as *hysteresis*, i.e., temporary marketing action that causes sustained customer response. To check which of these three scenarios holds empirically, we will consider both the introduction and termination stages of the loyalty program cycle.

4.3 Method

Data

We study the effects of utilitarian and non-utilitarian elements of loyalty program on behavioral loyalty based on consumer responses to 22 currently operated loyalty programs in the Netherlands. These 22 loyalty programs cover different product categories, such as gas stations, department stores, airlines, supermarkets, and clothing stores. Our data comes from two sources.

First, a large-scale survey has been conducted in The Netherlands. Six companies from six different industries, namely financial services, food industry, oil industry, telecom, utilities, and retailing, participated in the project. Each company provided a sample of 10,000 customers. In the Spring of 2004, these customers were contacted by e-mail with the request to fill in an internet-based questionnaire. The response rate was about 9%, which is a common response rate for the Internet based surveys (Alreck and Settle 2004). The questionnaire consisted of a confidential company-specific part and a general part on customer relationship management and loyalty programs (the original parts of the questionnaire on loyalty programs and consumer related characteristics is provided in the Appendix A). In the latter part, respondents had to answer general questions probing their overall attitude to loyalty programs and some demographic variables (e.g., gender). Afterwards, respondents chose one out of 22 pre-selected loyalty programs of which they were members and answered specific questions related to this loyalty program. After the incomplete questionnaires were terminated, the active sample consisted of 5341 Dutch consumers (5341; 2149 females and 3202 males), who have day-to-day experience with numerous loyalty programs.

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Second, we cataloged the exact design of each of the loyalty programs (informational booklets about each of the loyalty programs, Internet and, if necessary, consultations with the managers). This information was later coded as described in the next section.

Measurement of Variables

Dependent Variables (Behavioral Loyalty)

We measured two dependent variables. Change in likelihood to remain a customer after loyalty program was introduced- "*Because of your participation in the LP, did it become more or less likely that you remain a customer at this company?*" (on a 5-point scale; 1 = "it became much less likely"; 3 = "no change"; 5 = "it became much more likely"). Change in likelihood to remain a customer if loyalty program stops has been measured by in the following way- "*If the company stops the LP, would this increase or decrease the likelihood that you remain a customer at this company?*" (on 5-point scale; "1 = the likelihood would be much smaller"; 3 = "no change"; 5 = "the likelihood would be much larger").

Elements of Loyalty Program Design

If there were saving elements in the loyalty program, we calculated the exact percentage saved relative to the amount spent (*Saving*). We use a discount dummy for loyalty programs that provide discounts (*Discount*). If a loyalty program provides extra services for members only and/or there are special events organized for members only, we coded the dummy for diversification as "1" (*Diversification*). Examples of extra services for members-only include: private fashion advice and the availability of delayed payments for products. Examples of special events are: organization of thematic workshops, contests and late-night shopping evenings with shows. If a loyalty program provides special offers that are tailored to members interests or shopping behavior and/or there is a personalized communication to the members (e.g., personalized letters, etc.), we coded the dummy for personalization as "1" (*Personalization*). An example of tailored offers is sending information about collections or sales tailored to a specific customer size.

Control Variables

To eliminate possible alternative explanations and to account for heterogeneity of customers we included 4 control variables. Price sensitivity was measured as a mean-centered average across 4 items (Cronbach's Alpha is .713): "I am always looking for the product with the best price/quality ratio", "I compare prices before I buy", "I am very price sensitive and often remember the prices well", "I often buy products because they are on sale". The items were measure on 5-point scale (1=totally disagree; 5=totally agree). We also included the interaction effect between price sensitivity and discount element of loyalty program to test if the reaction to discounts differs depending on price sensitivity of the customers. Another group of control variables included questions that measured consumers' attitude to loyalty programs in general. Research in marketing suggests that some consumers might intrinsically enjoy participating in loyalty programs (Mittal 1994; Chandon, Wansink, and Laurent 2000). To separate the effect of favorability towards loyalty programs in general from the effects of a specific loyalty program, we stated multiple questions to probe the customers' overall attitude towards different aspects of loyalty programs. The exploratory Principal Component Analysis revealed a 3-factor solution (based on eigenvalue > 1 and scree plot criteria). The items composing the factors are presented in table 4.1. Factor 1 can be interpreted as "*Focus on benefits of loyalty programs*"; Factor 2 as "*Focus on affective elements of loyalty programs*", and Factor 3 as "*Focus on disadvantages of loyalty programs*".

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Table 4.1 Solution of the Principal Component Analysis

	Factor 1: Focus on benefits of LPs	Factor 2: Focus on affective elements of LPs	Factor 3: Focus on disadvantages of LPs
I appreciate receiving special discounts (for members only)	.843	.108	-.068
I appreciate receiving product information (for members only)	.819	.204	-.062
I appreciate being invited for special events (for members only)	.723	.290	-.023
Participation in LP* gives me the feeling that I am special	.168	.891	.009
Possession of LC** gives me a feeling of being a regular customer	.227	.866	-.062
I like saving points	.330	.455	-.217
I dislike that companies get information about my shopping behavior via LP	-.113	.018	.803
LC infringe my privacy because of the registration system	-.134	-.011	.796
I find it inconvenient to always carry LC during shopping	.080	-.171	.687

Notes: Components are based on VARIMAX Rotated Component Matrix.
LP= Loyalty Program; LC=Loyalty Card

3.4 Results

Descriptives

The descriptive statistics of the loyalty program elements are provided in Table 4.2. It is interesting to note that saving points (18 out of 22 loyalty programs have it) is a more common element of loyalty programs than discounts (6 out of 22 programs). The range of percentage saved from the amount spent varies from .05% to 10%. More than one third of the loyalty programs use the non-utilitarian elements, in particular, diversification (8 out of 22 programs) and/or personalization (9 out of 22 programs). Only 5 out of 22 loyalty programs have both personalization and diversification.

Table 4.2. Summary of the loyalty program designs

<i>Design element</i>	<i>Frequency</i>	<i>Percent</i>	<i>Mean</i>
Discount (yes)	6	27.3	-
Savings	18	81.8	2.64
Diversification (yes)	8	36.4	-
Personalization (yes)	9	40.9	-

To test the net effect of a loyalty program we computed the gain due to the introduction of a LP and compared it to the loss due to the termination of the loyalty program. We computed gain as the change in the likelihood of remaining a customer of a store after the loyalty program was introduced minus 3 (the neutral, "no change" position on this scale). Similarly, we computed the loss due to the termination of a LP as 3 (the neutral, "no change" position on this scale) minus the change in likelihood of remaining a customer when LP is terminated. The results of a paired sample t-test indicated that gains ($M_{\text{gain}} = .69$) are significantly larger than losses ($M_{\text{loss}} = .45$, $t(5326) = 20.14$, $p < .001$). Thus, the results suggest that loyalty programs have positive effects on customer loyalty towards companies, and create a net increase in customer retention across the board (the scenario of Figure 4.2c). To

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further investigate which factors contribute to change in loyalty at the introduction and termination stages we conducted the analyses that are described in the next section.

Effects of Loyalty Program Design Elements on Behavioral Loyalty

We estimated two Hierarchical Linear Models to investigate which elements of loyalty program designs contribute to the change in the likelihood to remain a customer when the loyalty program was introduced (first dependent variable) and in the hypothetical case of its termination (second dependent variable).

$$\begin{aligned} \Delta\text{Loyalty}_{il} = & \beta_0 + \beta_1\text{Discount}_l + \beta_2\text{Saving}_l + \beta_3\text{Personalisation}_l + \beta_4\text{Diversification}_l + \\ & \beta_5\text{Gender}_i + \beta_6\text{PriceSensitivity}_i + \beta_7\text{Benefits}_i + \beta_8\text{Affect}_i + \beta_9\text{Disadvantage}_i + \\ & \beta_{10}\text{Discount}_l \times \text{PriceSensitivity}_i + \beta_{11}\text{Personalization}_l \times \text{Gender}_i + \\ & \beta_{12}\text{Diversification}_l \times \text{Gender}_i + \nu_l + \varepsilon_{il} \end{aligned}$$

where:

- $\Delta\text{Loyalty}_{il}$ = Change in likelihood to remain a customer of a specific company for customer i due to the introduction or termination of loyalty program l .
- Discount_l = Dummy variable, equals "1" if loyalty program l has a discount element
- Saving_l = Savings (points) as a percentage of amount spent for program l
- Personalisation_l = Dummy variable, equals "1" if loyalty program l has a personalization element
- Diversification_l = Dummy variable, equals "1" if loyalty program l has a diversification element
- Female_i = Dummy variable, equals "1" if customer i is a female and "0" if a customer is male
- $\text{PriceSensitivity}_i$ = Mean-centered price sensitivity of customer i
- Benefits_i = Extent to which customer i in general focuses on the benefits of loyalty programs
- Affect_i = Extent to which customer i in general enjoys participation in loyalty programs

- Disadvantage_{*i*} = Extent to which customer *i* in general focuses on the negative sides of loyalty programs
- v_l = Random intercept of loyalty program *l*
- ε_{il} = Error term for customer *i* of loyalty program *l*

Table 4.3. Results of the Hierarchical Linear Models

Independent variables	Change in likelihood to remain a customer after LP was introduced	Change in likelihood to remain a customer if LP stops
Discount (yes=1)	-.16 (.09)*	.02 (.11)
Saving	-.01 (.01)	.01 (.02)
Personalization (yes=1)	-.11 (.10)	.13 (.11)
Diversification (yes=1)	.24 (.11)**	.05 (.13)
Female (female=1)	-.13 (.02)***	.23 (.03) ***
Price Sensitivity (mean centered)	-.01 (.02)	-.08 (.02) ***
Benefits	.14 (.01)***	-.10 (.01) ***
Affect	.16 (.01)***	-.04 (.01) ***
Disadvantage	-.09 (.01)***	.03 (.01) ***
Discount * Price Sensitivity	.06 (.04)	-.06 (.04) *
Personalization*Female	-.03 (.05)	-.14 (.05) ***
Diversification * Female	-.01 (.09)	-.04 (.09)
Var(v_l)	.02 (.01)*	.03 (.02) *
Log Likelihood	-5086.56	-5210.35
Akaike Information Criterion (AIC)	10177.13	10424.71
Bayesian Information Criterion (BIC)	10190.06	10437.63

* = p<.10; ** = p<.05; *** = p<.01

Table 3 shows the model parameter estimates, standard errors, and the information criteria. As Irwin and McClelland (2001) stressed, simple effects in a model with interaction effects should be interpreted accounting for the interactions in the model. For the dependent

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variable "*Change in Likelihood to remain a customer after loyalty program was introduced*" we find the following. The presence of discount elements in the loyalty program design has a marginally significant negative effect on likelihood to remain a customer of this store (-.16).¹ This finding is consistent with the predictions of attribution theory (Dodson, Tybout, and Sternthal 1978), behavioral learning theory (Rothschild 1987), and the theory of psychological reactance (Brehm 1966). These theories suggest that discounts might have a negative effect on customer loyalty. The percentage of savings offered by a loyalty program does not have a significant effect ($p > .10$) on customer retention. One possible explanation is that consumers might not be willing to spend a substantial amount of money over a long period of time before they actually can obtain a reward; therefore, the savings percentage might not be a strong enough stimulus to change customer's loyalty.

Personalization does not have a significant effect ($p > .10$) on loyalty (for males)². The interaction effects of *personalization x female* is not significant either ($p > .10$), which suggests that male and female consumers do not react differently to personalization. In a way, this result is contradictory to the findings of the previous chapter. One possible explanation is customers' privacy concern, which might either prevent customers from entering a program or decrease their pleasure from the received personalized offers (Phelps, D'Souza, and Nowak 2001). In contrast to personalization, non-utilitarian diversification between members and non-members has a positive effect (.24) on loyalty (for male consumers). The interaction effect of *diversification x female* is not significant ($p > .10$), which suggests that male and female consumers do not differ significantly in their reaction to diversification. Thus, we conclude that diversification between members and non-members has a significant effect on customer retention. The results on the two non-utilitarian design elements imply that at least at the introduction of the loyalty programs there is no need to personalize or customize the offers, however, there should be a clear distinction between members and non-members.

The incremental effect on loyalty after a loyalty program is introduced is smaller for females than for males (-.13). This result is consistent with the idea that men seek

¹ This effect holds for an average price sensitive customer because we have mean centered price sensitivity when specifying the interaction effect.

² This effect holds for male consumers due to the way we specified the interaction effect, i.e., we multiplied the personalization dummy by the dummy for females (1 for females, 0 for males).

relationships with companies, while women are more focused on dyadic relationships (chapter 2 of this dissertation). Thus, it is not surprising that men show more response to stimuli from companies (i.e., loyalty programs) than women. Price sensitivity does not have a significant effect on customer retention ($p > .10$). This is not surprising, given "cherry picking" behaviour of a price sensitive customer, who typically searches at multiple places for best deals, rather than consistently stays with one company (O'Brien and Jones 1995; Yi and Jeon 2003). Similarly, the insignificance of the interaction *Discount and Sensitivity* ($p > .10$) might indicate that more price sensitive consumers obtain discounts at multiple places and therefore do not change their loyalty to a particular company. The estimates of the attitudes of customers to loyalty programs in general are significant and in the expected direction: customers' focus on the benefits of loyalty programs (.14) and general enjoyment (.16) from the participation in loyalty programs have positive effects on loyalty, while focus on the disadvantages of loyalty programs has a negative effect (-.09).

For the dependent variable "*Change in Likelihood if loyalty program stops*", we find that (for an average price sensitive customer) the presence of discount elements does not have a significant effect ($p > .10$) on likelihood to remain a customer of this company. One of the possible explanations is that customers may expect that if a loyalty program with a discount is terminated they will still obtain the discounts because they assume the company will switch to an EDLP strategy. The percentage of saving does not have a significant effect ($p > .10$) on customer retention if a loyalty program stops. This might indicate that customers are not actively involved in collecting points or assume that they would be warned in advance and would be able to redeem them before the program termination. Personalization does not have significant effects (for male customers) on the likelihood to remain a customer if the loyalty program stops ($p > .10$). However, the interaction effect of *Personalization x Female* is negative (-.14). This is consistent with Baumeister and Sommer (1997) and suggests that females are more sensitive to personalized attention than men. Hence in case women lose this personalized attention (when the loyalty program stops), they are less likely to remain customers of a particular company than men. Diversification does not have significant effects for male customers on the likelihood to remain a customer if the loyalty program stops ($p > .10$). The interaction effects of *Diversification x Female* is also insignificant ($p > .10$),

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which suggest that male and female consumers do not differ in their reaction to the loss of diversification when a loyalty program stops. Thus, overall, customers do not perceive the loss of diversification elements as a dramatic loss and thus, their retention by a specific company is unaffected.

Interestingly, females are more likely than males to remain customers if loyalty program stops (.23). This is consistent with the finding that men become to a larger extent involved in the relationship with the company due to the loyalty program introduction than women. In a way, men may feel more betrayed than women if the partner (company) breaks the relationship (stops loyalty program), because they invested more (became more loyal) into the relationship. Price sensitivity has a negative effect on customer retention if the loyalty program stops (-.08), which indicates that especially price sensitive customers will be less likely to remain customers of the company if the loyalty program stops. The interaction effect of *discount x price sensitivity* is marginally significant and negative (-.06). This result suggests that especially those loyalty programs that had discount elements would be more likely to lose price-sensitive customers in case the program stops. Consumers with a heavy focus on benefits of loyalty programs (-.10) and those who enjoy participation in loyalty programs (-.04) will be less likely to remain customers of a particular store when a loyalty program stops. However, consumers who tend to focus on the disadvantages of loyalty programs will be more likely to remain customers if loyalty program is terminated (.03).

4.5 Discussion

The results suggest that loyalty programs actually enhance customer loyalty. Most importantly, these positive effects of a loyalty program on loyalty sustain even after loyalty program is terminated (see scenario d, figure 4.2.). However, the results show that the effects of loyalty program design elements at its introduction and termination are not necessarily symmetric. With respect to the utilitarian design elements, we find that the saving points feature does not have any significant effect on customer retention both at the loyalty program introduction and at its termination. The effect of discounts is asymmetric. Discounts have a marginally negative effect on customer retention at loyalty program introduction but do not have any significant effect if it is terminated (except for the price sensitive customers who

would be significantly more likely to switch away). This asymmetry of the effects might indicate that once a customer evaluates a company negatively (e.g., due to the introduction of the elements of loyalty programs they do not appreciate), this negative evaluation persists even if the factor that caused it is terminated (see Holmes and Rempel 1989; Skowronski and Carlston 1989). Thus, our results suggest that neither the discount feature nor the saving points feature have the desired positive effect on customer retention. These results, although not completely surprising given recent marketing research (see e.g., Ailawadi, Lehmann, and Neslin 2001; Kivetz 2005), are contradictory to the contemporary marketing practice, where both of these features are commonly used in loyalty program designs (e.g., Bolton, Kannan, and Bramlett 2000; Chandon, Wansink, and Laurent 2000). For example, the Dutch grocery chain *Edah* recently completely modified their loyalty program by terminating the saving points element from their loyalty program, and introducing, instead, a flat discount for their private brand. The managers of *Edah* may have hoped that the discount feature would be more effective in enhancing customer loyalty to this chain than saving points. Our results suggest that it was not a good choice.

Non-utilitarian elements of loyalty seem to provide more opportunities for stimulating customer retention. In particular, clear diversification between members and non-members in terms of services and special events organized for the members, can enhance customer loyalty at loyalty program introduction. This result is also consistent with some marketing studies, which suggested that treating members as privileged customers in comparison to non-members could enhance behavioral loyalty (e.g., Liebermann 1999; Mägi 2003). Importantly, the effect of diversification sustains (i.e., retention does not decrease) in case a loyalty program is terminated. In contrast to diversification, personalization does not have a significant effect on retention at the loyalty program introduction. However, although the simple effect of personalization on customer retention is insignificant at the stage of loyalty program termination, female customers are significantly less likely to remain customers, if they lose the personalization feature than male customers. This finding is consistent with the idea that females, due to their focus on more personal dyadic relationships, also value personalization of a relationship more than males (Baumester and Sommer 1997; chapter 3 of this thesis). One possible explanation of the asymmetry of the personalization effects for

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female is that in some cases consumers need to actually experience personalization before they can start appreciating it. In contrast, diversification between members and non-members is perhaps clear from the moment customers join the program. Findings on the simple effects of gender are also consistent with the chapter 3 and Baumeister and Sommer (1997). We find that men become significantly more loyal to companies than women after a loyalty program introduction. However, in case the loyalty program stops, men are less likely than women to stay customers of the company.

Implications for Loyalty Program Design

Common sense suggests that loyalty programs ideally should have a positive effect on customer loyalty after its introduction and this effect should be sustained (and definitely not decrease below the pre-program level) if the program is discontinued. Our results suggest that non-utilitarian elements of loyalty programs in general are a more effective tool to enhance customer loyalty than utilitarian elements. In particular, stores should avoid using discount elements in their loyalty program designs because discounts decrease retention after its introduction and this negative effect sustains if loyalty program stops, especially for price sensitive consumers. A saving element does not have any particular effect on customer retention, neither at the introduction of the loyalty program nor in case it is terminated. The same holds for the personalization element of loyalty program design. In contrast, the non-utilitarian diversification between members and non-members seems to be the most effective tool in building customer loyalty-- it significantly increases the customer retention during the introduction of loyalty program and this effect is sustained if the loyalty program is discontinued.

With the respect to consumer characteristics, stores that plan to implement temporary loyalty programs or to terminate currently operating ones should be particularly careful if the share of male customers is larger than the share of female customers. Although it appears to be relatively easy to enhance retention for males due to the very fact of a loyalty program introduction, the corresponding size of the decrease in retention for males when the loyalty program stops is larger. Similarly, managers of stores with a potentially high concentration of

price sensitive customers (e.g., low-price grocery stores) should avoid introduction of temporary loyalty programs.

Limitations and Future research

Our research has several limitations. First, although our research indicates that utilitarian elements of loyalty program designs are not effective, more research is needed before these findings can be generalized. For example, it is possible that the magnitude of discount has a different effect on customer retention than the mere presence of such a discount *per se*. With respect to saving points, this research has specifically focused on long-term saving programs. We do not want to generalize these results to short-term saving programs (when customers are aware in advance about the duration of such a program). In fact, some studies on loyalty programs with temporary saving points designs point out that such designs could be very effective (see Lal and Bell 2003; Drèze and Hoch 1998).

Second, although we had 22 loyalty programs in the sample (in contrast to a common approach of focusing only at 1 loyalty program at a time), due to lack of degrees of freedom we could not account for the interaction effects between the elements of the loyalty program designs. It is possible, however, that when those elements are mixed their effects on behavioral loyalty might be reduced or enhanced. For example, Lemon, and Nowlis (2002) found that for national brands a combination of utilitarian strategies (discounts) and strategies that enhance the hedonic value of the product (feature and display) might work less well than each of those strategies separately. Thus, future studies that look at the interaction effects between these elements are needed.

Third, the data we use is of a self-reported nature, which potentially could be subject to memory biases. In addition, we measure behavioral intentions in a hypothetical case of loyalty program termination. Although behavioral intentions are often used in marketing as a good proxy for actual behavior (e.g., Kivetz and Simonson 2002; 2003), recent research indicated that intentions still might differ from actual behavior (e.g., Chandon, Morwitz, and Reinartz 2005). Therefore, more research is needed on the effect of both utilitarian and in particular, non-utilitarian elements of loyalty program design on other behavioral loyalty variables (e.g., share of wallet, change in expenditures) based on e.g., household panel data.

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Fourth, we compare the effectiveness of loyalty program elements based on the sample of companies that have loyalty programs and customers who participate in those loyalty programs. It would also be interesting to investigate the effectiveness of elements of loyalty program designs based on the sample that include both stores that implement loyalty programs and stores that do not have loyalty programs and customers without loyalty cards.

Finally, our sample did not include loyalty programs from relatively hedonic areas in retailing (e.g., perfumery stores, beauty clubs, etc.). It is possible that the effect of utilitarian and non-utilitarian benefits of loyalty programs might differ depending on a type of products associated with a store (Chandon, Wansink, and Laurent 2000). Thus, the effects of non-utilitarian elements might be much stronger and more traditional utilitarian elements of loyalty programs may not be needed for those types of stores.

Although our dependent variable of change in retentions if a loyalty program stops does not measure long-term loyalty directly, we believe this is the first step in the direction of understanding the long-term effects of loyalty programs on store loyalty. More research in this direction is welcome.

Conclusion

Based on a sample of 5341 consumers and their responses to 22 loyalty programs, this study suggests that, across the board, loyalty programs can enhance customer retention. Some part of this increase in customer loyalty would sustain even if a loyalty program stops. However, contrary to common marketing practice, we find that utilitarian elements of loyalty program designs fail to stimulate customer loyalty. In particular, discounts have marginally significant negative effects on customer retention, while the effect of saving points is insignificant. In contrast to utilitarian elements of loyalty program design, non-utilitarian design elements are more effective in creating customer loyalty. Interestingly, we find that personalization is not a necessary element of loyalty program design. Instead, just a simple non-utilitarian diversification between members and non-members is a powerful tool in creating sustainable customer loyalty that would last even if loyalty program stops. We hope this study generates additional research in this area.

Chapter 5: General Conclusions

In this chapter we first provide the answers to our three research questions, then summarize managerial implications of the dissertation and discuss the limitation of this thesis and suggest avenues for future research.

5.1 Main outcomes

Do men and women differ in their customer loyalty? If so, how?

Across four experiments (chapter 2) we find that there are important differences between male and female loyalties. In particular, we find that men are relatively more loyal to groups or larger group-like entities such as companies than women. We also find that women are relatively more loyal than men to individuals, such as individual service employees. These findings are consistent with the theory by Baumeister and Sommer (1997), who suggested that females are more oriented towards other individuals, while males are more oriented towards larger, more abstract groups.

Do men and women differ in their response to non-utilitarian elements of loyalty programs? If so, to which elements men and women respond the strongest?

Across three experiments and a survey (chapter 3), we find a coherent pattern of gender differences in the way consumers respond to loyalty programs. Consistent with the idea that female consumers are geared more toward one-to-one relationships, we find that design elements that make a loyalty program more like a one-to-one relationship (e.g., personalization) appeal particularly to female consumers. This effect is found even when the design elements, such as timing a reward based on a member's birthday, create only a very shallow similarity to a personal relationship. Finally, we find that male consumers respond particularly well to a design element that facilitates one-to-group communication. That is, male consumers respond more positively to design elements that broadcast their loyalty program status by making that status easily visible to others.

How do utilitarian and non-utilitarian elements of loyalty program designs affect loyalty?

Based on a survey among 5341 consumers and their responses to 22 loyalty programs (chapter 4) we find that utilitarian elements of loyalty program designs fail to stimulate customer loyalty. In particular, discounts have marginally significant negative effects on customer retention, while the effect of saving points is insignificant. In contrast to utilitarian elements of loyalty program design, non-utilitarian design elements are more effective in creating customer loyalty. Interestingly, we find that personalization is not a necessary element of loyalty program design. Instead, just non-utilitarian diversification between members and non-members is a powerful tool in creating sustainable customer loyalty that may last even if loyalty program stops.

5.2 Managerial Implications

Our findings have clear implications for the management of consumer satisfaction and loyalty. In general, our results suggest that companies targeting female consumers depend much more than companies targeting male consumers on relationships between individual employees and customers. Whereas male consumers may be satisfied with an anonymous relationship with a store or brand, and are unlikely to switch their patronage when specific employees disappear, female consumers demand more personal, one-to-one relationships. Female consumers' allegiances may be more with specific employees than with a store, store chain, brand, or firm. Thus, merely moving from one contact to a small group of contacts, such as from a personal banker or hairdresser to a team of bankers or hairdressers, may have a stronger negative effect on female than on male consumers' loyalty.

Companies should adopt different strategies to target female and male consumers. In particular, for females, loyalty program design elements should signal the recognition of a female consumer as an individual person, no matter how subtly. For example, personalization of communication and individual offers should particularly benefit loyalty program response by female consumers. However, managers should also account for two potential drawbacks of personalizing loyalty programs for women. First, in case loyalty such a loyalty program stops and females lose this personalized attention, they would be more likely to switch away

than males. Second, female are also more concerned with their privacy than males, thus, loyalty programs should not be overpersonalized. For males, the response to loyalty programs can be enhanced by making positive levels of status widely visible. Whereas gold cards, platinum luggage labels, and elite check-in lines may not do much for many women, male consumers may find them an excellent way to communicate to the group.

Our results suggest that non-utilitarian elements of loyalty programs in general are more effective in enhancing customer loyalty than utilitarian elements. In particular, stores should avoid using discount elements because discounts decrease loyalty after loyalty program introduction and this negative effect sustains if loyalty program stops, especially for price sensitive consumers. A saving element does not have any particular effect on customer retention neither at the introduction of loyalty program nor in case it is terminated. In contrast, the non-utilitarian diversification between members and non-members seems to be the most effective tool in building customer loyalty- it significantly increases the customer retention during the introduction of loyalty program and this effect is sustained if the loyalty program is discontinued.

Although it appears to be relatively easy to enhance retention for males due to the very fact of a loyalty program introduction, the corresponding size of the decrease in retention for males when the loyalty program stops is larger. Similarly, managers of stores with a potentially high concentration of price sensitive customers (e.g., low-price grocery stores) should avoid introduction of loyalty programs with a temporal duration.

5.3 Limitations and Future Research

Our research has a number of limitations. First, our data comes from either scenario-based experiments or from a survey, based on self-reported measures. In either case, we primarily measure behavioral intentions rather than actual behavior. Although behavioral intentions are often used in marketing as a good proxy for actual behavior (e.g., Kivetz and Simonson 2002; 2003), recent research indicated that intentions still might differ from actual behavior (e.g., Chandon, Morwitz, and Reinartz 2005). Therefore, more research is needed on the effect of both utilitarian and in particular, non-utilitarian elements of loyalty program design on behavioral loyalty indicators (e.g., share of wallet, change in expenditures) based

Chapter 5: General Conclusions

on e.g., household panel data. Another method for future research allowing to study the effect of loyalty program design on loyalty is a natural experiment, in which an existing loyalty program stops in real life, or at least some of the elements of such a loyalty program are terminated.

Second, although we had 22 loyalty programs in the survey sample (in contrast to a common approach of focusing only at one loyalty program at a time), due to lack of degrees of freedom we could not account for the interaction effects between the elements of the loyalty program designs. It is possible, however, that when those elements are mixed their effects on behavioral loyalty might be reduced or enhanced. For example, Lemon and Nowlis (2002) found that for national brands a combination of utilitarian strategies (discounts) and strategies that enhance the hedonic value of the product (feature and display) might work less well than each of those strategies separately. Thus, future studies that look at the interaction effects between these elements are needed.

Third, more research is needed to fine-tune the optimal level of personalization. The results of chapters 3 and 4 suggest that the effect of personalization on loyalty may be of an inverted U-shape nature, because on the one hand, personalization is important for female consumers, while on the other hand, a too deep level of personalization might be undesirable due to customers' privacy concerns.

Forth, we have conducted our studies and the survey with participants who mostly hailed from Western cultures. It is possible, that for example Eastern, cultures show different patterns of male and female responses to loyalty programs. The reason is that in cultures with a more collectivistic background the attitude (for both females and males) towards showing off in a group and towards personalized attention might differ from more individualistic Western cultures (Hofstede 2001; Fisher and Manstead 2000).

Finally, more research is needed to understand the long-term effects of loyalty programs on customer loyalty. Reinartz and Kumar (2003) suggested that the effects of loyalty programs on customer loyalty are mostly short-term rather than long term. The results of chapter 4 are, in fact, contradictory to this idea. We find that depending on the design elements of a loyalty program, at least part of its effect on customer loyalty will sustain even

after loyalty program stops. Thus, more research is needed to investigate which factors contribute to the long-term effectiveness of loyalty programs.

Chapter 5: General Conclusions

Summary in Dutch (Nederlandse samenvatting)

Loyaliteitsprogramma's zijn in de late jaren negentig tot bloei gekomen, onder het motto dat het goedkoper is om bestaande klanten te houden dan om nieuwe aan te trekken (Kumar and Reinartz 2005). Trouwe klanten doen meer herhalingsaankopen, zijn toleranter ten aanzien van de tekortkomingen van het bedrijf, zijn bestand tegen het concurrerende aanbiedingen, en ze zijn minder prijsgevoelig (Sharp and Sharp 1997; Cigliano et al. 2000). Daarom spenderen managers veel moeite om loyaliteitsprogramma's te introduceren, te onderhouden en aan te passen. Om een voorbeeld te geven: de Franse detaillist E. Leclerc geeft jaarlijks 21.2 miljoen dollar uit aan de marketing en de besturing van hun loyaliteitsprogramma (Kumar and Reinartz 2005, p.169).

Echter, ondanks hun populariteit zijn veel loyaliteitsprogramma's ineffectief en niet in staat om de gewenste bevordering van klantentrouw tot stand te brengen (Yi and Jeon, 2003; Dowling and Uncles, 1997; Cigliano et al, 2000). Daarom woedt er nog steeds een debat onder marketing academici en praktijkmensen of loyaliteitsprogramma's nu wel echt werken. Het doel van deze dissertatie is om de factoren te identificeren die ervoor zorgen dat loyaliteitsprogramma's klantentrouw bevorderen. In het bijzonder kijken we naar klantenkarakteristieken (geslacht) en eigenschappen van loyaliteitsprogramma's die tot effectieve loyaliteitsprogramma's leiden.

In hoofdstuk twee tonen we met behulp van vier experimenten aan dat er belangrijke verschillen zijn in de trouw van mannen en vrouwen. In het bijzonder constateren we dat mannen relatief trouwer dan vrouwen zijn aan groepen of groepsachtige eenheden zoals bedrijven. We vinden dat vrouwen daarentegen relatief loyaler zijn dan mannen aan individuele personen, zoals individuele dienstverleners. Deze bevindingen zijn consistent met de voorspelling van de theorie van Baumeister and Sommer (1997), die suggereert dat vrouwen meer op andere individuen zijn georiënteerd en mannen meer op grotere, meer abstracte groepen. We voegen ook iets toe aan hun theorie. Terwijl de literatuur de mate van hecht zijn van een relatie vaak verwacht met individuele versus groepsrelaties (Baumeister and Sommer 1997; Gabriel and Gardner 1999), laten wij zien dat het essentiële verschil in de

Summary in Dutch (Nederlandse samenvatting)

trouw van mannen en vrouwen niet zo zeer zit in de mate van hecht zijn van de relatie, maar in het onderscheid tussen individuele- en groepsrelaties.

In hoofdstuk drie constateren we, op basis van drie experimenten en een vragenlijstonderzoek, dat er een coherent patroon is in de manier waarop mannelijke en vrouwelijke consumenten reageren op loyaliteitsprogramma's. Overeenkomstig met het idee dat vrouwelijke consumenten meer gericht zijn op één-op-één relaties, vinden we dat elementen die ervoor zorgen dat loyaliteitsprogramma's meer lijken op een één-op-één relatie (b.v. personalisatie) in het bijzonder vrouwen aanspreken. We vinden dit effect zelfs wanneer zo'n element, zoals het versturen van een attentie gebaseerd op iemands verjaardag, slechts oppervlakkig op een persoonlijke relatie lijkt. Tenslotte vinden we dat mannen sterker reageren op elementen die de communicatie van een individu aan een groep vergemakkelijkt. Mannelijke consumenten reageren positiever op elementen die hun status binnen het loyaliteitsprogramma (b.v. de status van een "gold-member") duidelijk zichtbaar maakt aan anderen.

In hoofdstuk vier onderzoeken we het effect van loyaliteitsprogramma's nadat het geïntroduceerd is en in het hypothetische geval dat het zou stoppen. We gebruiken een steekproef van 5341 consumenten en hun reacties op 22 loyaliteitsprogramma's. We constateren dat de puur economische elementen van loyaliteitsprogramma's niet in staat zijn om klantentrouw te bevorderen. Kortingen hebben bijvoorbeeld zelfs een (net significant) negatief effect op klantentrouw, terwijl spaarpunten geen significant effect hebben. Daarentegen zijn niet-economische elementen effectiever. Alhoewel we constateren dat personalisatie geen noodzakelijk onderdeel is van loyaliteitsprogramma's, vinden we wel dat het maken van onderscheid tussen leden en niet-leden van het programma een krachtig middel is om klantentrouw duurzaam te stimuleren, hetgeen zelfs voortduurt wanneer het programma zou stoppen.

Hoofdstuk vier suggereert het volgende ten aanzien van klantenkarakteristieken. Alhoewel blijkt dat het relatief gemakkelijk is de trouw van mannelijke klanten te bevorderen door de introductie van een loyaliteitsprogramma, blijkt ook dat deze toename in trouw als sneeuw voor de zon verdwijnt wanneer het programma zou stoppen. Verder raden we

managers van winkels met veel prijsgevoelige klanten (zoals de goedkopere supermarkten), af om tijdelijke, op kortingen gebaseerde loyaliteitsprogramma's in te stellen.

In hoofdstuk vijf vatten we de algemene conclusies van deze dissertatie samen en geven we aanbevelingen voor managers van bedrijven met loyaliteitsprogramma's. Tevens geeft dit hoofdstuk enkele suggesties voor vervolgonderzoek.

Summary in Dutch (Nederlandse samenvatting)

Appendix: Questionnaire Dutch Relationship Builder (in Dutch)

Questionnaire Dutch Relationship Builder

Introductie

Bedankt voor uw medewerking aan het on-line “Relationship Builder” onderzoek.

Het onderzoek is bedoeld om inzicht te krijgen in de houding van consumenten ten aanzien van loyaliteitsprogramma's, de wijze en frequentie waarop u wenst dat er met u gecommuniceerd wordt, en de invloed van internet op uw koopgedrag.

Het kost u ongeveer 15 minuten om alle vragen te beantwoorden.

- De resultaten worden alleen gebruikt voor onderzoeksdoeleinden
- De gegevens van de deelnemers worden vertrouwelijk en anoniem behandeld.

Indien u nu geen tijd heeft, adviseren wij u de link te bewaren zodat u op een later tijdstip de vragenlijst kunt invullen.

Deel A. Loyaliteitsprogramma's

Met een loyaliteitsprogramma wordt in deze vragenlijst bedoeld: een systeem waarbij u aangeeft klant te zijn van een bepaald bedrijf of winkel, bijvoorbeeld door u in te schrijven als deelnemer en een klantenkaart te hebben. Binnen het programma ontvangt u vervolgens zaken als: spaarpunten, speciale aanbiedingen, algemene kortingen, uitnodigingen voor evenementen en dergelijke.

1. Bent u deelnemer in één of meer van de volgende loyaliteitsprogramma's?

(Selecteer alle antwoorden die voor u van toepassing zijn.)

- Air Miles
- Rocks
- AH Bonus kaart
- AH Koopzegels
- Edah Spaarkaart
- Klant-is-koning kaart (Hoogvliet / Vomar)
- Konmar Klantenkaart
- Douwe Egberts
- Flying Dutchmen (KLM)
- BIJcard (Bijenkorf)
- V&D Klantenkaart
- Esprit e*club card
- MEXX Connect card
- Kluskaart (Gamma)
- Free Bees (BP)
- Esso Golden Tiger Kaart
- Fina/Total Power points
- Q8 Cadeaukaart
- Shell zegels
- Anders, te weten

Questionnaire Dutch Relationship Builder

2. Hoeveel klantenkaarten draagt u bij zich?

- 0
- 1
- 2
- 3
- 4
- 5
- >5

3. Hoeveel betaalkaarten (bankpas en/of creditkaart) draagt u bij zich?

- 0
- 1
- 2
- 3
- 4
- 5
- >5

4. Geef aan in welke mate de volgende aspecten een rol spelen bij uw beslissing deel te nemen aan een loyaliteitsprogramma?

1. Zeer onbelangrijk
2. Onbelangrijk
3. Neutraal
4. Belangrijk
5. Zeer belangrijk

- Direct prijsvoordeel op aankopen bij dit bedrijf
- Speciale aanbiedingen door het bedrijf
- Speciale aanbiedingen door partnerbedrijven
- Speciale aanbiedingen die afgestemd zijn op uw interesses en koopgedrag
- Spaarprogramma voor waardebonnen die prijsvoordeel opleveren
- Spaarprogramma voor gratis producten
- Mogelijkheid tot sparen bij zowel het bedrijf als bij partnerbedrijven
- Aparte klantenservice voor deelnemers
- Extra service
- Het gevoel vaste klant te zijn van dit bedrijf
- Informatie over diensten en producten door een nieuwsbrief of magazine
- Deelname aan evenementen; koopavond
- Gratis deelname aan het programma
- Sparen van punten gaat automatisch
- Gespaarde punten blijven altijd geldig en vervallen niet
- Garantie dat het bedrijf betrouwbaar omgaat met uw gegevens

Questionnaire Dutch Relationship Builder

In vraag 5 tot en met 12 kunt u telkens kiezen uit 2 opties voor een loyaliteitsprogramma. Geef aan welke optie uw voorkeur heeft ervan uitgaande dat het (financiële) voordeel gelijk is?

5.

- Sparen voor cadeaus of kortingsbonnen
- Directe prijskorting op aankopen

6.

- Programma's waarbij meerdere bedrijven zijn aangesloten
- Programma's die gelden voor een specifiek bedrijf

7.

- Sparen voor cadeaus uit een catalogus
- Sparen voor artikelen uit de winkel waarvoor het programma geldt

8.

- Kort sparen voor kleine cadeaus
- Lang sparen voor grote cadeaus

9.

- Een spaarsysteem dat automatisch uw voordeel uitkeert
- Een spaarsysteem dat uw opgebouwde voordeel uitkeert als u het aangeeft

10.

- Sparen voor kortingsbonnen
- Sparen voor cadeaus

11.

- Financiële voordelen; cadeaus en kortingsbonnen
- Niet financiële; gratis deelname aan evenementen en/of extra service

12.

- Verschaffen van algemene productinformatie
- Verschaffen van informatie die aansluit op mijn interesses (uitgaan, theater, restaurants etc.)

13. Geef bij de volgende uitspraken over loyaliteitsprogramma's aan in hoeverre u het (on)eens bent met elke uitspraak?

1. Helemaal mee oneens
2. Mee oneens
3. Neutraal
4. Mee eens
5. Helemaal mee eens

- Ik vind het leuk om aan loyaliteitsprogramma's deel te nemen
- Ik vind het leuk om punten of zegels te sparen
- Ik heb meestal een duidelijk spaardoel voor ogen als ik mee doe aan loyaliteitsprogramma's
- Ik neem deel aan loyaliteitsprogramma's omdat ik anders extra's en beloningen misloop
- Het bezit van een klantenkaart geeft mij het gevoel vaste klant te zijn
- Deelname in een loyaliteitsprogramma geeft mij het gevoel dat ik speciaal ben
- Klantenkaarten vormen door hun registratiesysteem een inbreuk op mijn privacy
- Ik vind het lastig om klantenkaarten altijd bij me te hebben tijdens het winkelen
- Ik vind het vervelend dat bedrijven informatie verkrijgen over mijn koopgedrag door middel van een loyaliteitsprogramma
- Door het bezit van een klantenkaart, let ik minder op aanbiedingen van andere winkels
- Ik stel het op prijs wanneer ik als deelnemer van een loyaliteitsprogramma speciale aanbiedingen ontvang
- Ik stel het op prijs wanneer ik als deelnemer van een loyaliteitsprogramma productinformatie ontvang

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- Ik stel het op prijs wanneer ik als deelnemer van een loyaliteitsprogramma word uitgenodigd voor speciale evenementen
- Niet-deelnemers mogen zien dat ik - als deelnemer van het loyaliteitsprogramma - bepaalde voordelen ontvang
- Ik vind het onprettig dat andere klanten merken dat ik - als deelnemer van het loyaliteitsprogramma - beter word behandeld door een bedrijf

14. Kies voor de beantwoording van de volgende vragen één van de loyaliteitsprogramma's waarin u deelneemt? {kiezen uit lijst van vraag 1}

15. Hoeveel jaar bent u al deelnemer aan dit loyaliteitsprogramma?

- Minder dan 1 jaar
- 1 tot 3 jaar
- 3 tot 5 jaar
- 5 tot 8 jaar
- Meer dan 8 jaar

16. Is uw bestedingspatroon bij het bedrijf gewijzigd na deelname aan het loyaliteitsprogramma?

- Ja, ik ben veel meer gaan besteden bij dit bedrijf
- Ja, ik ben iets meer gaan besteden bij dit bedrijf
- Nee, mijn bestedingen zijn niet of nauwelijks veranderd
- Ja, ik ben iets minder gaan besteden bij dit bedrijf
- Ja, ik ben veel minder gaan besteden bij dit bedrijf

17. Omdat u deelneemt in het loyaliteitsprogramma, is het meer of minder waarschijnlijk dat u klant blijft bij dit bedrijf?

- Ja, de kans dat ik klant blijf is daardoor veel groter
- Ja, de kans dat ik klant blijf is daardoor iets groter
- Nee, de kans dat ik klant blijf is daardoor niet veranderd
- Ja, de kans dat ik klant blijf is daardoor iets kleiner
- Ja, de kans dat ik klant blijf is daardoor veel kleiner

18. Heeft u de afgelopen 12 maanden gebruik gemaakt van een speciale aanbieding binnen dit loyaliteitsprogramma, en zo ja hoe vaak?
- Nee, want ik heb geen aanbiedingen gehad
 - Nee, ik heb aanbiedingen gehad maar niet gebruikt
 - Ja, 1 of 2 keer
 - Ja, 3 of 4 keer
 - Ja, meer dan 4 keer
19. Heeft u de afgelopen 12 maanden met dit loyaliteitsprogramma gespaarde punten verzilverd, en zo ja hoe vaak?
- Nee, want ik heb nooit punten gespaard in dit programma
 - Nee, ik heb wel punten gespaard maar niet verzilverd
 - Ja, 1 of 2 keer
 - Ja, 3 of 4 keer
 - Ja, meer dan 4 keer
20. Indien het bedrijf het loyaliteitsprogramma stopzet, zou dit van invloed zijn op uw bestedingspatroon bij het bedrijf?
- Ja, ik zou veel meer gaan besteden bij dit bedrijf
 - Ja, ik zou iets meer gaan besteden bij dit bedrijf
 - Nee, mijn bestedingen zouden niet of nauwelijks veranderen
 - Ja, ik zou iets minder gaan besteden bij dit bedrijf
 - Ja, ik zou veel minder gaan besteden bij dit bedrijf
21. Indien het bedrijf het loyaliteitsprogramma stopzet, vergroot of verkleint dit de kans dat u klant blijft bij het bedrijf?
- Ja, de kans dat ik klant blijf is dan veel groter
 - Ja, de kans dat ik klant blijf is dan iets groter
 - Nee, de kans dat ik klant blijf is dan ongeveer hetzelfde
 - Ja, de kans dat ik klant blijf is dan iets kleiner
 - Ja, de kans dat ik klant blijf is dan veel kleiner

Deel B. Algemeen

50. Wat is uw geslacht?

- Man
- Vrouw

51. In welke leeftijdscategorie valt u?

- 24 jaar of jonger
- 25 tot 34 jaar
- 35 tot 44 jaar
- 45 tot 54 jaar
- 55 tot 64 jaar
- 65 jaar of ouder

52. Wat is uw hoogst genoten opleiding?

- LBO
- MAVO
- HAVO/VWO
- MBO
- HBO
- WO

53. Hoe is de samenstelling van uw huishouden?

- Thuiswonend bij ouder(-s)
- Alleenstaand, zonder inwonende kinderen
- Alleenstaand, met inwonende kinderen
- Samenwonend of gehuwd, zonder inwonende kinderen
- Samenwonend of gehuwd, met inwonende kinderen

54. In welke categorie valt uw bruto gezinsinkomen per jaar?

- Tot 20.000 Euro
- 20.001 tot 40.000 Euro
- 40.001 tot 60.000 Euro
- 60.001 tot 80.000 Euro
- 80.001 tot 100.000 Euro
- Meer dan 100.000 Euro

55. Wat zijn de 4 cijfers van uw postcode?

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