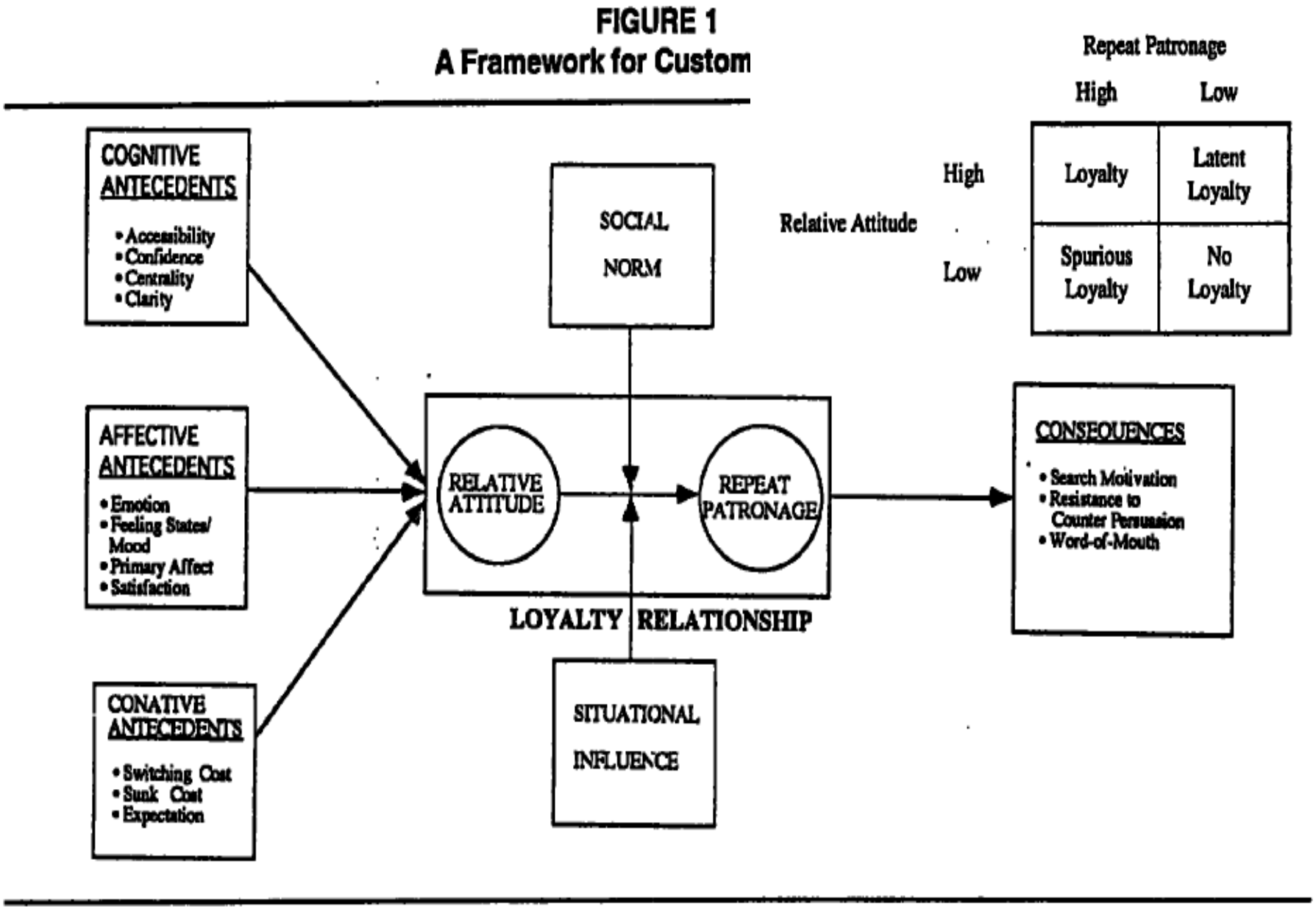
EVALUATION OF THE EFFECTIVENESS OF LOYALTY PROGRAMS

Based on

"The influence of loyalty programme membership on customer purchase"

by Lars Meyer-Waarden

Alexandra Zakharova
alexandrazakharova29@gmail.com



*Dick, A.S. and Basu, K. (1994), “Customer loyalty: toward an integrated conceptual framework”

Loyalty card programme

identify, maintain and increase the output of the best customers

customer behaviour information recorded by loyalty cards

switching costs*

stimulus-organism-reaction (S-O-R) paradigm**

price discrimination on a larger scale

*Carlsson, F. and Logren, A. (2006), “Airline choice, switching costs and frequent flyer programmes”

**Thaler, R. (1985), “Mental accounting and consumer choice”

Smith et al., 2003

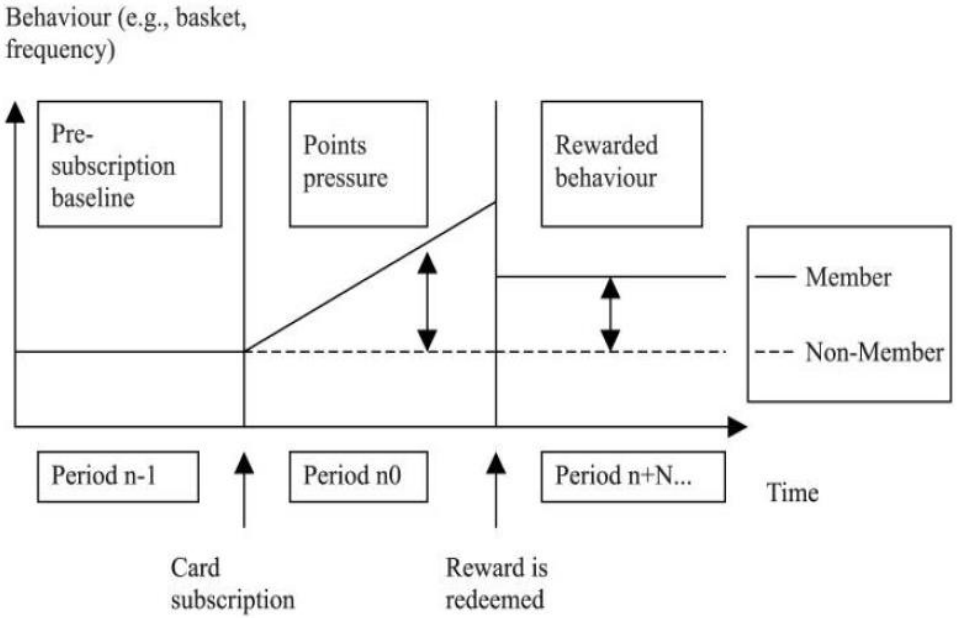
Lewis, 2004

Taylor and Neslin, 2005

Dowling and Uncles, 1997

Sharp and Sharp, 1997

Impact of loyalty programmes on purchase behaviour



Source: Taylor and Neslin (2005)

purchase loyalty

short-term
points pressure

long-term
rewarded behaviour**

* Sharp, B. and Sharp, A. (1997), “Loyalty programs and their impact on repeat-purchase loyalty patterns”

**Thaler, R. (1985), “Mental accounting and consumer choice”

- **H1.** Mean store basket values should be higher for loyalty programme members than for non-members.
- **H2**. Total store basket values should be higher for loyalty programme members than for non-members.
- **H3.** Store inter-purchase times should be lower for loyalty programme members than for non-members.
- **H4.** Store purchase frequencies should be higher for loyalty programme members than for non-members.
- **H5.** Store customer share of category purchases should be higher for loyalty programme members than for non-members.
- **H6.** Store switching behaviour should be lower for loyalty programme members than for non-members.
- **H7.** The number of visited stores should be lower for loyalty programme members than for non-members.

Store	S1	S2	S3	S4	S5	S6	S7
Surface (m^2)	8,900	5,300	9,000	9,400	5,200	2,000	1,400
Market share (%)	20	12	15	25	11	11	6
Loyalty programme	Yes	Yes	Yes	Yes	Yes	No	Yes
External partners/multi-sponsor programme	Yes	Yes	No	No	No	–	No

ANOVA with repeated measures

- H0: the card would have no effect and variations in purchase behaviour would be systematic

μ (loyalty card scheme member) = μ (non-member loyalty card scheme).
μz (loyalty card scheme member) = μz (non-member loyalty card scheme).
μlin (loyalty card scheme member) = μlin (non-member loyalty card scheme).

- H1: variations in purchase behaviour are not systematic (purchase behaviour is driven by loyalty scheme membership, not systematic evolutions over time)

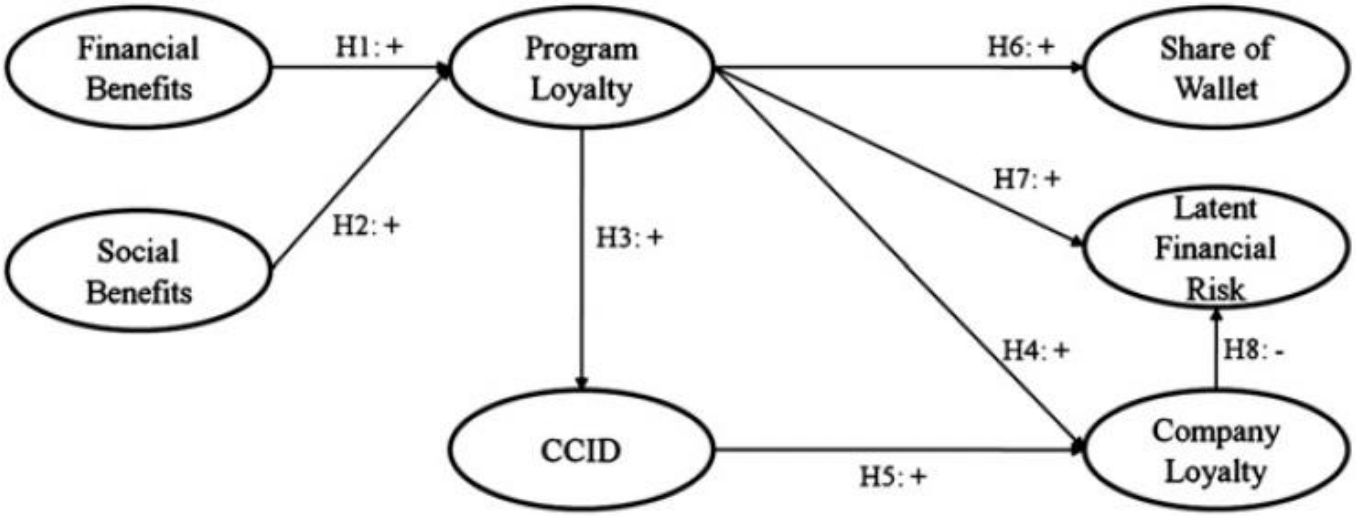
μ (loyalty card scheme member) > μ (non-member loyalty card scheme).
μz (loyalty card scheme member) > μz (non-member loyalty card scheme).
μlin (loyalty card scheme member) > μlin (non-member loyalty card scheme).

Store 1	Member	Year 1		Year 2		Year 3	
		Yes	No	Yes	No	Yes	No
Average store basket	Zone 1 (€)	79	60	79	61	79	63

S1		Time	Time × Zone	Time × Card Intra-group variance	Time × Card × Zone	Zone	Card Inter-group variance	Zone × Card
Average store basket	F	1.18 ns	0.22 ns	3.0 *	0.73 ns	17 **	40 **	2 *
Total store basket	F	8.3 **	0.34 ns	0.10 *	0.97 ns	65 **	118 **	3 *
Share of category purchases	F	6.7 **	0.6 ns	2.1 *	0.2 ns	77 **	86 **	0.96 *
Purchase frequency	F	15 **	0.44 ns	0.66 *	0.56 ns	94 **	202 **	4 *
Inter-purchase time	F	74 **	2 *	3 *	1 ns	64 **	107 **	5 *
Number of visited stores	F	229 **	6 **	1.2 *	0.5 ns	12 **	2 ns	1 ns
Switching	F	5.9 *	1.7 ns	0.2 *	0.7 ns	124 **	58 **	6 *

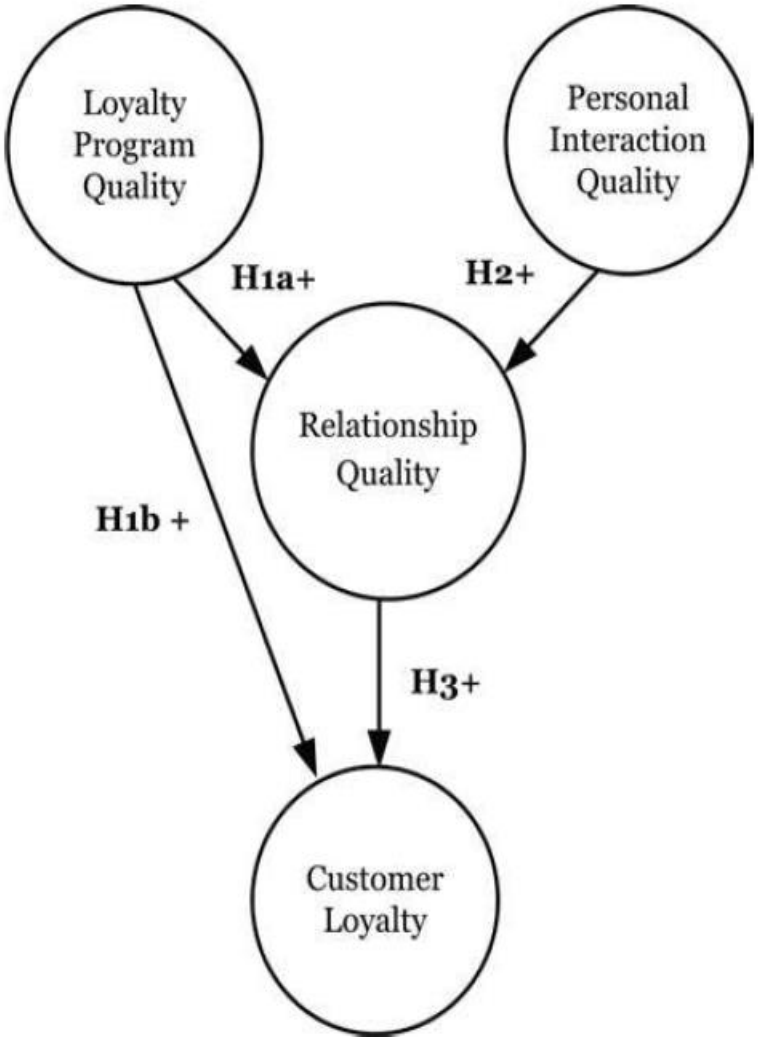
Notes: $^{*}p < 0.05$; ns: non-significant $^{**}p < 0.01$; $^{**}p < 0.01$

Switching							
	Zone 1 (%)	46	72	48	73	47	72
	Zone 2 (%)	79	88	81	89	80	90
	Zone 3 (%)	82	93	81	92	85	94



Financial benefits → program loyalty
Social benefits → program loyalty
Program loyalty → CCID
Program loyalty → company loyalty
CCID → company loyalty
Program loyalty → share of wallet
Program loyalty → company latent financial risk
Company loyalty → company latent financial risk
Social benefits → CCID

*Jun Kang, Thomas Brashear Alejandro, Mark D. Groza (2014), “Customer–company identification and the effectiveness of loyalty programs”



Loyalty program quality (LPQ) elements	
LPQ1	A good rewarding option of the loyalty programme is a voucher that can be redeemed in every retailer's store for buying any product or service that the retailer sells
LPQ2	Point-of-sale information-gathering about cumulative value of past transactions is an appropriate way of informing a customer[a]
LPQ3	Terms and conditions loyalty programme are transparent and can thus be easily comprehended
LPQ4	I think it is fair that the full value of a purchase is recorded on the loyalty card regardless of the method of payment
LPQ5	Face value of the rewarded voucher is adequate according to past cumulative spending[b]
LPQ6	The qualification levels of the loyalty scheme are achievable[b]
LPQ7	The distribution method of rewarded vouchers is suitable[b]

* Patrick Vesel , Vesna Zabkar (2010), "Relationship quality evaluation in retailers' relationships with consumers"