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Jisu J. Kim

Understanding Loyalty Program Dynamics

Jisu J. Kim

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Reading Committee:

Robert W. Palmatier, Chair

Oliver J. Rutz

Shailendra P. Jain

Program Authorized to Offer Degree:

Foster School of Business

University of Washington

Abstract

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Jisu J. Kim

Chair of the Supervisory Committee:

Robert W. Palmatier

Professor of Marketing

John C. Narver Endowed Professor in Business Administration

Marketing and International Business

Loyalty programs have been referred to as the ubiquitous customer relationship management tool. However, despite the growing practice and research in loyalty programs, the field remains unclear on the effectiveness. Across two essays of this dissertation, I propose an emerging theory of loyalty program dynamics that synthesizes extant insights on loyalty program effectiveness, empirically analyze the key loyalty program enhancement strategies using field data, and conduct two experiments to reveal the mechanisms based on customer relational states.

Essay 1 offers a comprehensive model of loyalty program effectiveness based on empirical research and psychological theories. Specifically, the model consists of psychological, design, and operational elements of loyalty programs, and each element is observed in light of customer relationship stages. Through this model, I propose that extant findings on loyalty

programs that seem conflicting can be resolved by accounting for the key customer relationship stages—i.e., acquisition, onboarding, expansion, and retention. In closing, this research suggests a set of 12 propositions that account for differential effects across the stages.

Essay 2 extends the insights from Essay 1 by empirically testing the differential impact of the key loyalty program enhancements (i.e., points multiplier and expiring promotions) on customer performance that depends on the types of customer relational states (i.e., customer temporal state and loyalty program state). Through a multi-method approach, consisting of a field data analysis and two lab experiments, this research suggests a set of managerial takeaways and future research avenues in loyalty programs literature. With an integrative theory of loyalty program enhancements, this research delineates the trade-offs and mechanisms associated with the key loyalty program enhancement strategies and customer relational dynamics.

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ESSAY 1¹

AN EMERGING THEORY OF LOYALTY PROGRAM DYNAMICS

The average U.S. household belongs to more than 30 loyalty programs, and the number of loyalty program memberships has quadrupled since 2000, totaling 3.8 billion members in 2016 (Fruend 2017). Moreover, the global loyalty management market, valued at USD 4.43 billion in 2021, is projected to reach USD 18.22 billion by 2028 (Fortune Business Insights 2021). Yet practitioners and researchers both express mixed views on the effectiveness of loyalty programs, noting that their financial returns seldom meet expectations (McCall and Voorhees 2010). The challenges of managing a loyalty program are summarized by a manager representing the Millennium Hotel Group: “Honestly, I don’t know what, if anything, it actually does for me” (McCall and Voorhees 2010, p. 36). Nor do customers appear clear on exactly what loyalty programs do for them, leading to an estimated 54% rate of inactive members, many of whom call out programs’ rewards or communications as irrelevant (Fruend 2017). Although some research indicates positive effects of loyalty programs on specific customer behaviors and performance (Chaudhuri et al. 2019; Evanschitzky et al. 2012; Taylor and Neslin 2005), questions remain about whether they actually enhance loyalty to the company (Sharp and Sharp 1997; Yi and Jeon 2003). They arguably may fail to meet expectations (Leenheer et al. 2007; Nunes and Drèze, 2006b) or even represent a “sham” (Shugan 2005).

To help reconcile these fragmented views on loyalty programs in research and practice, this article takes a comprehensive perspective in an attempt to build a conceptual framework of loyalty program effectiveness. First, we synthesize empirical research about loyalty programs

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that identifies psychological, design, and operational elements as critical determinants of their effectiveness. By incorporating extant research findings, we construct a conceptual framework of the overall or average chain of effects from loyalty program strategic design and operational management, through customers' responses, to loyalty program performance. Second, this study extends theories from extant loyalty program literature (cognition–emotion process, social comparison, reciprocity, and achievement motivation theories) with respect to the natural progressive sequence of customers' program interactions, from acquisition (appraising value to initiate relationship) to onboarding (relationship building) to expansion (relationship growth) to retention (lasting engagement). In these four stages, the application of specific theories demonstrates the roles of loyalty programs as relationship initiators, solidifiers, propellers, and retrievers. A relational view can help define when each theory will be most salient. Accordingly, with this research, we seek to provide *a review of empirical and theoretical perspectives on loyalty programs and a propositional inventory to develop a relational framework of loyalty program effectiveness across customer acquisition, onboarding, expansion, and retention stages that can clarify and enhance loyalty program performance.*

Assessments of loyalty program performance often rely on aggregate measures (Lewis 2004; Liu 2007). Several studies examine differential effects of loyalty programs across high-level customer segments (e.g., heavy vs. light program users; Dorotić et al. 2012; Kim et al. 2001); we propose further that the relational stages customers typically proceed through in their relationships with firms are critical to loyalty program effectiveness. Loyalty programs are ubiquitous, important instruments used systematically to manage relationships with customers (e.g., Evanschitzky et al. 2012; Henderson et al. 2011; Steinhoff and Palmatier 2016). By design, most loyalty programs can identify prospective members (e.g., unregistered guests browsing),

newly joined members, active players, and those who are no longer members (e.g., dormant or lost customers). As customers migrate through different relational stages—acquisition, onboarding, expansion, and retention—they manifest unique customer needs and expectations that loyalty program managers must address. With the application of our conceptual framework to these stages of the customer relationship management process (Palmatier and Sridhar 2020), we identify complex trade-offs associated with managing loyalty programs over time.

When customers first consider whether to join a program (i.e., *acquisition stage*), they seek signals of the future benefits they can expect; those who have subscribed recently (i.e., *onboarding stage*) want quick results and value deliveries. In the *expansion stage*, customers who want to achieve elevated status might grant more business to the loyalty program providers. Finally, to retain customers in the long run (i.e., *retention stage*), companies must be cautious about the dangers of status demotion; for example, they might reward opinion leaders for their social media engagement rather than just purchases. Overall, firms should adapt their program focus to appeal to each customer as she or he migrates through different stages over time.

In addition, this article consolidates fragmented, extant findings about loyalty program members' acquisition (Demoulin and Zidda 2009), onboarding (Eggert et al. 2015), expansion (Meyer-Waarden 2007), and retention (Bolton et al. 2000) to distill managerial guidelines for appealing to customers across these stages. A relationship-based lens might explain conflicting findings; for example, customers new to a loyalty program may regard preferential rewards granted to longer-term customers as unfair (bystander effect), but as they approach higher tiers, these same customers may feel strongly motivated by the program's status hierarchy (Steinhoff and Palmatier 2016). Similarly, a great reward that established customers appreciate might seem like too much to new customers and prompt skepticism or suspicion (Eggert et al. 2015).

With this holistic approach, this research contributes to the extant literature in three ways. First, it broadens current views by integrating empirical and theoretical perspectives on loyalty programs and synthesizing various insights from empirical research and theory. By peering through these theoretical lenses, we can reconceptualize extant findings in empirical research with respect to the function each one serves for clarifying loyalty program effectiveness across relationship stages, including psychological, design, and operational mechanisms.

Second, with a theoretical development based on a relational perspective, this study specifies customer stages as an important contingency of loyalty program effectiveness. Existing loyalty programs often use program usage levels to segment customers, but relational stages can capture more nuanced engagement. A relational stages approach also can help explain seemingly conflicting findings in prior research. By detailing when each individual insight applies, this article demonstrates that findings that seem conflicting actually may reflect relational changes over time, and this explanation helps reconcile mixed views on loyalty programs overall.

Third, derived from the various perspectives consolidated in the conceptual model, this article offers avenues for further research, in 12 propositions for how managers can leverage loyalty program performance in each customer relational stage. This broad investigation of loyalty program research and theories reveals the need to adopt a relational stage perspective. However, few existing studies address how each relational stage might determine loyalty program effectiveness. This article suggests extending loyalty program research to account for the relational stages in which customers interact with the loyalty program and its provider.

HISTORY, EVOLUTION, AND SCOPE OF LOYALTY PROGRAMS

The wide variety and applicability of loyalty programs have produced a range of practices, from personalized recommendation systems to simple stamp cards. Before delving into the underlying theories, we clarify the scope we aim to address. In line with Henderson et al. (2011), we define *loyalty programs* as any institutionalized incentive system that attempts to enhance consumers' consumption behavior over time, which captures a broad span of types of programs. The history of loyalty program practices reveals a set of evolutionary stages, starting in the late 18th century. As rewards, in 1793 U.S. merchants distributed copper tokens that customers could collect and exchange for merchandise (Nagle 1971). These "tokens of gratitude" generally had no direct relationship with customers' purchase amount or frequency. This practice caught on in various forms among merchants such as the Babbit Company or Grand Union Tea Company. Then in 1891, the first program that rewarded customers according to their purchase amounts was introduced by Schuster and Company, a department store in Milwaukee. Its "Blue Trading Stamp" program granted customers a stamp for every dime spent, which they could trade for merchandise in the store. Soon thereafter, the Sperry and Hutchinson Company started issuing S&H Green Stamps (Slatalla 2000), similar to Blue Trading Stamps except that customers could collect them from multiple stores. The resulting stamp phenomenon became a mass cultural event, such that in the years before World War I, retailers issued three times as many stamps as the U.S. Postal Service. As it slowly phased out, stamp culture gave way to early rewards programs, such as Betty Crocker Points, collected by clipping box tops.

A boom in rewards programs then arose following the advent of major airline frequent flyer programs. After the 1978 Airline Deregulation Act, which allowed airlines to reward their loyal customers, American Airlines launched its AAdvantage program in 1981 offering "loyalty

fares,” free first-class tickets, upgrades, and discounts (Berry 2015). Other airlines quickly followed suit. Today, frequent “flyer” programs mark many industries, from Lasik surgery to Visa gift cards, and the accumulated rewards constitute a form of currency that often must be included on firms’ balance sheets (Jones 2016). In addition, providers started entering into loyalty program partnerships to allow customers to accrue and redeem points with multiple businesses. For example, the Plenti rewards program (terminated in 2018) spanned multiple industries, including drugstores, travel agencies, and telecom services (Berry 2015).

Finally, with the rise of information technology and social media, loyalty programs have expanded into online social networks. In addition to rewarding purchases, these programs account for online activities such as likes and shares that promote the company and its products. Accordingly, mobile applications are key platforms for loyalty programs (CrowdTwist 2016). Furthermore, advanced technologies enhance the marketing potential of loyalty programs, by gathering more customer activity data. Through smartphones, loyalty programs can interact with customers in real-time and reward them just for stepping into the store, for example. The Shopkick app automatically detects a smartphone’s location in specific stores, with great promise for innovative rewards and personalized marketing. To set its loyalty program apart from typical rewards programs, MasterCard’s Priceless Surprises program grants members spontaneous gifts, such as tickets to the Grammy Awards, to use the proactive power of surprise rather than reactive rewards. Through this evolution, loyalty programs have become nearly ubiquitous over time; the need to provide unique value has increased as well. Future trends likely will feature more creative, innovative, and relevant rewards, including seamless omnichannel experiences that transcend solely online or offline purchase activities (Steinhoff et al. 2019).

EMPIRICAL RESEARCH PERSPECTIVES ON LOYALTY PROGRAMS

Extant empirical research provides insights into loyalty programs' key psychological processes, design elements, and operational levers in action. Despite decades of research and experimentation, loyalty programs continue to be perceived as challenging, possibly due to the lack of an overarching framework. To identify extant research, we searched the Web of Science and Google Scholar (1954–2018) using the search terms “loyalty program,” “loyalty membership,” “loyalty card,” “customer reward,” and “rewards program.” Additional articles were included if the context and implications were clearly associated with loyalty programs—such as Nunes and Drèze's (2006a) examination of the effect of artificial advancement on consumer effort. The collection effort resulted in 129 articles in 37 marketing and psychology journals. These inputs inform the development of a comprehensive conceptual model of loyalty program effectiveness. Table 1.1 compiles the definitions of core constructs.

Term	Conceptualizations	Common Aliases	Representative Papers
Loyalty program	Systemized marketing efforts that offer economic, psychological and sociological benefits to customers, to enhance customer loyalty and firm performance.	Rewards program, frequent flyer program	Meyer-Waarden (2007); Sharp and Sharp (1997)
Customer loyalty	Customer attitudes aligned with a series of purchase behaviors that systematically favor the focal company over competitors.	N/A	Watson et al. (2015)
Psychological Elements			
Perceived value	Customers' evaluation of their net utility, calculated as their benefits relative to the costs.	Customer value	Zeithaml (1988)
Satisfaction	Customers' overall evaluation of experiences with a company.	N/A	Oliver (1999)
Habit	Customers' memory-based preferences for an established behavioral pattern, resulting when they consistently perform and automate the same behavior in a regular context.	Psychological inertia	Henderson et al. (2014)
Dependence	Extent to which customers rely on the loyalty program of a company.	N/A	Henderson et al. (2011); Klemperer (1995)
Gratitude	"The emotional appreciation for benefits received, accompanied by a desire to reciprocate" (Palmatier et al. 2009, p. 1).	N/A	Palmatier et al. (2009)
Status	Customers' perception of holding an elevated position or rank within the firm's customer hierarchy.	N/A	Drèze and Nunes (2009); Wagner et al. (2009); Steinhoff and Palmatier
Unfairness	Degree to which own input–outcome ratio, compared with that of others, is perceived as unacceptable or inequitable.	N/A	Henderson et al. (2011)
Skepticism	Customers' feeling of suspicion incurred by attributing the motive of a company to a persuasion attempt.	Customer suspicion	Eggert et al. (2015); Forehand and Grier (2003)
Design Elements			
Enrollment	Whether customers can sign up for a loyalty program at their discretion or need company approval.	Open/closed program	Berman (2006)
Tiers	Customers are distinguished into a hierarchy/tier depending on their input/purchase levels.	Tier, status	Drèze and Nunes (2009); Wagner et al. (2009)
Partnership	Partnering with other companies and offering a joint program in which customers can earn and redeem rewards at different companies.	Coalition loyalty programs	Lemon and von Wangenheim (2009)
Currency	The way the company exchanges value with the customer through loyalty programs, such as points.	Reward exchange value	Hsee et al. (2003); Kwong et al. (2011); Bagchi and Li
Reward type	Hard rewards are tangible or financial; soft rewards are based on psychological or emotional benefits.	Reward fit	Bridson et al. (2008); Melancon et al. (2011); Yi and Jeon (2003)
Reward value	The monetary value amount of the reward.	Point value	De Wulf et al. (2001)
Reward fit	Direct rewards are closely related to the core offering, whereas indirect rewards are not.		
Rewarded behavior	The types of customer behaviors that the company rewards.	N/A	Taylor et al. (2015)
Operational Elements			
Rule clarity	Extent to which the company explicitly communicates the reasons for delivering a reward.	Prioritization transparency	Steinhoff and Palmatier (2016); Wetzel et al. (2014)
Reward visibility	Salience of a reward to surrounding customers.	N/A	Steinhoff and Palmatier
Reward exclusivity	Limitation of a reward to a small group of customers only.	N/A	Steinhoff and Palmatier (2016)
Reward distribution	The mechanism (e.g., prefilled stamps) or timing (e.g., immediate after every transaction or delayed after point accumulation) of distributing a reward.	Reward timing	Keh and Lee (2006); Yi and Jeon (2003); Roehm et al. (2002)
Target vs. bystander	Target customers receive rewards; bystander customers observe or witness the target customers receive rewards.	Loyalty program customer portfolio	Steinhoff and Palmatier (2016)
Customer fit	Individual customers may have heterogeneous fit with the loyalty program (e.g., perceived advantage in achieving rewards, proximity to the store)	Customer fit	Kivetz and Simonson (2003)

Table 1.1. Construct Definition Overview

Prior loyalty programs research focuses on three main elements, which can be combined within a nomological net: (1) psychological, (2) design, and (3) operational. As illustrated in Figure 1.1, these three elements are key to understanding how the various design elements of a loyalty program can determine performance, which underlying psychological mechanisms (i.e., cognitions and emotions) they trigger in customers, and how program operations can enhance or dampen their effectiveness. These elements broadly reflect the relationship marketing framework proposed by Palmatier and Steinhoff (2019), which emphasizes the relational mechanisms customers encounter (psychological) and actions by sellers that precede (design) and affect (operational) those mechanisms (Table 1.2). A good example of interactions among these elements comes from a frequent flyer program designed with multiple tiers (Steinhoff and Palmatier 2016). That is, a gold status customer who boards early on a red carpet perceives high status; bystanders who observe this priority boarding may feel reduced in status and deem their lack of preferred treatment as unfair. The operational elements of the program (i.e., reward visibility and reward rule clarity) thus differentially affect the degree of elevated or reduced status and perceived unfairness experienced by customers. Accordingly, studies of various loyalty program *designs* detail which *psychological* mechanisms they incur, how the *operational* elements of the programs exert additional impacts, and which outcomes they have for customer loyalty. Attitudinal loyalty, which consists of cognition, preference, and affect (Oliver 1999), and behavioral loyalty, which manifests in a range of profitable consumption behaviors such as repeated purchases (Oliver 1999) and word of mouth (WOM; Morgan and Rego 2008), are both measures of loyalty program effectiveness (Watson et al. 2015). Overall, customer loyalty captures a wide range of attitudinal and behavioral responses that loyalty programs aim to ignite.

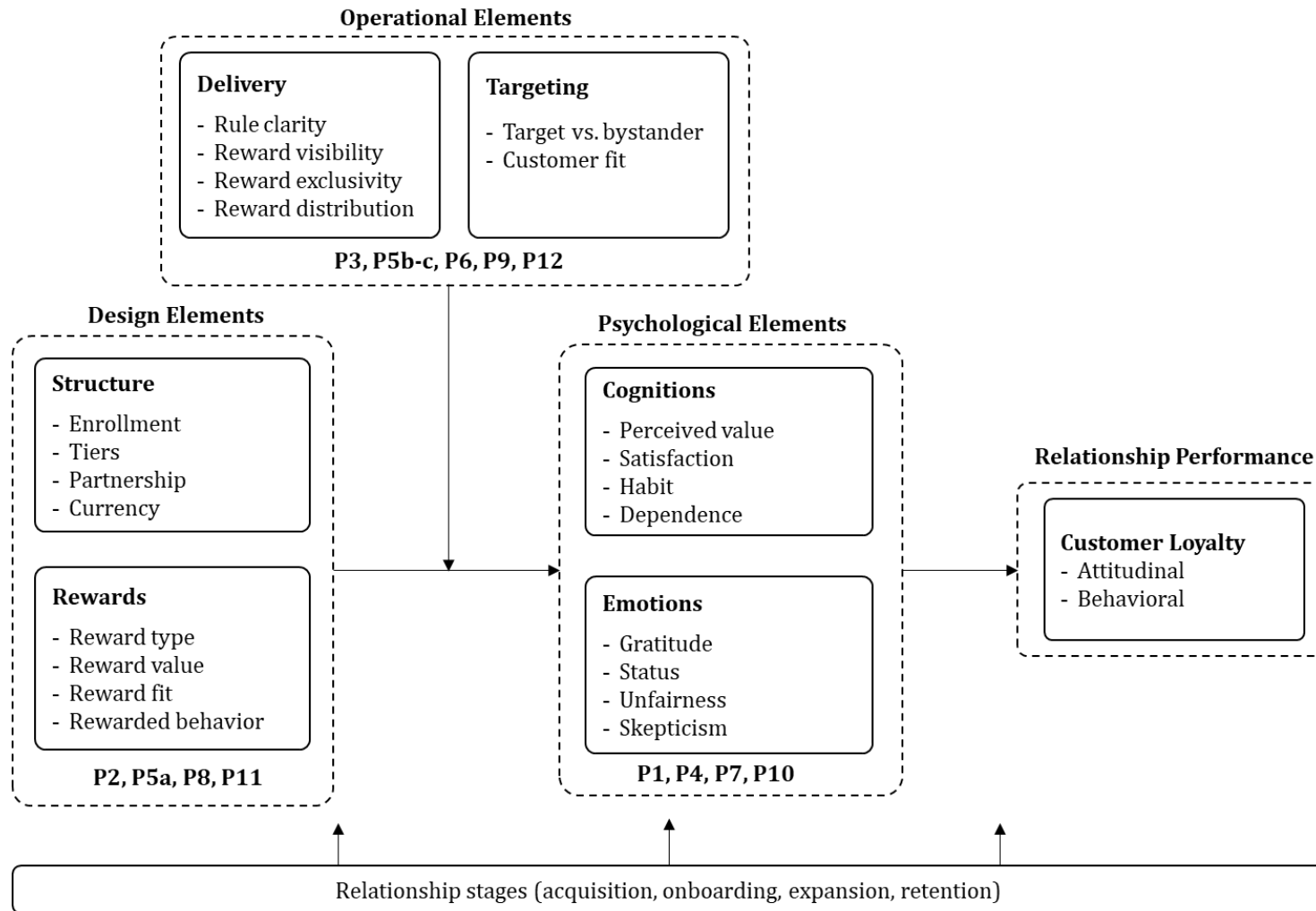


Figure 1.1. Integrative Conceptual Framework of Loyalty Program Effectiveness

Reference	Research Type	Research Context	Elements	Key Findings
Psychological Elements				
<i>Cognitive (e.g., perceived value, learning, habit, dependence)</i>				
Nunes and Drèze (2006a)	Empirical analysis and field survey	Car wash, restaurant, liquor store	LP reward value	People with artificial advancement toward a goal show greater persistence toward achievement, increasing the likelihood of reward redemption and decreasing the completion time.
Henderson et al. (2014)	Field experiment	Telecommunication	LP mechanism	Differential effects of customer engagement depending on the customer's intrinsic loyalty profile: habit-, dependence-, and relationship-based intrinsic loyalty.
Evanschitzky et al. (2012)	Empirical analysis and field survey	Retail	LP mechanism	Program loyalty leads to enhanced purchase behavior, while company loyalty enhances the customer's choice to visit a provider.
<i>Emotional (e.g., gratitude, unfairness, status, skepticism)</i>				
Palmatier et al. (2009)	Empirical analysis and field survey	Retail and manufacturing	LP reward value, mechanism	Relationship marketing investments enhance gratitude, which drives long-term firm performance via reciprocal behaviors.
Eggert et al. (2015)	Empirical analysis and survey	Experiment with scenarios (airline, hotel, retail); survey	LP mechanism, tiers	Mixed effects of status endowment occur depending on the context (gratitude/skepticism); the effect can be alleviated by freedom of choice, proximity to status achievement, and perceptions of the value of the preferential treatment.
Wagner et al. (2009)	Empirical analysis	Experiment with scenario (airline); field data analysis (department store)	LP tiers, mechanism	Negative impact of tier demotion (lowering customer status due to shortage of purchase) is stronger than positive impact of promotion. To mitigate the negative effect, firms can remind customers of the requirements to maintain the status.
Design Elements				
<i>Structure (e.g., program type, tiers, partnership, currency)</i>				
Drèze and Nunes (2009)	Empirical analysis	General loyalty program	LP tiers, status	Adding a subordinate tier enhances consumers' perceived status. Even those who are not qualified prefer LPs with multiple tiers. Labels such as Silver, Gold, and Platinum signal status.
Lemon and von Wangenheim (2009)	Empirical analysis	Airline loyalty program	LP partnership	LP partnerships have a positive effect on the core company and the partner in terms of cross-selling—especially when usage of the core offering is high and the fit between partners is strong.
Berman (2006)	Managerial article; anecdotal evidence	Various loyalty programs	LP types	Types of LPs, actual cases, and tips per type; open LPs are more likely to enroll a large number of members due to ease of registration, but closed LPs are more likely to increase profits if eligibility is based on profitability.
Schumann et al. (2014)	Empirical analysis	Coalition loyalty programs (retail)	LP partnership	When the partner suffers from a service failure, a spillover effect might spread to the focal company.
Bagchi and Li (2010)	Empirical analysis	Grocery and restaurant loyalty program	LP currency	Customers consider the distance (points needed) and step size (points/dollar) represented by loyalty programs. Step-size ambiguity level determines when distance and/or step size affect post-enrollment inferences.
<i>Rewards (e.g., value, type, fit, behavior)</i>				
Liu et al. (2015)	Empirical analysis	Customer review	LP reward value, mechanism	Financial rewards do not always prompt positive emotion when the amount is less than expected. In such a case, verbal acknowledgement evokes greater appreciation.
Bridson et al. (2008)	Field survey	Retail loyalty program	LP reward value; LP reward type	Hard benefits predict store satisfaction; soft benefits predict store loyalty. Store satisfaction mediates the relationship between LP and store loyalty.
Melancon et al. (2011)	Survey and empirical analysis	Sports team seasons ticket; hotel loyalty program	LP reward type	Perceived social rewards lead to affective commitment; perceived economic rewards lead to continuance commitment. Affective commitment predicts consumer relational worth.
Operational Elements				
<i>Delivery (e.g., rule clarity, visibility, exclusivity, distribution)</i>				
Shen et al. (2015)	Empirical analysis	General task, auction	LP reward delivery, rule clarity	Customers can be more motivated to pursue rewards via more effort, time, and money, when the reward delivery is framed as uncertain. The effect only occurs when people focus on the pursuing process as opposed to the reward outcome.
Jiang et al. (2013)	Empirical analysis	Retail and restaurant	LP reward delivery, visibility	Unearned preferential treatment incurs mixed emotions; when visible to others, the customer feels social discomfort due to a fear of social judgments. The effect is mitigated when the witness is of higher status.
<i>Targeting (e.g., target/bystander, customer fit)</i>				
Kivetz and Simonson (2003)	Empirical analysis	Department store, grocery, gas station, credit card program	LP customer fit	Customers' perceived "effort advantage" triggers preferences for higher program requirements to join LP. Such idiosyncratic fit is a good source of participation enhancement.
Steinboff and Palmatier (2016)	Empirical analysis and field survey	Coffee shop, hotel, airline loyalty program	LP reward delivery, mechanism, targeting	LPs' differential effects on target/bystander customers include simultaneous effects of three mediating mechanisms (gratitude, status, unfairness) and the contingent effects of program delivery (rule clarity, reward exclusivity, reward visibility).

Table 1.2. Empirical Perspectives on Loyalty Programs (LPs)

Psychological Elements

Psychological elements refer to cognitive and emotional processes in customers' minds, which function as mediating mechanisms that determine loyalty programs' ultimate performance. Loyalty programs apply to various customer portfolios, with complex delivery methods, so they evoke diverse psychological mechanisms that work simultaneously in customers' minds.

Cognitive. Customer cognitions are information-processing mechanisms that explain or predict consumption-related decisions and outcomes (Bettman 1979). Loyalty program research details four relevant cognitive processes: perceived value, satisfaction, habit, and dependence. *Perceived value* reflects customers' evaluation of their net utility, calculated as benefits relative to the costs. In a loyalty program context, it might depend on discounts, various available rewards, the ease of achieving them, and the convenience of the shopping experience (Mimouni-Chaabane and Volle 2010). As they advance toward a goal—even an artificial one—customers perceive greater program value (Nunes and Drèze 2006a). Yi and Jeon (2003) also demonstrate that value perceptions enhance program and brand loyalty.

Customers gauge their *satisfaction* with the product and company before considering the benefits of loyalty programs; empirical evidence shows that satisfied customers prefer delayed rewards, whereas unsatisfied customers prefer immediate ones (Keh and Lee 2006). Intuitively, practitioners must prioritize customer satisfaction with products and services before implementing or promoting a loyalty program.

Although initially customers deliberate and analytically assess program benefits and their satisfaction, over time, they may experience a cognitive form of inertia. *Habit* pertains to customers' memory-based preferences for an established behavioral pattern, as results when they

consistently perform and automate some behavior in the same context. As Henderson et al. (2014) show, habitual customers either expand or defect when rewards prompt them to reconsider their engagement. Thus, they highlight differential effects of habit, in contrast with a common assumption that habit has consistently positive effects for businesses (Shah et al. 2014).

What may keep customers from switching though is the extent to which they perceive their *dependence* or reliance on the loyalty program (Henderson et al. 2011). An asymmetric dependence structure may harm the relationship, but greater interdependence helps it (Kumar et al. 1995). By design, customers can build up substantial rewards in a program, which can impose significant switching costs. Even disregarding the amount or value of their reward balance (Hartmann and Viard 2008), customers might accrue psychological costs of switching if they feel dependent on or accustomed to the program, such that they become locked in (Klemperer 1995).

Emotional. Customer emotions refer to valenced, affective responses to situations (Ortony et al. 1990). Rewards are generally appreciated, but mixed emotions might emerge in some circumstances, including senses of gratitude, unfairness, status, or skepticism. As noted in the previous example, depending on whether the customer is the target of a reward or a bystander who observes another person receive it, loyalty program benefits can have divergent effects (Steinhoff and Palmatier 2016). Customer *gratitude* is “emotional appreciation for benefits received, accompanied by a desire to reciprocate” (Palmatier et al. 2009, p. 1). A feeling of *status* reflects customers’ perception of holding an elevated position or rank within the firm’s customer hierarchy. *Unfairness* is the degree to which a person’s own input–outcome ratio, compared with that of others, is perceived as unacceptable or inequitable. Target customers who receive preferential treatment and a higher level in a tier-based loyalty program likely sense higher status and gratitude, but bystander customers may sense unfairness. When they receive

unearned status rewards, customers even might develop *skepticism* about the motive for the reward, despite feeling somewhat grateful (Eggert et al. 2015). Other miscellaneous emotions also might be elicited by loyalty programs, such as discomfort (Jiang et al. 2013), frustration, or feelings of pressure and accomplishment (Stauss et al. 2005). However, this study focuses on the four primary listed mechanisms, to delineate their influential effects in tiered loyalty programs.

Design Elements

Design elements and features include the program structure and rewards, which reflect strategic decisions about the program type, tiers, partnerships, and currency, as well as reward value, types, and characteristics.

Structure. The structure of a program results from decisions about the loyalty *program type*, including whether customers can sign up at their discretion or need company approval. These decisions should reflect the objectives of the loyalty programs. Esmark et al. (2016) suggest that loyalty programs with free, public enrollment prompt greater in-group identification, because customers have control over their enrollment, but closed, company-approved programs evoke higher gratitude, because customers attribute the enrollment benefits to the company. In both cases, customer loyalty intentions may increase, through different processes. Berman (2006) proposes that open loyalty programs can enroll a large membership base, but closed loyalty programs might be more likely to increase sales or profit, because program eligibility usually is based on customer profitability along with potential membership fees. Loyalty program managers should adapt their strategies according to their primary key performance indicators to measure program performance.

The *tier structure* indicates how many hierarchical levels appear in the loyalty program; more tiers increase customers' perceptions of status and loyalty (Drèze and Nunes 2009). Even

people who do not qualify for tier promotions prefer multiple-tiered loyalty programs, possibly due to a sense of potential. However, a backlash effect is possible if customers suffer demotion due to a lack of purchases (Wagner et al. 2009). In a tiered structure, high (vs. low) status members might be more strongly affected by goal failure (Wang et al. 2016), so managers should remind customers of their spending progress and requirements to maintain their status.

The structure also might feature *partnerships* with other companies, including joint programs in which customers can earn and redeem rewards at both the focal company and partner vendors; a coalition of loyalty program partners operated by a third-party provider (e.g., UPromise); or sponsorship agreements that allow customers to redeem, but not accrue points, with a partner. The first type is the most common. Such partnerships tend to benefit both the focal company and the partner, in terms of greater potential cross-sales (Lemon and von Wangenheim 2009), faster point accumulation, expanded redemption choices (Dorotić 2010), and lower implementation and infrastructure costs (Ferguson and Hlavinka 2006). However, if a partner suffers a service failure, the negative effect may spill over to the focal company (Schumann et al. 2014). Managers should consider and prepare for the risk of spillover effects, by conducting thorough investigations of potential partners.

Finally, decisions about the rewards' *currency* design strongly influence customer perceived value. Currency refers to the way the company exchanges value with the customer through loyalty programs, such as points, miles, and so on. Hsee et al. (2003) provide empirical evidence that the mere presence of artificial currency, such as points, makes people overestimate the value of rewards, due to the illusion of a scale (more bonus points) and certainty (linear point distribution). Customers' decision to redeem points also depends on the ease of computation (Kwong et al. 2011). However, a point system with easy numbers is not a universal solution,

because customers also consider the distance (points needed) and step size (points/dollar) represented by loyalty programs (Bagchi and Li 2010).

Rewards. Once the structural design elements have been set, the reward design needs to be determined. *Reward value*, the monetary value of the reward, clearly has a significant impact. Customers' perceptions of how much firms invest in relationship marketing positively influence various outcomes, such as commitment and gratitude, which benefit long-term firm performance (Palmatier et al. 2006). If a reward's financial value is below customers' expectations, it prompts more negative perceptions than do non-monetary rewards (Liu et al. 2015).

Managerial decisions about the *type of reward* also prompt various effects, depending on the context and expected outcome. Hard rewards are tangible or financial (e.g., gift cards); soft rewards are based on psychological or emotional benefits (e.g., VIP priority boarding). De Wulf et al. (2001) demonstrate a positive effect of tangible rewards on behavioral loyalty, though both hard and soft rewards can be effective, such that the former predict satisfaction, and the latter predict loyalty (Bridson et al. 2008). *Reward fit* is particularly significant for programs that feature partnerships. Fit pertains to whether the reward is direct, such that it relates closely to the core offering (e.g., coffee shops offer free coffee), or indirect, with little link to the seller's offering (e.g., coffee shops offer notepads). In selecting the level of reward fit, practitioners might consider customers' involvement, because in high-involvement situations (e.g., beauty salons vs. fast-food restaurants), consumers prefer direct rewards (Yi and Jeon 2003).

The types of customer *behaviors* that the company rewards also represent key considerations. For example, 97% of loyalty programs only reward purchase transactions, which may not be sufficient, considering that 77% of them fail (Taylor et al. 2015). Instead, rewarding a wider range of customer behaviors, such as social media engagement or WOM, might be

beneficial. Members rewarded for their social media engagement tend to display higher attitudinal loyalty than those rewarded solely for purchase transactions (Rehnen et al. 2017).

Operational Elements

Finally, empirical research cites various operational elements, captured by decisions about how and to whom to deliver rewards. Such operational details can moderate the influence of design elements (Steinhoff and Palmatier 2016).

Delivery. The effects of the customer portfolio design are moderated by delivery characteristics such as rule clarity, reward visibility, reward exclusivity, and reward distribution. ***Rule clarity*** indicates the extent to which the seller discloses information about why someone receives a reward (e.g., public announcement of priority boarding for those with 100,000 miles accrued). A reward designed to be uncertain that also provides low rule clarity (e.g., 50% chance of \$2, 50% chance of \$1) can be more motivating than a certain reward with higher expected value (e.g., 100% chance of \$2), so customers invest more effort, time, and money when they focus on the process of achieving the reward (Shen et al. 2015). ***Reward visibility*** reflects the salience of a reward to bystanders. ***Reward exclusivity*** arises by limiting rewards to specific customers only. ***Reward distribution*** refers to the mechanisms and timing of distribution. For example, a mechanism that relies on endowed progress (e.g., pre-filled stamps) induces higher motivation to earn and redeem the reward (Nunes and Drèze 2006a), but this effect does not arise when the endowment is excessive, which causes customers to focus on diminished goal value (Zhang and Huang 2010) or sense skepticism (Eggert et al. 2015). In terms of distribution timing, Keh and Lee (2006) show empirically that satisfied customers prefer delayed (vs. immediate) rewards, but unsatisfied customers prefer immediate (vs. delayed) rewards. Involvement may be another moderator of reward distribution efforts, such that low involvement increases

preferences for immediate (vs. delayed) rewards (Yi and Jeon 2003). Loyalty program designers must note and account for these various operational aspects.

Targeting. Targeting comprises two main elements: defining target and bystander customers and achieving customer fit. *Target customers* receive rewards; *bystander customers* observe or witness target customers receive rewards. They exhibit different comparison mechanisms (Steinhoff and Palmatier 2016). For example, when offered priority check-in at airports, target customers sense more gratitude and higher status; bystander customers perceive lower status and unfairness. Managers need to be cognizant of various customers, rather than focusing just on target customers, and also consider *customer fit* with the loyalty program. Kivetz and Simonson (2003) show that customers prefer higher program requirements if they believe that they have an advantage (i.e., better fit) over others. This relative appraisal process may reflect other idiosyncratic types of fit too, such as proximity to the store or relative purchase frequency. Perceived fit then can inform appropriate personalized loyalty program tactics. Noting these underlying processes, managers should explore ways to mitigate potential negative effects on bystanders while enhancing the positive effects of customer fit with the program.

Insights and Implications

Extant research has established relationships and effects pertaining to psychological, design, and operational elements. However, these contributions tend to take an overarching, averaging perspective, without accounting for customer relationship stages. We propose that some of the conflicting findings from prior loyalty program research might be addressed with a relational perspective. For example, regarding design elements, one study asserts that customers prefer multiple- (vs. single-) tier programs (Drèze and Nunes 2009) and notes positive effects on various outcomes (e.g., relationship commitment, purchase amount, share, WOM, feedback;

Lacey et al. 2007). But another study indicates that tiered programs reduce purchases, because customers in the high tier suffer more goal failure (Wang et al. 2016). This tension might be resolved by applying a relational view. Prospective, less experienced customers in the acquisition and onboarding stages focus on appraising program value, whereas in more mature, expansion and retention stages, customers are more sensitive to the threat of goal failure. As another example, studies of loyalty program partnerships suggest benefits of cross-selling, especially when the fit between partners is strong (Lemon and von Wangenheim 2009), but also identify the risk of negative spillovers from a partner that suffers a service failure (Schumann et al. 2014). Cross-selling benefits might be more prominent in the customer expansion stage, when high value customers seek to make more purchases, but spillover risk likely is more salient in the retention stage, when firms need to work carefully to keep profitable customers. A relational perspective might help clarify extant insights, and its application could systematically extend this research domain even further. The Appendix showcases current configurations of the North American top 100 loyalty programs, according to the dimensions of our conceptual framework.

TOWARD A THEORY OF LOYALTY PROGRAM DYNAMICS

This section uses these detailed empirical findings about loyalty programs to clarify how relationship marketing literature might add further program insights. Although all loyalty program elements are important over time and across stages, some psychological, design, and operational elements are more prevalent in some stages than in others. Furthermore, many studies observe differential effects of loyalty programs across broad customer segments, such as light versus heavy users (Dorotić et al. 2012; Kim et al. 2001). Yet few contributions consider loyalty programs through a customer relationship lens, according to different relationship stages.

Relationship stages reflect nuanced, time-dependent spectra of customer engagement, beyond usage. Due to their systematic collection of customer data, most loyalty programs can track customers across relationship stages, such as identifying potential customers deciding whether to engage (e.g., unregistered, browsing online shopper), welcoming newly joined members, encouraging them to stay engaged, and even winning back dormant customers. Different configurations of operational elements also may be effective along various relationship stages, such as on the basis of points accrued with different partners or the timing of rewards.

With this sense that viewing loyalty programs according to relational stages is critical, we adopt and apply an extended version of the acquisition–expansion–retention framework that adds an onboarding stage (Table 1.3), in line with theoretical assertions (spontaneous trait inference, Winter and Uleman 1984; see also Voorhees et al. 2017). The underlying foundation for this theory development holds that loyalty program relationships evolve through multiple stages: Initial cognitive value appraisals (e.g., financial value of rewards, likelihood of reward achievement) transition to incorporate emotional value processing (e.g., status, exclusivity). This claim reflects a well-established relationship marketing notion, according to which relationships between buyers and sellers start with simple cognitive awareness and progress through different stages (Dwyer et al. 1987; Jap and Ganesan 2000; Zhang et al. 2016). A multiphase model can reflect ongoing relationships, including loyalty program relationships, across multiple transitions and evolutions. Although loyalty program relationships may be fluid, specific considerations also should become particularly prominent in each stage (Table 1.3). The proposed relational stage perspective, accounting for evolving psychological processes, design elements, and operational choices, indicates how loyalty programs can initiate (acquisition), solidify (onboarding), propel (expansion), and retrieve (retention) relationships.

Reflecting the varying salience of the different theories for these relational stages, this review also synthesizes insights from loyalty program research with relationship stage theories to weave a parsimonious theory of relational loyalty programs. Specifically, 12 propositions highlight the opportunities and challenges that confront loyalty program managers across the acquisition, onboarding, expansion, and retention stages. This article also illustrates trade-offs in the relationship-based management of loyalty programs, delineating how loyalty programs' various psychological, design, and operational elements vary across relationship stages (Figure 1.1 links the propositions to these elements), as well as how these trade-offs reflect the unique theoretical underpinnings of each stage (Table 1.3).

	Acquisition	Onboarding	Expansion	Retention
Key Roles of Loyalty Programs	Relationship initiator	Relationship solidifier	Relationship propeller	Relationship retriever
Overarching Foundation for Theory Development	Over the four stages, loyalty program relationships are developed initially through cognitive value processing (e.g., financial value, likelihood of reward achievement) and then evolve to incorporate emotional values (e.g., status, exclusivity), leading to evolving roles and theories in each stage. These theories explain the unique theoretical underpinnings of each stage.			
Key Theories	Expectancy value theory (Klein 1991)	Reciprocity theory (Bagozzi 1995), spontaneous trait inference theory (Winter and Uleman 1984), and trait activation-binding process (Zárate et al. 2001)	Social comparison theory (Festinger 1954)	Achievement motivation (Atkinson 1957) Habit/dual-process theory (Smith and DeCoster 2000)
Descriptions and Theoretical Relevance to Stage	Individual expectancy and perceived value of goal attainment account for subsequent performance. During acquisition, customers are exposed to novel information about the program and form expectations about the likelihood of reward achievement and perceived values.	Reciprocity explains the universal motivation to return good for good. Providing exclusive rewards to onboarding customers can help solidify the new relationship. Impressions form first by automatically activating a trait and then binding the trait to the agent in long-term memory. Loyalty program strategies can be tailored for the new customers, who are open to forming impressions.	People have natural tendencies to compare themselves with others, which could positively or negatively influence the loyalty program's role in expansion, depending on the customer portfolio.	Achievement motivation theory explains behaviors toward achievement and away from failure. When customers are thus driven, retention rates likely increase. People's mental processing involves dual processes: automatic and deliberate. Through repetition of deliberate processing, automatic habits can form, which can help retain customers.
Key Findings	The higher customers' expectancy and perceived value of a loyalty program, the more likely they are to join and engage with the program.	When customers are rewarded, they are willing to return the favor through various means such as attitudinal or behavioral loyalty. Specific aspects (e.g., type of reward) of a loyalty program can evoke higher preference among customers who are relatively new to the program.	Hierarchical loyalty programs motivate customers to compare themselves with others in different tiers.	Active participation in loyalty programs can be explained through inertial tendency and expectancy. Repeated activities in loyalty programs can form customers' habit and contribute to behavioral loyalty.
Additional References	Atkinson 1957; Nunes and Drèze 2006a; Yi and Jeon 2003	Li and Dant 1997; Palmatier et al. 2009; Yi and Jeon, 2003	Drèze and Nunes 2009; Steinhoff and Palmatier 2014	Nunes and Drèze 2006a; Henderson et al. 2011
Company Objectives	To acquire new customers and increase the customer base	To solidify the relationship with onboarding customers by creating positive first impressions	To expand engagement (i.e., purchase amount, product categories) of high value customers	To maintain the engagement of high value customers
Customer Activities	Search and sign up for high value loyalty programs	Newly joined members repurchase from the company after receiving a welcome reward	High value customers find additional ways to achieve higher tier benefits (e.g., open a credit card)	Keep learning about the next goal to achieve (e.g., progress dashboard for status qualification)
Examples	ThePontsGuy.com blog illustrates customers' demand for high value loyalty programs.	Panera Bread's welcome pastry is an exclusive reward for onboarding customers.	Neiman Marcus only rewards purchases made with the company credit card; it also provides exclusive rewards such as a personal concierge.	Alaska Airline's website provides a visual dashboard that shows the progress in mileage and the amount needed to achieve the next reward.

Table 1.3. Theoretical Perspectives on Loyalty Programs

We substantiate these recommendations with illustrative statements from a qualitative survey of loyalty program managers (practitioner perspective) and members (consumer perspective). The survey involved 57 participants with mean age of 31.1 years, and 53.4% were women. The 16 current or former loyalty program managers came from various industries (e.g., retail, travel, financial services) with a range of tenures (1–12 years); the 41 loyalty program members had varied levels of engagement (light to heavy). With purposive sampling, we recruited online respondents likely to be knowledgeable about the topic (Eggert et al. 2015), using Prolific (<https://prolific.ac/>; Peer et al. 2017). To qualify, the consumer respondents had to be members of one or more loyalty programs, and the practitioners had to have work experience with loyalty programs. Table 1.4 provides additional details about the samples; Table 1.5 lists some relevant quotes, which include those cited in this section. With open-ended, semi-structured questions, the survey explored practitioners' and customers' perspectives in depth, gathering their insights into designing, operating, and using loyalty programs over multiple relationship stages. For the content analysis of the responses to the open-ended questions (Lombard et al. 2002), both lead researchers coded the data independently, by reading the descriptions of the participants' loyalty program experiences and assigning them to one of the three elements (i.e., psychological, design, and operational) or a fourth category which does not pertain to any particular element. Interjudge agreement reached 93% for the consumer sample and 92% for the practitioner sample; the few disagreements were resolved through discussion.

Participant	Job Description	Tenure (Years)	Industry
1	Customer analysis for magazine subscription program	5	Media
2	Customer engagement and relationships	1	Travel and hospitality (airlines, hotels, gaming, restaurants)
3	Management of credit union's loyalty programs	1.5	Financial services (banking, credit cards)
4	Cash-back program	1	Entertainment
5	Design and implementation of new rewards	2	Emerging platforms (e-commerce, discount-based platforms)
6	Loyalty program enrollment promotion	5	Retail (grocery, drugstore, specialty retail, department store)
7	Reward performance operation and development	2	Financial services (banking, credit cards)
8	Program development and operation	2	Repair services
9	Development and operation of online, automated price changes for loyalty programs	3	Retail (grocery, drugstore, specialty retail, department store)
10	Retail sales; loyalty program promotion	9	Retail (grocery, drugstore, specialty retail, department store)
11	Loyalty program operation	2	Emerging platforms (e-commerce, discount-based platforms)
12	Loyalty program design, operation, promotion; customer acquisition	12	Retail (grocery, drugstore, specialty retail, department store)
13	Marketing and promotion of a web design and hosting company	2	Internet
14	Customer analytics	4	Travel and hospitality (airlines, hotels, gaming, restaurants)
15	Loyalty program promotion	1	Retail (grocery, drugstore, specialty retail, department store)
16	Sales; loyalty program promotion	1.5	Retail (grocery, drugstore, specialty retail, department store)

Table 1.4. (Panel A) Qualitative Survey Sample Descriptions: Practitioners

Participant	Age (Years)	Discussed LP Sector	Number of LPs Joined	LP Involvement	Membership Tenure (Years)
1	23	Retail	3	Moderately involved	1
2	28	Retail	2	Involved	1
3	41	Retail	12	Moderately not involved	4.5
4	39	Restaurant	2	Involved	3
5	33	Financial services	3	Involved	15
6	20	Retail	2	Involved	5
7	43	Retail	3	Moderately not involved	3
8	22	Retail	2	Moderately not involved	1
9	29	Emerging platform	4	Involved	3
10	35	Internet	1	Involved	5
11	26	Retail	10	Moderately involved	4
12	21	Retail	3	Moderately involved	5
13	45	Retail	4	Moderately not involved	23
14	30	Retail	5	Moderately involved	5
15	27	Hospitality	4	Involved	6
16	19	Retail	3	Moderately not involved	2.5
17	23	Financial services	5	Moderately involved	5
18	33	Retail	5	Moderately involved	5
19	24	Retail	3	Moderately involved	5
20	28	Travel	1	Neutral	6
21	29	Retail	2	Moderately involved	3
22	52	Retail	4	Involved	5
23	29	Retail	3	Neither involved nor not involved	11
24	32	Emerging platform	5	Moderately involved	6
25	23	Retail	7	Involved	6
26	56	Retail	1	Moderately involved	10
27	27	Internet	4	Strongly involved	6
28	23	Retail	2	Moderately involved	1
29	44	Travel	6	Moderately involved	14
30	55	Internet	5	Moderately involved	5
31	25	Internet	7	Strongly involved	1
32	20	Retail	3	Moderately not involved	4
33	40	Emerging platform	3	Involved	23
34	28	Retail	4	Involved	10
35	22	Retail	2	Strongly involved	7
36	23	Retail	10	Strongly involved	6
37	57	Retail	2	Strongly involved	13
38	26	Retail	5	Moderately involved	3
39	29	Emerging platform	1	Not involved	0.5
40	21	Retail	3	Involved	3
41	29	Retail	4	Moderately involved	11

Notes: LP = loyalty program.

Table 1.4. (Panel B) Qualitative Survey Sample Descriptions: Consumers

	Acquisition	Onboarding	Expansion	Retention
Psychological	I decide whether if it's most beneficial to me. For example, if makeup is my hobby, then joining Sephora's Beauty Insider would be worth it. If I rarely use a company's products, then I would not join a loyalty program. It depends on how much I would use their products from time to time and what rewards they offer. (Consumer 12)	It took a while to build up to the rewards. They should have advertised it better; I would have been a member for years if so. First impressions were that it'd be slow to build up points... I don't think I use the service any more than I would without the rewards program. (Consumer 41)	Every time I shopped I would get closer and closer to gold tier; that helped me want to shop there more. (Consumer 34) Many loyalty programs offer many bigger rewards the more I utilize their service. It makes me feel like they care about their customers, and it makes me want to stay in their programs. (Consumer 12)	I have a number of things, such as caffeine, mints, and body wash, that I habitually buy through Amazon, and it's very convenient to not have to worry about shipping prices or delays when I run low on something. (Consumer 24)
Design	We try to give benefits that would grab the attention of the customer so that they would have interest in signing up. We would start by offering a sign-up bonus to show the customer the type of rewards they would have. (Practitioner 3) The wide variety of rewards (Amazon, Walmart, Target gift cards) and the relative ease of earning extra points really helped get me on board with the program. I already use or purchase some of the products and services tied into the program, so the sign up was a no-brainer. (Consumer 15)	The loyalty program works for newly joined customers because they get discounts right away and welcome rewards. I think this because they are looking to save money. They could be thinking that if they stay as our customer they will receive more benefits in the future. (Practitioner 12)	The loyalty program works for expanding current customers' engagement because the more they engage with the program the more benefits they receive from it... They could be thinking of using the new opportunities to get more benefits. They would be driven by the rewards for getting higher status. (Practitioner 12) Features that helped to expand my engagement are bonus points and surprise rewards. That always keeps me interested and wanting to keep using the program. (Consumer 14)	Exclusive benefits were probably the best part [of being in a high status], but I still did not maintain the status as it was too difficult of a bar to reach. No negative feelings, just sad when it went away. (Consumer 11) We help track their purchases and email them reminders of how many points they have and all the wonderful merchandise they can redeem. (Practitioner 4)
Operational	The promise of both ease of use and legitimacy of the offered rewards appealed to me. As a result, I have been with Papa John's reward program, even after receiving several offers from rival companies. (Consumer 21)	Welcome rewards are always nice and a definite encouragement to join! Also incentives along the way like bonus points are great. It keeps me engaged and wanting to use the program consistently. (Consumer 14)	Using points multipliers on common purchases to increase the bang for my buck. Getting a good deal became easier and more exciting. (Consumer 38)	We give quarterly drawings for potential prizes and gifts as well as more advanced percentages as they grow in their spending. If they do not make the minimum tier purchases, then they will lose their status and bonus points. (Practitioner 13)

Table 1.5. Illustrative Statements from the Survey on Loyalty Programs across Relationship Stages

Acquisition Stage: Loyalty Programs as Relationship Initiators

In the acquisition stage, prospective customers consider whether to engage or have started to interact but not purchased yet. They appraise the program's value and compare multiple alternatives (including the option not to engage); they develop expectations about their likely goal achievement and perceptions about the value of the program (Yi and Jeon 2003). In other words, prospective customers seek to learn "What's in it for me?" Many customers visit once and never return, so the key role of loyalty programs in the acquisition stage is to initiate the relationship by increasing expected value. Most loyalty programs have low joining costs (cf. the few examples of exclusive memberships with high annual fees), consistent with observations that loyalty program membership sizes are rising, even while active engagement is decreasing (Berry 2015). To acquire members, convenient enrollment (Esmark et al. 2016) and easy-to-calculate currency exchange rates (Bagchi and Li 2010) are key design elements. They facilitate customers' evaluations of value and expectation formation. In the survey, one consumer of an online rewards program noted the relative convenience of earning points and the variety of rewards as the important determinants of whether he would join a loyalty program:

The wide variety of rewards (Amazon, Walmart, Target gift cards) and the relative ease of earning extra points really helped get me on board with the program. I already use or purchase some of the products and services tied into the program, so the sign up was a no-brainer (Consumer 15).

When considering whether to join, customers expend effort to appraise the value of the program and the likelihood of achieving certain rewards, implying the relevance of *expectancy value theory* (Nunes and Drèze 2006a) and buyer–seller relationship frameworks (Dwyer et al. 1987) in this stage. A person's expectations and perceptions of the value of attaining a goal determine his or her subsequent behavior (Klein 1991). As potential members learn about the program, they decide whether to enroll, primarily on the basis of the perceived value of the

rewards and the requirements for achieving them. Expectancy value theory also predicts the thought process customers undergo during the acquisition stage. In particular, cognitions may be prevalent, because they assess the potential value they can extract from participating. Therefore, before experiencing the program, customers likely make more effort to cognitively appraise its value. If loyalty programs offer simple designs (e.g., buy 10 cups of coffee, get 1 free), customers can collect the information easily and compare the financial value of joining the loyalty program. However, deliberately keeping rewards vague can create uncertain expectations, which can be thrilling by offering the promise of surprises (e.g., MasterCard's Priceless Surprises program). Key considerations thus can involve financial value but also psychological benefits such as the prospect of status achievement (Drèze and Nunes 2009). Because intangible benefits are harder to appraise before joining a program, financial value tends to capture more attention from potential customers. As a customer engagement specialist for a hospitality firm suggested, it is critical to signal the high value of a loyalty program to acquire customers:

We try to give benefits that would grab the attention of the customer so that they would have interest in signing up. We would start by offering a sign-up bonus to show the customer the type of rewards they would have.... They would use that bonus to continue earning points toward the next one (Practitioner 3).

In terms of operational elements, hard and direct rewards are effective ways to provide early-stage members with tangible value and benefits related to the core product or service, which may increase their involvement and motivation to continue in the program. As suggested by expectancy value theory (Klein 1991) and the buyer–seller relationship framework (Dwyer et al. 1987), new customers likely are cognitively driven and prefer solid knowledge about what they can expect, favoring high rule clarity. Therefore:

Proposition 1: Loyalty programs enhance customer acquisition when customers perceive the high value of the programs.

Proposition 2: Loyalty programs enhance customer acquisition when (a) they make it

easy to enroll and understand reward currency, and (b) the rewards are direct and hard.

Proposition 3: The enhancing effect of loyalty programs on customer acquisition is augmented when (a) they offer immediate rewards, and (b) the reward rules are clear.

Onboarding Stage: Loyalty Programs as Relationship Solidifiers

Customers in the onboarding stage recently joined the program and started purchasing from the company. During this early window, loyalty programs should solidify the newly formed relationship. Weak relational norms leave the relationship fragile, and customers risk going inactive if they do not experience value quickly. Onboarding customers compare initial impressions with their a priori expectations and form satisfaction evaluations. For example, a consumer of an emerging platform implied that because of a negative first impression, the loyalty program did not help him continue using the service:

It took a while to build up to the rewards. They should have advertised it better; I would have been a member for years if so. First impressions were that it'd be slow to build up points.... I don't think I use the service any more than I would without the rewards program (Consumer 41).

Low engagement rates represent a considerable challenge for companies, but they may be prevented by evoking reciprocity norms. That is, cognitive psychological elements seem to prevail in this early relational stage, but gratitude may make customers engage, reciprocate, and stay active in the program (Steinhoff and Palmatier 2016), as proposed by reciprocity theory (Bagozzi 1995). *Reciprocity theory* helps predict loyalty program effectiveness (Palmatier et al. 2009; Steinhoff and Palmatier 2016), because it reflects the universal motive to return good for good. Rewarding newly enrolled customers (e.g., free product for joining) can trigger their sense of gratitude, which helps solidify the relationship. Empirical evidence indicates that gratitude-based reciprocal relationships can enhance purchase intentions, sales growth, and share of wallet (Palmatier et al. 2009). For customer–firm interactions to evolve from transaction-based to gratitude-based reciprocal relationships, investments in relationship marketing are crucial,

though their effects also are conditional on customers' product category involvement, relationship proneness, and reciprocity norms (Bagozzi 1995; de Wulf et al. 2001; Mende et al. 2013; Palmatier et al. 2009). Relational ties go beyond transactions; a customer may join American Airlines' loyalty program to earn mileage rewards, but a surprise upgrade might be an effective catalyst to solidify the relationship through reciprocity.

First impression management accordingly is a key process in this stage. *Spontaneous trait inference (STI) theory* (Winter and Uleman 1984) predicts unconscious, automatic inferences that people make on the basis of initial observations, such as favorable impressions that follow from receiving a surprise reward right after joining a loyalty program (Reczek et al. 2014). Subsequently, they may initiate a process of adjusting and binding the inferred trait to the agent in their long-term memory, called *trait activation binding* (Zárate et al. 2001). To take advantage of this two-step process, loyalty programs might be tailored to fit the onboarding stage by encouraging new customers, who remain flexible and open to forming impressions, to bind positive, inferred traits into their long-term, established memory, such that they solidify a lasting impression of the program that likely reflects their initial experience. For example, Panera Bread's welcome pastry seeks to prompt a positive first impression, which customers may link to the program overall. Although early-stage customers appear attentive to the value of rewards, the anticipation of "reasonable" reward value represents a key criterion of whether they decide to engage. Across design and operational elements, reward value, visibility, exclusivity, and distribution appear differentially effective across the relational stages. In line with STI theory (Winter and Uleman 1984), immediate rewards give customers a sense of instant benefits and can evoke positive first impressions. Newly acquired members do not necessarily prefer excessively high value right away though; rewards that seem "too good to be true" in the

onboarding stage can foster skepticism and discomfort (Eggert et al. 2015; Jiang et al. 2013). This negative affect could stem from unmet relational expectations (Lewicki and Bunker 1996). Nor do early-stage customers always feel comfortable standing out from the crowd, so highly visible or exclusive rewards may backfire (Butori and de Bruyn 2013; Jiang et al. 2013).

Finally, when customers initiate their membership in a loyalty program, they tend to be bystanders (Steinhoff and Palmatier 2016), with different relational expectations than members in later stages (Lewicki and Bunker 1996), who have developed relational expectations through prior interactions. Managers must carefully nurture relationships with onboarding customers and motivate them to progress in the program, while also avoiding any demotivating influences, such as exposing onboarding customers to other customers' preferential treatment. Striving for elevated status to different program tiers may be an effective means to enhance customer loyalty (Drèze and Nunes 2009).

Proposition 4: Loyalty programs enhance customer onboarding when customers feel high gratitude for the programs.

Proposition 5: Loyalty programs enhance customer onboarding when (a) the reward value, (b) visibility, and (c) exclusivity are appropriate in their extent.

Proposition 6: The enhancing effect of loyalty programs on customer onboarding is augmented when (a) the rewards are delivered immediately and (b) the programs account for bystander (vs. target) customers' perceptions of unfairness.

Expansion Stage: Loyalty Programs as Relationship Propellers

Customers in the expansion stage have been members of the program for a while and are familiar with it. They have the potential to expand their engagement (e.g., apply for a credit card from the company, increase purchase volume and frequency), so the firm's primary business objective is to increase customers' engagement scope and purchases. Loyalty programs can broaden and intensify customer relationships by strategically and systematically offering opportunities to expand their engagement and reach higher status. That is, to reach higher tiers,

with differentiated rewards, as have been earned by observable others in the environment, customers expand their engagement and spend more, reflecting emotional, psychological processes that take over as key drivers of program effectiveness. This sense of higher status can encourage customers to engage and stay active in the program (Steinhoff and Palmatier 2016), in line with *social comparison theory* (Festinger 1954). As also suggested by reciprocity theory (Bagozzi 1995), in mature relationships, higher value rewards enhance customers' gratitude and provide a necessary signal of appreciation. Targets of preferred privileges feel a sense of status achievement that triggers their positive affect, enabling them to feel special relative to others (Drèze and Nunes 2009; Henderson et al. 2011). Many firms, faced with "polygamous customers" who join various programs (Henderson et al. 2011) and split their attention and loyalty, use hierarchical structures to reward the most profitable customers but also encourage purchases by others (e.g., American Airlines' Executive, Hyatt's Diamond, or Famous Footwear's Gold status).

Along with higher status though, customers may feel an increased sense of entitlement, so perceptions of unfairness pose a substantial threat to their loyalty (Samaha et al. 2011; Wetzel et al. 2014). The trajectory of increasing reward value (e.g., more points for the same purchase amount) and various benefits that come with higher tiers can encourage customers. On a similar note, a loyalty program manager of an emerging platform suggested that the prospect of increasing reward value can motivate consumers to strive for higher status:

The loyalty program works for expanding current customers' engagement because the more they engage with the program the more benefits they receive from it.... They could be thinking of using the new opportunities to get more benefits. They would be driven by the rewards for getting higher status (Practitioner 12).

Therefore, in terms of psychological elements, companies should update their rewards to account for customers' changing psychological needs and preferences as they advance through the loyalty programs' hierarchical structures.

In terms of design elements, when customers' interest in the program has solidified and emotions have grown more prevalent, the soft, indirect rewards may stimulate extraordinary experiences, based on psychological rather than financial benefits, above and beyond the firm's core offering. In this sense, loyalty program effectiveness becomes increasingly contingent on *how* programs get delivered, rather than *what* they offer (Steinhoff and Palmatier 2016), in the expansion stage. As noted, visibly and exclusively preferring established customers can enhance their perception of status, in line with social comparison theory (Festinger 1954). Delayed rewards effectively build switching costs, because customers typically have accumulated a considerable number of points that foster both expansion to reach the next reward threshold and retention to avoid losing points, were the customer to leave. For more established customers, selective exposure to the treatment granted to the highest tier customers may spark expansion behaviors. Status demotion represents a downside though; it might cause negative affect among established customers and jeopardize their loyalty (Wagner et al. 2009). Assigning long-term customers to bystander status also may endanger their retention and loyalty, by evoking perceptions of unfairness that prompt backlash effects (Steinhoff and Palmatier 2016). These effects may be mitigated by increasing rule clarity. Overall though, to take advantage of the double-edged effects, firms should rely on social comparison theory and repeatedly check for customer fit, to ensure they remain actively engaged and expand their usage of the program.

Proposition 7: Loyalty programs enhance customer expansion when customers sense higher status due to preferential rewards with higher value.

Proposition 8: Loyalty programs enhance customer expansion when the program offers (a) soft and (b) indirect rewards.

Proposition 9: The enhancing effect of loyalty programs on customer expansion and retention is augmented when (a) they offer delayed rewards and (b) the reward delivery accounts for target customers' sense of entitlement.

Retention Stage: Loyalty Programs as Relationship Retrievers

Finally, customers in the retention stage have been members for a long time; high value customers need to be kept alive and active. During the retention stage, firms seek to maintain their engagement and purchases, and loyalty programs can function as relationship retrievers. *Achievement motivation theory* offers insights into why customers remain actively engaged, according to their expectancy and inertial tendencies, by explaining why people progress toward achievement and away from failure, given a specific goal. As Atkinson (1957) explains, expectancy reflects anticipation of the likelihood and perceived value of attaining a goal; an inertial tendency instead is the “psychological analog to Newton’s first law of motion,” namely, that a body in motion tends to stay in motion, unless something alters its trajectory (Nunes and Drèze 2006a, p. 504). Nunes and Drèze (2006a) rely on achievement motivation theory to predict that customers’ persistence in a loyalty program varies with their advancements, even when that progress is quantifiably meaningless. A frequent flyer is more likely to pursue, achieve, and redeem a reward if he or she starts with 20,000 free miles, even if the program threshold also increases by 20,000 miles. In addition, a person focused on achievement likely grows more motivated when surprised by additional, unearned rewards (Shen et al. 2015). That is, surprising rewards (i.e., low rule clarity) may elicit strong positive emotions, such as gratitude (Palmatier et al. 2009; Steinhoff and Palmatier 2016), that solidify, propel, and retain high value relationships. A marketing and loyalty program specialist at a web hosting company detailed which surprise rewards and exclusive benefits help the company retain high value customers:

We give quarterly drawings for potential prizes and gifts as well as more advanced percentages as they grow in their spending. If they do not make the minimum tier purchases than they will lose their status and bonus points (Practitioner 13).

Habit is an inertial tendency element but also resonates with *dual process theories* that distinguish deliberate from automatic mental processes (Smith and DeCoster 2000). Loyalty programs should reflect customers' conscious motivation to achieve, as well as subconscious habits. Favorable conditions, such as repeated behaviors or stable contexts, encourage customers to form habits over time and through continuous interactions with the program (Henderson et al. 2011). To enhance customer loyalty, programs thus must avoid interruptions or distractions of positive habit-based customers, by making the interaction process seamless and easy. Members of an airline rewards program should be able to book flights with virtually no effort, even if competitors' promotions threaten to interrupt such habits. However, a strong habit can be both boon and bane for firms: It may limit unfavorable (churn) and favorable (expansion) changes (Henderson et al. 2014). Loyalty programs can take advantage of customer habit by customizing marketing initiatives, such as reminding highly dependent customers to use their expiring points, to encourage their further expansion. Such reminders would be less appropriate for less dependent customers, because they instead might prompt them to realize they can defect.

Proposition 10: Loyalty programs enhance customer retention when they both (a) take advantage of customer habit (i.e., lowering tendency to churn) and (b) prepare for the risk of habit (i.e., limiting expansion).

Proposition 11: Loyalty programs enhance customer retention when they maintain customers' achievement motivation through status-exclusive rewards.

Proposition 12: The enhancing effect of loyalty programs on customer onboarding, expansion, and retention is augmented when they occasionally offer surprise rewards (i.e., low rule clarity), beyond purchase-based rewards.

Insights and Implications

The roles of loyalty programs evolve over relationship stages, due to customers' varying needs over the relationship span. Depending on a focal customer's relational stage, differentially focused strategies emerge as most effective for dynamically managing loyalty programs (Table

1.6). This article presents the four stages and respective theories separately, but loyalty program relationships can be fluid. Customers in a retention stage may reenter the expansion stage if they find new opportunities to engage; the onboarding and expansion stages often overlap when new customers quickly expand the relationship. But by linking specific theories to the different stages, we suggest a means to investigate loyalty programs more deeply, from a relational perspective.

In the acquisition stage, to enhance member enrollment, firms should stimulate favorable customer cognitions, such as perceived value. Easy program enrollment and simply understood program currency facilitate subscription. Clear rules also can establish fairness and confirm customers' previously formed expectations. Expectancy value theory provides a framework to understand how customers initially appraise the value of the program and their likelihood of achieving rewards. To onboard customers, rewards of reasonable value that offer some tangible, direct, and immediate benefit, related to the company's offering, are effective for meeting customer relational expectations and building satisfaction with the program. Reciprocity and impression formation theories can inform firms' efforts to address new customers' needs and impressions. As expansion-stage strategies, managers should work to spark favorable emotions. Status tiers, increasing value, and soft, indirect rewards are effective tools for stimulating customer gratitude and status. To leverage their power, firms may deliver rewards in visible, exclusive, or surprising ways and use delayed benefits to motivate customers to expand to the next reward level. Social comparison theory is pivotal to understand why customers might expand their engagement. Finally, strategies to retain customers should focus on emotions and exhibit appreciation by rewarding customers' engagement, while being cognizant of varying

habitual portfolios. Achievement motivation and habit-based theories inform predictions of customers' behavior in the retention stage.

Practitioners can take advantage of these specific theoretical underpinnings and align their strategies with relationship-based, stage-relevant theories (see Table 1.6). If loyalty program membership is increasing quickly but many customers appear dormant, program managers should focus on whether customers in the onboarding stage are being sufficiently engaged. If instead customers used to be active but have started to disengage, they should turn to theories linked to the retention stage to understand if the program design encourages customers to stay motivated to achieve rewards or if some distraction is interrupting their habitual behaviors. Such theory-driven diagnoses can enhance the designs of effective loyalty programs.

To gain deeper insights into the relational effects of their loyalty programs and delineate and adapt their strategies accordingly, companies should use the information tracked by their member databases. They can regularly survey their customers too, to assess their cognitive and emotional responses to the loyalty program. Both behaviors and psychological mechanisms then can be regressed on the design and operational elements and their interactions with customer stages. Ideally, loyalty program practitioners would conduct field tests of different configurations of the design and operational elements with randomized customer samples (Gneezy 2017). Analyzing interactions of reward types and customer stages then can offer insights into the relational effectiveness of reward types for spurring favorable responses.

	Acquisition	Onboarding	Expansion	Retention
	<i>Relationship initiator</i>	<i>Relationship solidifier</i>	<i>Relationship propeller</i>	<i>Relationship retriever</i>
<i>Psychological</i>	P1: Loyalty programs enhance customer acquisition when customers perceive high value of the programs.	P4: Loyalty programs enhance customer onboarding when customers feel high gratitude for the programs.	P7: Loyalty programs enhance customer expansion when customers sense higher status due to preferential rewards with higher value.	P10: Loyalty programs enhance customer retention when they both (a) take advantage of customer habit (i.e., lowering tendency to churn) and (b) prepare for the risk of habit (i.e., limiting expansion).
<i>Design</i>	P2: Loyalty programs enhance customer acquisition when (a) they make it easy to enroll and understand reward currency, and (b) the rewards are direct and hard.	P5: Loyalty programs enhance customer onboarding when (a) the reward value, (b) visibility, and (c) exclusivity are appropriate in their extent.	P8: Loyalty programs enhance customer expansion when the program offers (a) soft and (b) indirect rewards.	P11: Loyalty programs enhance customer retention when they maintain customers' achievement motivation through status-exclusive rewards.
<i>Operational</i>	P3: The enhancing effect of loyalty programs on customer acquisition is augmented when (a) they offer immediate rewards, and (b) the reward rules are clear.	P6: The enhancing effect of loyalty programs on customer onboarding is augmented when (a) the rewards are delivered immediately and (b) the programs account for bystander (vs. target) customers' perceptions of unfairness.	P9: The enhancing effect of loyalty programs on customer expansion and retention is augmented when (a) they offer delayed rewards and (b) the reward delivery accounts for target customers' sense of entitlement.	P12: The enhancing effect of loyalty programs on customer onboarding, expansion, and retention is augmented when they occasionally offer surprise rewards (i.e., low rule clarity), beyond purchase-based rewards.

Table 1.6. Propositional Inventory: Insights on Loyalty Program Effectiveness Across Relationship Stages

CONCLUSION

Fragmented insights on loyalty program effectiveness challenge academics and practitioners (Fruend 2017; McCall and Voorhees 2010). Even though many studies empirically examine the individual workings of loyalty programs, no comprehensive conceptual model has provided a bird's-eye view. This article seeks to achieve such a contribution by synthesizing findings from research and theory into a parsimonious account of relational loyalty programs. It also addresses how extant knowledge can help improve loyalty program effectiveness. Specifically, this article delineates the contributions of loyalty program research according to the psychological, design, and operational elements used to describe and define loyalty programs. Examining this extant knowledge offers critical insights on the effectiveness of loyalty programs. With this extensive review and research inventory, we derive insights regarding appropriate designs, implementation, and mechanisms of loyalty programs. To the best of our knowledge, no prior study provides a comprehensive view of current loyalty program research.

Then we enhance these insights, according to diverse theories underlying loyalty program literature, by applying a customer relationship perspective to define acquisition, onboarding, expansion, and retention stages and categorize key theories. With this framework, this investigation explores not only applications of existing theories but also their interrelationships, to understand why so many theories have been adopted and applied in loyalty program research. In synthesizing the insights from past research and extant theories, we construct a comprehensive theory of relational loyalty programs. The fragmented application of loyalty program research has prompted some conflicting perspectives; a relational view helps resolve them. Different elements have stronger influences across various customer relational stages, as the propositions summarize. The framework provides a macro view of prior studies, a roadmap for further

research, and insights for researchers and managers to apply in each customer relationship stage.

From this foundation, loyalty program research should continue to pursue two main avenues. First, researchers could study relational stages at the individual customer level, as each person moves from appraising the value of the program's design, considers strengthening the relationship after receiving rewards, and decides whether to increase engagement or defect. Empirical studies of loyalty programs often do not include time-varying concepts, so in this regard, longitudinal studies with panel data could provide novel temporal insights, especially pertaining to relationship-based theoretical domains. Second, researchers might study the holistic impact of multiple levers by considering all meaningful variables simultaneously, reflecting the business objectives of starting a loyalty program. To do so, they will need to explore methods to test for multiple effects simultaneously while also controlling for other variables.

Finally, marketing managers can use these theoretical insights to define the role of their program for individual customers, then adopt necessary strategies, rather than applying a one-size-fits-all approach based on piecemeal insights. Busy practitioners may tend to rely on just a few studies, losing sight of what each contribution means at the macro level. The synthesized insights herein provide preliminary, actionable guidance about which elements to improve and their likely impacts on other elements. Understanding how different elements of a loyalty program function together across relationship stages represents strategic input that can guide marketing managers' decisions.

ESSAY 2

LOYALTY PROGRAM ENHANCEMENT STRATEGIES: THE DYNAMIC EFFECTS OF RELATIONAL STATES

Managers and scholars recognize the importance of investing in creating and managing customer loyalty through means such as loyalty programs (Wollan et al. 2017; Watson et al. 2015). In fact, there are more than 3.3 billion memberships in the United States alone (Harvard Business Review 2021), and the global loyalty management market size is estimated to grow from \$4.43 billion in 2021 to \$18.22 billion by 2028 at a compound annual growth rate of 22.4% (Fortune Business Insights 2021). However, one of the critical pain points of managing loyalty programs is deciding how to operate and manage customer rewards earning opportunities—specifically, what to offer to whom and when.

To enhance loyalty program effectiveness, firms increasingly offer customers the opportunities to earn bonus reward points through events such as points multipliers (e.g., double points for purchases in grocery) and expiring bonus promotions (e.g., 100 bonus points for member appreciation week). In this article, we term these instruments *loyalty program enhancements* (LPE). Many customers are inundated with these LPE efforts which often leads to neglecting them, hence the firms' mixed views on the LPE effectiveness. Some managers choose not to offer LPEs because they seem too costly, while others offer them because they seem to help boost the sales, at least in the short run (Wei and Xiao 2015). Research suggests that inconsistent views on loyalty programs may be explained by considering the customer relational dynamics (Kim, Steinhoff, and Palmatier. 2021). As an initial effort to empirically capture the relationship stages in terms of LPEs, we propose considering customers' relational states—i.e., customer temporal state and loyalty program state. Through this research, *we aim to enhance the understanding of the effect of key LPE*

strategies on customer loyalty as well as the key mediating mechanisms and the trade-offs associated with customer relational states.

The key LPE strategies can be characterized by two dimensions: reward currency (i.e., the number of points offered per a fixed amount of spending) and reward timing (i.e., the duration that the reward earning opportunity is offered). The two most prominent types of LPEs are the *points multipliers* that vary the reward points currency and the *expiring reward promotions* that vary the offers' timing. Extending social exchange theory, we predict that points multiplier and expiring reward promotions enhance customer loyalty but through different mechanisms of gratitude because of the different benefits perceived from each LPE and customers' relational states. Successful reciprocal exchanges may trigger different mindsets depending on the types of benefits provided by each LPE. Specifically, points multipliers mainly tap into the economic benefit of earning multiple folds of points, while expiring reward promotions mainly tap into the psychological benefit of achieving the exclusive deal in a limited timeframe. For the unique benefits, customers perceive different levels of gratitude depending on their relational states: (1) *temporal state* (i.e., how long they have stayed in the program) and (2) *loyalty program state* (i.e., how many points they have in their program account balance). For example, long-term (vs. short-term) customers may feel more grateful for the points multiplier because they are knowledgeable of the program and hence more likely to redeem the points in the future. We evaluate the distinct impact of customer temporal state and loyalty program state on each type of LPE effectiveness, and the gratitude mechanisms that parsimoniously explain the interactions.

To test this conceptual model, we conduct three complementary studies. In Study 1, we empirically analyze a panel dataset from a global financial services company and examine the effect of LPEs on customer loyalty. Our context serves as one of the most commonly practiced

forms of loyalty programs, in which customers sign up for a credit card that is linked with a loyalty program that comes with its default benefits, and customers are periodically exposed to bonus reward earning opportunities that are LPEs. The data tracks over 6,700 customers' monthly activities from January 2014 to August 2015, 20 months in total. This dataset uniquely speaks to the problem as it tracks who are exposed to which enhancements, when, and how they respond over time. A control function approach is used to address the potential endogeneity issues and the Heckman self-selection model is used to address the self-selection issues. Through a series of lab experiments, Study 2 replicates the impact of customer relational states in a general context and tests the gratitude mechanisms. For realism and external validity, we implement quasi-experiments that collect participants' relational states and other activities with their most frequently used loyalty programs and then manipulate the different levels of each LPE through a fictional scenario based on their loyalty program to test the interactions and mediation.

This research contributes to the extant literature in three ways. First, we propose a novel, integrative conceptual model on LPE effectiveness using two key types of LPEs, and we empirically illustrate the effects on customer loyalty. While widely practiced, surprisingly little is known about how the key LPEs impact customer loyalty, hence the mixed views by the practitioners. Most extant research in loyalty programs examines either aggregate effects at the program level or the effect of individual LPE activity (Table 2.1). Therefore, it is challenging to reconcile the inconsistent views on LPEs. Unlike sales promotions that are being increasingly personalized, practitioners often implement LPEs universally without considering customer relational states (e.g., Starbucks' Double Star Day), or at best, customize by the program tiers (e.g., Sephora's Insider Appreciation Week). Therefore, empirically capturing the effects of key LPEs on customer loyalty is critical. Our conceptual framework examines the two key LPEs that vary in

the salience of economic and psychological benefits and it provides an integrative foundation for understanding the key LPE effectiveness. In Study 1, we find evidence for the positive effects of points multiplier and expiring reward promotions on customer loyalty. Moreover, we find that a 10% increase in points multiplier leads to a 1.4% increase in customer loyalty, and a 10% increase in expiring reward promotion leads to a 9.2% increase in customer loyalty, controlling for relational states.

Second, this research identifies the dynamic impact of customer relational states on LPE effectiveness. The extent to which each LPE impacts customer loyalty depends on the customer relational states that consist of temporal state and loyalty program state, a finding that helps resolve practitioners' mixed views on LPEs. Though past research has examined the impact of time on customer relationships (Alvarez et al. 2021) and the impact of loyalty points on customer behavior (Danaher et al. 2020), few insights offer a holistic perspective that accounts for both of the important states in loyalty programs. While points multiplier and expiring reward promotion generally enhance customer loyalty, each LPE effect is moderated by customer temporal state in a non-linear manner—i.e., inverted U-shaped impact on points multiplier effect and U-shaped impact on expiring reward promotion effect. Customer loyalty program state suppresses the effect of points multipliers and shows a similar trend for that of expiring reward promotions. In Study 2a, we find that customers with a high temporal state feel more grateful for points multipliers, hence performing better. Further, in Study 2b, we find opposite effects for expiring reward promotions—customers with a high temporal state feel less grateful for expiring reward promotions, hence performing worse. We posit that these divergent effects of customer relational states on gratitude are due to the different salient benefits of each LPE—i.e., points multiplier with economic benefits and expiring reward promotion with psychological benefits. In post-hoc

analyses, we find how the performance lift varies by different levels of relational states.

Third, we identify a parsimonious mechanism of LPE effectiveness by applying the social exchange theory. Specifically, we identify that gratitude underlies the impact of customer relational states on LPE effects, and it moves in different directions depending on which LPE is observed. Because points multipliers are more salient in the economic benefits, customers feel more grateful for the LPE as they achieve a higher temporal state and gain more knowledge about how to accrue and redeem the rewards. On the other hand, because expiring reward promotions are more salient in the psychological benefits, the instant appeal of achieving a good deal in a limited time wears off for customers in a higher temporal state, hence feeling less grateful. Alternative explanations are ruled out such as switching costs and relational expectations. The moderated mediation by gratitude proves robust across different LPE types.

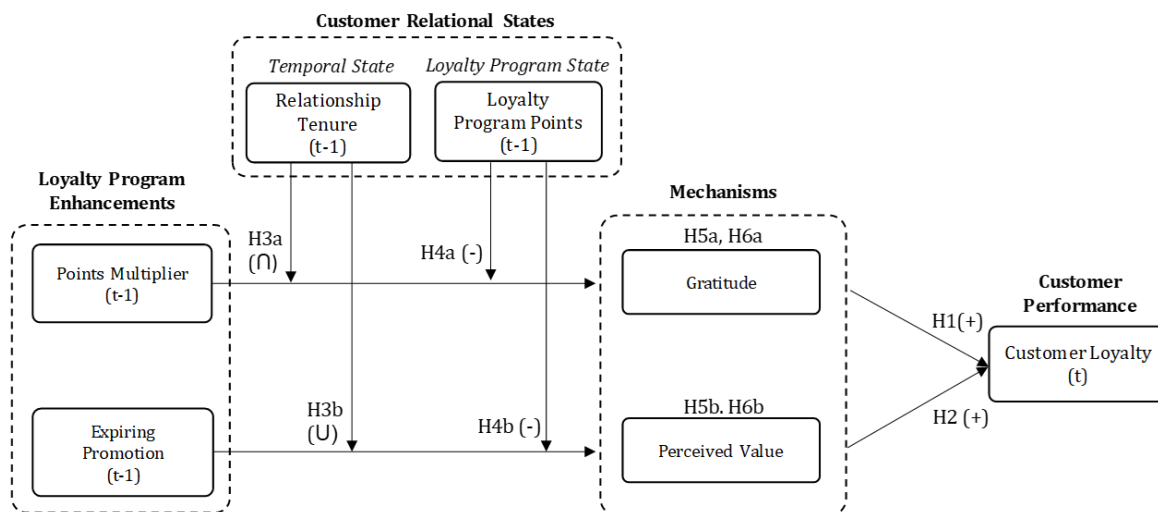
Observed Enhancement(s)	Research Context	Reference	Study Characteristics						
			Accounts for Multiple Enhancement Types	Adoption of Relational State (Tenure)	Adoption of Program State (Points)	Theory	Mediating Mechanisms	Contingency Factors	Findings
Comparing the reactions by LP target customer vs. bystander customer on various reward delivery scenarios	Various settings including retail, hotel, airline	Steinhoff and Palmatier 2016	No	No (controlled)	Yes (indirectly via portfolio)	Equity theory	Gratitude, status, unfairness	Reward exclusivity, rule clarity, reward visibility	LPs have opposing effects on target vs. bystander customers, rule clarity suppresses negative bystander and positive target effects, reward visibility enhances both effects, and exclusive rewards lower negative bystander effects.
Promoting customers to increase hotel nights for bonus points during a 8-month promotion period field experiment	Hotel rewards program	Wang et al. 2016	No	Yes (indirectly via tier)	Yes (indirectly via tier)	Relationship-based reciprocity	Reciprocity expectations, goal attainment/goal failure	Program status tiers, incentive levels	The promotion enhanced purchasing but only 20% reached the goal while 80% missed it. High status tier customers were most affected by goal failure and low status tier customers are most affected by goal success.
Comparing temporary price discounts vs. reward points multiplier	Local retailer's transaction data	Wei and Xiao 2015	No	No	Yes	-	-	Demographics, cumulative points	Price discounts and points promotions both enhance short-term sales. Multipliers enhance other substitute product categories.
Observing the effect of loyalty program expenditures on firm performance in hotel context	Databases of multiple hotel brands and multiple loyalty programs	Lee et al. 2014	Yes (aggregate)	No	No	Social exchange theory	Cost and benefits	Sales and marketing expenses	Investment in hotel loyalty programs show a positive effect on occupancy rate and profitability, though the effects are modest.
Transitioning from price discount program to points-based program that delays the benefit (i.e., item-based LP)	European online grocery retailer which underwent a change to points-based LP	Zhang and Breugelmans 2012	No	Yes	Yes	Switching costs, behavioral learning reinforcement, consumer reactance	Attractiveness of the store, attractiveness of competitors	Competitors' promotions, store visit activities, shopping trip activities, average spending, holiday, trend	Points-based program had a positive impact on promotion responsiveness; current members showed decreased spending while previously non-members increased more.
Observing customer activities on points accrual and expiration to identify the states and their response to reward promotion strategies (DM vs. eDM of statements)	A large coalition LP consisting of various industries (grocery, insurance, petroleum, banking)	Danaher et al. 2020	Yes	No (controlled)	Yes	-	-	Reward category, LP member characteristics (demographics, days since joined LP), marketing contacts (statements), season	Active, hyperactive, and inactive states are identified. Specific reward categories such as accommodation and voucher prevent transitioning from active to inactive and enhance subsequent points accrual behavior. Both DM and eDM help transitioning from inactive to active state and retaining.
<i>Points multiplier and expiring promotions (this research)</i>	Financial services	—	Yes	Yes	Yes	Social exchange theory	Gratitude	Customer product engagement, region, seasonality	-

Table 2.1. Overview of Loyalty Program Enhancement Research

UNDERSTANDING LOYALTY PROGRAM ENHANCEMENTS

As firms increasingly seek to leverage their loyalty programs through offering reward earning opportunities, customers are inundated with such efforts, often leading to neglecting them. To understand what makes a customer respond favorably to LPEs, we propose that LPE strategies, or the key types of LPEs, are a critical construct for loyalty programs literature in that it drives customers' responses to firms' LPE efforts. We focus on the two most prominent types of enhancements used in loyalty program operations: points multipliers and expiring reward promotions. Social exchange theory informs how customers respond to the introduction of loyalty programs (Lee et al. 2014), and we extend further to understand how customers respond when firms offer LPEs, depending on their relational states.

Extant research in loyalty programs largely consists of studies that examine the effect of a single loyalty activity or the aggregate effects on the program level (Table 2.1). Such insights were helpful when loyalty programs used to be designed simply as stamp cards. However, as many loyalty programs evolve to offer a more complex and personalized experience, each customer can have multiple different LPEs depending on their spending amounts and patterns. Therefore, actual practices comprise largely of customers that receive various kinds of LPEs over time—e.g., points multiplier and expiring promotions. Firms are seeking ways to better target customers with loyalty program enhancement strategies. We propose that taking into account customer relational states (i.e., temporal and program states) allows marketers to have a broader lens on loyalty program effectiveness. Below we discuss how social exchange theory explains the key LPE effects, followed by a delineation of each LPE and the roles that each relational state plays for that LPE strategy (Figure 2.1).



Note: H1-H4 tested in Study 1, H3a, H5a-b tested in Study 2a, and H3b, and H6a-b tested in Study 2b.

Figure 2.1. Conceptual Framework: Loyalty Program Enhancement Management

Social Exchange Theory

Social exchange theory comes from social psychology to explain the interactions between individuals and how people go through a subjective cost-benefit analysis before making a decision (Emerson 1976). The theory is a broad conceptual paradigm that is a family of many conceptual models (Cropanzano and Mitchell 2005). However, they generally share some common features: sequential transactions and exchanges through reciprocity. In sum, social exchange theory predicts that a series of successful reciprocal exchanges with benefits (vs. costs) may transform an economic exchange relationship into a social exchange relationship (Cropanzano et al. 2017; Henderson, Beck, and Palmatier 2011). Extending the theory to the context of loyalty programs, the positive effect of customer relationship investments can be explained by the extent to which customers feel gratitude for the positive exchanges (Palmatier et al. 2009; Lee et al. 2014) and how much value they perceive of those exchanges (Yi and Jeon 2003). Moreover, we propose that the

theory could also explain negative effects when customers' perceived benefits wear off either due to a higher temporal state or program state. When customers are exposed to LPEs, the first encounter consists of appraising the benefits versus the costs of participating. Because this is a loyalty program context, the benefits may be economic (e.g., double points for the same spending) and/or psychological (e.g., goal achievement of winning a limited-time deal). And when the perceived benefits of the rewards outweigh the costs, customers may participate in the LPE, feel grateful and see the high value of the benefits, and in turn reciprocate (Palmatier et al. 2009). The extent to which one feels grateful and perceives high value will depend on the key LPE strategy and one's relational state. We specifically focus on gratitude and perceived value as the mechanism because they are the key dual mechanisms in loyalty programs that uncover customers' emotional (i.e., gratitude) and cognitive (i.e., perceived value) responses to LPEs. As such, we extend the social exchange theory to LPEs and delineate the key LPE effects on customer loyalty.

Customer loyalty. Our dependent variable of interest, customer loyalty, consists of attitudinal and behavioral aspects. Though the definition of "customer loyalty" has been debated for many decades (Brown 1952), a general agreement is that understanding both attitudinal and behavioral aspects of customer loyalty helps obtain a comprehensive understanding of loyalty-building strategies (Watson et al. 2015; Wolter et al. 2017). Extant measures of customer attitudinal loyalty range from a simple cognition that favors a brand to recommendation intentions, trust, and attachment (Melancon, Noble, and Noble 2011; Park et al. 2010; Chaudhuri and Holbrook 2001). Out of the numerous measures, recommendation intentions, also known as word-of-mouth (WOM) intentions and Net Promoter Score (NPS), are known to be the key performance that assimilates behavioral loyalty (Morgan and Rego 2008). Despite some controversies on the predictive power, many firms use NPS to gauge and predict customer loyalty (Reichheld 2003). Behavioral loyalty,

on the other hand, has been generally measured by financial outcomes such as sales, revenue, and purchase frequency (Wei and Xiao 2015; Zhang and Breugelmans 2012). As such, in our research, we examine behavioral loyalty measured by customer sales in Study 1 and attitudinal loyalty measured by WOM intentions in Study 2.

Points multipliers. Points multiplier is one of the key loyalty program enhancement strategies that customers can earn multiple folds of the regular rewards when meeting a specific condition such as purchasing a specific product category or spending over a certain amount. For example, customers can receive a surprise email that says they can earn double points if they purchase flight tickets to the Bahamas. In practice, this can be offered also in a limited timeframe like the expiring reward promotions, but we focus on the reward currency variance aspect to tease out the effect of economic benefits. Prior research has looked at the effect of artificial progress such as starting with one stamp filled in a new card (Nunes and Drèze 2006), the step size ambiguity (whether points earned per dollar are evident) (Bagchi and Li 2011), and the relationship between reward ratio and purchase category (Wei and Xiao 2015). Using social exchange theory, we predict that the points multiplier enhances customer loyalty because customers feel grateful and reciprocate the additional economic benefits.

H1: Points multiplier enhances customer loyalty.

Expiring reward promotions. Expiring reward promotion is one of the key loyalty program enhancement strategies that customers can earn bonus points for a limited time when meeting a specific condition such as purchasing a specific product category or spending over a certain amount. For example, customers can receive a bonus of 100 points for purchases made above \$100 on Black Friday. The expiration of loyalty points has been studied to show that it can positively affect

purchases only for customers who have the flexibility to adapt to the policy (Breugelmans and Liu-Thompkin 2017) but this was studied on the policy level, hence challenging to apply to the LPE context. It has been established in sales promotions literature that the time scarcity aspect enhances the appeal of promotions (Inman et al. 1997) and we extend this insight to the loyalty programs context. Using social exchange theory, we predict that expiring reward promotion enhances customer loyalty because customers feel grateful and reciprocate for the psychological benefit of achieving an exclusive deal.

H2: Expiring reward promotion enhances customer loyalty.

Customer Relational States

Research suggests that inconsistent views on loyalty programs may be explained by taking into account the customer relationship stages (Kim, Steinhoff, and Palmatier 2021). To empirically capture the relationship stages in terms of LPEs, we propose considering customers' relational states—i.e., customer temporal state and loyalty program state. The psychology of time and money posits that time and money are both “fundamentally important resources but are marked by psychologically distinct characteristics that affect each one's allocation” (Mogilner and Aaker 2009, p. 278). Thus, the extent to which customers invest their time vs. money—in our case, points accrual—in a relationship with a company will lead to different outcomes. Moreover, prior research has examined the impact of temporal changes in relationships (Alvarez et al. 2021) and the impact of loyalty points on customer behavior (Danaher et al. 2020), yet few insights offer a holistic perspective that accounts for both the important states in loyalty programs. This insight suggests the need to account for both customer temporal and program states when managing LPEs. In the context of loyalty programs, we propose that customers have temporal and program states

that are distributed unevenly across customers. And social exchange theory informs how customers may feel different levels of gratitude depending on the type of LPEs and their relational states.

Abundant research relies on purchase activities to understand customer loyalty in loyalty programs. However, little research examines relational states which are a critical feature that uniquely characterizes customers in loyalty programs. Relying only on purchase data may lead to losing important relational insights. For instance, a customer with low but prolonged purchases with consistent points accrual can have a high potential to expand. If the company relied only on purchase data, it would be less likely to offer points multipliers to the low purchase customer. Considering customer relational states—i.e., temporal state and loyalty program state—can help better understand LPE effectiveness and implement more fine-tuned loyalty program strategies. Thus, we examine how customer relational states impact the effect of key LPE strategies on customer loyalty. Through this research, we investigate what roles customer relational state plays in understanding LPE effectiveness and what impact the relational states have on the effect. Detailed descriptions of constructs are offered in Table 2.2.

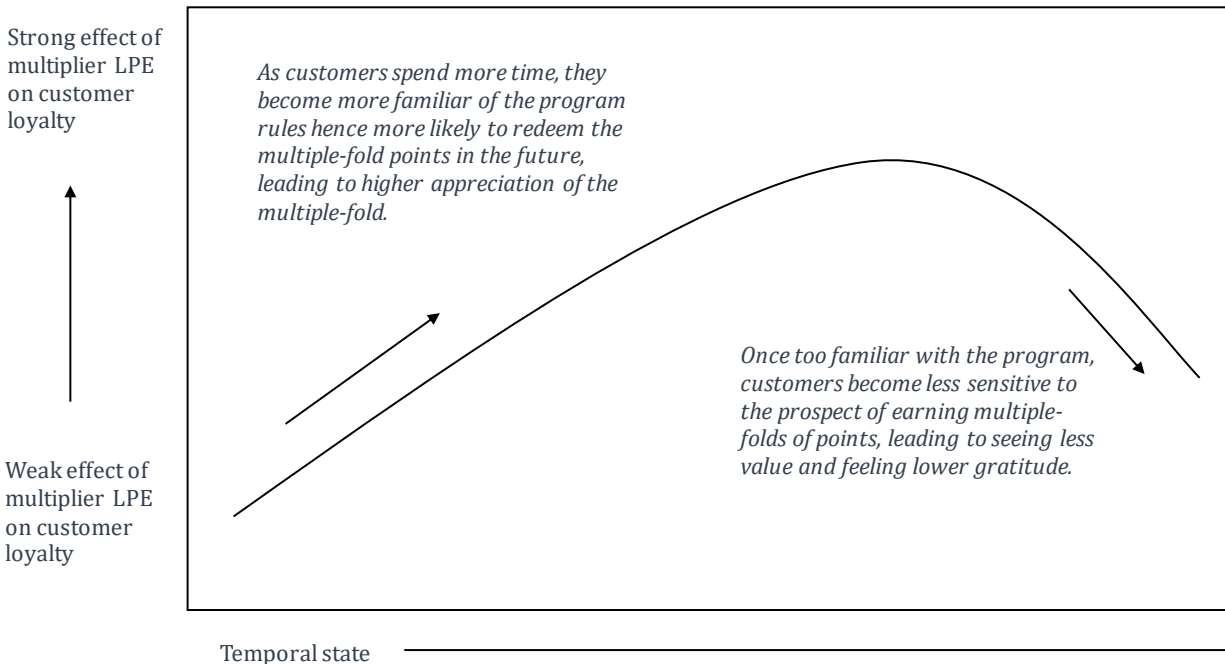
Term	Conceptualizations	Common Aliases	Representative Papers
Loyalty program	Systemized marketing efforts that offer economic, psychological, and sociological benefits to customers, to enhance customer loyalty and firm performance.	Rewards program, frequent flyer program	Meyer-Waarden (2007); Sharp and Sharp (1997)
Loyalty program enhancement (LPE)	A widely used instrument in loyalty programs that sporadically offers members with bonus reward point opportunities given specified conditions.	Reward promotions, loyalty campaigns, reward events	Wei and Xiao (2015); Wang et al. (2016)
Customer loyalty	Customer attitudinal and behavioral loyalty of the core services.	Customer loyalty	Watson et al. (2015)
Customer Relational State			
Temporal state	The amount of time customers spend in a relationship with a firm through loyalty program.	Relationship duration	Lemon and Wangenheim (2009)
Loyalty program state	The amount of points customers accrue in their loyalty program account balance.	Points balance	Liu (2007); Voorhees, McCall and Calantone (2011)
Operational Strategies			
Points multiplier promotion	LP promotions which customers can earn multiple folds of the regular rewards when meeting a specific condition such as purchasing a specific product category or spending over a certain amount. (Ex: double points for specific dates)	Double/triple points deals	Nunes and Dreze (2006); Bagchi and Li (2011)
Expiring reward promotion	LP promotions that are effective for a limited time period. (Ex: 100K points for limited time)	Limited time offers	Breugelmans and Liu-Thompkin (2017); Taylor and Neslin (2005)
Psychological Mechanisms			
Gratitude	The extent to which a customer feels grateful for the exchanges with the company.	N/A	Palmatier et al. (2009)
Expected continuity	The extent to which a customer foresees oneself to maintain the relationship with the company.	N/A	Anderson and Weitz (1989)
Relational expectation	The extent to which a customer expects from a relationship with the firm.	N/A	Harmeling et al. (2015)
Switching costs	Psychological and/or financial costs that customers pay when switching to a different firm or program.	N/A	Bell et al. (2005)

Table 2.2. Construct Definition Overview

Customer temporal state. Extant research has shown that customers' temporal state plays a significant role in securing a firm's sustained performance (Reinartz and Kumar 2003; Srivastava and Gnyawali 2011). Customers' relationship duration is one of the most important indicators of the temporal state as they can maintain or end the relationship with the firm depending on their experiences with the service or offerings (Bolton 1998; Lemon and Wangenheim 2009). While we recognize that it is important to consider the purchase frequency and volume in loyalty programs, we also highlight that while controlling for all those factors, customer temporal states can convey important insights as to why they are loyal to the firm. When a relationship persists over time, the

perceived continuity of the relationship increases as well (Anderson and Weitz 1989). Relatedly, we propose that long-term customers can generally develop greater relational norms and expect that they will maintain the relationship in the future. However, Mogilner and Aaker suggest that, although both time and money are the critical factors in a customer's mindset, time is less fungible, hence ambiguous to predict its effect (2009). In line with extant findings on the dynamic effect of time and relational changes (Harmeling et al. 2015; Zhang et al. 2016), we propose that this can lead the temporal state to have a non-linear impact on key LPEs with directions depending on the types of perceived benefits. Figure 2.2 shows a stylized depiction of the dynamic impact of the temporal state on LPE effects.

A: Points Multiplier



B: Expiring Reward Promotions

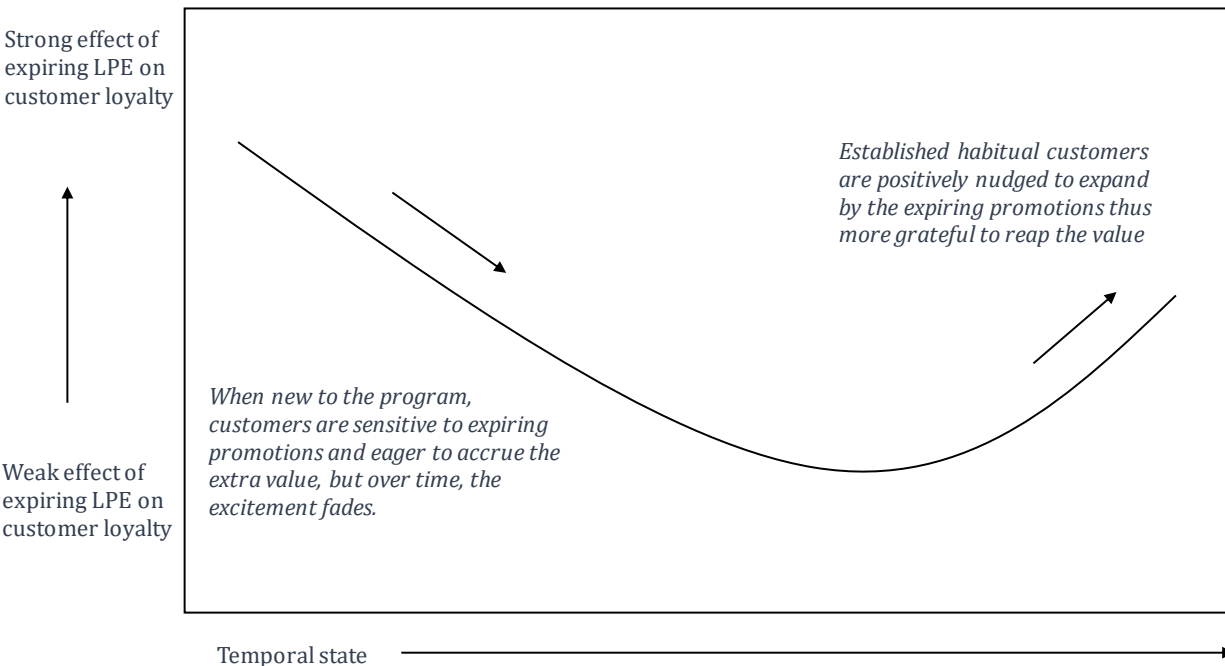


Figure 2.2. Dynamic Impact of Temporal State on Key LPE Effects

For the points multiplier, long-term customers (vs. new customers) may perceive higher benefits from the points multiplier because they are more familiar with the program rules, and therefore able to and more willing to eventually reap the benefits, thus better stance to appreciate the multiple-fold of points. However, this effect may diminish over time because the long-term customers become less sensitive to the prospect of earning additional points. Therefore, we predict that the temporal state has an inverted U-shaped relationship with customer loyalty (Palmatier et al. 2006). On the other hand, expiring reward promotions are temporary by nature and psychologically intriguing at first for the new customers because of the appeal of achieving an exclusive deal in a limited timeframe. This relies on the scarcity tactic from the sales promotion literature (Inman et al. 1997). Nonetheless, this novelty and gratitude are likely to wear off over time as customers subsequently encounter similar expiring promotions. However, the appeal of expiring promotions can improve toward the high end of the temporal state when the established customers are positively nudged to expand from their habitual consumption (Henderson et al. 2021). Therefore, we predict the following set of hypotheses.

H3a: An increase in a customer's temporal state leads to an inverted U-shaped effect of points multiplier on customer loyalty.

H3b: An increase in a customer's temporal state leads to a U-shaped effect of expiring promotion on customer loyalty.

Customer loyalty program state. Relying solely on customer temporal state limits the understanding of customer loyalty as short-term customers can also be profitable in a non-contractual setting (Reinartz and Kumar 2000). Therefore, we also focus on the customer loyalty program state. Customers can build loyalty program points by generally purchasing from the designated merchants or product categories. When customers have a high loyalty program state, they have likely invested a substantial amount of resources—possibly implying a relatively large amount of expenditures and some behavioral learning in the front end to understand the program

rules (Nastasoiu et al. 2021). Although customers can always redeem how many points they desire, our focus is on the effect of the remaining loyalty points balance in the prior period on customer loyalty in the following period. Our scope of loyalty program state is reflective of extant research that observes that many customers stockpile points and this action is driven by economic, cognitive, and psychological motives (Stourm et al. 2015). The higher the loyalty program state, the more likely customers are invested in the program. However, the repeated accrual behavior may lead to the fading of any reinforcement by those motives (Nastasoiu et al. 2021).

We posit that the effect of points multipliers on customer loyalty is suppressed as a customer's loyalty program state enhances because high points balance customers are less likely to feel grateful for the incremental points per diminished marginal returns and income satiation effect (Kahneman and Deaton 2010). This may sound counter-intuitive to practitioners as they want to reward the loyal customers with high points and high tiers but in terms of responding to a points multiplier, lower points balance customers are likely to react with more excitement because of the prospect of advanced progress through the multiplier (Nunes and Drèze 2006). On the other hand, for the expiring reward promotions, we predict alternative hypotheses. The effect of expiring reward promotions on customer loyalty is enhanced as customers accrue more points because high-balance customers are more likely to feel grateful such that they are closer to meeting their next redemption milestone. This relies on the points pressure mechanism, informed by goal-gradient theory, that predicts a faster approach to a goal when people are nearing the rewards (Kivetz et al. 2006; Taylor and Neslin 2005). The effect of expiring reward promotions on customer loyalty is suppressed as customers accrue more points because high-balance customers are less likely to be sensitive to and grateful for the limited-time offer per diminishing marginal returns. Therefore, we predict the following.

H4a: An increase in loyalty program state suppresses the effect of points multiplier on customer loyalty.

H4b: An increase in loyalty program state enhances the effect of expiring promotion on customer loyalty.

H4b (alt): An increase in loyalty program state suppresses the effect of expiring promotions on customer loyalty.

Gratitude-value mechanisms. As delineated through the social exchange theory perspective (Cropanzano et al. 2017; Palmatier et al. 2009), we posit that gratitude and perceived value can parsimoniously explain the interactions between the key LPE strategies and customer relational states. Specifically, in H5, we predict that the positive effect of temporal state on points multiplier effect will be mediated by an increase in (a) gratitude and (b) perceived value. In H6, we predict that the negative effect of the temporal state on the expiring promotion effect will be mediated by a decrease in (a) gratitude and (b) perceived value. Essentially, we propose a gratitude-value mechanism that explains when customers feel more (less) grateful and perceive more (less) value for the LPE depending on where they stand in the relational states. Therefore, we predict the following:

H5: The positive effect of temporal state on points multiplier effect will be mediated by an increase in (a) gratitude and (b) perceived value.

H6: The negative effect of the temporal state on the expiring promotion effect will be mediated by a decrease in (a) gratitude and (b) perceived value.

STUDY 1: EFFECTS OF LOYALTY PROGRAM ENHANCEMENTS AND THE RELATIONAL STATES

To test our conceptual model, we empirically analyze a panel dataset from a global financial services company and examine the effect of key LPEs on customer loyalty. Foremost, we test whether key LPEs enhance customer loyalty. Then we test whether customer relational states

impact the extent to which key LPEs enhance customer loyalty. Specifically, we examine the non-linear impact of the temporal state on LPE effects and the differential impact of the loyalty program state on LPE effects.

Setting and Data

Our context serves as one of the most common forms of loyalty programs, with which customers sign up for a credit card that is linked with a loyalty program that comes with its default benefits, and customers are sporadically exposed to bonus reward earning opportunities that are LPEs. The data set tracks over 6,700 customers' monthly activities from January 2014 to August 2015, 20 months in total. This dataset uniquely speaks to the problem as it tracks who are exposed to which enhancements, when, and how they respond over time. In our data setting, customers can earn points by using the credit card at accepting merchants and purchasing from designated categories (e.g., restaurants, grocery, gas). Customers are exposed to the enhancements, and the data tracks how many enhancements each customer was exposed to during each month. This study focuses on the behavioral outcome of customer loyalty by observing the customer's lines of core products with the firm (e.g., savings, investments, loans, mortgages, etc.) an important customer loyalty measure in financial services. Observing customer activities over time allows us to learn how LPE impacts customer loyalty and how customer relational states affect the LPE effects. The summary statistics and the correlation matrix of key variables appear in Table 2.3.

Specifically, this research was conducted with access to the customer database of a leading global financial services company based in the U.S. The firm operates a credit card-based loyalty program that can track customers' relational activities (e.g., tenure, other marketing offers, marketing channels, etc.), and transactions (e.g., points accrual/redemption, sales, etc.) over time. While credit card loyalty programs are extremely common in practice, empirical research in this

domain generally struggles with selection bias and endogeneity concerns because the outcome is often measured by expenditures—i.e., those who already have been purchasing a lot from a firm may be likely to join its loyalty program and actively accrue points (Meyer-Waarden and Benavent 2009). However, our context allows us to observe an outcome that is not directly linked to credit card expenditures but to the core product sales (i.e., the number of non-credit card products at the firm such as checking, savings account, investments, and loans) while controlling the credit card expense, hence provides a more conservative and sustained measure of customer loyalty. This way, we capture the effect of LPEs on the core product sales, as opposed to the expenditures made via credit cards. This commercial banking firm offers multiple credit cards, but a small portion of them are not linked to their loyalty programs hence excluded from the sample. Furthermore, customers whose credit cards have not been active (i.e., no spending) in the past 20 months were removed to analyze the variance among active customers.

	Mean	Std. Dev.	Min	Max	Observations	1	2	3	4	5	6	7	8	9
1 Number of accounts	4.24	1.70	1.00	17.00	101,714	1.000								
2 Tenure (years)	0.99	1.02	0.00	25.12	101,714	0.004	1.000							
3 Points	1783.17	4716.17	-2530.00	399725.00	101,722	0.040	0.074	1.000						
4 Multiplier	0.10	0.30	0.00	2.00	101,722	-0.009	0.024	0.053	1.000					
5 Expiring	0.95	0.42	0.00	4.00	101,722	-0.040	-0.047	-0.062	0.044	1.000				
6 Redeem to account	344.35	3836.95	-20000.00	490000.00	101,722	-0.005	0.006	0.071	0.075	0.017	1.000			
7 Total credit card spend	383.72	1072.33	0.00	88115.96	101,722	0.054	0.029	0.188	0.118	-0.005	0.605	1.000		
8 Total transactions	22.68	26.90	-1.00	237.00	101,722	0.408	0.036	-0.023	-0.082	-0.050	-0.020	-0.017	1.000	
9 Online banking	0.78	0.41	0.00	1.00	101,714	0.310	-0.001	0.002	-0.109	-0.016	0.025	0.056	0.224	1.000

Table 2.3. Study 1: Descriptive Statistics and Correlations

Variable Operationalization

Extant research in loyalty programs has examined sales as the main performance outcome (Wei and Xiao 2015). In financial services loyalty programs, one of the key measures of sales is the number of products that the customer owns within the company. Owning an additional

product in a commercial bank setting corresponds to higher customer loyalty because it locks in the customer. This measure allows us to capture a deeper and more conservative measure of customer loyalty than does expenditure which often suffers from endogeneity concerns with customer's points accrual activity, especially in credit card loyalty programs. Thus, for our dependent variable, we measure the behavioral aspect of loyalty by the number of core products a customer has in the company (e.g., savings, checking, investment, mortgage, loan, etc.).

Consistent with previous research, we lag the independent variables with one period to rule out reverse causality concerns (Han et al. 2017). In other words, the input variables are observed at time $t-1$, while the outcome variable is at time t . For the LPE strategies, we examine the number of particular LPE the individual customer was exposed to at time $t-1$ (Minnema et al. 2017). For temporal state, we measure by the number of years that the individual has been a customer of the firm at time $t-1$ (Zhang and Breugelmans 2012). For program state, we measure by the cumulative number of points in the customer's balance at time $t-1$ (Zhang and Breugelmans 2012). Control variables include customer location, month, redeemed points to account, total credit card spending, total transactions, and online banking usage dummy. For details on variable operationalization, see Table 2.4.

Relational state	Customer tenure (years)
LP state	Total cumulative points the customer has earned from previous months (total points at the beginning of the month).
Multiplier	The total number of multiplier programs per customer per month where the customer earns 1.35 times the number of points. All spending categories qualify.
Expiring	A count of the number of loyalty promotions per customer per month that expire.
Customer performance	Total number of accounts the customer has with the bank (checking, savings, investment, loan, etc.)
Month	Month 1-20 throughout the observation period
Zipcode	Customer's zip code associated with the customer's home address.
Online banking	A dummy variable indicating whether the customer has online banking with WF (1 = yes, 0 = no)
Total transactions	Total monthly transactions performed with the bank
Total credit card spend	The total dollar volume of credit card purchases the customer made during a particular month.
Redeemed points to account	Customer redeemed points to either their checking account, credit card (to pay off balances), mortgage (to pay off loan) or other type of loan to pay off outstanding debts (e.g. installment loan, line of credit).
Acquisitions	A count of the number of loyalty promotions per customer per month that are acquisition-related. Specifically, the goal of these acquisition-related promotions are usually to get customers to open up new credit cards.
Monthly credit	This variable tells you the total amount of credit available (spending potential) for each customer and for each month.
Automatic redemption	The number of credit cards the customer owns that are set up to auto-redeem rewards.

Table 2.4. Study 1: Variable Operationalization

Model Specification

The data include observations for multiple customers, with each customer, observed over an extended period. In estimating our model, we use a random-effects model to test our hypotheses. The fixed-effects model yield similar results but its identifying assumptions are not easily defensible because of our extended 20-month period (Germann et al. 2015). We also include time fixed effects in the model to tease out any unique month-to-month fluctuations (e.g., holidays). Therefore, we use random effects with robust clustered standard errors to alleviate the

remaining heterogeneous error and lagged the independent variables by one month to address reverse causality. We also calculated the variance inflation factor (VIF): the maximum VIF was 5.34 and the mean was 2.26 after excluding time and location dummy variables that typically have high VIF values. This indicates that multicollinearity is not an issue. The points variables are log-transformed to account for skewness and all the variables are standardized so that we can compare the relative magnitudes of effects. The model is specified as:

$$(1) LOY_{it} = \beta_0 + \beta_1 MUL_{it-1} + \beta_2 EXP_{it-1} + \beta_3 TEM_{it-1}^2 + \beta_4 REL_{it-1} + \beta_5 MUL_{it-1} \times TEM_{it-1}^2 + \beta_6 MUL_{it-1} \times TEM_{it-1} + \beta_7 EXP_{it-1} \times TEM_{it-1}^2 + \beta_8 EXP_{it-1} \times TEM_{it-1} + \beta_9 LPS_{it-1} + \beta_{10} MUL_{it-1} \times LPS_{it-1} + \beta_{11} EXP_{it-1} \times LPS_{it-1} + \beta_{12} Controls_{it-1} + \sum_{t=1}^T \sigma_t Month_t + \epsilon_{it},$$

where LOY_{it} indicates the customer loyalty of customer i in month t , MUL_{it-1} is the number of points multipliers customer i is exposed to in month $t-1$, and EXP_{it-1} is the number of expiring reward promotions, REL_{it-1} is the relational duration, and LPS_{it-1} is the number of points in the account balance. ϵ is the regression error and vector $Controls_{it-1}$ denotes a set of control variables: credit card spending, total transactions, online banking usage, points redemption activity, and location. This model assumes a composite error: $\epsilon_{it} = \alpha_i + v_{it}$, where α_i is a customer-specific random error term that captures unobserved customer-level effects and v_{it} is the random component that varies across customers and over time. Random effects α_i is assumed to be independently and identically distributed and capture all correlations of the error terms over time.

Addressing Endogeneity

The model specified in Equation 1 is susceptible to two potential sources of endogeneity—

omitted variables and sample selection bias in the independent variables, LPEs. Following German, Ebbes, and Grewal (2015), we address these two issues in the following subsections.

Control function approach. Firms may strategically offer LPEs to specific segments of customers, and this will likely depend on the type of LPE. For instance, LPEs may be offered to customers who generally spend more on the firm's credit card and those who are more active in terms of transactions. If this is the case, then LPE activities may be correlated with the error term in Equation 1, biasing the estimates. We include various customer-level control variables (for details, see Table 4) as well as month-fixed effects to address this potential source of bias. However, other omitted variables may affect the correlation of LPE with the error term.

To address the remaining omitted variables issue, we use the control function approach (Petrin and Train 2010; Wooldridge 2010) that is used in much recent empirical marketing research (Han et al. 2017; Rutz and Watson 2019). In the first stage of the control function approach, we estimate an auxiliary regression of the endogenous variable (i.e., points multiplier offering and expiring reward promotion offering) on the instrument and the exogenous variables. In the second stage, we estimate the focal model (i.e., Equation 1 in our case) with the estimated residuals from the first stage, which controls for the endogenous variable, as a predictor. The control function approach requires instruments that satisfy two conditions. These instruments should be (1) correlated with the endogenous variable, while (2) uncorrelated with the error term that contains the omitted variables (Wooldridge 2010). Because we have two endogenous variables which are the points multiplier offering and expiring reward promotion offering, we need at least one instrument for each LPE.

One variable that may satisfy these conditions for the points multiplier is the customer's

monthly available credit. Given our institutional context, customers who have higher available credit are more likely to be financially aware customers who are more receptive to the multiple folds of benefits (i.e., satisfying the first condition). However, it is not practical to assume that a customer's available credit will correlate with the error term—that is, to directly influence the customer's unobserved factors that affect customer loyalty, beyond the effects of points multiplier and other control variables in our study. For this to occur, customers with high available credits would have to jointly enhance their customer loyalty in anticipation of the firm's points multiplier offerings. This is unlikely to happen because customers rarely observe when other customers receive the points multiplier.

For expiring reward promotions, a variable that may satisfy the conditions is the customers' auto-redemption setup. That is the number of credit cards that the customer owns that are set up to automatically redeem the reward points to their account. This variable taps into the time-scarce nature of expiring promotions and the customers who are receptive to them. In other words, customers who opted to automatically redeem their points are more likely to be receptive to the quick benefits via expiring promotions as they are eager to save time through automatic redemptions. However, it is highly unlikely that customers' auto-redemption setup will correlate with the customer's unobserved factors that affect customer loyalty, beyond the effects of expiring promotions and other control variables in our study. For this to occur, customers with high auto-redemptions would have to jointly enhance their customer loyalty in anticipation of the firm's expiring reward promotion offerings. This is unlikely to happen because customers rarely observe when other customers receive the expiring promotions.

We estimate the following auxiliary model by regressing each LPE offering on the corresponding instruments and the exogenous variables:

$$(2) MUL_{it-1} = \pi_0 + \pi_1 CRED_{it-1} + \pi_2 TEM_{it-1} + \pi_3 LPS_{it-1} + \pi_4 IMR_{it-1} + \Theta' Controls_{it-1} + \sum_{t=1}^T \sigma_{1t} Month_t + v_{1it-1},$$

$$(3) EXP_{it-1} = \gamma_0 + \gamma_1 AUTR_{it-1} + \gamma_2 TEM_{it-1} + \gamma_3 LPS_{it-1} + \gamma_4 IMR_{it-1} + \eta' Controls_{it-1} + \sum_{t=1}^T \sigma_{2t} Month_t + v_{2it-1},$$

where $CRED_{it-1}$ indicate the monthly available credit of customer i at time $t-1$, and $Controls_{it-1}$ is the vector of control variables. We also include the inverse Mills ratio, explained next, to control for potential selection bias in the endogenous variable (Wooldridge 2010). Lastly, we use the predicted residuals from Equation 2 as a control function in the final model. Equation 3 is the equivalent model for expiring reward promotions using $AUTR_{it-1}$ to indicate the customer's auto-redemption setup.

Sample selection. In our data, only customers with non-zero exposure to LPEs were included in the final sample. Potential selection bias exists because customers self-selected to use the credit card linked with a loyalty program most likely with prior knowledge that it offers the LPEs (Leenheer et al. 2007). To address sample selection, we use the two-stage approach by Heckman (1979) (Certo et al. 2016). We estimate and a probit model in the first stage using a sample of customers who were exposed to LPEs ($L_{it} = 1$) and those who were not ($L_{it} = 0$). Next, we ran the following probit model:

$$(4) \Pr(L_{it} = 1) = \Phi(\delta_0 + \delta_1 ACQ_{it-1} + \delta_2 TEM_{it-1} + \delta_3 LPS_{it-1} + \Omega' Controls_{it-1} + \sum_{t=1}^T \delta_t Month_t).$$

In addition to the exogenous variables, we include an additional variable that captures the number of acquisition-related promotions that each customer is exposed to. This variable affects the customer's likelihood of being exposed to LPEs. However, it is not expected to impact the ultimate customer loyalty as it is designed to impact customers' acquisition stage. Then, we calculate the inverse Mills ratio and include it in the second stage. We include the inverse Mills

ratio and the control function estimated from Equation 2-4 in our model (i.e, Equation 1). The resulting model is written as follows:

$$(5) LOY_{it} = \beta_0 + \beta_1 MUL_{it-1} + \beta_2 EXP_{it-1} + \beta_3 TEM_{it-1}^2 + \beta_4 TEM_{it-1} + \beta_5 MUL_{it-1} \times TEM_{it-1}^2 + \beta_6 MUL_{it-1} \times TEM_{it-1} + \beta_7 EXP_{it-1} \times TEM_{it-1}^2 + \beta_8 EXP_{it-1} \times TEM_{it-1} + \beta_9 LPS_{it-1} + \beta_{10} MUL_{it-1} \times LPS_{it-1} + \beta_{11} EXP_{it-1} \times LPS_{it-1} + \beta_{12} ControlFunction_{it} + \beta_{13} InverseMillsRatio_{it} + \Gamma' Controls_{it} + \sum_{t=1}^T \delta_t Month_t + \epsilon_{it}.$$

We clustered the standard errors at the customer level to account for heteroskedasticity and serial correlation in the error terms.

Findings

Model 1 of Table 5 and Models 1 and 2 of Table 6 provide the results from first-stage models. As we expected, the instrument for selection (i.e., acquisition promotion) is a significant predictor of the selection probability ($\delta = 1.280, p < .01$). Likewise, the instruments for each LPE (i.e., monthly credit for points multipliers and auto-redemption for expiring promotions) were a significant predictor of each corresponding LPE ($\pi = .561, p < .01$ and $\gamma = .248, p < .01$).

As we show in Model 3 of Table 6, the main effects of points multiplier and expiring promotions are consistent with our prediction (H1 and H2). Specifically, the points multiplier is positively associated with customer loyalty ($\beta = .173, p < .01$), and the expiring promotion is positively associated with customer loyalty ($\beta = .903, p < .05$). Next, we find support for H3a—we find that an increase in a customer's temporal state leads to an inverted U-shaped effect of points multiplier on customer loyalty. Specifically, we find that an increase in the temporal state initially enhances the effect of the points multiplier, and then at higher levels, it decreases the effect of the points multiplier ($\beta = -.034, p < .01$). Next, we find support for H3b—we find that an

increase in a customer's temporal state leads to a U-shaped effect of points multiplier on customer loyalty. Specifically, we find that an increase in the temporal state initially decreases the effect of expiring promotions on customer loyalty, and then at higher levels, it enhances the effect of expiring promotions ($\beta = .048, p < .01$). For the interactions via loyalty program state, we find support for H4a—an increase in loyalty program state leads to a decrease in the effect of points multiplier on customer loyalty ($\beta = -.010, p < .01$). However, we do not find a significant effect for H4b, in either alternative hypothesis. In Table 6, we summarize the results by presenting the estimates and hypotheses tested.

Variable	Hypothesis	Model 1: Selection Model - First Stage		Model 2: Selection Model - Second Stage	
		Coefficients	SE	Coefficients	SE
Intercept		0.208	(0.206)	-1.217***	(0.189)
Tenure squared		-		0.132	(0.132)
Tenure		-0.303***	(0.054)	0.054	(0.052)
Points		0.244***	(0.012)	0.052***	(0.005)
Redemption to account		0.000***	(0.000)	-0.000**	(0.000)
Total credit card spending		-0.000***	(0.000)	0.000***	(0.000)
Total transactions		0.001*	(0.000)	0.007***	(0.000)
Online banking		0.080***	(0.027)	0.298***	(0.018)
Acquisition		1.280***	(0.020)		
Available monthly credit					
Automatic redemption					
Multiplier	H1			0.032***	(0.008)
Expiring	H2			0.015**	(0.006)
Tenure x Multiplier				0.029***	(0.004)
Tenure squared x Multiplier	H3a			-0.032***	(0.012)
Tenure x Expiring				-0.016***	(0.005)
Tenure squared x Expiring	H3b			0.035**	(0.014)
Points x Multiplier	H4a			-0.012***	(0.003)
Points x Expiring	H4b			-0.001	(0.003)
IMR				0.025	(0.067)
Wald Chi-sq				1729.54	
R-sq				0.1978	
Pseudo R-sq		0.3355			
Log likelihood		-8083.3251			
n		87774		87773	

* p<.10, ** p<.05, *** p<.01

Notes: All models include month and area dummies.

Table 2.5. Study 1: Selection Model Estimation Results

Variable	Hypothesis	Model 1: Control Function - First Stage for Multiplier		Model 2: Control Function - First Stage for Expiring		Model 3: Control Function - Second Stage - Full Model	
		Coefficients	SE	Coefficients	SE	Coefficients	SE
Intercept		-0.261***	(0.074)	2.347***	(0.067)	-3.222***	(0.254)
Tenure squared						0.123	(0.135)
Tenure		-0.000	(0.019)	0.054***	(0.017)	-0.015	(0.047)
Points		0.042***	(0.003)	-0.016***	(0.003)	0.066***	(0.005)
Redemption to account		0.000	(0.000)	0.000***	(0.000)	-0.000***	(0.000)
Total credit card spending		-0.000***	(0.000)	0.000***	(0.000)	0.000***	(0.000)
Total transactions		-0.001***	(0.000)	-0.001***	(0.000)	0.008***	(0.000)
Online banking		-0.041***	(0.007)	-0.053***	(0.006)	0.353***	(0.018)
Acquisition							
Available monthly credit		0.561***	(0.003)				
Automatic redemption				0.248***	(0.005)		
Multiplier	H1					0.173***	(0.019)
Expiring	H2					0.903***	(0.101)
Tenure x Multiplier						0.028***	(0.004)
Tenure squared x Multiplier	H3a					-0.034***	(0.013)
Tenure x Expiring						-0.002	(0.005)
Tenure squared x Expiring	H3b					0.048***	(0.015)
Points x Multiplier	H4a					-0.010***	(0.003)
Points x Expiring	H4b					-0.002	(0.003)
IMR						0.061	(0.071)
Control function for multiplier						-0.170***	(0.019)
Control function for expiring						-0.887***	(0.101)
Wald Chi-sq						2119.94	
R-sq		0.297		0.327		0.2048	

* p<.10, ** p<.05, *** p<.01

Notes: n=85,042. All models include month and area dummies.

Table 2.6. Study 1: Control Function Estimation Results

The findings in Study 1 suggest that the positive effect of points multipliers is generally enhanced by customers who are in a higher temporal state and lowered by those who are in a higher program state. However, the enhancement by customer temporal state follows an inverted U-shape. The positive effect of expiring reward promotions is generally attenuated by customers in a higher temporal state, and this effect follows a U-shape.

Post-hoc Analyses

Additional analyses are conducted to compare the performance lift by the LPE strategies. First, we observe that the net effect of a 10% increase in points multiplier leads to a 1.4% lift in customer loyalty, controlling for relational states. Next, we observe that the net effect of a 10% increase in expiring promotions leads to a 9.2% increase in customer loyalty, controlling for relational states. We also observe how these numbers change when looking at different segments of customers depending on their relational states. At the high level of temporal state (+1SD), the net effect of the points multiplier enhances by 2.11%, and at the low level of temporal state (-1SD), the net effect lowers to 1.29%. On the other hand, at the high level of temporal state (+1SD), the net effect of expiring promotion enhances by 8.86% but at the low level of temporal state (-1SD), the net effect is slightly enhanced by 9.04%.

When observing the net effects, expiring promotions display over six times larger effect sizes compared to that of points multiplier. However, when looking at the different levels of relational states, we see a larger increase in multiplier's performance compared to those of expiring promotion. This suggests that points multipliers work better for established customers while expiring works better for newer customers. These findings would hint to managers to look deeper into the variations in customer relational states.

STUDY 2: LOYALTY PROGRAM ENHANCEMENT MECHANISMS

Study 2 has three objectives. First, we replicate the moderating effects (H3a, H4a) of loyalty program enhancements on attitudinal loyalty, measured by customer WOM (Morgan and Rego 2008). Second, we provide a test of our theory by assessing the gratitude mechanism in a quasi-controlled setting (H5a, H6a). Third, we establish our conceptual model across various firms, enhancing the generalizability of our findings.

Through a series of lab experiments, Study 2 replicates the impact of customer temporal states in a general context and tests the gratitude-value mechanisms. For realism and external validity, we implement quasi-experiments that collect participants' actual temporal states and other activities with their most frequently used loyalty programs and then manipulate the different levels of each LPE through a fictional scenario based on their loyalty program to test the interactions and mediation. Specifically, Study 2a tests the relationship between customer temporal state and points multiplier effect and its underlying mechanism on customer WOM intentions, a key measure of attitudinal loyalty, and Study 2b tests the equivalent between customer temporal state and expiring promotion.

Data and Design

We used a series of quasi-experiment designs to test the interaction between LPE strategies and relational states. In two experiments (Study 2a-b), we collected participants' actual program information including their temporal states and manipulated high and low levels of LPE strategies. The study followed a 2 (low or high level of LPE) x temporal state (continuous) design, whereby attitudinal loyalty served as the key dependent variable of interest.

In each of the studies, we recruited two hundred participants from Amazon MTurk, a

random sample of customers who have been screened to have experience using one or more loyalty programs. Participants were initially asked to enter the name of their most actively used loyalty program, followed by their tenure (i.e., temporal state) and engagement scales as control. The entered loyalty program name was used throughout the study including the fictional scenarios of LPEs. Next, participants were randomly assigned to either low or high levels of the corresponding LPE. We manipulated the LPE strategies through a fictional email from their loyalty program with an opportunity to earn bonus points at a 10% or 100% bonus points earning rate (regular or expiring promotion to earn bonus points), depending on the assigned condition. After reading the fictional email, participants rated the extent to which they agree with multiple statements that capture the potential mechanisms and performance—see Table 2.7 for operationalization.

Construct	Measure	Source
Temporal state	Participant's actual tenure with their most active loyalty program	-
WOM 1	I would likely spread positive word of mouth about [company name].	Adapted from Martin et al. 2017
WOM 2	I would likely tell others not to choose from [company name] if asked about their products/services.	Adapted from Martin et al. 2017
WOM 3	I would likely tell my friends and family to choose from [company name] if asked about their products/services.	Adapted from Martin et al. 2017
WOM 4	Based on your scenario, how likely would you recommend [company name] to your friends and family? [0-100]	Adapted from Martin et al. 2017
Gratitude 1	I feel grateful to [company name].	Steinhoff and Palmatier 2016
Gratitude 2	I feel appreciative of [company name] for my bonus points earning rate.	Adapted from Steinhoff and Palmatier 2016
Gratitude 3	I feel thankful to [company name].	Steinhoff and Palmatier 2016
Perceived value 1	[company name] provides me value.	Steinhoff and Palmatier 2016
Perceived value 2	[company name] is a good deal for me.	Steinhoff and Palmatier 2016
Perceived value 3	[company name] helps me save money.	Steinhoff and Palmatier 2016

Table 2.7. Studies 2a and 2b: Variable Operationalization

Results

Manipulation checks with measured variables showed that the experimental conditions differed significantly ($p < .01$) as expected. For Study 2a, a one-way ANOVA confirmed that participants who were assigned to the high multiplier condition rated their LPE promotion rate scales significantly higher than those who were assigned to the low multiplier condition ($p < .01$), and corresponding results were seen in Study 2b as well. In Study 2a, customer temporal state significantly enhanced the effect of points multiplier on attitudinal loyalty ($p < .05$) in support of H3a ($\beta = .113$, $SE = .045$, $p < .05$). In Study 2b, customer temporal state significantly suppressed the effect of expiring promotion on attitudinal loyalty ($p < .01$) in support of H3b ($\beta = -.146$, $SE = .047$, $p < .01$). See Table 2.8 and Table 2.9 for the regression analysis results.

		Study 2a: Regression Results					95% Confidence Interval	
Dependent Variable		B	Std. Error	t	Sig.	Lower Bound	Upper Bound	
WOM	Intercept	32.513	6.493	5.008	0.000	19.707	45.32	
	Multiplier	2.049	4.264	0.481	0.631	-6.361	10.459	
	Tenure	-0.116	0.037	-3.133	0.002	-0.188	-0.043	
	Product engagement	7.912	1.046	7.567	0.000	5.85	9.975	
	Tenure x Multiplier	0.113	0.045	2.528	0.012	0.025	0.202	
Gratitude	Intercept	2.811	0.391	7.184	0.000	2.039	3.583	
	Multiplier	-0.075	0.257	-0.29	0.772	-0.581	0.432	
	Tenure	-0.008	0.002	-3.462	0.001	-0.012	-0.003	
	Product engagement	0.49	0.063	7.772	0.000	0.365	0.614	
	Tenure x Multiplier	0.007	0.003	2.569	0.011	0.002	0.012	
Perceived value	Intercept	2.723	0.328	8.298	0.000	2.075	3.370	
	Multiplier	0.243	0.215	1.129	0.260	-0.182	0.668	
	Tenure	-0.003	0.002	-1.729	0.085	-0.007	0.000	
	Product engagement	0.452	0.053	8.560	0.000	0.348	0.557	
	Tenure x Multiplier	0.002	0.002	1.043	0.298	-0.002	0.007	

Table 2.8. Study 2a: Regression Analysis Results

Study 2b: Regression Results						95% Confidence Interval	
Dependent Variable		B	Std. Error	t	Sig.	Lower Bound	Upper Bound
WOM	Intercept	19.458	7.211	2.699	0.008	5.237	33.679
	Expiring	0.025	0.026	0.979	0.329	-0.026	0.076
	Tenure	5.582	4.486	1.244	0.215	-3.265	14.428
	Product engagement	8.999	1.198	7.51	0.000	6.636	11.363
	Tenure x Expiring	-0.146	0.047	-3.11	0.002	-0.239	-0.054
Gratitude	Intercept	2.525	0.431	5.855	0.000	1.674	3.375
	Multiplier	0.001	0.002	0.869	0.386	-0.002	0.004
	Tenure	0.318	0.268	1.184	0.238	-0.211	0.847
	Product engagement	0.466	0.072	6.501	0.000	0.325	0.607
	Tenure x Expiring	-0.009	0.003	-3.049	0.003	-0.014	-0.003
Perceived value	Intercept	2.499	0.317	7.894	0.000	1.874	3.123
	Multiplier	0.001	0.001	0.681	0.497	-0.001	0.003
	Tenure	0.232	0.197	1.177	0.241	-0.157	0.620
	Product engagement	0.512	0.053	9.735	0.000	0.408	0.616
	Tenure x Expiring	-0.005	0.002	-2.565	0.011	-0.009	-0.001

Table 2.9. Study 2b: Regression Analysis Results

Next, we conducted a moderated mediation analysis (PROCESS Model 7; 5,000 bootstrapped samples) to test the underlying process. In this model, we tested whether the extent to which LPE strategy impacts attitudinal loyalty varies by the level of one's temporal state. Because the moderator, temporal state, is a continuous variable, we also examined the significant ranges through spotlight analyses (Spiller et al. 2013). Per Hayes' instructions (2018), we can label the ranges as low (-1SD), moderate (mean), and high levels (+1SD) of temporal state, and the ranges varied depending on the LPE.

Consistent with our predictions in H5a, in Study 2a, the highest-order index of moderated

mediation was significant for gratitude (index = .072, SE = .036; 95% confidence interval [CI] = .001, .143). Moreover, the positive indirect effect of gratitude was significant for a range that varied from 60.1 months to 480.0 months of temporal state—indicative of the moderate to high levels of temporal states. However, H5b with perceived value was not supported. Alternative explanations such as psychological switching costs (Evanschitzky et al. 2012) and relational expectations (Harmeling et al. 2015) did not significantly mediate.

Supporting H6a, results in Study 2b revealed a significant negative indirect effect of gratitude on attitudinal loyalty through expiring promotion (index = -.064, SE = .027; 95% CI = -.120, -.013). In support of H6b, a significant negative indirect effect of perceived value was revealed (index = -.041, SE = .022; 95% CI = -.092, -.006). Moreover, the negative indirect effect of gratitude was significant for a range that varied from 77.1 months to 480.0 months of temporal state—indicative of the moderate to high levels of temporal states. And the range for perceived value was from 100.8 months to 480.0 months. To rule out an alternative explanation of whether perceived value precedes gratitude, a serial moderated mediation was tested but was not significant. Lastly, the remaining alternative explanations such as psychological switching costs and relational expectations did not significantly mediate the relationship.

In summary, Study 2a replicated the moderating effect of temporal state on the points multiplier effect from Study 1 (H3a), suggesting that established (vs. new) customers feel more grateful for the multiple-fold of points as they are more likely to know how to and more willing to redeem and enjoy the reward in the foreseeable future (H5a). Study 2b replicated the moderating effect of temporal state on the expiring promotion effect (H3b), suggesting that established (vs. new) customers feel less grateful and see less value in the expiring promotion as the scarcity novelty of the promotion wears off over time (H6a and H6b). It is suspected that

perceived value was not a significant explanation for the impact of the temporal state on the multiplier effect (H5b) because the absolute value of multipliers does not vary over time, unlike expiring promotions that are time-sensitive.

DISCUSSION

Firms increasingly invest in customer loyalty management efforts, yet research and practice in loyalty programs express mixed views on loyalty programs. Our focus in this research is on one of the substantial levers of loyalty program management, LPE strategies. We argue that the mixed views are due to an oversight of customer relational states that consist of temporal state and loyalty program state. Through a mixed-method approach, we illustrate a robust interactive effect between LPE strategies and customer relational states on customer loyalty. We provide a rigorous test of our conceptual framework by utilizing both primary (Study 2) and secondary (Study 1) data, offering internal as well as external validity. We empirically analyze a financial services firm's panel data (Study 1) and identify the underlying mechanism through a series of experiments (Study 2a and 2b). Depending on the type of key benefits from the LPE and where customers stand in their relational states, customers' feelings of gratitude and perceived value change which in turn impact customer loyalty.

Theoretical Implications

This research offers three main theoretical contributions within the loyalty programs research and customer relationship management literature.

An integrative framework of key LPE strategies. We propose a novel, integrative conceptual model on LPE effectiveness that incorporates two key types of LPEs. We argue that it is critical to assess these two types of LPEs for a broader insight as they are the most prominent in

practice and they distinctively vary in the psychological and economic benefits. While widely practiced, surprisingly few insights shed light on the key LPEs' impact on customer loyalty, hence the inconsistent views by the practitioners. Most extant research in loyalty programs examines either aggregate effects at the program level or the effect of individual LPE activity. Therefore, it is challenging to reconcile the inconsistent views on LPEs. Unlike sales promotions that are becoming more personalized, practitioners often implement LPEs universally without accounting for customer relational states (e.g., Starbucks' Double Star Day), or at best, customize by the program tiers (e.g., Sephora's Insider Appreciation Week). Therefore, empirically capturing the effects of key LPEs on customer loyalty is essential. Moreover, we empirically illustrate the effects on LPEs using a multi-method approach that consists of analyzing a rich longitudinal dataset from a global financial services firm and running a set of structured quasi-experiments. In Study 1, we find evidence for the positive effects of points multiplier and expiring reward promotions on customer loyalty. Moreover, we observe that a 10% increase in points multiplier leads to a 1.4% increase in customer loyalty, and a 10% increase in expiring reward promotion leads to a 9.2% increase in customer loyalty, controlling for relational states.

The dynamic impact of customer relational states. This research responds to a recent call to observe the relational dynamics in loyalty programs literature (Kim, Steinhoff, and Palmatier 2021) and reveals the dynamic impact of customer relational states on LPE effectiveness. The extent to which each LPE impacts customer loyalty depends on the customer relational states that consist of temporal state and loyalty program state, a finding that helps resolve practitioners' mixed views on LPEs. Though past research has examined the impact of temporal changes on customer relationships (Alvarez et al. 2021; Johnson and Selnes 2004) and the impact of loyalty points on customer behavior (Danaher et al. 2020), few insights offer a holistic perspective that accounts for

both of the important states in loyalty programs. While points multiplier and expiring reward promotion generally enhance customer loyalty, each LPE effect is moderated by customer temporal state in a non-linear manner—i.e., inverted U-shaped impact on points multiplier effect and U-shaped impact on expiring reward promotion effect. Customer loyalty program state suppresses the effect of points multipliers and shows a similar trend for that of expiring reward promotions. In Study 2a, we find that long-term (vs. new) customers feel more grateful for points multipliers, and thus perform better. Further, in Study 2b, we find opposite effects for expiring reward promotions—long-term (vs. new) customers feel less grateful for expiring reward promotions, hence performing worse. We posit that these divergent effects of customer relational states on gratitude are due to the different salient benefits of each LPE—i.e., points multiplier with economic benefits and expiring reward promotion with psychological benefits.

Social exchange theory. Our research identifies a parsimonious explanation of LPE effectiveness by applying the social exchange theory. Specifically, we identify that gratitude and perceived value are the dual mechanisms that underlie the impact of customer relational states on LPE effects, and they move in different directions depending on which LPE is observed. Because points multipliers are more salient concerning the multiple folds of benefits, customers feel more grateful for the LPE as they achieve a higher temporal state and gain more knowledge about how to accrue and redeem the incremental rewards. On the other hand, because expiring reward promotions are time-sensitive, the instant appeal of achieving a good deal in a limited time wears off for customers in a higher temporal state, hence feeling less grateful and seeing less value. Alternative explanations are ruled out such as switching costs and relational expectations. The moderated mediation by gratitude proves robust across different LPE types.

Managerial Implications

Observing LPE effectiveness via customer relational states allows practitioners to understand how some enhancements may have tradeoffs. Thus, this article offers several important managerial implications. First, when targeting customers for LPE strategies, practitioners need to be cognizant of the tension between the temporal and program states of individual customers and learn what constitutes their customer base. Understanding this tradeoff allows the practitioners to tailor their LPE offerings to more fine-tuned segments of customers, as opposed to offering them universally. Our post-hoc analyses show that increasing points multiplier enhancements by 10% leads to a 1.39% lift in customer loyalty, while a 10% increase in expiring promotions leads to a 9.21% lift in customer loyalty. We also look at how the performance changes when observing different levels of relational states. At the high level of temporal state (+1SD), the net effect of the points multiplier enhances by 2.11%, and at the low level of temporal state (-1SD), the net effect lowers to 1.29%. These vast differences among the segments would encourage managers to look deeper into the tensions between different relational states and understand the composition of their customers.

Secondly, practitioners may nudge the habitual long-term customers to redeem their points periodically so that they can positively respond to the LPEs. Customers tend to habitually accrue points without consciously thinking about them or redeeming them (Henderson et al. 2021). Our results show that high points balance customers respond less favorably to LPEs and thus habitual customers should be appropriately nudged to be more engaged within the program.

Third, points multipliers can be designed to exclusively cater to long-term customers. Our results suggest that customers with high (vs. low) temporal states tend to appreciate points multiplier and in turn have stronger loyalty. Therefore, tailoring the points multipliers to appreciate the committed customers may enhance the LPE's effectiveness.

Lastly, expiring promotions can be specifically used to help lock in new customers. Instead of offering the limited-time offer to all customers, practitioners can selectively offer them as a welcome reward. Our results suggest that expiring promotions are better received by newer customers due to their novel scarcity value. Therefore, customizing the expiring promotions for new customers may help solidify the relationships in the onboarding stage.

Limitations and Future Research Directions

This research represents one of the few empirical demonstrations of the link between LPE strategies, relational states, and customer loyalty. However, several limitations should be considered in evaluating our findings. We discuss a set of endogeneity and generalizability concerns and suggestions for future research. For Study 1 is an empirical observation of secondary data, it is challenging to completely address all potential endogeneity concerns. For instance, practitioners may use past experience and the specific context of each LPE when deciding which LPE to offer to which customer (e.g., tiers), even when the company itself does not have clearly defined LPE implementation strategies. We offer a series of quasi-experiments in Study 2 to help alleviate this concern, but they are not run in a completely controlled setting due to the mixed design thus difficult to rule out the concern.

Next, other industry-specific factors, such as customer involvement and product attributes, vary across contexts and may offer additional insights on LPE effectiveness. Our studies consist of experiments that examine multiple loyalty programs, but we are still limited to the financial services context due to our scope. Therefore, it would be worthwhile for future research to adapt our proposed conceptual framework and apply it to different contexts and industries to establish generalizability and improve external validity. Another promising avenue for future research would be to further enrich the measures of relational states. This would help

enhance the reliability of the constructs, which we were not able to due to data limitations. Some good examples from prior research would be relationship quality and contact density serving as additional measures for temporal states (Palmatier 2008). Furthermore, scholars can examine the effect of other important LPE strategies such as spend-and-get, surprise rewards, and acquisition enhancements; thus, may help extend the applications of our framework.

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APPENDIX

Appendix A

Program Lever	Variable Level	Distribution			Variable Level Definition	Program Percent	Findings
		Dominant	Balanced	Minor			
<i>Design Elements</i>							
<i>Structure</i>							
Program Type	Open	✓			Free and open access to enrollment	90%	A leading trend is to have a free and open loyalty program. Businesses with paid membership by definition have closed loyalty programs (e.g., Costco, AARP, BJ's Wholesale).
	Closed			✓	Customers need company approval for enrollment	10%	
Currency	Monetary			✓	Currency is in monetary currency such as dollars	14%	Those that use monetary currency tend to consist of grocery and mass merchants (e.g., Giant Eagle, Walmart) and online businesses (e.g., Overstock, Ebates).
	Fictional	✓			Currency is in fictional currency such as points	86%	
Tiers	Single		✓		Program has no tiers in membership	40%	60% of the loyalty programs have multiple tiers in their membership (e.g., bronze, silver, gold). Those that have tiers (vs. no tiers) appear heterogeneous in terms of industry but consist of more recent programs that launched after 2010.
	Multiple		✓		Program has multiple tiers in membership	60%	
Partnership	Yes		✓		Partner(s) exists where customers can also earn points at	58%	About 58% of the programs have partnerships. Partnerships often occur in the gaming industry, airlines, hotels and coalitions— possibly those with high cross-selling potential.
	No		✓		No alternative company for earning points	40%	
	N/A			✓		Information unclear on the website	
<i>Reward</i>							
Reward Type	Hard		✓		Program mainly promotes financial or tangible rewards (e.g., discounts, flight ticket)	54%	Approximately half of the programs gave hard rewards versus a mix of hard and soft rewards. The constituents in both seem heterogeneous.
	Hard/Soft Balanced		✓		Balanced promotion of hard and soft rewards	46%	

Reward Fit	Direct	✓	Program mainly promotes direct (closely related to core offering) rewards	56%	A recent trend is to have direct rewards as opposed to indirect or balanced. A lot of them are from specialty retailers such as DSW, Best Buy, and Ulta, likely due to low cross-selling opportunities.
	Indirect		Program mainly promotes indirect rewards (e.g., an airline rewarding with coffee machine)	16%	
	Balanced	✓	Balanced promotion of direct and indirect rewards	28%	
Rewarded Behavior	Purchase	✓	Program mainly rewards purchase amounts	47%	The highest portion of programs reward customer purchases, closely followed by a balanced mix of reward behaviors. Some Internet-based companies such as eRewards.com and Swagbucks.com also reward user engagement such as watching videos, searching, and doing surveys.
	Membership	✓	Program mainly rewards membership/enrollment	9%	
	Miscellaneous	✓	Program rewards miscellaneous items such as social media engagement and surveys	6%	
	Balanced	✓	Program has a balanced proportion of above rewarded behaviors (purchase, membership)	38%	

Operational Elements

Delivery

Rule Clarity	High	✓	Rule for main reward is available within three minutes of browsing the program website (i.e., how much to spend before earning the reward)	55%	Although split almost in half, programs with high rule clarity seem concentrated in specialty retail sectors, such as those by Office Depot, Build-A-Bear, and GNC, possibly due to the higher chance of being standalone with no partnership.
	Low	✓	Rule for main reward is not available within three minutes of browsing the program website	45%	
Reward Visibility	High	✓	One or more of the mainly promoted rewards are likely to be visible to other surrounding customers (e.g., priority check-in, lounge).	13%	As expected, a majority of the programs have low reward visibility. However, among those with high visibility, a dominant group comes from gaming industry, such as MGM Mirage, Harrah's, and Tropicana, comparable to airlines.
	Low	✓	Rewards do not seem likely to be visible to other surrounding customers (e.g., discount).	84%	
	Balanced	✓	Balanced proportion of high and low visibility rewards	3%	

Reward Exclusivity	High		✓	Mainly promoted rewards are for a specific group of customers (e.g., VIP)	7%	About 57% of the programs are low in exclusivity and 35% are balanced. Those with high exclusivity tend to require membership fees or credit card enrollment, such as Overstock.com.
	Low		✓	Mainly promoted rewards are not exclusive to a specific group of customers	57%	
	Balanced		✓	Balanced proportion of high and low exclusive rewards (e.g., tiered)	35%	
Reward Distribution	Delayed		✓	Mainly promoted rewards are given after accumulation of points	48%	About 48% of the programs have delayed distribution, closely followed by balanced distribution. Many coalitions (Upromise, Group Aeroplan) and department stores (Sears, HBC) have delayed distribution.
	Immediate		✓	Mainly promoted rewards are given at every transaction	3%	
	Intermittent		✓	Intermittent distribution throughout membership	6%	
	Balanced		✓	Program has a balanced proportion of the distribution types	43%	
<i>Targeting</i>						
Bystander Likelihood	High		✓	One or more of the mainly promoted rewards are likely to have bystanders (e.g., priority line at desk)	15%	Most programs have low bystander likelihood; those with high likelihood are in airlines (Delta, Alaska), gaming (MGM Mirage, Harrah's), and hotel (IHG, Hyatt).
	Low	✓		Program's main rewards are not likely to have bystanders	83%	
	Balanced		✓	Balanced proportion of high and low bystander likelihood rewards	2%	

VITA

Jisu J. Kim earned a Bachelor of Science degree in Information Systems from Carnegie Mellon University in 2010. After working in the consulting industry in Washington D.C. from 2010 to 2013, she earned a Master of Science degree in Marketing from Korea Advanced Institute of Science and Technology (KAIST) in 2015. In 2022, Jisu earned a Doctor of Philosophy degree in Marketing from University of Washington in Seattle.