Unintended Consequences of Loyalty Initiatives

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A dissertation

submitted in partial fulfillment of the

requirements for the degree of

Doctor of Philosophy

University of Washington

2013

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Foster School of Business

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Abstract

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Firms launch loyalty initiatives (e.g., loyalty programs, relationship marketing investments) in the hopes of eliciting greater behavioral loyalty (e.g., less defection, more expansion). Extant research evaluates the direct effects of loyalty initiatives on customer performance without considering how they interact with preexisting intrinsic loyalty mechanisms already operating in the background. This research draws on literature from relationship marketing, signaling, attribution, persuasion knowledge, and habit to propose a holistic conceptual model that delineates how three intrinsic loyalty mechanisms—habit-based, dependence-based, and relationship-based intrinsic loyalty—work to secure customers' existing business, and how loyalty initiatives alter, rather than simply augment, these preexisting effects.

The model is tested with a longitudinal field experiment at a major telecom provider, where existing customers were randomly selected to receive a new loyalty initiative (i.e., no-strings-attached gift of two months' free calling). Overall, the loyalty initiative failed to have a significant direct effect on customer retention or expansion; however, the loyalty initiative altered the preexisting effects of the intrinsic loyalty mechanisms, resulting in positive (intended) and negative (unintended) consequences for customer retention and expansion. For instance, habit suppressed changes—reducing defection and expansion—unless a customer received the loyalty initiative, in which case habitual customers were "awakened" to consider changes, and consequently, it eliminated the positive effect of habit on retention and reversed the negative effect of habit on expansion. By uncovering these opposing interaction effects, this research contributes to the loyalty research domain by helping explain loyalty initiatives' mixed performance record in past studies that primarily focused on examining the direct effects of various types of loyalty initiatives. By clarifying how loyalty initiatives combine with intrinsic loyalty mechanisms to affect customer performance, this research also provides insights for practitioners responsible for targeting customers with loyalty initiatives.

Keywords: loyalty initiatives, dependence, habit, relationship, relationship marketing

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ACKNOWLEDGMENTS

I would never have been able to finish my dissertation without the support and guidance from my advisor, committee members, colleagues, friends, and family.

I would like to express my deepest gratitude to my advisor, Dr. Robert Palmatier, for his excellent wisdom, guidance, patience, and friendship. I would like to thank my committee members Dr. MacLachlan, Dr. Jain, Dr. Steensma, and Dr. Rutz for their questions, feedback, and encouragement. I also would like to thank Dr. Eastin for serving as my Graduate School Representative. My advisor and committee members were very generous with their time throughout my doctoral studies; they are great role models as researchers and educators.

A number of other colleagues were also instrumental with their support. I would like to thank the fellow PhD students at the Foster School of Business. In particular, Ju-Yeon Lee, Joshua Beck, George Watson, Stephen Samaha, and Julian Saint Clair were great friends and resources. They, along with the other Ph.D. students, made the research process much more enjoyable. The marketing faculty at University of Washington's Foster School and Dr. Hari Sridhar at Penn State University's Smeal College were helpful with their feedback and answers to specific questions. Lew Thorson deserves special thanks for lending his expertise in computer programing.

Finally, I would like to thank my friends and family. My parents, three sisters, in-laws, and friends were always supporting me and encouraging me. My wife, Rachel Henderson was a constant source of strength and joy, in addition to an incredible mother for our daughter Olivia. Olivia was another incredible source of joy and motivation.

Research Overview

Marketers attempt to manufacture customer loyalty through a variety of loyalty initiatives (e.g., loyalty programs, relationship marketing investments) (Bolton, Lemon, and Verhoef 2004; Kumar and Shah 2004; Liu and Yang 2009); yet evidence of success is sparse (Dowling and Uncles 1997; Singh, Jain, and Krishnan 2008; Zhang and Breugelmans 2011). Extant academic research focuses on characteristics of loyalty initiatives, their design, as well as methodological issues to help clarify when loyalty initiatives help or hinder performance (Drèze and Nunes 2009; Kopalle et al. 2012; Leenheer et al. 2007; Yi and Jeon 2003; Zhang and Breugelmans 2011). Surprisingly, characteristics of the existing customers, the recipients of loyalty initiatives, receive much less attention despite a decade old warning that understanding the preexisting customer-seller bond is essential for determining "the impact of relationship marketing tactics on relationship quality" and ultimately performance (De Wulf, Odekerken-Schröder, and Iacobucci 2001, p. 33). In response, *this dissertation provides an in-depth examination of the preexisting intrinsic loyalty mechanisms already operating in the background to secure customers' existing business, and uncovers how loyalty initiatives alter, rather than simply augment, these preexisting effects.*

The dissertation begins with a broad decomposition of the existing customer-seller bond into three high-level *intrinsic loyalty mechanisms*, defined as the forces uniquely accessible through ongoing exchanges that work to secure customers' business. The three intrinsic loyalty mechanisms are habit-based intrinsic loyalty (habit), dependence-based intrinsic loyalty (dependence), and relationship-based intrinsic loyalty (relationship). These intrinsic loyalty mechanisms have yet to be simultaneously included in an empirically tested model of customer loyalty despite coming from well-established theoretical backgrounds. Each can arise organically

as part of an ongoing exchange and, in aggregate, they combine to cover the different basses by which customer loyalty and commitment are held (Dick and Basu 1994; Oliver 1999). Habit, memory-based advantages for an established patronage pattern (Tobias 2009; Wood and Neal 2009), represents a basis for loyalty through customers' automatic behavioral mind, and is therefore similar to Oliver's "action loyalty", in which "an action inertia develops" and includes the "notion of ignoring…suitors" (1999, p. 36). Dependence, which relies on cost-benefit evaluations of defection (Burnham, Frels, and Mahajan 2003; Kumar, George, and Pancras 2008), shares the same basis as Oliver's concept of cognitive loyalty and represents a basis of loyalty through customers' rational mind. Relationship matches Oliver's affective and conative loyalty, because as relationships grow over time, they create shared value through mutual learning, understanding, and adaptation while satisfying emotional desires for attachment (Palmatier et al. 2006; Palmatier et al. 2009). Relationship provides a basis of loyalty through customers' social-emotional mind. In the empirical section of the dissertation, each intrinsic loyalty mechanism is captured with information commonly stored in customer databases, which makes the research approach relevant and accessible to managers.

Considering all three intrinsic loyalty mechanisms simultaneously is important because they exist concurrently, for many customers. Therefore, representing all three with a single amorphous indicator of the customer-seller bond could lead to erroneous conclusions that the wrong intrinsic loyalty mechanism is responsible for another's effect. For instance, data collected for this dissertation show a positive correlation between habit and relationship and while both support retention, habits do so by suppressing all behavioral changes including expansion. Consequently, much of the existing research that omits habits from their conceptual model may be giving relationships too much credit for affecting retention and too little credit for affecting

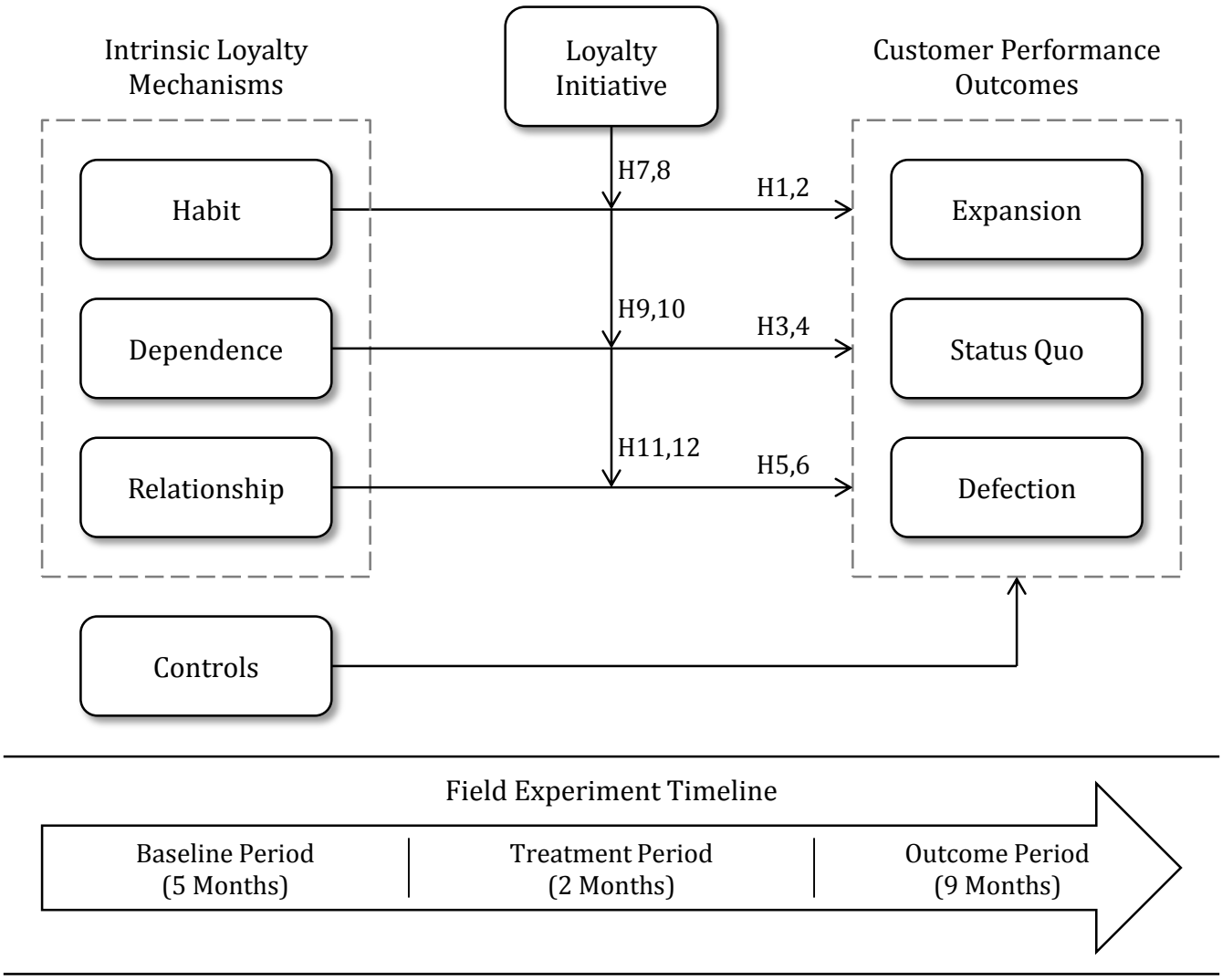
expansion. Furthermore, as is discussed in detail below, if a loyalty initiative alters the preexisting effects of these intrinsic loyalty mechanisms, the net effect of providing a loyalty initiative to a given customer will depend on the customer's level for each intrinsic loyalty mechanism.

Next, the dissertation focuses on the current state of knowledge regarding *loyalty initiatives*, defined as the special benefits discretionarily provided to specific existing customers, which are additional, non-essential, to the seller's core offering. Under this definition, loyalty initiatives include traditional loyalty programs that provide rewards to certain customers exhibiting particular behaviors (Bijmolt, Dorotic, and Verhoef 2011), relationship marketing investments typically found in Business-to-Business exchanges (Palmatier, Gopalakrishna, and Houston 2006), and unexpected loyalty gifts which are increasingly popular objects of research (Haisley and Loewenstein 2011; Palmatier et al. 2009). While the exhaustive review of extant literature on loyalty initiatives is intentionally broad, to establish the state of the domain, the empirical section of this dissertation examines a specific loyalty initiative, similar to Haisley and Loewenstein 2011, that best facilitates hypotheses testing to fulfill the research objectives. The extant literature already provides numerous insights regarding various characteristics found across different types of loyalty initiatives, thus the dissertation's empirical findings complement previous research with a thorough examination of how intrinsic loyalty mechanisms' preexisting effects are altered by a loyalty initiative.

The dissertation's organizing framework, displayed as a conceptual model in Figure 1 (displayed on the page following this paragraph), suggests that launching a loyalty initiative creates an external shock that alters the preexisting effects of intrinsic loyalty mechanisms, already present to some extent for each existing customer, on customers' propensity to defect

(retention), expand, or remain the same. For the firm providing the loyalty initiative, these alterations lead to both intended and unintended consequences. For instance, the idea that the new loyalty initiative disrupts habit's behavioral inertia (Henderson, Beck, and Palmatier 2011), which should reduce the positive effect of habit on retention and also suppress the negative effect of habit on expansion, provides an antagonistic pair of hypothesized interaction effects. Similar opposing hypotheses for the interactions of the loyalty initiative with dependence and relationship are based on expected differences among customers' attributions and interpretations of the loyalty initiative as a signal of the seller's quality and intentions (Dholakia 2006; Hennig-Thurau and Paul 2007; Kivetz 2005; Morales 2005; Palmatier et al. 2009). However, the loyalty initiative should enhance the positive effects of dependence and relationship on retention, but weaken their positive effects on expansion. Ultimately, five of the six hypothesized interaction effects received empirical support through the dissertation's primary empirical research.

Figure 1
CONCEPTUAL MODEL AND RESEARCH DESIGN TO STUDY HOW LOYALTY INITIATIVES ALTER PREEXISTING EFFECTS OF INTRINSIC LOYALTY MECHANISMS



The dissertation's empirical section describes a longitudinal field experiment at a major telecom provider that provided the data to test the model. After capturing the initial levels of customers' habit, dependence, and relationship, existing customers were randomly selected to receive a new loyalty initiative (i.e., no-strings-attached gift of two months' free calling), and then observed for an additional nine months to capture any changes, or lack thereof, to their account. Customers either expanded on their previous subscriptions, kept their account the same, or defected, and thus a multinomial logit, with "status quo" as the reference category was used to estimate the hypothesized effects on retention (i.e., a lack of defection) and expansion.

This research approach provides three advantages for uncovering the several unintended consequences of loyalty initiatives that were undocumented in previous loyalty research. First, randomly selecting recipients ensures that the loyalty initiative's effects are exogenous, a difficult task in loyalty research (Liu 2007; Meyer-Waarden and Benavent 2009). Without random selection, customers who plan on spending more in the future may seek out loyalty initiatives that reward such behavior, thus expected future loyalty can drive receipt of loyalty initiatives. Without random selection, firms often target loyalty initiatives at their best customers, who are more likely to already have high levels of habit, dependence, and relationship, thus intrinsic loyalty can drive receipt of loyalty initiatives. In the other causal direction, loyalty initiatives may drive intrinsic loyalty in the long-term. For instance, dependence can build faster through some loyalty initiatives because expected rewards create switching costs (Kumar and Shah 2004). Therefore, in the current research, intrinsic loyalty mechanisms were captured before the loyalty initiative was launched and the loyalty initiative lasted for a relatively short amount of time. Randomly selecting recipients of the loyalty initiative also provides a clean look at the preexisting effects of intrinsic loyalty mechanisms in the control group of customers who

are left alone.

Second, embedding the experiment in the field, rather than a lab, is important for providing an objective measure of intrinsic loyalty mechanisms that take time to build, that cannot be easily surveyed, manipulated, or described in a lab, and that can be easily adopted by practitioners. For instance, habits require consistent repetition of a behavior in a consistent environment with consistent results and often operate subconsciously, which makes them very difficult to study in a laboratory setting (Wood and Neal 2009). A multi-period field study provides the right setting and adequate time to observe naturally occurring variance across the key predictors and outcomes.

Third, the customer performance outcomes included in the field experiment allow for opposing effects on retention and expansion to coexist, unlike typical research on loyalty initiatives that focus on changes to aggregate indicators of customer performance, such as customer spending levels. If loyalty initiatives weaken habits and lead customers to make changes that were previously suppressed by habits, the outcome needs to be flexible enough to allow for both positive (expansion) and negative (defection) changes. Thus, spending level is an ill-suited outcome. While the research approach provides these three benefits, it was not without weaknesses. When possible, the empirical section of the dissertation also includes descriptions of additional tests and efforts performed to address the weaknesses.

Finally, the dissertation concludes with a discussion of the study's implications for the field of loyalty research and for practitioners, and notes unresolved limitations that could motivate future research. The research approach and findings are of particular value to practitioners interested in an approach to targeting specific customers with loyalty initiatives depending on their intrinsic loyalty profile. The results indicate that the loyalty initiative could

help performance, hinder performance, or have offsetting positive and negative effects. The exact implications depend on whether a customer had high, medium, or low levels of habit, dependence, and relationship.

A few examples are highlighted below in this conclusion of the research overview and the specifics are detailed in the discussion and in Table 13. The loyalty initiative increases likelihood of expansion by 1.94% without influencing defection for customers with strong habits and medium levels of relationship and dependence. It helps retention by at least 4.31% without hurting expansion if dependence is high, relationship is at least medium, and habit is medium. The loyalty initiative increases the risk of defection by 5.86% and does not help expansion if customers had low intrinsic loyalty on all dimensions. For many other loyalty profiles, the loyalty initiative either hurts retention but helps expansion (e.g., low relationship and dependence with high habit) or hurts expansion but helps retention (e.g. high relationship and dependence but low habit). These results emphasize the dissertation's contribution provided by shining a light on intrinsic loyalty mechanisms, which helps explain loyalty initiatives' mixed success record (Bijmolt, Dorotic, and Verhoef 2011).

Literature Review

Behavioral loyalty, customer retention and expansion, is critical for customer profitability and firm success. Existing customers are a more reliable and less expensive source of future revenue than prospective customers (Gupta and Lehmann 2005; Reichheld 2003; Reichheld and Teal 1996). For continuous service providers, each period a customer remains active helps to offset the relatively expensive acquisition costs (Bolton 1998; Bolton, Grewal, and Levy 2007). New customers often begin their relationship with small purchases to test a provider, and then expand on their initial business if the provider earns the customer's trust (Aurier and N'Goala 2010; Johnson, Herrmann, and Huber 2006). Expansion of a customer's ongoing profit stream also creates further customer lock-in (Kamakura et al. 2003; Li, Sun, and Wilcox 2005).

Given the importance of retaining and developing existing customers, identifying the driving forces of behavioral loyalty has received extensive attention in the marketing literature (Bolton, Lemon, and Verhoef 2004; Henderson, Beck, and Palmatier 2011). These drivers of behavioral loyalty can be classified into two high level categories, one for the forces that arise naturally through ongoing customer-seller exchanges, and the other for initiatives a seller creates and embeds onto an ongoing customer-seller exchange. In this dissertation, the first category is termed *intrinsic loyalty mechanisms*, formally defined as the forces uniquely accessible through ongoing exchanges that work to naturally secure the customer's business. *Loyalty initiatives* capture the second category and are formally defined as the special benefits discretionarily provided to specific existing customers; special benefits are additional, non-essential, to the seller's core offering. This section of the dissertation provides an extensive review of each category, focusing on research that is relevant to understanding the direct effects of intrinsic loyalty mechanisms on behavioral loyalty and how they may interact with loyalty initiatives.

Intrinsic Loyalty Mechanisms

In the marketing literature, loyalty and commitment are decomposed according to the bases by which they are held (Dick and Basu 1994; Oliver 1999). A broad decomposition of the existing customer-seller bond results in three high-level *intrinsic loyalty mechanisms:* habit-based intrinsic loyalty (*habit*), dependence-based intrinsic loyalty (*dependence*), and relationship-based intrinsic loyalty (*relationship*). All three help to secure existing customers' business but operate through different processes. These intrinsic loyalty mechanisms map onto the loyalty bases in Oliver's (1999) seminal conceptual article, which specifically argues that customers' baseline loyalty is built through rational cognitive evaluations, affective attachment and conative motivations established over time, and "action inertia". Habit relies on subconscious memory based advantages for existing behaviors over alternatives (Verplanken 2008; Verplanken and Wood 2006), and is closely related to Oliver's "action loyalty", which is described as when "an action inertia develops" with the "notion of ignoring…suitors" (1999, p. 36). Dependence relates to Oliver's concept of cognitive loyalty because the motivation to maintain the relationship comes from cost-benefit evaluations of switching providers (Burnham, Frels, and Mahajan 2003; Kumar, George, and Pancras 2008). Relationships provide an affective basis for loyalty by satisfying emotional desires for attachment and they provide a conative basis for loyalty as they grow over time to establish trust and commitment through mutual learning, adaptation, and norm convergence (Palmatier et al. 2006; Palmatier et al. 2009). An in-depth look at each intrinsic loyalty mechanism is provided below.

Habit. A recent New York Times bestselling book, *The Power of Habit: Why We Do What We Do in Life and Business*, exults habit's potency with claims that over 45% of choices are supported by habits (Duhigg 2012). Strong habits increase one's propensity to automatically

perform a supported behavior without actively forming intentions or considering alternatives (Tobias 2009). Without habits, behaviors change over time as intentions evolve; but with habits, behaviors lock to old preferences and fail to update along with changes in underlying preferences (Ajzen 2002; Wood and Neal 2007). With habits, behavior updating—matching behavior to new preferences—only occurs when the habitual behavior-to-context linkage is interrupted, when cognitive resources are available, and when reminders for alternatives are salient (Quinn et al. 2010).

In this dissertation, *habit-based intrinsic loyalty* is defined as customers' increased propensity to remain with a seller arising from memory-based advantages for the established patronage pattern over alternatives, created by consistently performing the same behavior in a regular context. Theoretical explanations of habits draw on the dual-mode model of mental processing which distinguishes pre-habitual behavior relying on deliberative, rational, effortful, and analytic processing from habitual behavior relying on automatic, experiential, effortless, holistic processing (for reviews of dual processing models see Novak and Hoffman 2009; Smith and DeCoster 2000). As people consistently repeat a behavior they decreasingly employ deliberative processing to consider potential alternatives and increasingly rely on automated decision-making (Ajzen 2002; Wood and Neal 2007).

Habits allow well-learned behaviors to be executed efficiently with minimal awareness, freeing individuals to perform other tasks simultaneously. Selection of a habitual behavior is essentially effortless making it extremely difficult to suppress habitual behaviors or engage in alternative behaviors. Breaking a habit requires memory aids or an external shock to the contextual environment and the cognitive resources to form or recall intentions for less familiar alternative intentions (Tobias 2009; Verplanken 2006; Verplanken and Wood 2006). The

automatic memory advantage of habits helps individuals function under stress when rational decision making is difficult, and thus scholars argue that habits are an evolutionary selected trait because beneficial habits helped individuals survive in dangerous and stressful circumstances (Neal, Wood, and Drolet forthcoming).

Habit's power is well recognized but researchers debate the theoretical role of intentions in habituation. The habituation perspective argues that mature habits rely on context to directly cue behavior, and thus the mediating cognitions of intention are circumvented by the context-behavior cue (Ji and Wood 2007; Wood and Neal 2009; Wood and Neal 2007). Alternatively, the reasoned action perspective insists that intentions never completely dissipate. Instead, they are stored in memory and spontaneously activated rather than consciously reconceived; and they always mediate the contextual cue's effect on behavior (Ajzen 2002). Tobias (2009) draws on prospective memory research to offer a reconciling explanation that all behaviors are intended to some extent, but intentions for habitual behaviors are easier to recall in a given context and thus selected more often compared to alternative behavioral intentions, even if an alternative intention is preferred. All perspectives are trying to reconcile how actors' stated intentions change yet their habitual behavior remains. Regardless of researchers' different explanations, "the implications … are quite similar" and they agree that an actor no longer needs to deliberately form intentions when habits are strong (Ajzen 2002, p. 108).

Although marketing scholars generally recognize habit, until recently it remained an "undervalued concept in consumer research" that was "only indirectly incorporated into models of consumer behavior" (Verplanken 2008, p. 125). The limited study of habit in marketing is partly a result of research obstacles. Habits are difficult to manipulate in laboratory experiments and there are numerous challenges to measuring habit strength with a questionnaire (Ajzen

2002). Despite these challenges, habit research represents “a new but booming topic” (Tobias 2009, p. 415). Recently, habit’s powerful inertia effects have appeared in marketing research (Ji and Wood 2007; Wood and Neal 2009), with findings that habits are an antecedent to several performance outcomes: loyalty (Labroo and Nielsen 2010), purchase probability (Breivik and Thorbjørnsen 2008), indirectly to product preference (Murray and Häubl 2007), and diminished search for alternatives (Verplanken and Wood 2006). Field experiments alter the environmental context to manipulate habit strength to show that product quality (Wood and Neal 2009) and volume incentives (Lee and Ariely 2006) are less important when the context is stable. Table 1, displayed on the next page, summarizes relevant loyalty research that uses “habit” as the theoretical rationale.

Table 1
RELEVANT RESEARCH ON HABIT-BASED INTRINSIC LOYALTY

Reference	*Context*	*Key Constructs*	*Major Findings*
Breivik & Thorbjørnsen, 2008	Online brand communitie	Consumer-brand relationship, habit strength	Indicators of habit strength predicted *repurchase likelihood* beyond that of commonly used measures of relationship strength or quality. The impact of habits increases with frequently bought or consumed categories.
Fishbach et al., 2010	Sequential product choice	*Consistency vs. variety seeking* , mental construal	Nonconscious support of behavioral selection *consistency* increases when consumers are primed with concepts of loyalty, but concepts related to satiation (boredom) promote *variety seeking* . Loyalty programs may prime consistent behavior and support the development of habitual loyalty.
Ji & Wood, 2007	Restaurant, media, and commute	Habit strength, intentions	Repeated behaviors predicted *subsequent behavior* in a fast-food, TV, and transportation setting, even in light of opposing intentions. Intentions predicted behavior when behavior repetition was low—a proxy for weak habits.
Kivetz et al., 2006	Café patrons, Internet users	Goal-gradient effect, *persistence* , *loyalty program reengagement*	Consumers accelerate *effort* , *persistence* , and *behavior frequency* when approaching a loyalty reward. The acceleration cannot be explained by habit but may help build a baseline habit. After receiving a reward, consumer effort decreased, but not to the original level, and acceleration positively predicts *program reengagement* and *loyalty* . The goal-gradient effect does not directly account for this effect as the goal distance resets.
Murray & Häubl, 2007	Online Web search	Repetition, *product preference* , ease of use, goal activation	*Product preferences* are shaped by prior experience with the product. This relationship is mediated by ease of use. Goals associated with product use moderated the relationship between experience and preference, with consumers preferring experienced products only when ease of use was high. Therefore, habits can indirectly affect preferences supporting ease of use and brand loyalty.
Tobias, 2009	Recycling campaign	Accessibility, *behavior* , commitment, habit strength	Habits provide a strong memory advantage over competing behaviors. Intention accessibility decays as habits develop but is enhanced by reminders. Reminders' positive impact on accessibility is positively moderated by behavior commitment. Reminder's potency increases with proximity to behavior context, but its salience decreases with exposure.
Verplanken & Wood, 2006	Fast food and commute	*Habit change* , environmental change	*Habit change* is easiest when environmental context is altered or disrupted. Informational campaigns to help consumers break habits will be most effective when the habit performance context is tumultuous.
Wood, 2010	Retail, restaurant	Life change, familiarity, habit performance	Despite actors' predictions about others' behaviors, people in states of high life change tended to *choose* unfamiliar, novel items rather than familiar, traditional items, suggesting that life changes inhibit habit performance.

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with italics. Table adapted from Henderson, Beck, & Palmatier 2011.

A key to driving customer retention, mature habits suppress the efficacy of persuasion or informational campaigns (Wood & Neal 2009). Consider the self-reflective example provided by Charles Duhigg (2012), the author of the New York Times best-selling book on habits, who had a habit of buying a cookie each afternoon. He originally wanted to buy the cookie, but he developed a new intention to lose weight after gaining eight pounds from his cookie habit. He responded to his new intention with a marketing message on his computer, "NO MORE COOKIES". Yet the habitual snacking continued until Duhigg learned to break the routine that preceded the cookie habit. Only then could he stop the powerful memory advantage that allowed the snacking behavior to dominate over his new competition intention to lose weight.

Habit's memory over preference advantage represents a double-edged sword for marketers. While a seller specific habit will undermine competitors' informational and persuasion campaigns, it will hinder the seller's efforts to encourage their habitual customers to expand on the existing habitual behavior. From the seller's perspective, both positive (expansion) and negative (defection) changes are less likely after a customer's habits set because the memory based-advantages are robust to new intentions. In sum, habit-based intrinsic loyalty relies on memory-based protection to create "action loyalty" that leads to a powerful inertia, where customers ignore competing behaviors, both expansion and defection (Oliver 1999, p. 36).

Dependence. The second intrinsic loyalty mechanism, *dependence-based intrinsic loyalty*, captures customers' increased propensity to remain with a seller arising from cognitive evaluations of potential switching costs, specifically the unique benefits lost and expenses incurred form defection. The two avoidance-based motivations (avoiding loss of benefits and avoiding the incurrence of termination costs) build cognitive loyalty when they outweigh potential benefits offered from a competitor (Allen and Meyer 1990; Anderson and Weitz 1992;

Fullerton 2003; Johnson, Herrmann, and Huber 2006). From a benefit-based perspective, a dependent customer wants to avoid losing benefits currently realized that would become inaccessible if the relationship dissolved. From a cost-based perspective, a dependent customer wants to avoid incurring currently dormant termination and replacement costs (Hibbard, Kumar, and Stern 2001; Scheer, Miao, and Palmatier 2012). A recent meta-analysis of dependence in customer-seller relationships indicates that "benefit-based dependence is more strongly related to trust" while "cost-based dependence is more strongly related to commitment", and dependence "will be viewed less as an opportunity and more as a threat" if both partners are not equally dependent (Scheer, Miao, and Palmatier 2012, p. 13).

Unlike habits that operate through automatically activated memory advantages, dependence comes from rational appraisals of potential losses and has its theoretical roots in economics. Traditionally, marketing scholars studied dependence when applying transaction cost theory to understand the utilization of relationship investments and contracts in distribution channels (Heide and John 1988). In this context, scholars built off Emerson's (1962) power-dependence theory which explains the effects of asymmetries in dependence that give one partner a position of strength from which they can extract value. Research in retail and service contexts conceptualizes dependence as customer's switching costs that protect against competition and support customer retention (Bendapudi and Berry 1997; Burnham, Frels, and Mahajan 2003). Table 2, displayed on the next page, summarizes the implications of dependence for customer loyalty.

Table 2
RELEVANT RESEARCH ON DEPENDENCE-BASED INTRINSIC LOYALTY

Reference	*Context*	*Key Constructs*	*Major Findings*
Anderson & Weitz 1992	Channel partners	Relationship investments, *commitment*	There is a cyclical relationship between a partner's pledges of commitment to the actor's commitment to the actor's pledges of commitment. Idiosyncratic relationship investments are effective, tangible, signals of commitment.
Bendapudi & Berry 1997	Conceptual, service focused	constraint vs dedication based *relationship maintenance*	Dependence arises from constraints (cost-based) and dedication (benefit-based). Although constraint-based dependence supports relationship maintenance, constrained customers have more *interest in alternative* providers and will leave as soon as perceptions of dependence change.
Burnham, Frels, & Mahajan 2003	Service provider, telecom & finance	Breadth of use, switching costs, *intent to stay*	Breadth of use was one of the main drivers of procedural, financial, and relational switching costs (dependence). All three supported customers *intent to stay* with the provider, but financial switching costs had the weakest effect.
Fullerton, 2003	Service vignette longitudinal experiment	cost-based dependence, identification, *loyalty*	Without relationship identification, cost-based dependence helps *retention.* Relationships help cost-based dependent customers feel better towards the relationship. However, increased salience of economic switching costs make relational ties less potent.
Johnson, Herrmann, & Huber 2006	Service, telecom customers	Benefit-based dependence, affective commitment	At the beginning of a relationship, perceived value created a benefit-based dependence that directly drove loyalty, but as relationships develop, it acted as a spring board to support *loyal intentions* through improved affective commitment and brand equity.
Kumar, George, & Pancras 2008	catalog retailing	Product returns, mailings, *cross-buying*	*Cross-buying* provides benefits from expansion at a retailer but also risks from increased dependence. Factors that theoretically should decrease perceived risk empirically support *cross-buying* .
Kumar, Scheer, & Steenkamp 1995	Channel partners	Interdependence level and asymmetry	Interdependence level has positive effects on *trust* and *commitment,* and reduces *conflict.* Asymmetry hurts the relationship on all outcomes.
Martin & Camarero 2005	Service provider, auto	Information asymmetry, dependence, *trust*	Customers, uncertain of a seller's true competence and intentions, will interpret seller investments as signals of *trustworthiness.* Dependent customers, exclusive to one seller, interpret seller investments (e.g. warranty) as a signal of benevolent intentions in addition to competence, reducing fear of *opportunism* .
Palmatier, Dant, & Grewal 2007	Channel partners	Interdependence level and asymmetry	Interdependence supports commitment and encourages relationship specific investments. Commitment and relationship specific investments drive *financial performance* and *cooperation.* Interdependence asymmetry causes *conflict* .

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formating each outcome with *italics* .

Restricting mobility outside of the customer-seller exchange actually provides several benefits internally. First, it increases partners' confidence in the relationship's stability and longevity, a confidence that is critical to spurring investments, which further enhance the relationship's value (Palmatier, Dant, and Grewal 2007). Investments in the relationship serve as credible signals of commitment to the relationship and increase benefit-based dependence, creating a virtuous, mutually-reinforcing cycle between dependence, investment, and commitment (Scheer, Miao, and Palmatier 2012). Furthermore, dependent customers are very sensitive to positive information about the seller because they seek to justify their position of vulnerability that comes with their dependence (Bobocel and Meyer 1994). In total, dependence has a positive effect on both commitment and trust, although the effect on commitment is stronger than the effect on trust, possibly "due to customers' concerns that the seller can take advantage of their dependence" (Palmatier et al. 2006, p. 149).

If one relationship partner is much more dependent than the other, the powerful partner may unfairly exploit their power, an inequity that can destroy the relationship (Adams 1965; Samaha and Palmatier 2011). Cost-based dependence really constrains opportunities and creates relationship "lock-in", a feeling that can drive a partner, both in business and romantic relationships, to exert their freedom by paying greater attention to potential alternatives (Bendapudi and Berry 1997). Non-dependent customer's fear of this constraint may deter them from expanding their business at a seller to avoid losing their freedom to easily switch providers (Kumar, George, and Pancras 2008).

However, the same vulnerability that comes with dependence can ultimately strengthen the relationship. Dependent customers feel "genuine appreciation" for seller's benevolent behavior and simply when a seller is "non-exploitative" because they know the seller has the

opportunity to exploit the dependent customer's lack of mobility (Bendapudi and Berry 1997, p. 20). Alternatively, a seller's benevolent behavior may be insincere when directed to a nondependent customer with plenty of freedom to take their business elsewhere. As a customer's dependence increases, the seller's relative power and thus customers believe the seller's behavior is a more accurate signal of their true intentions. Seller's benevolent actions elicit strong feelings of gratitude when customers believe the seller is acting freely (Martín and Camarero 2005; Palmatier et al. 2009). Overall, dependence creates a cognitive loyalty and can act as a powerful springboard for affective loyalty if complemented with some benevolence and a history devoid of exploitation (Oliver 1999).

Relationship. The third intrinsic loyalty mechanism is *relationship-based intrinsic loyalty*, which captures customers' increased propensity to remain with a seller arising from the emotional bond and mutual learning built over time through the formation of relational ties. It arises from a shared history of interactions to shape ongoing and future interactions. A long-standing exchange relationship provides customers and sellers numerous benefits that extend beyond transactional utility of the exchange. Relational customers are sources of higher and more consistent revenue, advocacy, and feedback. They become easier to serve over time as mutual learning occurs, which also reduces uncertainty for both partners (Palmatier et al. 2006; Reichheld 2003; Reichheld and Teal 1996). Relational sellers adapt to their loyal customers' specific needs and invest in the exchange. Furthermore, relational partners can derive social meaning from the relationship (Fournier 1998; Gwinner, Gremler, and Bitner 1998). The social benefits are especially powerful because they fulfill the basic human desire to hold "stable, lasting, positive, and significant personal relationships" (Baumeister and Leary 1995, p. 497). Table 3 summarizes relevant literature of customer relationships on loyalty.

Table 3
RELEVANT RESEARCH ON RELATIONSHIP-BASED INTRINSIC LOYALTY

Reference	*Context*	*Key Constructs*	*Major Findings*
Bansal et al., 2004	Auto-repair services	Normative, affective, and *continuance commitment*	Subjective norms are associated with normative *commitment*, while trust is tied to affective *commitment*. Continuance *commitment* results from increased switching costs. Normative and continuance *commitment* are negatively associated with switching intentions.
De Wulf et al., 2001	Food, apparel retail	Relationship investment, relationship quality, *loyalty*	Consumers' perceptions of relationship investments enhance relationship quality, a composite of trust, commitment, and satisfaction, which is positively associated with *behavioral loyalty*. Interpersonal communication has the strongest association with perceived relationship investment.
Dholakia 2006	Service, auto and financial	Customer self-determination, loyalty	Self-determined customers, naturally drawn to the firm, are more loyal than those drawn in with incentives. Self-determined customers respond positively to rewards perceived as relational investments but negatively to discounts perceived as controlling.
Giesler, 2006	Online peer-to-peer	Gift system, reciprocity norms	A dyadic analysis of gift exchange fails to capture *community development* function of gift systems, in which gifts exchanged among consumers aid in the *development of consumer relationships*.
Goodwin, 1996	Services	Communality, service delivery	Transitions to communal relationships are a function of service delivery, consumer traits, and situational factors. Likelihood of strong relationship formation increases with self-disclosure, time, and personality congruence in encounters.
Jap & Ganesan 2000	Channel partners	Relationship investments, life-cycle	Retailer (customers) perceptions of supplier's commitment increase with supplier investments and established norms, but decrease with contracts and their own investments (dependence). Early in the relationship, commitment is highest when relationship investments are mutual rather than just from retailer; as relationships mature, supplier investments are generally perceived as signals of commitment.
McGraw & Tetlock, 2005	Various consumer settings	*Opportunism*, relational exchange styles	Context of relational exchange influences consumers' exchange style, with communal and equality matching conditions associated with *egalitarian exchange* and market-pricing exchange related to *opportunism*.
Palmatier et al. 2006	Meta-analysis	dependence, duration, benefits, *trust, commitment*	Dependence and relationship duration have relatively small but positive effects on commitment and trust. Investments, expertise, similarity, and benefits had larger effects. Conflict had the largest effect, but was negative. Both commitment and trust drove relationship performance outcomes.
Reimann et al. 2012	Brand recall experiments	relationship length, love	As consumer's relationships with their favorite brand endure, the arousal reactions decline but the inclusion of the brand in the self concept solidifies.
Thomson et al., 2005	Self-reported brands	Emotional attachment, *brand loyalty*	Brand emotional attachment is associated with three factors: brand affection, connection, and passion. These factors are ultimately associated with stronger *brand loyalty* and a higher *willingness to pay*.

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with italics. Table adapted from Henderson, Beck, & Palmatier 2011.

While relationships are generally beneficial, social exchange theory highlights three key features that inform a more nuanced view (Fiske 1992; Gerbasi 2010): (1) relational target; (2) relational governance; and (3) relational development stage. Relational targets vary from individuals to amorphous collectives such as a firm and its brands (Fournier 1998). Customers form relationships with individual employees quicker and hold stronger beliefs about individuals than they do with an entire firm (Hamilton and Sherman 1996; Palmatier et al. 2007). Relationship governance, the rules and norms that dictate how partners interact, follow from two general types: type one is referred to as negotiated or exchange and type two is referred to as reciprocal or communal (Clark and Mills 1979; Fiske 1992). Most customer-seller relationships begin at the negotiated exchange end of the continuum, but over time sellers transition customers toward a socially-based, communal, reciprocal relationship because of their belief that a softer, closer, trusting relationship leads to greater performance (Palmatier et al. 2006). This transition strategy highlights the third factor, which is the idea of relational development stage or relationship age. “Life-cycle” theories explain the relationship initiation, growth, maturity, and decline process and highlight that different strategies are required as relationships develop (Dwyer, Schurr, and Oh 1987; Johnson, Herrmann, and Huber 2006; McGraw and Tetlock 2005).

Together these three factors create a fragile initial foundation for the customer relationship when the customer’s relationship is with an amorphous firm rather than an individual salesperson and when the interactions are governed by highly formalized norms and rules. However, this initial fragility is not permanent. Transaction utility theory (Thaler 1985) suggests that simply maintaining the relationship provides utility beyond any specific benefits provided through the individual exchange occasions. Relational cohesion theory describes how

an emotion-cohesion process develops over repeated interactions and creates strong, structurally embedded, emotional connections (Lawler and Yoon 1996). Customers' attachment with brands can even begin to mirror children's attachment styles with their parents (Bowlby 1979; Thomson, MacInnis, and Park 2005). Customers eventually perceive firms as a stable entity and use the same judgment and decision making processes they use when evaluating individuals for their evaluations of the firm and its brands (Hamilton and Sherman 1996).

Time is a critical ingredient for strong committed relationships to mature. Once the relationship solidifies, it is much less malleable (Bitner 1995; Gundlach and Murphy 1993; Jap and Ganesan 2000). In new relationships, people engage in causal search to explain their partner's behavior (Folkes 1988; Kelley 1973; Weiner 1985), but once beliefs are firmly established, people tend to ignore, reinterpret, or discount new information (Good 2000; Greenwald 1980; Taylor and Brown 1988). The early encounters dictate the type of relationship, a reciprocal communal relationships or a negotiated economic exchange that will guide future interactions (Aaker, Fournier, and Brasel 2004; Aggarwal 2004). Therefore, sellers should emphasize personality congruence, social benefits, and transparency in early interactions if they want to build a quality communal relationship (Goodwin 1996).

Sellers can elicit more positive affect early in a relationship, but the cognitive, knowledge-based, foundation of trust builds slowly (Lewicki and Bunker 1996; McKnight, Cummings, and Chervany 1998; Rempel, Holmes, and Zanna 1985). Customers have strong emotional reactions to early examples of a seller's benevolence, but they discount them as signals of the seller's character because they are unsure if such benevolent behavior is deceptive or rare (Holmes 1991; Lewicki and Bunker 1996; Zand 1972). Customers require a series of interactions before believing the seller is revealing their true colors, especially when the

relationship is with an amorphous firm rather than an individual salesperson (Huston et al. 2001; Palmatier et al. 2007). Emotional arousal from relationship with brands is strongest early because customers are still discovering whether or not the relationship will help them accomplish their goals, but the strength of emotional reactions decline with experience as customers simply include the brand and the benefits obtained from it into their self-concept (Reimann et al. 2012). Consistent with this idea, Haisley and Lowenstein (2011) find customers with mature, long-held, relationships to the firm exhibited greater behavioral loyalty than customers in new relationships, but customers with mature relationships had no discernible response to a seller's benevolent actions. Experienced customers are already loyal, they simply require a little "rejuvenation as they reach the mature stage" to maintain their belief the seller cares about them (Barnes 1997, p. 786; Jap and Ganesan 2000).

It is important for sellers to be cognizant that reactions can be negative as well as positive, especially when the relationship is new. Before a communal relationship is established, customers are more likely to view a seller with suspicion (McAllister 1995; Noble and Phillips 2004). In a negotiated exchange, people are wary of actions more consistent with a communal reciprocal relationship (Clark and Mills 1979; Clark and Mils 1993). In new relationships, where the other partner's motives are uncertain, some people even dislike unexpected acts of kindness (Shen, Wan, and Wyer Jr 2011). Overall, a customer-seller relationship taps into multiple psychological processes strengthening over time to increase customer loyalty and temper reactions to unexpected events.

Loyalty Initiatives

Recognizing the appeal of long-term customers, marketers employ *loyalty initiatives*—defined in this dissertation as the special benefits discretionarily provided to specific existing

customers, which are additional, non-essential, to the seller's core offering—with hopes of manufacturing greater behavioral loyalty (Dholakia 2006; Palmatier 2008). The wide diversity of loyalty initiatives implemented in practice reflects the managerial view that loyalty initiatives provide a new dimension for innovation around the customer experience (Zhang and Breugelmans 2011). Under the wide umbrella of loyalty research, scholars have examined the effects of traditional loyalty programs that provide rewards for particular behaviors (Bijmolt, Dorotic, and Verhoef 2011), relationship marketing investments typically found in Business-to-Business exchanges (Palmatier, Gopalakrishna, and Houston 2006), and unexpected loyalty gifts which are gaining popularity (Haisley and Loewenstein 2011; Palmatier et al. 2009). Customers invest in relationships with sellers and their brands (Thomson, MacInnis, and Park 2005); loyalty initiatives represent seller's reciprocal investment (De Wulf, Odekerken-Schröder, and Iacobucci 2001; Howard 1992).

Loyalty initiatives can be the spark to ignite behavioral loyalty or the glue that maintains it. Long standing loyalty initiatives can build loyalty through building the intrinsic loyalty mechanisms of habit, dependence, and relationship. Loyalty initiatives are often designed to incentivize repeat purchases, through which relationship or habit-based loyalty can take hold (Henderson, Beck, and Palmatier 2011). If customers begin to perceive a long-standing loyalty initiative's benefits as an essential element to the exchange, then customers may become loyal to the initiative rather than the seller, which creates a benefit-based dependence (Dowling and Uncles 1997; Kumar and Shah 2004).

A change to an existing loyalty initiative or the implementation of a new loyalty initiative may alter the preexisting intrinsic loyalty mechanisms to strengthen or break behavioral loyalty (Haisley and Loewenstein 2011; Hennig-Thurau and Paul 2007; Melancon, Noble, and Noble

2011; Morales 2005; Palmatier et al. 2009). When sellers use their discretion to change or implement a loyalty initiative, the customers' response will depend on their interpretations and attributions of the loyalty initiative as a signal of the seller's motives. The appraisal of the motives behind loyalty initiatives precedes responses because rewarded customers want to reconcile why a company incures additional costs to provide additional benefits (Lazarus and Folkman 1984). Firms control the information available for interpretation with the design of the loyalty initative, but the information customers focus on and how they interpret this information may depend on their preexisting relationship and their dependence. Changes to loyalty initiatives or the implementation of a new one can also disrupt habits by altering the consumption context and making goals salient (Wood and Neal 2009). Consequently, customers' preexisting intrinsic loyalty mechanisms and the loyalty initiative are key to uncovering "the impact of relationship marketing tactics on relationship quality" (De Wulf, Odekerken-Schröder, and Iacobucci 2001, p. 33).

Every loyalty initiative's specific profile of traits will uniquely alter customer's attributions, interpretations, and reactions. Some traits are fundamental to the main effect of the loyalty initiative on customer performance outcomes, and receive attention in the extant literature (Bijmolt, Dorotic, and Verhoef 2011). For example, Alaska Airlines' frequent flier program allows customers to earn free flights and premium service through accessing higher status tiers. These benefits provide point pressure that builds dependence and they serve as a mechanism to further discriminate between price and service-sensitive customer segments (Kopalle et al. 2012). However, loyalty initiatives potential to alter the preexisting intrinsic loyalty mechanisms receives much less attention in the extant literature. For instance, how might customer loyalty change if Alaska Airlines chose to enhance this existing frequent flier program

with a new loyalty initiative that surprised some of their customers by sending them gourmet holiday cookies? There are few empirical studies on how loyalty initiatives may alter the preexisting customer relationship (Kumar and Shah 2004; Palmatier et al. 2009).

The rest of this section reviews extant research relevant to the potential interactions between loyalty initiatives and preexisting intrinsic loyalty mechanisms. This research suggests that if a loyalty initiative suddenly alters the consumption context and makes consumption goals salient, it may break habits. A dependent customer will look for signals of the seller's commitment and thus may view the loyalty initiative as a signal that seller is committed to the relationship, but a non-dependent customer may think the seller is desperate to keep him or her from exercising their freedom. If customers have a good relationship, they may interpret seller's motives as pure and view the loyalty initiative as a reaffirmation of the well-established relationship; alternatively, if customers have yet to establish a relationship, they may view the loyalty initiative as an attempt to elicit a reciprocal investment by the customer. Related research that supports these different possibilities are reviewed below and then drawn upon in the development of the conceptual model. Table 4, displayed on the following page, summarizes key research that supports such possibilities.

Table 4
RELEVANT RESEARCH ON LOYALTY INITIATIVES

Reference	*Context*	*Key Constructs*	*Major Findings*
Haisley & Loewenstein 2011	Financial services	Unexpected rewards, change in reward value	Unexpected rewards boosted *account balance* for customers without a long-held relationship. If subsequent rewards declined in value, then they hurt performance by failing to meet expectations from increased entitlement.
Hennig-Thurau & Paul 2007	Restaurants, scenario experiment	Economic loyalty program	Economic loyalty rewards decrease perceptions of self-determination. Self-determination supports repeat patronage and loyalty.
Lal and Bell 2003	Grocery retail	Purchase incentives	Purchase incentives (e.g. a free ham with $X spending) led to increased profits among those customers who were not already spending at high levels.
Liu 2007	convenience store retail	Initial purchase level	Customers only responded positively to a new loyalty program with *increased consumption* when there initial consumption level was low.
Marcoux, 2009	Moving to a new home	Consumer gifts, *cooperation*, subjection	A variety of emotions are associated with accepting gifts from others, and these emotions may spur consumers toward market-based exchanges to forgo negative affect and relational obligations associated with accepting a gift.
Melancon, Noble, & Noble 2011	Sports fans, hypothetical experiment	Rewards, controlling program	Customers who perceive relational rewards and benefits as controlling are less likely to respond with appreciation and provide less benefits in turn.
Morales, 2005	Retail setting	Gratitude, *willingness to pay*	Extra effort expended by the firm enhanced customer *willingness to pay*, *choice of store*, and *overall evaluations*. Inferred persuasion motivations diminished this relationship and can undermine appreciation for extra effort.
Palmatier et al., 2006	Business-to-business relationship	Social, financial structural relationship investments	The *return* on relationship marketing investments is greatest if the investment is social in nature (e.g. taking a client to dinner). Financial investments (e.g. discounts) fail to deliver a positive return. Structural investments (e.g. infrastructure) only pay off if interactions are frequent.
Palmatier et al., 2009	Retail and business-to-business relationship	Gratitude, relationship investments	Gratitude mediates the effect of relationship investment on *performance*, along with trust and commitment. Relationship investments effect on gratitude is positively moderated by customers' perceptions of seller benevolence, free will, and investment value.
Rosenbaum et al., 2005	Communal loyalty programs	Communal benefits, *loyalty*	Loyalty programs differ in terms of the extent to which they provide communal engagement and shared benefits. Communal loyalty programs elicit stronger *loyalty* than programs relying on financial incentives.
Shen, Wan, & Wyer Jr 2011	Person to person gifts	Communal vs exchange, gifts	People in exchange relationships may refuse gifts if they anticipate feeling indebted due to an inability or disinterest in repaying gift.
Wood & Neal, 2009	Review of multiple studies	Habit, goals, rewards, context	Rewards that change the context or make consumption goals salient will *disrupt habits*.

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with *italics*. Table adapted from Henderson, Beck, & Palmatier 2011.

New loyalty initiatives or changes to existing loyalty initiatives will surprise customers and alter the consumption context. Surprise amplifies emotions, generating more visible dopamine in an fMRI (Redish et al. 2007). In response to surprising incentives as compared to expected incentives, customers exhibit greater positive emotional responses and more spontaneous purchases (Heilman, Nakamoto, and Rao 2002; Valenzuela, Mellers, and Strebel 2010). However, people also view surprises as a sign of impulsiveness and aggression (Barratt 1994), and customers are cautious of aggressive sellers (Campbell and Kirmani 2008). When unexpected loyalty initiatives violate relationship norms, recipients experience psychological reactance and are less likely to reciprocate (El-Alayli and Messe 2004).

Loyalty initiatives that unexpectedly change the consumption environment may serve as the trigger for the customer to make changes to their current consumption behavior. Customers must overcome inertia to change their previous consumption behavior, especially in the context of continuous service providers where customers passively maintain their current consumption (Roos, Edvardsson, and Gustafsson 2004). Customers reevaluate their provider's performance and quality "when something out of the ordinary occurs" as these unexpected "triggers" act as the "alarm clocks that concentrate energy for further actions" (Gustafsson, Johnson, and Roos 2005, p. 211).

Loyalty initiatives elicit greater attribution activity when they are surprising. Evolutionary psychology suggests that humans are hardwired to work to uncover the patterns that lead to rewards. Humans engage in attribution activity upon receiving a gift or benefit, especially when the benefit is consequential and unexpected (Folkes 1988; Kelley 1973; Redish et al. 2007; Valenzuela, Mellers, and Strebel 2010; Weiner 1985). Customers surprised with an unexpected loyalty initiative should pay closer attention to the consumption category, update

preferences, and dedicate cognitive resources to act on their new preferences (Tobias 2009).

Additionally, loyalty initiatives that disrupt the existing consumption contexts by providing products or services for free may break linkages between environmental cues and habits (Henderson, Beck, and Palmatier 2011; Quinn et al. 2010). Interruptions to the context provide an opportunity to escape a habit nested in the context because a stable consumption context powers habit's memory advantages (Neal, Wood, and Pascoe 2008; Verplanken and Wood 2006). Consistent with this idea, researchers found that movie theater patrons with a habit of ordering popcorn before a show would eat as much fresh as stale popcorn, but they ate less stale than fresh popcorn when these movie patrons were in an unfamiliar setting. Patrons without the movie-popcorn habit did not eat much of the stale popcorn anywhere (Wood and Neal 2009). New or random rewards or changes to existing loyalty initiatives may interrupt the stability necessary for customers to allow a habit's memory-based automatic processing to take control of their behavior (Ji and Wood 2007; Tobias 2009).

Even unsurprising loyalty initiatives may disrupt habits if they make consumption goals salient. Traditional loyalty initiatives that incentivize consistent repeat purchases operate similarly to positive reinforcements from operant condition (Redish et al. 2007; Skinner 1974). Wood and Neal (2009) propose that perceived contingency between purchases and rewards inhibits habit development, an idea consistent with their earlier findings that goal priming interferes with behavioral habituation (Neal, Wood, and Pascoe 2008). While not directly testing this proposition, Kivetz, Urminsky, and Zheng's (2006) study on goal progression finds that clear behavior-reward contingencies promote acceleration to rewards, indicating that goals, not habits, were the basis for most repeat purchases with highly contingent loyalty imitative. Loyalty initiatives that rely on incentives will activate goals, and active goals suppress habits from

operating automatically. Thus, it is reasonable to expect that incentive-based loyalty initiatives will not facilitate habit formation and could disrupt preexisting habits. However, these possibilities still need empirical confirmation.

The discussion on loyalty initiative type and habit inhibition in previous paragraphs acknowledges that customers perceive loyalty initiatives as incentives or gifts. Besides the different ways these loyalty initiative types affect habits, this distinction is critical to understanding customers' different emotional and rational reactions to loyalty initiatives. Gifts are the "unexpected and unnecessary" benefits that one bestows on another and incentives are benefits bestowed in return for a specific behavior, governed by perceptions of distributive fairness and "quid pro quo" (Shen, Wan, and Wyer Jr 2011, p. 272). Loyalty initiative research has mainly focused on traditional loyalty programs that rely on formal rules to dictate allocation of rewards in exchange for certain purchase behavior. These incentive rewards impact behavior even before a customer receives the reward because the promise of the reward promotes customers to increase or accelerate purchases as they close in on the reward (Kivetz, Urminsky, and Zheng 2006; Kopalle et al. 2012; Lewis 2004; Nunes and Drèze 2006). By achieving the reward level goal, customers learn about their own efficacy which can encourage them to maintain their increased spending to repeatedly approach the reward (Drèze and Nunes 2011).

Over half of customers fail to claim their earned rewards, a hidden benefit of incentive rewards (Lal and Bell 2003; Liu 2007; Taylor and Neslin 2005). Airline industry experts estimate that unredeemed miles exceed $480 billion (Greenberg 2008). It is unclear why customers do not fully capitalize on these incentives. Research does indicate that customers' perceptions of loyalty rewards' attractiveness and perceived value are highly contingent on reward type, effort required to earn and redeem, other customers, and combinations amongst

these contingent factors (for reviews see Bijmolt, Dorotic, and Verhoef 2011; Henderson, Beck, and Palmatier 2011).

Another reason for customer disinterest in some incentive-based loyalty initiatives is that if incentives feel too controlling they undermine the intrinsic bond (Dholakia 2006; Hennig-Thurau and Paul 2007). When customers perceive loyalty initiatives as socially motivated they build "relationship equity to improve retention and increase customer lifetime value" (Ferguson and Hlavinka 2007, p. 320); on the other hand, pure incentives do little to build relationship quality and reinforce the "hollow" economic basis of the relationship (Melancon, Noble, and Noble 2011; Noble and Phillips 2004, p. 298; Palmatier, Gopalakrishna, and Houston 2006). Social psychology studies show that self-reported love for romantic partners declines when superficial or self-serving motives are salient (Seligman, Fazio, and Zanna 1980). Loyalty initiatives are less effective if customers feel entitled to the benefits (Haisley and Loewenstein 2011).

Recognizing this trap, sellers are innovating around their loyalty initiatives to move beyond financial incentives that are contingent on purchases and provide rewards that feel like gifts. Hyatt, for instance, recently empowered employees to spend up to $2,000 at their discretion to instantly resolve a customer problem or simply make their day, a gratitude-focused relationship building investment (Walker 2009). These gift-based loyalty initiatives emphasize seller discretion rather than obligation. Customers are more likely to feel grateful and perceive the seller as a benevolent partner seeking a more communal relationship when loyalty initiatives benefits are allocated randomly or according to the boundary spanning employee's volition (Palmatier et al. 2009). Helpful actions evoke an evolutionary need for return cooperation that leads to the development of reciprocity norms (Morales 2005; Schroeder 2010). Reciprocity

norms compel customers to return benefits because gratitude is the "mediator between give-and-take" (Bonnie and de Waal 2004, p. 227).

However, even unexpected gifts may fail to elicit genuine gratitude if they feel insincere or elicit overwhelming perceptions of indebtedness that makes the gift feel controlling, like an incentive (Shen, Wan, and Wyer Jr 2011). In exchange relationships, people strive to maintain equity and feel obligated to repay benefits in equal or greater amounts (Cialdini 2001; Clark and Mils 1993). Gifts that diverge from the relationship norms are undesirable and makes recipients question if the reward comes with implied expectations or any potential obligations (Campbell 1995; Clark and Mills 1979; Marcoux 2009). For example, vacationers receive generous gifts when they simply view a time-share property for sale because the gift's unjustified value elicits as much guilt as gratitude (Budowski 2010). People try to avoid the internal unease and negative external labels (e.g. ingrate or moocher) that accompany failure to reciprocate (Palmatier et al. 2009; Shen, Wan, and Wyer Jr 2011). Customers may prefer to stop buying from a seller that provides unjustifiable gifts rather than feel manipulated and reciprocate (Kivetz 2005; Wendlandt and Schrader 2007).

Understanding how customers interpret a new loyalty initiative or change to an existing loyalty initiative is critical to determining if customers will react positively or negatively. Customers have difficulty observing sellers' intangible attributes such as the seller's commitment, dependence, and quality (Kirmani and Rao 2000). Customers interpret seller's discretionary behavior as informational signals from which they make inferences regarding the seller's intangible attributes, especially when customers have limited interpersonal interactions with a seller or expertise (Martín and Camarero 2005). Customers can update their beliefs about a seller by using newly instituted loyalty initiatives, loyalty initiatives emphasizing discretionary

gifts, or changes to existing loyalty initiatives as signals revealing the seller's intentions (Anderson and Weitz 1992; Yoon, Choi, and Sohn 2008). For instance, a seller may provide a loyalty initiative as a direct investment in a customer relationship to reaffirm to the customer that they are committed to the customer (De Wulf, Odekerken-Schröder, and Iacobucci 2001; Howard 1992). Customers interpret a seller had different intentions when a loyalty initiative provides financial rewards instead of social rewards. Financial rewards may signal that the seller views the exchange with the customer from a purely economic basis, which may fit with the customer's view but suppresses the development of emotional bonds (Melancon, Noble, and Noble 2011; Palmatier, Gopalakrishna, and Houston 2006).

In general, people prefer signals from partners that are congruent with their expectations. When people anticipate interactions consistent with a communal relationship they appreciate socially motivated behaviors, but not if they expect an exchange relationship (Clark and Mills 1979). Recipients interpret the giver's motivations for a gift very differently depending on their expectations. In close communal relationships, a gift is a sign of altruism, but in shallow or unfamiliar relationships it makes the giver appear insincere and manipulative (Shen, Wan, and Wyer Jr 2011).

Sellers should be especially cautious of divergent interpretations when they provide loyalty initiatives to customers lacking experience with the seller. Customers without a relationship history will be more suspicious of the seller's motives because they lack a foundation of trust and they are less likely to feel like they "earned" special benefits. If customers have trouble justifying the loyalty initiatives in the context of their existing purchase history, they are more likely to think the loyalty initiative is providing information about the seller rather than the customer and use it to make service and product quality inferences

(Kirmani and Rao 2000). Customers without objective evidence to the contrary will interpret a seller's action of giving away free product as a sign that the product is of lower quality and less valuable (Raghubir 2004). This finding is consistent with predictions of the counter-signaling theory from economics, which suggests that when information is not easily known or verifiable, low cost efforts to convey ones value are counterproductive. In this setting, low cost efforts are desperate and providing no effort is actually a sign of confidence (Caldieraro et al. 2011; Feltovich, Harbaugh, and To 2002). For example, Clements (2010) shows that when high quality packaging is inexpensive to produce, the only rationale to use low-quality packaging is to signal an exuberance of confidence in the content inside the packaging. The low quality packaging provides a better signal than high quality packaging when content quality is difficult to observe. For a seller, the easiest loyalty initiative reward to give away for free or at a discount is their own offering (Kim, Shi, and Srinivasan 2001). If the loyalty initiative does not fit with the customer's purchase history, the seller giving away their own offering for free as a reward may make the seller look desperate and their offering may appear less valuable.

In sum, a new loyalty initiative or changes to an existing loyalty initiative can alter the consumption context and activate attribution activity. Depending on the customer's attributions, these loyalty initiatives can build or destroy relationships (Haisley and Loewenstein 2011; Melancon, Noble, and Noble 2011; Morales 2005; Palmatier et al. 2009). The preexisting status of the customer-seller bond creates the lens through which customers interpret the seller's actions (Henderson, Beck, and Palmatier 2011; Palmatier et al. 2007; Samaha and Palmatier 2011). Previous loyalty research focuses on how different characteristics of the loyalty initiatives directly affect customer performance; alternatively, the model built in the following section of this dissertation focuses on how loyalty initiatives interact with characteristics of the customer-

seller bond, the preexisting intrinsic loyalty mechanisms, to affect customer performance outcomes.

Customer Performance Outcomes

When assessing changes to existing customer's behavior relevant to future customer performance, research focuses on behavioral loyalty captured through customer retention and expansion. *Retention* is the absence of *defection*, defined as an existing customer's discontinued patronage. Retained customers are characterized by *status quo*, defined as an existing customer's continued patronage, or *customer expansion,* defined as an existing customer's increased patronage (Aurier and N'Goala 2010; Verhoef 2003). Intrinsic loyalty mechanisms naturally support retention and loyalty initiatives aim to manufacture increased behavioral loyalty because sellers hope to secure the largest possible share of each customer's business. Extant loyalty research also examines other outcomes such as attitudinal loyalty or aggregate outcomes such as overall share, revenue, or customer profits (Haisley and Loewenstein 2011; Liu 2007; Mägi 2003; Melancon, Noble, and Noble 2011; Meyer-Waarden and Benavent 2009). However, to understand how intrinsic loyalty mechanisms and loyalty initiatives interact, it is necessary to look at disaggregated outcomes of behavioral loyalty.

For existing customers the default behavior is status quo, to continue doing what they did previously, a type of state dependence (Roy, Chintagunta, and Haldar 1996). Thus, the two consequential customer decisions that firms want to influence are defection or expansion of the customer's current business, but these decisions are qualitatively different (Aurier and N'Goala 2010; Bansal, Taylor, and James 2005). Empirically, "dropping of an existing service is not the mirror image of adding a new service" (Verhoef, Franses, and Hoekstra 2001, p. 374). Different antecedents of expansion and defection suggest that a single performance outcome to capture

positive and negative changes to behavior is the inferior option compared to separating positive and negative changes into two outcomes (Mende, Bolton, and Bitner 2013). Single outcomes hide situations where intrinsic loyalty mechanisms and loyalty initiatives simultaneously have positive and negative consequences. For instance, theory suggests that habits suppress all changes to current behavior, reducing both defection and expansion. If these countervailing effects were of similar magnitude, examining an aggregate outcome would hide both effects, or if one were dominant over the other, the aggregate outcome would only reveal the larger.

Conceptual Model and Hypotheses

This section presents the development of the dissertation's conceptual model (see figure 1, displayed on page 5), which builds on the literature review of intrinsic loyalty mechanisms and loyalty initiatives to present hypotheses that guide the empirical examination of how loyalty initiatives alter, rather than simply augment, the effects of the preexisting intrinsic loyalty mechanisms on customer performance. The first six hypotheses predict how preexisting intrinsic loyalty mechanisms directly affect retention and expansion. The last six hypotheses predict how loyalty initiatives moderate these direct effects. The intrinsic loyalty mechanisms—habit, dependence, and relationship-based intrinsic loyalty—should have a positive effect on retention, evident through less defection; however, unlike dependence and relationship, habit should reduce rather than increase expansion. The loyalty initiative is expected to moderate these effects by suppressing both effects of habit, enhancing the effects of dependence and relationship on retention, and suppressing the effects of dependence and relationship on expansion. Overall, the conceptual model is built to detect the subtle ways in which customers' future behavioral loyalty depends on the combination of their preexisting intrinsic loyalty mechanisms and the seller's provision of a loyalty initiative.

Direct Effects of Intrinsic Loyalty Mechanisms on Customer Performance Outcomes

The effect of habit on customer performance outcomes. Habit-based intrinsic loyalty (habit) should support customer retention but suppress customer expansion. Habitual customers automatically perform existing behaviors without actively forming new intentions or fully considering competing alternatives (Tobias 2009). Extant research shows that habits lead to greater loyalty (Labroo and Nielsen 2010), increased purchase probability (Breivik and Thorbjørnsen 2008), less search for alternatives (Verplanken and Wood 2006), and indirectly

support product preference (Murray and Häubl 2007).

Habits do two important things that support retention but hurt expansion. First, they keep a customer's behavior linked to the intentions the customer held when the habit was formed. Once a habit is solidified, behavior no longer responds to changes in intentions (Ajzen 2002; Wood and Neal 2009). Second, habitual customers decreasingly employ deliberative processing to fully weigh alternative behaviors. Instead, cues between the context and the habitual behavior trigger automated decision-making. As long as the behavior-context linkage remains strong, habitual customers do not need to pay attention to new information or persuasion attempts, they simply automatically perform their habitual behavior without deliberating over pros and cons of the habitual behavior or alternatives. Thus, relative differences amongst competing options no longer matter, the habitual customer's consideration set is solely occupied by the habitual behavior and it is performed automatically as long as the context is stable (Ajzen 2002; Wood and Neal 2007).

Consider two hypothetical telecom customers, that are equivalent except one's consumption pattern is erratic and the other's consumption pattern is consistent. The erratic behavior of the one customer may be due to their spouse's recent hectic travel schedule in which one month they talk a lot on long distance, the next month they barely have time to talk at all, and the next month the spouse is traveling less frequently and they mainly talk in person. The consistent behavior of the other customer could be due to their spouse traveling every other week to the exact same location from where they talk for the same time every evening to catch up on the day's events. The consistent customer gains enough confidence to let habits automatically guide their behavior after repeatedly acting on the same intentions, in a stable context, and getting the same result. They can stop paying attention to their monthly bill because it is always

the same amount and they can spend their time and energy focusing on other consumption decisions outside of the telecom context (Tobias 2009; Wood and Neal 2009).

The erratic customer, on the other hand, will be very sensitive to changes, having to call different locations at different frequencies with different implications for their bill. They will actively attend to their consumption decisions in this context to make sure that the optimal solution three months ago is still the best solution for them today. A competitor's appeal that might not have made sense two months ago may start to strike a chord with this customer. This customer may realize that an upgrade with their current provider will actually be the optimal solution given their updated circumstances. An advertisement from the customer's current provider or a new competitor will be more interesting to this erratic customer who does not already have a habit in place guiding their behavior(Verplanken and Wood 2006). Each time the erratic customer see their usage and bill change, they receive a reminder of the contingency between their behavior and the outcome; a reminder that supports conscious processing and evaluations of alternatives (Quinn et al. 2010; Tobias 2009). The following hypotheses are offered together because defecting to a competitor and expanding one's purchases at a current provider represent changes or alternatives to an established habitual behavior, and habitual customers, compared to erratic customers, are less likely to consider new information, are less likely to consider changes, and are less likely make changes even if they want to change.

H_1: Habit positively affects retention (i.e., reduces defection).

H_2: Habit negatively affects expansion.

The effect of dependence on customer performance outcomes. Dependence-based intrinsic loyalty should support retention because customer dependence provides a cognitive-based barrier to customer mobility, which makes it less appealing for a dependent customer to

take their business to an alternative provider. Dependence arises when customers enjoy additional benefits at their current provider that would become inaccessible if they defect or they are exposed to higher termination and replacement costs than non-dependent customers (Hibbard, Kumar, and Stern 2001; Scheer, Miao, and Palmatier 2012). Both the benefit and cost bases for dependence raise the bar for an alternative offering to be rationally appealing enough that the perceived utility associated with taking business to a new provider would outweigh the disutility from taking business away from the current provider (Allen and Meyer 1990; Anderson and Weitz 1992; Fullerton 2003; Johnson, Herrmann, and Huber 2006).

Additionally, dependence increases retention by providing the seller with confidence that an investment in the exchange will eventually pay off (Palmatier, Dant, and Grewal 2007). For both customers and sellers, dependence has a positive effect on commitment and trust, although the effect on commitment is stronger, possibly "due to customers' concerns that sellers will take advantage of their dependence" (Palmatier et al. 2006, p. 149). Customer dependence gives the seller relational power (Emerson 1962); however, this vulnerable position should favorably bias dependent customers' interpretation of new information about the seller because dependent customers will want to feel better about their decisions that gave the seller this relative power (Bobocel and Meyer 1994). In sum, customer dependence makes it easier for a seller to take risks to invest in the exchange and makes it more difficult for competitors to deliver an offering that overcomes the switching costs (Kamakura et al. 2003; Kumar, George, and Pancras 2008; Reinartz, Thomas, and Bascoul 2008); which encourage the following hypothesis.

H_3: Dependence positively affects retention.

Dependent customers are also more likely to expand their business with the seller than non-dependent customers. A non-dependent customer can switch providers more easily. Their

mobility increases competition's relevancy and limits their exposure to a seller. If a competitor comes out with a great offering, the non-dependent customer will be in a better position to capitalizing and can easily switch providers if their current provider is not reliable, is of lower quality, or becomes malevolent. Even if non-dependent customers are currently satisfied with their provider, they may be anxious that the provider could begin to cut corners or raise prices in response to an increase in the customer's dependence (Bendapudi and Berry 1997). A relational partner can exploit a position of relative strength to extract unfair value, an inequity that can destroy the relationship (Adams 1965; Samaha and Palmatier 2011). If the seller's dependence on the customer does not equal the customers dependence on the seller, then dependence "will be viewed less as an opportunity and more as a threat" (Scheer, Miao, and Palmatier 2012, p. 13). Therefore non-dependent customers must weigh the promises of additional benefits, such as efficiencies or bundling discounts, that come from expansion against concerns of decreased mobility that come from expansion, such as early termination fines if expansion comes with a contract (Crosby, Evans, and Cowles 1990).

Dependent customers, already constrained, can observe if their dependence has led to more benefits or consequences. If the seller has not already exploited the customer's dependence, then these customers should be less anxious that expanding on their current business will encourage the seller to exploit its power (Kumar, George, and Pancras 2008). Thus, dependent customers, in comparison to non-dependent customers, should be more aware of the benefits of increasing their business with the seller and perceive less risk (Burnham, Frels, and Mahajan 2003); which support the following hypothesis.

H_4: Dependence-based intrinsic loyalty positively affects expansion.

The effect of relationships on customer performance outcomes. Relationship-based

intrinsic loyalty should increases the likelihood of retention and expansion because relational customers want mutually beneficial ongoing exchanges. Relationships are generally mutually beneficial to customers and sellers. Relational customers are more profitable and relational sellers expend more effort to keep these more profitable customers satisfied (Palmatier et al. 2006; Reichheld 2003; Reichheld and Teal 1996). Furthermore, both parties can extract social meaning and fulfill desires for attachment from the relationship (Fournier 1998; Gwinner, Gremler, and Bitner 1998). Rooted in evolution, humans desire "temporally stable… lasting, positive, and significant personal relationships" (Baumeister and Leary 1995, p. 497).

As customers develop a relationship with their seller, several processes take shape that support retention and expansion (Dwyer, Schurr, and Oh 1987; Johnson, Herrmann, and Huber 2006; McGraw and Tetlock 2005). Through a series of interactions, customers stop viewing an amorphous firm and its brands as a collective or an inanimate object, but instead they begin to judge the firm and its brands as they judge and relate to other humans. When interacting with another human in a relationship, individuals hold stronger positive beliefs and dismiss negative events as an aberration rather than a revelation (Goodwin 1996; Hamilton and Sherman 1996; Palmatier et al. 2007). As customers build attachment to the seller, rooted in emotion, they are more likely to apply social norms of mutuality, solidarity, reciprocity and flexibility to govern their behavior rather than quid-pro-quo governance norms that are characteristic of a purely economic exchange (Cannon, Achrol, and Gundlach 2000; Homans 1958). Over time, relationships strengthen from mutual learning, which allows communication norms to converge and makes future interactions more efficient (Cooil et al. 2007; Dagger, Danaher, and Gibbs 2009). Eventually customers recieve positive utility simply by maintaining the relationship (Oliver 1999; Thaler 1985; Thomson, MacInnis, and Park 2005).

In summary, relational customers simply want to give as much of their business as possible to their relational partner because they trust the partner, they enjoy the benefits of the emotional attachment, and they have efficient exchange norms because they have a shared history from which they learned how to interact. Additionally, customers with a good relationship are more receptive to expansion sales pitches (Fang, Palmatier, and Evans 2008; Palmatier 2008). Trust from the relational bond and shared history allows even the most risk averse customers to expand on their current business with little concern for the potential vulnerability associated with expansion (Burnham, Frels, and Mahajan 2003; Kumar, George, and Pancras 2008). Customers want a relationship to manage the risk associated with dependence (Palmatier, Dant, and Grewal 2007; Pfeffer and Salancik 1978). Evidence from a multi-category service CRM context indicates customers are more willing to be dependent on the provider when supported with a long-held, satisfied relationship (Verhoef, Franses, and Hoekstra 2002). In light of the numerous benefits of relationships in supporting behavioral loyalty, the following hypotheses are offered together.

H_5: Relationship-based intrinsic loyalty positively affects retention.

H_6: Relationship-based intrinsic loyalty positively affects expansion.

Moderating Effects of Loyalty Initiatives on the Linkages between Intrinsic Loyalty Mechanisms and Customer Performance Outcomes

Loyalty initiatives—vehicles through which sellers discretionally provide special benefits to specific existing customers—are designed to directly building greater behavioral loyalty. Accordingly, the majority of extant research focuses on performance implications of certain characteristics of loyalty initiatives, implicitly assuming that loyalty initiatives directly affect customer performance by augmenting customers' preexisting intrinsic loyalty mechanisms.

However, loyalty initiatives' total effect on behavioral loyalty also depend on the exact nature of the preexisting bond between the customer and the seller because, in broad terms, reactions depend on characteristics of the recipient as well as the characteristics of the loyalty initiative (Dholakia 2006; Hennig-Thurau and Paul 2007; Kivetz 2005; Morales 2005; Palmatier et al. 2009). Thus, consistent with previous research, the conceptual model allows loyalty initiatives to have a direct effect on customer performance outcomes, but the hypotheses focus on novel predictions regarding how loyalty initiatives moderate the effects of intrinsic loyalty mechanisms that were already in place before a loyalty initiative's introduction. While a loyalty initiative's effects may also depend on the category, competition, and other contextual factors outside of the pre-existing customer-seller bond, the conceptual model focuses on the underexplored interactions with characteristics specific to the customer-seller bond.

Moderating effects of loyalty initiatives on the linkages between habit and customer performance outcomes. Loyalty initiatives have three traits that should counter the preexisting effects of habit-based intrinsic loyalty. First, loyalty initiatives change the consumption context. For instance, if a new loyalty initiative provides a customer with free products or service, the tie between cost and consumption is suspended. Customers may consume more without having to pay more and the payment process may now involve special coupons, codes, or loyalty cards. Second, customers allocate additional cognitive resources to the consumption category upon receiving special benefits because humans are hardwired to learn patterns between behavior and rewards (Redish et al. 2007). Third, a loyalty initiative activates goals to receive rewards, achieve higher status, or save money (Neal, Wood, and Pascoe 2008; Wood and Neal 2009; Wood and Neal 2007). New goals will motivate customers to reconsider their optimal level of consumption in this category. All three of these traits weaken or break habits (Quinn et al. 2010);

therefore, the loyalty initiative may trigger changes (Gustafsson, Johnson, and Roos 2005).

Habit research affirms that a stable environment is necessary for habit's memory advantages to work (Verplanken 2008). A sudden and drastic change in the behavior-reward pattern presents an external shock to the environment that breaks customers free from habitual behavior (Redish et al. 2007). Unexpected events heighten cognitive and emotional responses (e.g., gratitude) (Palmatier et al. 2009; Valenzuela, Mellers, and Strebel 2010); and activate cognitive resources to form and recall competing intentions (Gollwitzer and Sheeran 2009; Tobias 2009). Verplanken and Wood (2006, p. 91) suggest that persuasion campaigns "gain power when they are applied during naturally occurring periods of change in consumers' lives." For instance, Target predicts when their customers are pregnant because they expect preganacy is a prime opportunity to break any of their habits supporting competitors (Duhigg 2012). Consumers actually choose comfort foods less often when their lives are in transition (Wood 2010).

If loyalty initiatives do break habits, previously habitual customers will engage in a process of behavioral updating. Habit locks behavior to the preferences held when the habit originally formed. When habits break, new intentions developed after the habit locked behavior to old preferences finally have the opportunity to guide behavior. Habits also limit the search and consideration of alternatives, but if the habit breaks due to the activation of goals then customers will be sensitive to information about alternative options and dedicate the cognitive resources to forming new intentions (Quinn et al. 2010). Consider a habitual telecom customer who barely pays any attention to their consumption behavior or their bill and they suddenly receive an unexpected loyalty initiative that rewards their patronage with a temporary discount. The customer would want to look closely at their bill to see how much they save, and would pay

attention to their bill for the first time in a long time. Thrilled with the savings they consider if their consumption behavior and current plan are still the ideal solution for them. They probably would be more likely to notice advertisements they previously ignored. Newly freed from their consumption habit and paying attention to the category for the first time in a long time, the rewarded customer might consider making changes, such as dropping their service, going to a competitor, or upgrading to get more from their current provider. Therefore, the previous direct effect of habit's limiting changes (i.e., defection and expansion) should be reduced or even reversed by a loyalty initiative.

Loyalty initiatives provided to non-habitual customers are less likely to lead to an onrush of changes because these customers already could make any change without the need for the loyalty initiative to free them from fighting the inertia power of habits. Customers that never had strong habits should reevaluate and update their behavior to match new intentions on a more ongoing basis. Non-habitual customers' changes to behavior in response to receiving a loyalty initiative are more likely a function of their levels of dependence or relationship based intrinsic loyalty, which would determine their rational and emotional responses. These responses could be positive if they elicit gratitude and motivate recipients to reciprocate (Palmatier et al. 2009) or negative if the elicit reactance and motivate recipients to defect (Kivetz 2005), but will be modeled with the interaction effects of the loyalty initiative with relationship and dependence respectively. The following hypotheses are based on the assumption that habits will no longer be able to suppress changes if customers receive the loyalty initiative and thus the preexisting effects of habit supporting retention and suppressing expansion will be reduced.

H_7: Loyalty initiatives diminish the positive effect of habit on retention.

H_8: Loyalty initiatives diminish the negative effect of habit on expansion.

Moderating effects of loyalty initiatives on the linkages between dependence and customer performance outcomes. Loyalty initiatives should enhance the positive linkage between dependence-based intrinsic loyalty and retention because customers will make different attributions for the loyalty initiative depending on their level of dependence. Loyalty initiatives can signal a seller's commitment to the customer, communicating that they care and that they are dependent on the customer (Anderson and Weitz 1992; Bendapudi and Berry 1997; De Wulf, Odekerken-Schröder, and Iacobucci 2001; Palmatier et al. 2009; Yoon, Choi, and Sohn 2008). Dependent customers are most likely to interpret a signal of seller's dependence and commitment positively, but nondependent customers may interpret the same signals negatively.

When a customer choses to become dependent on a seller, their willingness to face high switching costs represents a risky investment the seller could exploit, therefore a loyalty initiative represents a reciprocal investment that can turn dependence's cold, rational support of retention into a warm, gratitude-based, emotional bond (Bendapudi and Berry 1997; Palmatier et al. 2009; Scheer, Miao, and Palmatier 2012). The high switching costs protect the seller from competition and reduce the seller's need to worry about keeping dependent customer's business, which allows dependent customers to view a loyalty initiative as a genuine act of kindness that "provides an attribution basis for affect-based trust" (McAllister 1995, p. 29). If both the seller and the customer desire mutual interdependence, both can rest assured that their partner will not exploit any temporary asymmetry of power that arises over the course of business (Kumar, Scheer, and Steenkamp 1995; Palmatier, Dant, and Grewal 2007). Dependent customers want to draw these positive interpretations to justify their original position of vulnerability, interpretations that should lead to higher retention for dependent customers who can feel better that they face high switching costs after receiving the loyalty initiative.

Interpretations change when a loyalty initiative is used to signal commitment to a non-dependent customer. Such an action could be indicative of seller desperation because loyalty initiatives can make customers indebted and create dependence, which would be useful if a customer faces low switching costs and the seller feels their offering is becoming less appealing (Kirmani and Rao 2000). This is especially problematic when the loyalty initiative gives away the seller's own product or service, which is commonplace because it is an easy benefit to provide (Kim, Shi, and Srinivasan 2001). Giving away one's own offering reinforces the idea that the product or services is overpriced (Raghubir 2004). Customers are naturally wary of manipulative promotions (Campbell and Kirmani 2008; Friestad and Wright 1994; Morales 2005), and non-dependent customers should be more concerned a loyalty initiative is a tool for manipulation because sellers have a greater incentive to artificially build switching costs for non-dependent customers. Customers that consider the loyalty initiative to be an attempt to persuade or manipulate are more likely to conclude the seller's offering is less valuable and react by exerting their freedom to drop the seller rather than allow the seller to "buy" their behavioral loyalty (Melancon, Noble, and Noble 2011; Noble and Phillips 2004; Raghubir 2004). Thus, the following hypothesis is offered because customers' preexisting switching costs providing a rational support for retention that becomes even more important for retention when customers receive a loyalty initiative.

H_9: Loyalty initiatives increase the positive effect of dependence on retention.

Loyalty initiatives pressure non-dependent customers to expand on their previous business, but do little to increase dependent customers' propensity to expand; and therefore the positive preexisting direct effect of dependence on expansion should be reduced by a loyalty initiative. For dependent customers, a loyalty initiative represents a reciprocal investment that

stabilizes the balance of power in the exchange; but for non-dependent customers, the loyalty initiative represents an initial investment that destabilizes the balance of power in the exchange (Kumar, Scheer, and Steenkamp 1995; Palmatier, Dant, and Grewal 2007). Non-dependent customers have yet to make a significant investment or sign of commitment to the seller, and therefore they may feel obligated to balance equity in the exchange (Cialdini 2001; Clark and Mils 1993; Shen, Wan, and Wyer Jr 2011). They could withdraw or expand their business with the seller as a means to dissolve the pressure to reciprocate (Palmatier et al. 2009). If they would like to expand their business, the initial investment by the seller should serve as a signal of the seller's commitment to the customer, which reduces rational concerns that the seller may behave opportunistically if the customer gives the seller more of their business (Bendapudi and Berry 1997; Kumar, Scheer, and Steenkamp 1995; Palmatier, Dant, and Grewal 2007).

Alternatively, for customers who are already committed to the seller through their dependence, it would be inappropriate to immediately pay back a loyalty initiative. The seller does not need to provide a dependent customer with a loyalty initiative because the customer already faces high switching costs; therefore a loyalty initiative represents a benevolent signal of the seller's desire for a balanced communal exchange (Kumar, Scheer, and Steenkamp 1995; Palmatier et al. 2008; Scheer, Miao, and Palmatier 2012). Clark and Mills' (1979) classic social psychology experiment shows that quid-pro-quo gifts are inappropriate responses to acts of kindness aimed at establishing a communal bond. Therefore, dependent customers, who are already more likely to expand their business with the seller for rational reasons (Burnham, Frels, and Mahajan 2003), are not likely to increase their propensity to expand in reaction to a loyalty initiative. Therefore, the following hypothesis captures these expectations for how a loyalty initiative should increase, or fail to increase, customers' propensity for expansion depending on

their preexisting level of dependence.

H_{10}: Loyalty initiatives diminish the positive effect of dependence on expansion.

Moderating effects of loyalty initiatives on the linkages between relationship and customer performance outcomes. Loyalty initiatives are destabilizing when provided outside of the context of a mature and secure relational foundation; they spur new customers to make attributions, read into the seller's actions to discover meaning and insight, and react accordingly. On the other hand, relational customers already have a sense of the seller's identity. They would see a loyalty initiative in the context of a long history of interactions, from which the loyalty initiative simply reaffirms their existing patronage and established commitment to the seller. Where new customers may feel pressure to expand or defect, relational customers will want to continue their relationship as they already intended, confident in their previous purchase behavior. Consequently, a loyalty initiative narrows the propensity gap between relational and non-relational customers to expand, which reduces the positive preexisting effect of relationship on expansion; but it widens the propensity gap between relational and non-relational customers to remain a customer, which increases the positive preexisting effect of relationship on retention.

Consider a new customer who has yet to gain a sense of who the seller truly is and has yet to "earn" special treatment. They are less likely to have observed enough tangible evidence that would imply the seller's motivations are benevolent or sincere and they should expect interactions with the seller to be governed by traditional exchange norms, quid-pro-quo. Upon receiving a loyalty initiative, they would then feel indebted to repay the seller's generosity through expansion (Palmatier et al. 2009; Shen, Wan, and Wyer Jr 2011). If they were already considering expanding their business, the seller's investment in the relationship could be taken as a sign of the seller's commitment to the customer and accelerate expansion (Palmatier, Dant, and

Grewal 2007).

However, loyalty initiatives make new customers question if the reward comes with implied obligations or if the seller is acting out of desperation because special benefits diverge from the norms of an exchange relationship in its infancy (Campbell 1995; Marcoux 2009). New customers are trying to develop an understanding of the seller's true identity, and therefore will engage in more attribution activity upon receiving loyalty initiatives (Henderson, Beck, and Palmatier 2011). The loyalty initiative can backfire if customers believe the seller is trying to use the loyalty initiative to control or manipulate their behavior (Kivetz 2005; Melancon, Noble, and Noble 2011; Noble and Phillips 2004). Suspicious customers may also interpret the seller's generosity as an indicator that the seller's offering is overpriced (Raghubir 2004). If a new customer is uncertain of the seller's true value, they may conclude that a seller is able to give away their product because they overcharge for it in the first place. Then customers will be upset when they return to paying full price for the product after the loyalty initiative expires. These negative attributions, which are more likely to be drawn by new customers lacking a foundation of trust and a well-developed sense of the seller's true identity and value, would keep the loyalty initiative from helping to fight defection.

Customers with a strong relationship are less likely to really engage in attribution activity in response to a loyalty initiative because the loyalty initiative fits into their existing concept of their relationship with the seller. Already having established a communal bond with the seller, the seller's choice to provide them a loyalty initiative reaffirms the seller's commitment. Rather than feeling pressure to repay the gift immediately, these communal customers should simply strengthen their resolve to remain with the seller through turmoil and temporary difficulties (Clark and Mils 1993; Haisley and Loewenstein 2011; Palmatier et al. 2009). However, in terms

of expansion, repaying the seller's loyalty initiative through expansion could actual make the economic basis for the relationship more salient and consequently damage feelings of brand love (Carroll and Ahuvia 2006; Seligman, Fazio, and Zanna 1980). In a communal relationship, tit-for-tat repayments are inappropriate (Shen, Wan, and Wyer Jr 2011), therefore it is unlikely the loyalty initiative would increase relational customers' propensity to expand their business beyond their natural inclination. The following hypotheses for retention and expansion, offered together, capture how a customer's response to a loyalty initiative depends on their preexisting relationship.

H_{11}: Loyalty initiatives increase the positive effect of relationship on retention.

H_{12}: Loyalty initiatives decrease the positive effect of relationship on expansion.

Longitudinal Field Experiment

The primary objective of this research is to uncover how loyalty initiatives alter the effects of preexisting intrinsic loyalty mechanisms on customer performance outcomes. A longitudinal field experiment is the most appropriate research approach to accomplish this objective, for three main reasons. First, habit—the intrinsic loyalty mechanism capturing the automatic memory based propensity to continue established patronage patterns—cannot be randomly assigned in a lab setting or reliably collected through a questionnaire without weakening the habit by bring it to the forefront of conscious thought (Ajzen 2002; Verwijmeren et al. 2011). Multiple periods of behavioral data provides information on naturally occurring heterogeneity across customers through which habit, dependence, and relationship-based intrinsic loyalty can be captured unobtrusively. Second, because firms often target loyalty initiatives to their customers who are intrinsically loyal, it is difficult to isolate effects of the loyalty initiative from those of intrinsic loyalty mechanisms, let alone test interactions. A field experiment using random selection to allocate the loyalty initiative disentangles the loyalty initiative from the preexisting intrinsic loyalty mechanisms. Third, a real world setting is ideal for observing multiple changes in customer behavior together that reveal interesting opposing effects, such as habit limiting both defection and expansion. These opposing effects would be hidden when assessing performance with attitudinal survey measures or aggregate performance indicators such as spending levels. In summary, a field experiment with intrinsic loyalty mechanisms captured through metrics derived from commonly available customer data, a real world loyalty initiative, and disaggregated performance outcomes represents the best approach to reveal insights for practitioners seeking to integrate intrinsic loyalty mechanisms into efforts to target loyalty initiatives.

A major telecom provider made the field experiment possible by sharing their customer data and administering the loyalty initiative. Continuous service providers such as telecom companies emphasize customer relationship management as a key component of their marketing strategy. Partnership between academics and continuous service providers has resulted in several of the major advances in the literature on relationship marketing and loyalty initiatives (see Haisley and Loewenstein 2011; Mende, Bolton, and Bitner 2013). An important characteristic of continuous service providers is that changes to a customer's account, in terms of cancellation or the addition of a subscription, represent deliberate choices initiated by the customer with large customer lifetime value ramifications (Bolton 1998). The participating managers were motivated to learn how loyalty initiatives could shape these customer choices, both positively and negatively, and were willing to conduct a natural field experiment in accordance with Harrison and List's (2004) recommendations.

Manipulated data

Loyalty initiative. The cooperating telecom provider gave select customers two months of free calling on their home phone lines as the loyalty initiative for the field experiment. In this research, a loyalty initative is defined as a special benefit discretionarily provided to specific existing customers, which is additional, non-essential, to the seller's core offering. This specific loyalty initiative was selected for several reasons. From the telecom provider's perspective, this loyalty initiative was easy to provide to customers, it was contained in terms of its timeline and expected costs, and it focused on a category of interest, home phone lines. The home phone category, the only category without contracts and early termination penalties, was losing subscriptions while the internet and paid television categories were growing. The managers sponsoring the project hoped that customers receiving the loyalty initiative would be more likely

to keep their existing lines and add new home phone lines, but they also wanted the loyalty initiative to have contained obligations in case it resulted in unintended consequences.

In terms of achieving the primary research objective, uncovering how loyalty initiatives alter the effects of preexisting intrinsic loyalty mechanisms on customer performance outcomes, the two months of free calls on home phone lines appeared to be a promising loyalty initiative worthy of investigation. The decline in the home phone category made it more likely to observe how intrinsic loyalty mechanisms were playing an active role in reducing defection and if customers respond positively to the loyalty initiative, it would have the opportunity to make a meaningful reduction in defection. Other beneficial characteristics of this particular loyalty initiative were that it encouraged a change in the consumption behavior by eliminating the costs of calling and made the link between calling and monthly bill especially salient because customers saw their bill fall to zero and then return after the two months of free calling expired. If, as hypothesized, loyalty initiatives break habits and lead to an onrush in previously suppressed changes, research on habit suggests that these characteristics increase the likelihood of documenting such effects (Redish et al. 2007; Wood and Neal 2009).

Finally, the interaction hypotheses regarding how the loyalty initiative would alter the preexisting effects of dependence and relationship-based loyalty rest on the different attributions customers would make in trying to understand why they received the loyalty initiative. The discretionary nature of this particular loyalty initiative, in contrast to long standing traditional loyalty reward programs that have well-known formal rules guiding reward distribution, provides enough ambiguity for recipients to draw a variety of conclusions that would alter their response. Thus, unlike much of the previous research, the loyalty initiative in this study is simple, which helps to highlight the importance of the characteristics of the recipient and their preexisting

intrinsic loyalty mechanisms, rather than the characteristics of the loyalty initiative.

Treatment group. From a pool of more than one hundred thousand eligible customers, a group of 2,000 customers was randomly selected to receive the loyalty initiative. Random selection creates a field experiment that protects the loyalty initiative's effects from customer self-selection or firm strategy, which would raise endogeneity concerns (Haisley and Loewenstein 2011; Leenheer et al. 2007; Meyer-Waarden and Benavent 2009). Three criteria determined customer eligibility for random selection. First, only customers acquired before the first month of the observational period were eligible. This was important to provide baseline level information regarding their usage behavior prior to distribution of the loyalty initiative. Second, eligible customers subscribed to at least one home phone line during all the months leading up to distribution of the loyalty initiative, because the telecom provider was particularly interested in changes of behavior within the home phone line category. Third, if a customer subscribed to additional categories (e.g. paid television, internet), then the accompanying bundling contract had to expire during the critical window after the loyalty initiative was distributed and before the end of the year. This ensured the treatment was not wasted on customers who were not at risk of defecting because of the threat of an early termination penalty.

The telecom provider's outgoing call center called the randomly selected customers to notify them that they were receiving "a no strings attached gift of two months of free calls on [their] home phone lines as a thank you". The telecom provider explicitly instructed the call center team not to up-sell customers or give additional details on the loyalty initiative. The only response to customer questions was that the company just wanted to say "thank you". The calling procedure ensured customers were aware they received the loyalty initiative and encouraged customers to actively seek out their bill to see the discount, which consequently made it more

likely the loyalty initiative would alter the effects of customers' preexisting intrinsic loyalty mechanisms on customer performance outcomes. While this process was easy for the telecom provider to execute through their established call center, only about 57% of the customers randomly selected to receive the loyalty initiative answered the phone when the call center called to notify them of the reward. Therefore, the actual size of the effective treatment group was 1,132 customers.

Control group. I followed the propensity score matching procedure popularized in biology research to select a control group from the large pool of eligible candidates (Rosenbaum and Rubin 1983; Rosenbaum and Rubin 1985). I did this to remove the risk that the treatment group became potentially biased towards customers more likely to answer the phone, because the outgoing call center was only able to reach 1,132 of the customers randomly selected to receive the loyalty initiative. For the first step of the propensity score matching procedure, I ran a logistic regression where "whether or not a customer in the treatment group answered the phone call that alerted them of the two month discount" served as the outcome variable. As predictors, I included all available data (see Table 5 below for a detailed summary of the variables).

Next, I used the estimated model to calculate a propensity score for every customer originally eligible to be selected into the treatment group. I used these propensity scores to find the closest match between each customer that received the loyalty initiative with an eligible customer that was not randomly selected to receive the loyalty initiative, thus resulting in a complementary control group of 1,132 customers. The effective treatment group showed no difference with the control group in propensity scores, no significant differences on all continuous variables ($p > .3$) and in frequencies for nominal variables ($p > .15$) (see Table 6 below for descriptive statistics by experimental groups). The procedure ensured the control and

treatment groups had similar composition before the treatment took place to increase confidence that the loyalty initiative represents an exogenous shock to the preexisting customer-seller bond, with the potential to provide insight into causality of its effects on performance.

Observed data

I sought to use commonly available customer database metrics for the operationalization of the remaining constructs in my model. As previously discussed in the opening section describing the field experiment, relying on such data is advantageous for capturing habit, uncovering dueling effects on behavioral outcomes, and revealing insights for practitioners seeking a blue print to track intrinsic loyalty mechanisms and integrate them in efforts to target loyalty initiatives. Table 5 provides a detailed overview of each construct, definition, and operationalization. Table 6 displays the descriptive statistics.

Table 5
CONSTRUCT, DEFINITION, AND OPERATIONALIZATION

Construct	*Definition*	*Customer Database Metrics for Variable Operationalization*	*Source*
Manipulated Moderator: Loyalty Initiative			
Loyalty Initiative	A special benefit discretionarily provided to specific existing customers, which is additional, non-essential, to the seller's core offering.	An indicator of whether or not a customer received two months of free calls on their home phone lines, with "no-strings attached". Customers were randomly selected.	Haisley and Loewenstein 2011
Antecedents: Preexisting Intrinsic Loyalty Mechanisms			
Habit-based intrinsic loyalty (habit)	Customers' increased propensity to remain with a seller arising from memory-based advantages for the established patronage pattern over alternatives, created by consistently performing the same behavior in a regular context.	A lack of variance in behavior over time, represented by the following calculation: $100 / (1 + \mathrm{Var}(X))$, where X represents the customer's monthly bill divided by their average bill for each of the 5 months preceding the experiment.	Based on Roy, Chintagunta, and Haldar 1996; Azjen 2002.
Dependence-based intrinsic loyalty (dependence)	Customers' increased propensity to remain with a seller arising from cognitive evaluations of potential switching costs, specifically the unique benefits lost and expenses incurred if the customer defected.	The number of service categories. Multi-category subscribers receive bundling discounts but sign contracts with early termination penalties. Contracts expired after the distribution of the loyalty initiative but before the end of the observation period, thus all customers could defect without penalty.	Crosby, Evans, and Cowles 1990; Reinartz and Kumar 2003; Burnham, Frels, and Mahajan 2003
Relationship-based intrinsic loyalty (relationship)	Customers' increased propensity to remain with a seller arising from the emotional bond and mutual learning built over time through the formation of relational ties.	The length of time the seller has served the customer, captured at the beginning of the observation period[a].	Dagger, Danaher, and Gibbs 2009; Cooil et al. 2007
Control Variables: Typical Segmentation Descriptors			
Personal characteristics	Commonly available descriptors that might correlate with the attractiveness of an individual to the existing provider and its competitors, as well as the attractiveness of the existing provider and its competitors to the individual.	• Age (collapsed into ordinal brackets)[a] • Size (natural log of pre-experiment spending level)[a] • Lifestyle (three nominal categories)[b] • Region (five regions)[b]	Mende, Bolton, Bitner 2013; Verhoef 2003
Dependent Variables: Customer Performance Outcomes			
Defection	An existing customer's discontinued patronage.	A multinomial indicator of whether the customer either: A) no longer subscribed to the seller's services (defection), B) maintained their original subscriptions (status quo)[c], or C) subscribed to more of their original subscriptions (expansion). Assessed by comparing pre and post-experiment subscriptions.	Based on Aurier and N'Goala 2010; Mende, Bolton, Bitner 2013; Verhoef 2003.
Status quo	An existing customer's continued patronage.		
Expansion	An existing customer's increased patronage.		

[a] For confidentiality, values were shifted by a constant.

[b] For confidentiality, meaning of individual categories of nominal variables are not specified.

[c] This category served as the reference category in multinomial logit analysis. An ordinal logit would not allow for testing all hypothesized (e.g., habits limit both defection and expansion).

Table 6

DESCRIPTIVE STATISTICS

Variables	*Control (N = 1132)* [a]		*Treatment (N = 1132)* [a]		*Correlations* [b]				
Continuous Variables	*Mean*	*Std Dev*	*Mean*	*Std Dev*	1.	2.	3.	4.	5.
1. Habit	97.94	6.75	97.63	7.37	1.00				
2. Dependence	1.61	0.74	1.63	0.77	-0.02	1.00			
3. Relationship	13.74	9.69	14.12	10.50	0.08	-0.04	1.00		
4. Age	9.04	2.40	9.05	2.45	0.09	-0.13	0.40	1.00	
5. Size	5.23	0.44	5.24	0.45	0.26	0.05	-0.02	-0.10	1.00
Nominal Variables	*Frequency*	*Percent*	*Frequency*	*Percent*					
Lifestyle 1	264	12%	262	12%					
Lifestyle 2	672	30%	680	30%					
Lifestyle 3	196	9%	190	8%					
Region 1	262	23%	303	27%					
Region 2	247	22%	207	18%					
Region 3	413	36%	412	36%					
Region 4	182	16%	185	16%					
Region 5	28	2%	25	2%					
Defection	64	6%	75	7%					
Status quo	1034	91%	1009	89%					
Expansion	34	3%	48	4%					

[a] No significant differences between the control group and treatment group (*t*-tests for continuous variables $p > .30$ and chi-square tests for nominal variables $p > .15$).

[b] Correlations greater than .04 are significant at $p < .05$.

Measurement of key antecedents: intrinsic loyalty mechanisms. Intrinsic loyalty mechanisms—the ongoing forces inherently apart of the customer-seller bond that secure the customer's business—were measured from data already populated in the telecom provider's customer database. This alleviated the need to survey customers, which can cause respondents to alter their behavior and remove the benefits of unobtrusive observation (Harrison and List 2004; Williams, Fitzsimons, and Block 2004). Additionally, surveys are not ideal for measuring habits, a memory advantage that operates subconsciously without active processing (Ajzen 2002). However, the telecom provider did provide survey data from 192 customers who were not a part of the experiment. I used the responses from this survey to collaborate that the database metrics representing intrinsic loyalty mechanisms behave consistent with theoretical expectations. The results, displayed in Table 7, are discussed in more detail after the descriptions of the metrics.

I define habit-based intrinsic loyalty (shortened to habit) as customers' increased propensity to remain with a seller arising from memory-based advantages for the established patronage pattern over alternatives, created by consistently performing the same behavior in a regular context. Consistently performing a behavior in a stable environment allows for the formation of strong associations of behavior to the "slow-learning procedural memory system" (Quinn et al. 2010, p. 499). The frequency with which an individual performs a behavior and the length of time an individual has performed a behavior have both been adopted as convenient metric of habit strength (Neal, Wood, and Drolet forthcoming; Verwijmeren et al. 2011); but "just because a behavior has been performed many times does not, by itself, prove habituation" because it ignores a habit to abstain, and therefore only "an irregular pattern" reveals "low habit strength" (Ajzen 2002, p. 109, 112). A telecom customer may have been using a home phone line for twenty years, but when their child goes away to college, the context and usage behavior

would change drastically to break habits. A light user may only make a single call each day, but if it is very consistent, at the same time to the same person, it is likely guided by a strong habit.

Given inconsistency of behavior is the best indicator of a weak habit, I chose to measure habits with consistency of behavior (Roy, Chintagunta, and Haldar 1996). Consistency of a customer's monthly bill indicates a stable consumption pattern where customers have not observed drastic changes to the bill that raise their attention to the category. To adjust for customers' level of spending in the calculation, I first divided their montly bills by their average bill before calculating variance, and then I inversed this value and multiplied it by 100 so that a higher score reflects a stronger habit. The measure of habit was based on the five months of the observational period prior to the experiment, but I also used the same process to calculate post-experiment habit based on the last four months of the observation period to check if the loyalty initiative reduced habit strength.

I define dependence-based intrinsic loyalty (shortened to dependence) as customers' increased propensity to remain with a seller arising from cognitive evaluations of potential switching costs, specifically the unique benefits lost and expenses incurred if the customer defected. With a rich history in marketing research, there are "various empirical indicators that have been used more or less interchangeably as measures of dependence"(Heide and John 1988, p. 34), but in the context of continuous multi-category service providers, the most appropriate indicator is the number of categories a customer purchases. With each additional category, the customer "faces higher costs of switching in replacing the multi-category service provider" (Crosby, Evans, and Cowles 1990, p. 71; Reinartz, Thomas, and Bascoul 2008; Reinartz and Kumar 2003). Subscribing to multiple categories at a single provider results in bundling savings and is more efficient than using several different providers. Furthermore, the telecom provider

cooperating for the field experiment does not require contracts for home phone lines, but does if the customer also has an internet or paid television subscription, raising the threats of early termination fines. While only customers whose contracts expired during the observation period were included in the sample, if a customer has a contract, they generally face larger switching costs that provide a rational barrier to defecting. Thus, the count of the number of different categories the customer subscribes to in the month before the experiment was the indicator of dependence (e.g., if a customer has a home phone line and an internet line, then their score for dependence-based loyalty equals two).

Relationship-based intrinsic loyalty (shortened to relationship) is defined as customers' increased propensity to remain with a seller arising from the emotional bond and mutual learning built over time through the formation of relational ties. For the indicator, I followed extant research to use the number of years each customer has been a subscriber at the service provider at the time the observation period begins (Cooil et al. 2007; Dagger, Danaher, and Gibbs 2009). Time is elemental to movement through stages of the relationship lifecycle; and although relationship age is not perfectly correlated to stage, it has been tied to relationship quality, retention, and expansion of services (Gundlach and Murphy 1993; Jap and Ganesan 2000; Johnson, Herrmann, and Huber 2006; Reinartz and Kumar 2003; Verhoef, Franses, and Hoekstra 2002).

Table 7

SURVEY VALIDATION OF CUSTOMER DATABASE METRICS

Intrinsic Loyalty Mechanisms	*Transactional Satisfaction* [a]				*Attitudinal Loyalty* [b]				*Theoretical Interpretation*	
	Correlation Coefficient	*Regression Coefficient*	*Standard Error*	*t-Value*	*Correlation Coefficient*	*Regression Coefficient*	*Standard Error*	*t-Value*	*Expectation*	*Source*
Habit	.22 ***	.125	.033	3.84 ***	.09	.064	.042	1.53	Actors allow habits to take over when an intended behavior consistently results in a satisfactory outcome.	Ajzen 2002; Wood & Neal 2009
Dependence	-.14 *	.618	.400	-1.5	.05	.553	.516	1.07	Dependent customers have high switching costs and thus are unlikely to defect despite lower satisfaction.	Bendapudi & Berry 1997
Relationship	.11	.003	.034	.08	.21 ***	.093	.044	2.11 **	Relational customers will have higher commitment to the seller and risk their reputation to advocate for the seller.	Palmatier et al. 2006

*$p < .10$.

**$p < .05$.

***$p < .01$.

[a] Transactional Satisfaction: Calculated as "Satisfaction" plus "Value". Cronbach's alpha α = .889. Satisfaction: "How would you rate your overall satisfaction with [provider] as a telecommunication provider in the last 3 months?" (11 point scale with 0 = "extremely unsatisfied" and 10 = "extremely satisfied"). Value: "How would you rate [provider] as being worth what you pay for?" (11 point scale with 0 = "poor" and 10 = "excellent")

[b] Attitudinal Loyalty: Calculated as "Word-of-Mouth" less "Defection Intention". Cronbach's alpha α = .612. Word-of-Mouth: "How likely would you be to recommend [provider] to a friend, family member, or colleague in the next 12 months?" (11 point scale with 0 = "extremely unlikely" and 10 = "extremely likely"). Defection Intention: "How likely would you be to leave [provider] in the next 6 months?" (11 point scale with 0 = "extremely unlikely" and 10 = "extremely likely")

Notes: The survey data comes from the company's customer experience survey. Analysis is on data from 192 customers that were not participating in the experiment. Regression models include the same control variables from the multinomial logit analysis, but significant effects remain even without control variables in the models.

Survey validation of customer database metrics. Using customer database metrics to represent intrinsic loyalty mechanism has practical advantages but also limits confidence that each metric reasonably represents the intended theoretical construct in this telecom context (e.g., the number of years each customer has been a subscriber at the telecom provider as the indicator of relationship). To address this issue, I examined the associations between these metrics with theoretically related measured survey items, collected from 192 of the telecom companies customers who were not included in the field experiment sample, but similar to the customers in the experiment (see Table 7 above). The telecom provider's customer intelligence team uses a survey to track customer's transactional satisfaction with their offerings and attitudinal loyalty. Transactional satisfaction is measured with a measure of satisfaction and a measure of value (Cronbach's alpha, $\alpha = .899$). For satisfaction, they ask customers to indicate "How would you rate your overall satisfaction with [provider] as a telecommunication provider in the last 3 months?" on an 11 point scale anchored by "extremely unsatisfied" and "extremely satisfied". For value, they ask, "how would you rate [provider] as being worth what you pay for?" Attitudinal loyalty is measured with word-of-mouth and defection intention (Cronbach's alpha, $\alpha = .612$). Both are measured with items on an 11 point scale anchored by "extremely unlikely" and "extremely likely", with "How likely would you be to recommend [provider] to a friend, family member, or colleague in the next 12 months?" for word-of-mouth and "How likely would you be to leave [provider] in the next 6 months?" for defection intention.

If the metrics adequately reflect the theoretical constructs, relationship should be most strongly associated with attitudinal loyalty, because relational customers will have higher commitment to the service provider and enough trust in the service provider to risk their reputation to advocate for the seller (Palmatier et al. 2006). Dependence captures switching costs

that make it unlikely for a customer to hold a strong intention to defect even if they are not satisfied with the value they receive from the service provider in exchange for their dependence (Bendapudi and Berry 1997). Only satisfied customers allow their future behavior to be automatically guided by habits, otherwise they would change their behavior before the habits become strong, thus habitual customers are more likely to exhibit high transactional satisfaction, although not necessarily high attitudinal loyalty since their loyal behavior is based on automatic processes rather than active choices (Ajzen 2002; Wood and Neal 2009). Correlations to these survey constructs confirms expectations, with relationship significantly correlated to attitudinal loyalty ($r = .21$, $p < .01$) and positively associated, but not significantly with transactional satisfaction. Dependence was negatively correlated with transactional loyalty ($r = .14$, $p < .10$), but its correlation to attitudinal loyalty remained positive although not significant. Habit was significantly correlated with transactional satisfaction, ($r = .22$, $p < .01$), and positively associated, but not significantly with attitudinal loyalty. These results were confirmed with regression analysis that accounted for the other intrinsic loyalty mechanisms as well as control variables.

Measurement of control variables: segmentation descriptors. The telecom provider also made available several descriptors tracked in their customer database that they use for segmentation. These commonly available descriptors could correlate with the attractiveness of an individual customer to the existing provider and its competitors, as well as the attractiveness of the existing provider and its competitors to an individual customer. Customer age and size were continuous controls. To maintain confidentiality of exact personal information customers were grouped into ordinal age brackets from youngest to oldest. For size, I took the natural log of the customer's average bill, altered by an unknown constant, in the five months leading up to the

experiment. The firm had two nominal variables with categories indicating lifestyle (three categories) and region (five regions). In the analyses I used an effect coding scheme to control for the effects of these nominal variables. Together, these control variables control for customer heterogeneity.

Measurement of dependent variables: customer performance outcomes. I was interested in modeling changes to customers' accounts from their pre-experiment subscriptions to their subscriptions at the end of the observation period, nine months after the loyalty initiative was distributed (Aurier and N'Goala 2010; Mende, Bolton, and Bitner 2013; Verhoef 2003). Observing changes in spending levels would not be sufficient to test the hypotheses of opposing effects such as habit limiting defection and expansion, which could result in offsetting impacts on spending. Instead, I separated positive (expansion) and negative (defection) changes to allow opposing predictions to coexist, which receives empirical support from Verhoef and colleagues who find differences in processes driving expansion from those driving retention (2001). While customers could have reduced their existing subscriptions but remained with the telecom provider, this did not occur in the sample. Customers discontinued their patronage completely, termed "defection", continued their existing subscriptions, termed "status quo", or increased patronage of their preexisting subscriptions, termed "expansion". Together, three categories served as a multinomial outcome variable for customer performance outcomes with retention captured when customers did not call the telecom provider and cancel their account (lower defection) and expansion captured when customers increased their existing subscriptions (e.g. adding a phone line) while status quo represented the baseline reference category.

Data summary and model specification

Data timeline. To provide a data summary, the following paragraph states when each

variable was captured in relation to the timeline of the longitudinal field experiment. First, the telecom company provided five months of behavioral data before the loyalty initiative was distributed from which the metric for habit and the control variable size were calculated. Dependence was based on category subscriptions in the fifth month of the observation period, right before the loyalty initiative was distributed. Relationship and control variables for age, region, and lifestyle are based on customer information provided time stamped at the start of the observation period, month one. The loyalty initiative was distributed in month six with outgoing calls to randomly selected customers and it expired at the end of month eight. To check if the loyalty initiative reduces habit, a post-experiment habit was calculated from the last four months of the observation period. The multinomial outcome variable capturing customer performance outcomes was based off a comparison of customers' product portfolios at the end of the observation period, month fourteen, with their product portfolios in the month immediately preceding the loyalty initiative's distribution in month five. The longitudinal data structure eliminates potential concerns of reverse causality between the predictors and outcomes.

Model specification. Multinomial logistic regression was used to model and estimate the effects of preexisting intrinsic loyalty mechanisms, the loyalty initiative, the interactions between the preexisting intrinsic loyalty mechanisms and the loyalty initiative, and controls on customer performance outcomes of retention and expansion. Three outcomes were observed by the end of the observation period. Customers either canceled their account (defection), added to their original subscriptions (expansion), or kept their subscriptions unchanged (status quo); therefore two logistic functions were estimated with status quo set as the reference baseline category. Coefficients predicting the likelihood of defection relative to status quo are used to test hypotheses for retention (the lower the coefficient predicting defection, the more likely a

customer was retained) and another set of coefficients predict expansion relative to status quo.

Alternative model specifications were considered but the multinomial logistic regression was the best fit given the analytical goals and data. Multinomial logistic regression is well established in marketing research and practice (Leeflang and Wittink 2000), and particularly well suited when there are implications to advance customer segmentation strategies (Kumar and Shah 2009). Mende, Bolton, and Bitner (2013) just recently applied the multinomial logistic model to a similar context when modeling changes in customer's accounts at a continuous service provider. However, from the seller's perspective, the outcomes are ordered from best (expansion) to worst (defection), which suggests an ordinal logit may be more appropriate. The ordinal logit was rejected because prior research suggests antecedents of retention differ from those for expansion and it is too restrictive in that it does not allow opposing effects to coexist, such as habits limiting both defection and expansion (Verhoef 2003). The hazard rate model accounting for when an event occurs (e.g. dropping or expanding the customer's existing services) with right censoring was not adopted because the loyalty initiative lasted for two months and thus artificially caused a short-term shift in risk of defection for the treatment group. Both approaches resulted in the same substantive conclusions for hypothesis testing, thus results are reported for the more parsimonious multinomial logistic specification.

Two models were estimated to test hypotheses. Model 1 was a main effects model without any interactions. It allowed a direct test of hypotheses 1 through 6 regarding the direct effects of the preexisting intrinsic loyalty mechanisms on retention (reducing defection) and expansion. The likelihood ratio test comparing this main effects model to the null model indicated significant improvement in prediction effectiveness ($\chi^2 = 117.831$, d.f. = 24, $p < .01$). Likelihood ratio tests showed that four of the predictors made at least marginally significant

contributions to the overall model fit: dependence (χ^2 = 13.618, d.f. = 2, p < .01), relationship (χ^2 = 5.201, d.f. = 2, p < .10), size (χ^2 = 10.125, d.f. = 2, p < .01), lifestyle (χ^2 = 8.332, d.f. = 4, p < .10). Direct effects of the intrinsic loyalty mechanisms were further examined using simple slope analysis for the control and treatment group after taking into account the interactions with the loyalty initiative in Model 2, the interaction model. Comparing the log-likelihoods for Model 1 to Model 2 showed that adding interactions provided further significant improvement (χ^2 = 24.692, d.f. = 6, p < .01). Likelihood ratio tests for the interactions added to Model 1 showed the loyalty initiative's interactions with habit (χ^2 = 7.686, d.f. = 2, p < .05), dependence (χ^2 = 6.564, d.f. = 2, p < .05), and relationship (χ^2 = 4.686, d.f. = 2, p < .10) made significant contributions to the overall model. Full results for hypotheses testing are displayed in table 8 and discussed in the results section.

Results

In total, I tested six hypotheses regarding the direct effect of the three intrinsic loyalty mechanisms on retention (assessed from coefficients for the defection function) and expansion, and six hypotheses regarding the moderating effects of the loyalty initiative on these linkages. The estimated models including the coefficient estimates used to test the hypotheses are displayed in Table 8. Table 9 provides additional insights into these effects by displaying the simple slope analyses that shows the direct effects of the three intrinsic loyalty mechanisms for the control group that was left alone and the treatment group that was provided the loyalty initiative. Table 10 displays the results from an ordinary least squares regression used to check if the loyalty initiative reduced habit strength as expected even for those customers who did not defect or expand on their pre-existing subscriptions. Table 11 shows results from two additional analyses used to check the robustness of the hypothesized effects receiving significant substantive support. Overall, the conceptual model performed well, as seven of the twelve hypothesized effects received support at the $p < .05$ confidence level and one additional hypothesized effect received support at the $p < .10$ confidence level. Specific results of hypotheses testing are interpreted below and elaborated upon to draw implications for research and practice in the discussion section.

Table 8

RESULTS OF MULTINOMIAL LOGIT ANALYSIS FOR CUSTOMER DEFECTION AND EXPANSION VERSUS STATUS QUO

		Defection			*Expansion*	
		Model 1 Main Effects	*Model 2 Interactions*		*Model 1 Main Effects*	*Model 2 Interactions*
Antecedents:						
Preexisting Intrinsic Loyalty Mechanisms						
Habit	H1-	-.004	-.024 **	H2-	-.012	-.051 ***
		(.012)	(.014)		(.015)	(.016)
Dependence	H3-	-.266 **	-.003	H4+	.415 ***	.599 ***
		(.130)	(.178)		(.141)	(.216)
Relationship	H5-	-.023 **	.000	H6+	-.019	.008
		(.012)	(.015)		(.017)	(.023)
Manipulated Moderator:						
Loyalty Initiative						
Loyalty initiative		.203	-2.930		.369	-18.583 **
		(.178)	(2.688)		(.234)	(8.904)
Loyalty initiative X habit	H7+		.045 **	H8+		.204 **
			(.027)			(.090)
Loyalty initiative X dependence	H9-		-.517 **	H10-		-.287
			(.261)			(.286)
Loyalty initiative X relationship	H11-		-.044 **	H12-		-.048 *
			(.021)			(.031)
Control Variables:						
Typical Segmentation Descriptors						
Intercept		-2.237	-.940		-6.588 ***	-4.141 **
		(1.404)	(1.543)		(1.866)	(1.757)
Age		-.089	-.096 *		-.045	-.045
		(.055)	(.055)		(.068)	(.069)
Size		.277	.290		.772 ***	.906 ***
		(.208)	(.208)		(.259)	(.268)
Lifestyle (three categories)		Included *	Included *		Included *	Included *
Region (five regions)		Included	Included		Included	Included
Model Evaluation						
Log-likelihood of null model	1739.604					
Log-likelihood Model 1 main effects	1621.773		Likelihood ratio test: $\chi^2(24) = 117.831$***			
Log-likelihood Model 2 interactions	1597.081		Likelihood ratio test: $\chi^2(6) = 24.692$***			

*$p < .10$.

**$p < .05$.

***$p < .01$.

Notes: Hypotheses for defection are inverted from formal hypotheses for effects on retention. Retention was captured by an increase or decrease in probability of defection in a multinomial analysis with defection, status quo, and expansion as the three customer outcomes observed. "Status quo" is the baseline category. Standard errors listed in parentheses below the parameter estimates. One tail test for hypothesized effects.

Hypotheses 1 through 6: The Direct Effects of Intrinsic Loyalty Mechanisms

Hypotheses 1 & 2 the direct effects of habit on retention and expansion. The intuition behind Hypotheses 1 and 2 is that strong preexisting habits should suppress future changes to consumption behavior, and thus I should observe a negative effect of customers' preexisting habit-based intrinsic loyalty on defection and expansion relative to status quo. The estimates of the coefficients representing habit's overall direct effects on defection and expansion relative to status quo were negative as expected but the standard errors were larger than the coefficients (see Model 1 in Table 8), and thus I failed to find support for these hypotheses ($p > .10$). For the overall sample, customers' preexisting habit levels did not support retention or suppress expansion.

Hypotheses 3 & 4 the direct effects of dependence on retention and expansion. Hypothesis 3 is built from the logic that dependent customers, faced with high switching costs, need greater expected benefits from defecting to offset the higher switching costs in order for defection to become worthwhile. Similarly, Hypothesis 4's logic is that non-dependent customers do not already face high switching costs, and thus expansion comes at the cost of a reduction in mobility and greater exposure to seller opportunism, but dependent customers are already tied to the provider so they face fewer consequences from deepening their existing business if the need arises. Hypothesis 3 is supported, as evident by dependence's negative coefficient ($p < .05$) for the logistic function predicting defection relative to status quo; and Hypothesis 4 is supported, as evident by its positive coefficient ($p < .01$) for the logistic function predicting expansion relative to status quo (see Table 8 Model 1). Thus, I found supporting evidence for dependence-based intrinsic loyalty driving retention and expansion.

Hypotheses 5 & 6 the direct effects of relationship on retention and expansion.

Hypotheses 5 is based on the belief that a new relationship is relatively more fragile and susceptible to dissolution in response to a negative event or competitor's new offering compared to a mature relationship because the shared history, mutual understanding, flexibility, and efficiency in managing interactions provides the motivation and context to view negative information as relatively unimportant. The intuition behind Hypothesis 6 is that with a mature relationship, customers trust the seller enough to deepen their relationship because they are more confident providing their business to the seller is mutually beneficial and the seller will not take their increased business for granted. While Hypothesis 5 is supported, as evident by relationship's negative coefficient ($p < .05$) in the logistic function predicting defection relative to status quo; Hypothesis 6 did not receive empirical support (see Table 8 Model 1). Thus, I found evidence that customers with greater relationship-based intrinsic loyalty are more likely to remain a customer.

Hypotheses 7 through 12: The Moderating Effects of Loyalty Initiatives

Simple slope analysis. In Table 8, Model 2 expands on the main effects model to include the coefficients for the interactions of the loyalty initiative with each preexisting intrinsic loyalty mechanism. The coefficients for the direct effects displayed in Table 8 Model 2 represent the simple slope of each intrinsic loyalty mechanism on retention and expansion for the treatment group (Spiller et al. 2013). Table 9 (on the next page) displays these direct effects for the control group (i.e., the group of customers that did receive the loyalty initiative) as well as the direct effects for the treatment group (i.e., the group that did receive the loyalty initiative). This indicates the influence of habit, dependence, and relationship on retention and expansion for both the treatment group and the control group to better understand the impact of the loyalty initiative.

Table 9
SIMPLE SLOPE ANALYSIS

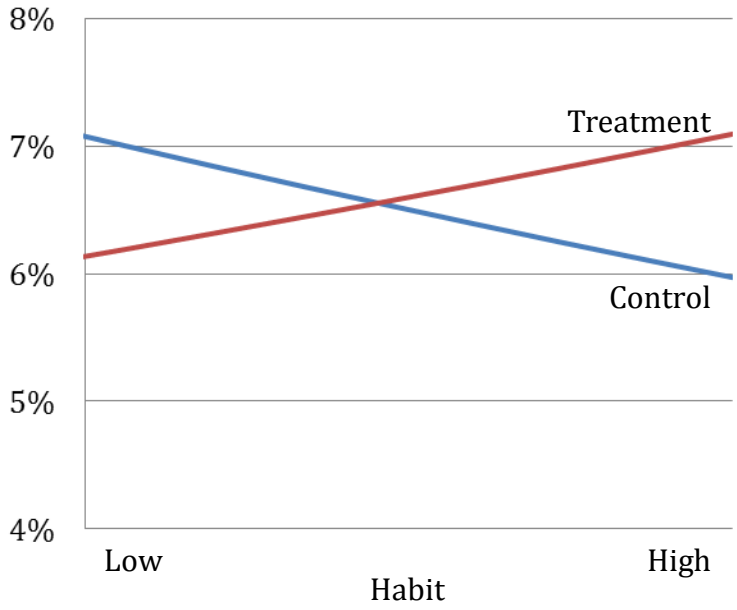
	Defection					*Expansion*				
Intrinsic Loyalty Mechanism	*Main Effect Hypothesis*	*Main Effect Significant ?*	*Interaction Significant ?*	*Slope in the Control Group*	*Slope in the Treatment Group*	*Main Effect Hypothesis*	*Main Effect Significant ?*	*Interaction Significant ?*	*Slope in the Control Group*	*Slope in the Treatment Group*
Habit	H1 –	No	Yes	-.024 **	.021	H2 –	No	Yes	-.051 ***	.153 *
				(.014)	(.024)				(.016)	(.088)
Dependence	H3 –	Yes	Yes	-.003	-.521 ***	H4 +	Yes	No	.599 ***	.312 **
				(.178)	(.024)				(.216)	(.190)
Relationship	H5 –	Yes	Yes	.000	-.044 ***	H6 +	No	Marginally	.008	-.040 **
				(.015)	(.016)				(.023)	(.023)

*p < .10.
**p < .05.
***p < .01.
Notes: Hypotheses for defection are inverted from formal hypotheses for effects on retention. Retention was captured by an increase or decrease in probability of defection in a multinomial analysis with defection, status quo, and expansion as the three customer outcomes observed. "Status quo" is the baseline category. Standard errors listed in parentheses below the parameter estimates. One tail test for hypothesized effects.

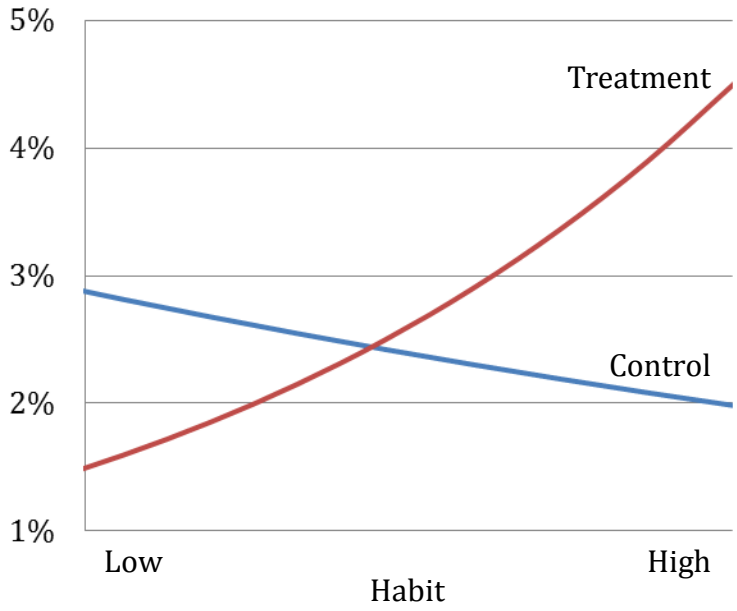
Hypotheses 7 & 8 the moderating effects of loyalty initiatives on the linkages between habit and customer performance outcomes. Hypothesis 6 and 7 predicted that habit's support for the status quo would be weakened by the loyalty initiative based on the idea that the loyalty initiative is disruptive enough to bring potential changes in behavior to the top of the customer's mind and out of the realm of habit's domain in automatic processing. Positive coefficients (p <.05) for the interaction terms in Model 2 (see table 8) in both logistic functions provides evidence supporting both interaction hypotheses. Furthermore, the simple slope analyses (see Table 8) shows that habit reduced defection ($p < .05$) and expansion ($p < .01$) in the treatment group, which indicates that habits suppressed change at least for the control condition where customers were left alone. In the treatment group where customers received the loyalty initiative, habit actually had a marginally significant positive effect on expansion in comparison to status quo ($p < .05$). This could possibly be due to the habit suppressing changes the customer would have made if they were actively considering their options. Essentially, habits may have pent up demand for expansion. Figure 2 graphs the slopes of habit on the rate of defection (panel A) and expansion (panel B) for the control group and for the treatment group.

Figure 2
EFFECT OF HABIT-BASED INTRINSIC LOYALTY
ACROSS EXPERIMENTAL CONDITIONS

A: Effect on Defection Rate



B: Effect on Expansion Rate



This pattern of results is consistent with the possibility that loyalty initiatives reduce the strength of preexisting habits to suppress future changes in behavior by breaking the habits and thus freeing customers to actively consider changes. To provide evidence that the loyalty initiative reduced habit strength, I regressed post-experiment habit (i.e. the indicator of habit strength for the months after the loyalty initiative ended) on the loyalty initiative and all other antecedents and controls used in the multinomial logistic regression (see Table 10). The analysis was restricted to the sample of customers (N = 2043) that did not defect or expand, because the multinomial logit regression already tests if the loyalty initiative leads to these specific changes and large changes in monthly bills would certainly appear for this customers that did make these changes. The results showed that the loyalty initiative did reduce post-experiment habit ($p < .01$).

In the specific telecom context with a short term two months free calling, behavior may have changed as customers engaged in new calling behaviors when costs were not tied to calls (e.g., calling a family member long distance more often). Additionally, costs likely became more salient for customers who saw their bill drop to zero and then return after the loyalty initiative expired. Thus, these customers were more likely to adapt their behavior to match their heightened sensitivity (i.e. thinking twice about making or taking a call or ending a call sooner) (Gopalakrishnan, Iyengar, and Meyer 2012; Wood and Neal 2009). In sum, I found evidence that as long as habits remain unbroken, customers with habit-based intrinsic loyalty are less likely to drop or expand on their existing services, but loyalty initiatives break these habits.

Table 10

CONFIRMING THAT THE LOYALTY INITIATIVE BREAKS HABITS BY REGRESSING POST-EXPERIMENT HABIT ON THE LOYALTY INITIATIVE

	Estimate (Std Error)	*t-Value*	*Theoretical Expectation*	*Source*
Antecedents:				
Preexisting Intrinsic Loyalty Mechanisms				
Habit	.191 (.018)	10.8 ***	Habitual customer should behave more consistently post-experiment.	Wood & Neal 2009
Dependence	.020 (.157)	.13		
Relationship	-.008 (.013)	-.60		
Manipulated Variable:				
Loyalty Initiative				
Loyalty initiative	-.788 (.235)	-3.35 ***	Loyalty initiatives promote new behaviors and make costs salient, and thus break habits.	Wood & Neal 2009
Control Variables:				
Typical Segmentation Descriptors				
Intercept	80.209 (2.222)	36.1 ***		
Customer age	0.126 (.088)	1.43		
Account size	-0.095 (.292)	-.33		
Lifestyle (three categories)	Included	N.S.		
Region (five regions)	Included	N.S.		
Model Evaluation				
R-Square	.067			

*p < .10.

**p < .05.

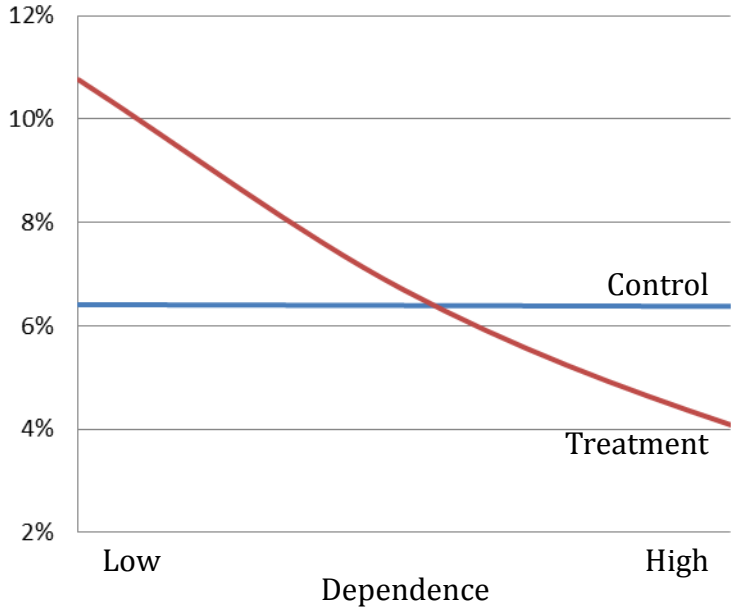
***p < .01.

Notes: Standard errors listed in parentheses below the parameter estimates. One tail test for hypothesized effects. As a strong test of our expectation, we restricted the sample to customers who did not make changes to their subscription (status quo), N = 2043.

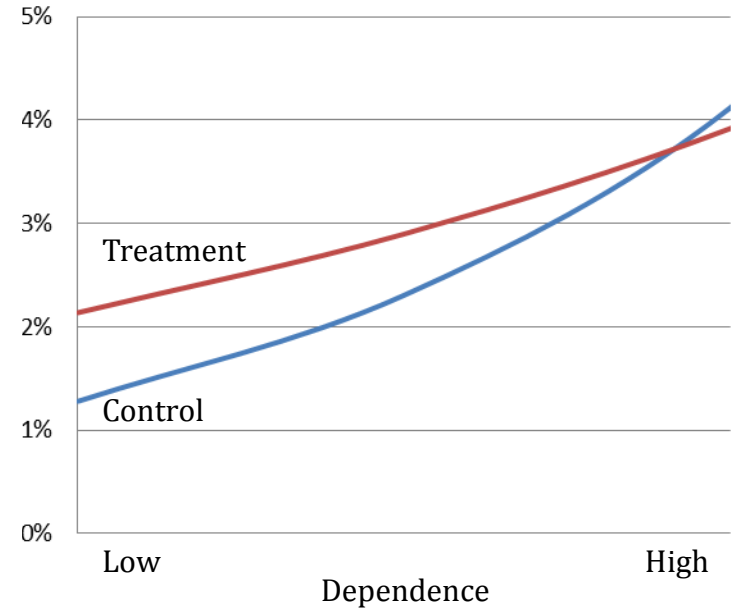
Hypotheses 9 & 10 the moderating effects of loyalty initiatives on the linkages between dependence and customer performance outcomes. The logic supporting Hypothesis 9 is that loyalty initiatives represent a tangible act of commitment by the seller to the dependent customer, which should reassure the customer that their dependence will be mutually beneficial and alleviate concerns that the seller may exploit the customer's dependence by acting opportunistically. The interaction coefficient (see Table 8 Model 2) for dependence and the loyalty initiative in predicting defection relative to status quo is negative ($p < .05$), supporting Hypothesis 9. The slope analysis (see Table 9) shows that the effect of dependence in reducing defection is very strong for the group that receives the loyalty initiative ($p < .01$) but dependence did not affect the likelihood of defection in the control group ($p > .10$). Thus, a loyalty initiative that signals the seller's commitment to the customer may soften negative feelings of vulnerability and confinement that come along with the high switching costs of dependence, and together allow dependence based intrinsic loyalty to strongly support retention. There was not a significant difference in the positive effect of dependence on expansion between the control and treatment group ($p > .10$), thus I failed to find support for Hypothesis 10. These effects are graphed in Figure 3 on the next page.

Figure 3
EFFECT OF DEPENDENCE-BASED INTRINSIC
LOYALTY ACROSS EXPERIMENTAL CONDITIONS

A: Effect on Defection Rate



B: Effect on Expansion Rate

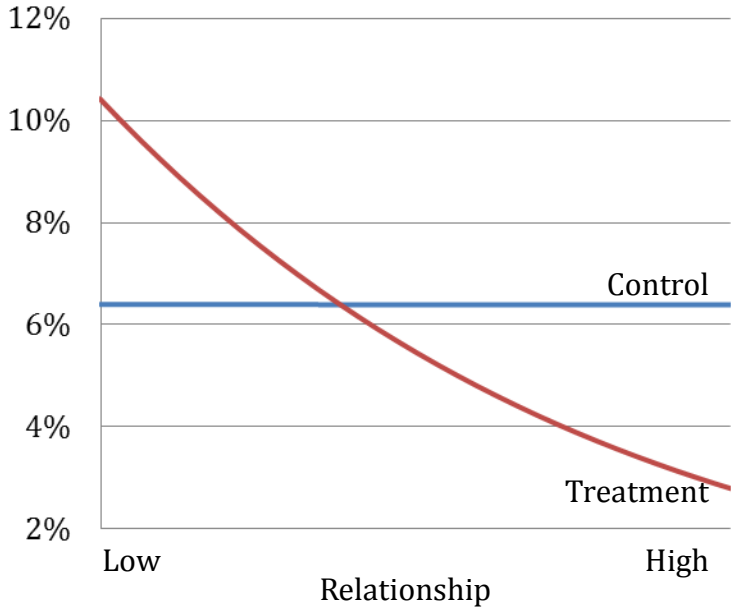


Hypotheses 11 & 12 the moderating effects of loyalty initiatives on the linkages between relationship and customer performance outcomes. The intuition behind Hypotheses 11 and 12 is that loyalty initiatives appear to be a persuasion attempt to customers lacking an established foundation of trust from an existing relationship, which may pressure these customers to reciprocate by expanding but will not improve their retention, as it should for relational customers who believe the seller is sincerely benevolent. The loyalty initiative reaffirms customers' preexisting behavior in the context of a mature relationship, and thus relational customers feel grateful but have little extra pressure to reciprocate through expansion.

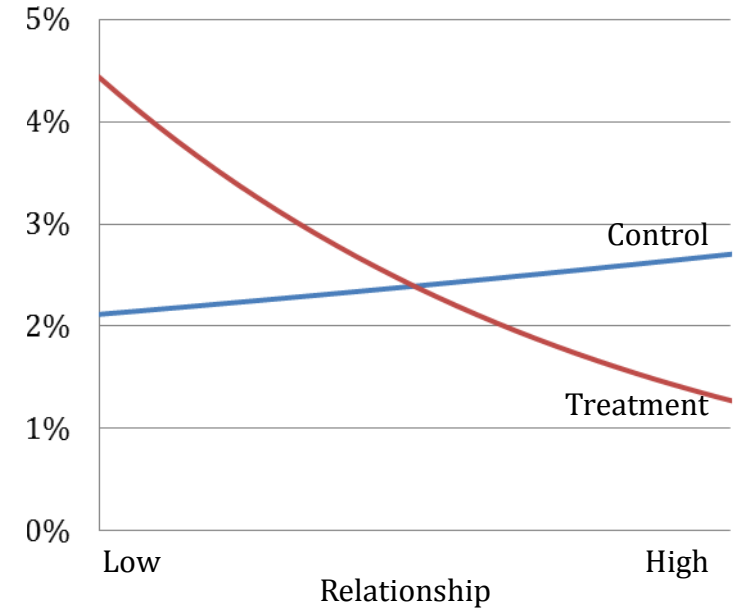
A negative coefficient for the relationship by loyalty initiative interaction in the logistic function predicting defection relative to status quo ($p < .05$) supports Hypothesis 9 (see Table 8). The simple slope analyses (see Table 9) shows that relationship-based loyalty strongly supports retention if the customer is in the treatment group and receives the loyalty initiative ($p < .01$), but relationship-based intrinsic loyalty fails to influence retention if the customer is ignored. The investigation of Hypothesis 10 also supports the notion that the reaction to a loyalty initiative varies greatly depending on whether or not the customer has a well-established preexisting relationship. Table 9 displays the expected negative interaction term in the logistic function predicting expansion relative to status quo ($p < .10$). Even stronger evidence comes from the simple slope analysis (see Table 10) that reveals a negative effect of relationship on expansion for the treatment group ($p < .05$) in contrast to an insignificant positive slope in the control group ($p > .10$). Thus, I found evidence that loyalty initiatives enhance any advantage relationships provide for retention but reverse any advantage loyalty initiatives may provide for expansion. Figure 4 on the next page displays the graph of these effects.

Figure 4
EFFECT OF RELATIONSHIP-BASED INTRINSIC LOYALTY ACROSS EXPERIMENTAL CONDITIONS

A: Effect on Defection Rate



B: Effect on Expansion Rate



Robustness Analyses

The structure of the data and the multinomial logistic regression specification come with several advantages but also raise concerns that I investigated to provide further confidence in the results. The first concern arises from the fact that the predominant outcome observed is "status quo", with only 6.14% of customers defecting and 3.62% of customers expanding. While these percentages over a nine-month period have huge financial implications for the telecom provider, they are possibly "rare events" which can cause coefficient estimates to be biased or inefficient. Fortunately, the risk in this case is minimal, less than one percent according to guidelines on rare event research using logistic regression, because the sample size is over 2,000 with each rare outcome accounting for at least 3% of all outcomes (King and Zeng 2001). I also dropped 624 random cases of status quo customers from my data and estimated the model on this smaller sample where each outcome comprised at least 5% of all the outcomes. The signs and significance of coefficients for hypothesized effects were consistent with the original results (see Table 11 below), although the interaction of habit and loyalty initiative on defection went from significant at $p < .05$ to marginally significant at $p < .10$.

Another issue is the assumption in multinomial logistic regression of independence from irrelevant alternatives (IIA). One could argue that status quo and expansion are closely related in that they both involve retaining the customer's business as opposed to defection, or from the perspective of habit suppressing change, one could argue that defection and expansion are related in that both represent an active choice where status quo is passive inertia. A modeling solution (e.g., nested logit) can free the researcher from the assumption of IIA in choice analysis with repeated observations and choice specific data that varies over choice occasions (e.g., the price of the brands under consideration). The structure of the data, with no variance around the choice

but only around the characteristics of the customer, precludes me from using these modeling solutions (Long and Freese 2006). I was able to run two separate binomial logistic regressions on whether or not the customer defected and whether or not the customer expanded, to show that the results were robust even when the other alternatives are not explicitly included in the estimation. The results (see Table 11 on the next page) were consistent with the original results, although the interaction of habit and loyalty initiative on defection went from significant at $p < .05$ to marginally significant at $p < .10$. Together, these additional analyses provide greater confidence in the substantive results, and thus the next section provides a discussion of the implications for research and practice.

Table 11

ROBUSTNESS ANALYSIS

	Rare Events[a]		IIA Assumption[b]	
	Defection	*Expansion*	*Defection*	*Expansion*
Antecedents:				
Preexisting Intrinsic Loyalty Mechanisms				
Habit	-.021 *	-.047 ***	-.024 *	-.048 ***
	(.014)	(.016)	(.014)	(.016)
Dependence	.006	.637 ***	-.028	.600 ***
	(.184)	(.229)	(.178)	(.216)
Relationship	.002	.011	-.001	.008
	(.015)	(.023)	(.015)	(.023)
Manipulated Moderator:				
Loyalty Initiative				
Loyalty initiative	-2.309	-18.018 **	-2.412	-18.386 **
	(2.925)	(8.695)	(2.623)	(8.918)
Loyalty initiative X habit	H7+ .040 *	H8+ .200 **	H7+ 0.039 *	H8+ .201 **
	(.029)	(.088)	(.026)	(.090)
Loyalty initiative X dependence	H9- -.568 **	H10- -.356	H9- -0.513 **	H10- -.244
	(.268)	(.298)	(.260)	(.285)
Loyalty initiative X relationship	H11- -.045 **	H12- -.050 *	H11- -0.042 **	H12- -.045 *
	(.021)	(.031)	(.021)	(.031)
Control Variables:				
Typical Segmentation Descriptors				
Intercept	-.699	-4.117 **	-1.107	-4.450 **
	(1.570)	(1.816)	(1.520)	(1.736)
Age	-.106 *	-.056	-.091 *	-.034
	(.058)	(.071)	(.055)	(.068)
Size	.247	.892 ***	.246	.880 ***
	(.217)	(.272)	(.207)	(.266)
Lifestyle (three categories)	Included	Included	Included	Included **
Region (five regions)	Included *	Included *	Included	Included **
Model Evaluation				
Log-likelihood of null model	1588.181		1045.021	705.173
Log-likelihood of full model	1453.242		998.774	613.274
Likelihood ratio test:	$\chi2(30) = 134.939$***		$\chi2(15) = 46.247$***	$\chi2(15) = 91.899$***

*p <.10.

**p <.05.

***p <.01.

[a] To address rare event concerns, we dropped 624 random cases where the outcome selected was "Status Quo", thus each outcome category (i.e., defection, status quo, expansion) represents at least 5% of all outcomes. "Status quo" is the baseline category in the multinomial logit analysis. Even with the full sample, the rare event risk is relatively low (less than 1%) given our sample is greater than 2,000 and each outcome represents at least 3% of all outcomes (King & Zeng 2001).

[b] To address concerns the possible violation of the assumption of independence of irrelevant alternatives (IIA), we tested two separate binomial logit models with whether outcomes "defection yes/no" and "expansion yes/no". Long and Freese (2006) state that given the structure of our data, tests of the IIA assumption are not reliable and more flexible models (i.e., nested logit) are not estimable.

Notes: One tail test for hypothesized effects.

Discussion

Despite a burgeoning body of literature on customer loyalty, empirical research had yet to investigate the basic premise that loyalty initiatives could alter the mechanisms that were already actively working to make existing customers, the recipients, desirable in the first place. This dissertation proposes that three intrinsic loyalty mechanisms (habits, rooted in the automatic mind; dependence, rooted in the rational mind; and relationships, rooted in the social-emotional mind) provide ongoing support for behavioral loyalty, but the introduction of a loyalty initiative alters these effects and leads to both intended and unintended consequences. A few extant studies motivated this research through their initial efforts showing that seller-specific customer characteristics are consequential in determining the effectiveness of loyalty initiatives. Typically, these studies show that customers' preexisting patronage levels taper their reaction to loyalty incentives (Lal and Bell 2003; Liu 2007; Taylor and Neslin 2005). Relationship length (Haisley and Loewenstein 2011) and the means by which the relationship originally formed (Dholakia 2006) have also been shown to limit loyalty initiative's effectiveness. Although each of these studies only require a single factor to demonstrate the importance of the existing customer-seller bond, a more complete understanding requires "research that includes multiple loyalty-inducing mechanisms that may amplify or attenuate each other, depending on the consumer and the order in which each mechanism is introduced into the consumer relationship" (Henderson, Beck, and Palmatier 2011, p. 271).

For instance, Liu (2007) found that a new loyalty initiative led to greater sales for all customers except those who were already frequent buyers, yet it is unclear why frequent buyers were less responsive. Wood and Neal (2009) point out that Liu's pattern of results could be due to an established habit among frequent buyers which would suppress behavioral changes, but

such claims are impossible to verify without decomposing the customer-seller bond. Additional plausible explanations include the possibility that heavy users may have already given all their potential business to the seller or the loyalty initiative may simply reaffirm their existing purchase behavior rather than motivate change. These customers could have felt entitlement that limited gratitude-based reciprocity. To help move the literature towards understanding and testing these different possibilities, this section discusses the resulting implications of this fresh approach for research and practice before concluding by noting several limitations that motivate specific future research.

Implications for Research

The longitudinal field experiment provided a robust set of evidence supporting the important role of preexisting intrinsic loyalty mechanisms in driving future performance outcomes, both directly and through how their effects are altered by a loyalty initiative. Displayed on the following page, Table 12 provides a summary of the key hypotheses and results. Of particular interest were the findings that (*a*) habit suppressed both positive (expansion) and negative (defection) changes as long as customers were left alone, (*b*) relationship and dependence had a positive main effect on retention, but surprisingly only because they became really important when customers received the loyalty initiative, and (*c*) the effect of relationship on expansion was actually negative when customers received the loyalty initiative. Of global importance is the revealed tension between retention and expansion and the importance of the field experiment design.

Table 12
SUMMARY OF HYPOTHESES AND RESULTS

Hypotheses	*Supported ?*	*Notes*
H1: Habit positively affects retention (i.e., reduces defection).	No	Slope analysis shows habit helped retention in the control group but not in the treatment group where habits break.
H2: Habit negatively affects expansion.	No	Slope analysis shows habit hurt expansion in the control group but helped in the treatment group where habits break.
H3: Dependence positively affects retention.	Yes	
H4: Dependence positively affects expansion.	Yes	
H5: Relationships positively affect retention.	Yes	
H6: Relationships positively affect expansion.	No	
H7: Loyalty initiatives diminish the positive effect of habit on retention.	Yes	
H8: Loyalty initiatives diminish the negative effect of habit on expansion.	Yes	
H9: Loyalty initiatives increase the positive effect of dependence on retention.	Yes	
H10: Loyalty initiatives diminish the positive effect of dependence on expansion.	No	
H11: Loyalty initiatives increase the positive effect of relationships on retention.	Yes	
H12: Loyalty initiatives decrease the positive effect of relationships on expansion.	Partial	Marginally significant, $p < .10$.

Notes: Effect on retention was captured by an increase or decrease in probability of defection in a multinomial analysis with defection, status quo, and expansion as the three customer outcomes observed.

Habits deserve greater attention in relationship marketing theory and research. The majority of research on relationship marketing and customer relationship management do not include habit as a driver of behavioral loyalty alongside other well recognized constructs (e.g., dependence, relationship quality and strength) (Kumar 2008; Palmatier et al. 2006; Verhoef 2003). One problem could be that measuring habits is difficult (Ajzen 2002; Verwijmeren et al. 2011). However researchers have employed related metrics such as moderate and consistent average inter-purchase time without considering how theories of habit could explain the observed effects (Reinartz and Kumar 2003), while others have demonstrated the power of the theory for interesting predictions despite lacking a dataset with extensive behavioral information (Neal, Wood, and Drolet forthcoming). This research displays the importance of habit in suppressing change, which is valuable for retention but detrimental for expansion, and offers a metric based on lack of variance in behavior that is based on measures of consistency of product purchases (Roy, Chintagunta, and Haldar 1996) that applies to the context of a continuous service provider. Future research using customer database metrics would be wise to incorporate similar metrics and consider habit as the theoretical base that could provide predictions for future behaviors.

Furthermore, this research shows how habits' powerful behavioral hold is interrupted by loyalty initiatives. This effect is consistent with theories of habit that argue habits are context specific and operate when the decision is not salient and not subject to active processing (Quinn et al. 2010; Wood and Neal 2009), which is important because loyalty initiatives can change the consumption context and make certain benefits (i.e., saving money) especially salient. If researchers pay greater attention to habits' behavioral hold, considerations of other marketing variables (e.g., changes in prices, billing mechanisms, or retail design) might also interrupt

preexisting habits. Other questions include how can loyalty initiatives be designed to make it more or less likely a habit will be broken? How can loyalty initiatives be designed to help build habits over time? How do habits interact with other key relationship marketing constructs and customer database metrics to drive future behavior? And, how do these other key relationship marketing constructs build or break habits?

Marketers should exercise caution when providing loyalty initiatives to habitual customers and consider if the loyalty initiative will activate consumption goals and break the stability of the context (Henderson, Beck, and Palmatier 2011). This is especially dangerous if the seller is no longer a market leader at providing the solution for the goal that is activated. Customers that never had strong habits should have already been reevaluating and updating their intentions. Loyalty initiatives provided to non-habitual customers are less likely to lead to an onrush of changes because these customers already could have made changes without having to fight the inertia power of habits. Non-habitual customers might also make changes after receiving a loyalty initiative, but these responses are more likely to be a function of their levels of dependence or relationship-based intrinsic loyalty that could determine their rational and emotional responses. These responses could be positive if they elicit gratitude and motivate recipients to reciprocate (Palmatier et al. 2009) or negative if they elicit reactance and motivate recipients to defect (Kivetz 2005).

Relationship and dependence are dormant drivers of retention. Dependence and relationship both exhibited a positive main effect on retention for the overall sample, as was expected and is well documented in the extant research (Palmatier et al. 2006). However, upon closer examination of the simple slopes for the control group and the treatment group, the positive effects of relationship and dependence on retention only occurred where the customers

received a loyalty initiative. Thus, the power of relationship and dependence to support retention is passive until activated by the loyalty initiative. It would be interesting to learn if other stimuli, other than the loyalty initiative, also switch dependence and relationship from a potential to active driver of retention. It would also be interesting if the passive versus active role of relationship and dependence generalizes to other contexts or are they a phenomena of the specifics of this research design. If not, are dependence and relationship always activated by the same stimuli, and what if the stimuli were negative (e.g., such as a service failure)? These examinations could greatly add to the current understanding of the roles that dependence and relationship play in driving retention.

Further examination is warranted to understand why the loyalty initiative hurt retention when recipient customers lacked dependence and relationship-based intrinsic loyalty. Customers in the bottom 5% of the sample in terms of their relationship and dependence were 7.93% more likely to defect if they received a loyalty initiative (see Table 13 in the following section on implications for practice). Alternatively, customers in the top 5% of the sample in terms of relationship and dependence were 5.49% less likely to defect if they received the loyalty initiative. While the interaction effect was expected, the negative drop in retention in response to the loyalty initiative was still surprising.

One possible reason for the increased risk of defection is that these customers would be more suspicious of the seller's motives for providing the loyalty initiative because their lack of preexisting loyalty makes it more likely the seller was using the loyalty initiative as a persuasion attempt rather than a gift (Campbell and Kirmani 2008; Morales 2005), which could prompt a promotion reactance that backfires (Kivetz 2005). Counter signaling theory would suggest that the loyalty initiative in this study—two free months using a service in a declining category—is a

sign that the seller is acting from a place of desperation and weakness towards these customers that lack intrinsic loyalty mechanisms (Clements 2010; Feltovich, Harbaugh, and To 2002). Research on free gift with purchase promotions shows that products given away as part of a promotion are viewed as less valuable (Raghubir 2004). Researchers should work to understand which of these mechanisms might explain the increased risk of defection exhibited by these non-dependent, low relationship customers.

Relationship-based intrinsic loyalty reduces expansion in response to a loyalty initiative. If customers did not have a relationship, likelihood of expansion in response to the loyalty initiative increased by 2.36%, but fell by 2.88% if customers did have a relationship and were without a preexisting habit. While extant loyalty research recognizes that customers are often unable to increase their spending beyond their high levels (Lal and Bell 2003; Liu 2007), the drop in expansion in response to the loyalty initiative was unexpected. This indicates that having a relationship can cause some harm, at least in the short term, in response to loyalty initiatives. Research on responses to unexpected gifts indicates that some people will feel extreme pressure to repay a gift if they do not have a strong preexisting relationship with the giver and they will be upset if they are unable to reciprocate; alternatively, people in a strong relationship believe a tit-for-tat response to a gift is inappropriate (Shen, Wan, and Wyer Jr 2011; Valenzuela, Mellers, and Strebel 2010). It would be interesting to understand if this interpersonal gift giving response can explain the drop in expansion in the context of business-to-consumer relationships.

Adapting research designs to disentangle constructs and aggregate outcomes. A final contribution to research is regarding how the research design allowed for the discovery of opposing effects, often of surprising magnitudes. This research revealed a strong tension between

retention and expansion. Habits limited defection and expansion, which are opposing effects that would be hidden if spending level were used as the outcome variable. In response to the loyalty initiative, both expansion and defection were more likely for customers without a relationship or with preexisting habits. An ordinal logistic regression would have hidden these opposing effects. While attitudinal loyalty was not included as an outcome in this research, a similar tension may exist between attitudinal and behavioral loyalty. If the loyalty initiative broke habits and allowed customers to consider changes for the first time in a long time they should be more likely to defect simply because they now consider it, even if their attitude to the seller improved. By disentangling outcomes, opposing effects were revealed that might help explain loyalty initiatives mixed record of success and failure (Haisley and Loewenstein 2011; Kim et al. 2009; Liu and Yang 2009).

Furthermore, the field experiment design with customers randomly selected to receive the loyalty initiative, rather than a targeted group of customers selected based on their preexisting spending levels, allows for analysis of the response from a full range of customers with different loyalty profiles. Some of the surprising effects, such as the loyalty initiative hurting retention for customers without a relationship or dependence, might have remained hidden if data were analyzed where only the best customers were targeted with the loyalty initiative. The surprising findings from a section of customers typically ignored in loyalty research provided a benefit that goes beyond the original intention of random selection to ensure that the loyalty initiative was exogenous. In the future, it would be beneficial to use field experiments or at least consider collecting data from a broad section of customers, and the relationship marketing researchers should be open to surprising findings that had not yet been discovered from previous research that may have focused on a narrower range of customers because of restricted sources of data.

Implications for Practice

Existing customers are more reliable and profitable sources of future business compared to prospective customers and thus scholars advocate for a reallocation of resources towards investments in current customers (Reinartz, Thomas, and Kumar 2005). This reallocation has proved challenging. Managers are tasked with providing the right loyalty initiative (e.g., the right reward, gift, or program) to the right customer. The majority of academic studies focus on helping these managers by examining characteristics of loyalty initiatives. Highly formalized, traditional reward programs are criticized for being inflexible, creating huge liabilities, and failing to elicit positive emotions (Shugan 2005). Therefore, loyalty initiatives with surprising discretionary gifts were designed to address the short fallings (Haisley and Loewenstein 2011; Kumar and Shah 2004; Palmatier et al. 2009). But even these loyalty initiatives have their relative weaknesses (Laran and Tsiros 2013). The current research adopted a different approach, examining the characteristics of the recipient rather than characteristics of the loyalty initiative, to aid managers with the task of determining whom to target with a loyalty initiative.

Indeed, this research uncovers several unintended consequences of loyalty initiatives by considering why existing customers, the recipients of loyalty initiatives, are behaviorally loyal in the first place. As a result, the research approach and empirical findings provide a road map managers can follow when determining who to target based on the levels of customers' preexisting intrinsic loyalty mechanisms and the desired customer performance outcome. First, existing customers fall somewhere on a continuum of having low to high levels of habit-based, dependence-based, and relationship-based intrinsic loyalty mechanisms already working to secure their business. Firms should track these levels. Most customer databases already contain the information used in this study for metrics for habit, dependence, and relationship. However,

firms would be wise to find external validation for the metrics in their specific context. In this research, association between the metrics and survey responses provided confidence the metrics represented the constructs of interest.

Second, managers should test any loyalty initiative on a random subset of their customers to observe the impact of the loyalty initiative on a variety of performance outcomes. This should allow them to check if the preexisting effects of their intrinsic loyalty mechanisms are altered by the introduction of their loyalty initiative in a similar manner to this research context. For example, in the context of the current research, this approach revealed that the loyalty initiative weakened habit's positive effect on retention, but also reversed habit's negative effect on expansion. Examining the slope of each intrinsic relationship mechanism in the control and treatment group can help managers determine if the intrinsic loyalty mechanism is already helping them achieve their objectives without a loyalty initiative, and then consider if the intrinsic loyalty mechanism's preexisting effects would be helped or hindered by the loyalty initiative. For instance, if the telecom company had an objective to slow defection, they would want to encourage habit development, and would be wary of providing a loyalty initiative to habitual customers, but if expansion were a top priority, habit works against them unless a loyalty initiative is introduced.

Finally, managers could consider customers' intrinsic loyalty profiles to determine which segment of customers they would like to target with a loyalty initiative, because all three intrinsic loyalty mechanisms simultaneously determine the overall impact of the loyalty initiative. Table 13, on the following page, examined the effect of the loyalty initiative on expansion and defection for 27 different intrinsic loyalty profiles. The loyalty profiles are displayed in a three-by-three-by-three table that crosses low, medium, and high levels of each intrinsic loyalty

mechanism with low, medium, and high levels of the other two intrinsic loyalty mechanisms. “Low” (“High”) represents the customers had a value for the intrinsic loyalty mechanism at the bottom (top) fifth percentile of the sample. For each loyalty profile, the spotlight effect of the intrinsic loyalty mechanism was estimated and if the effect is significant ($p < .05$) the associated percentage increase or decrease in likelihood of defecting or expanding is displayed.

The results of Table 13 indicate several areas of promise and concern for managers. The loyalty initiative increases likelihood of expansion by 1.94% without influencing defection for customers with strong habits and medium levels of relationship and dependence. It helps retention by 4.31% to 5.49% without hurting expansion if dependence is high, relationship is medium to high, and habit is medium. Managers should avoid customers with low intrinsic loyalty on all dimensions. The loyalty initiative increases their risk of defection by 5.86%. For many other loyalty profiles, it either hurts retention but helps expansion (e.g., Low relationship and dependence with high habit) or hurts expansion but helps retention (e.g. High relationship and dependence but low habit).

Table 13

SPOTLIGHT ANALYSIS: CONSEQUENCES OF THE LOYALTY INITIATIVE FOR DIFFERENT INTRINSIC LOYALTY PROFILES

Spotlight Location: Intrinsic Loyalty Profile			*Relationship Low*			*Relationship Mean*			*Relationship High*		
			Habit			*Habit*			*Habit*		
			Low	*Mean*	*High*	*Low*	*Mean*	*High*	*Low*	*Mean*	*High*
Dependence	Low	Expansion	*N.S.*	+2.36%	+3.95%	N.S.	N.S.	+1.60%	N.S.	N.S.	N.S.
		Defection	*+5.86%*	+7.93%	+8.81%	N.S.	N.S.	+3.30%	N.S.	N.S.	N.S.
	Mean	Expansion	N.S.	+2.50%	+4.43%	N.S.	N.S.	**+1.94%**	-2.88%	N.S.	N.S.
		Defection	N.S.	+4.41%	+5.17%	N.S.	N.S.	**N.S.**	-4.59%	N.S.	N.S.
	High	Expansion	N.S.	N.S.	N.S.	-8.61%	**N.S.**	N.S.	-11.76%	**N.S.**	**N.S.**
		Defection	N.S.	N.S.	N.S.	-5.32%	**-4.31%**	N.S.	-6.39%	**-5.49%**	**-5.14%**

Notes: "Low" ("High") represents the "spotlight" effect of the loyalty initiative where customers are in the bottom (top) 5% of the sample. "N.S." indicates the "spotlight" effect of a loyalty initiative is non-significant. Values represent the % increase or decrease in the likelihood of "expansion" or "defection" from providing a customer with a loyalty initiative. **Bold** text indicates where a loyalty initiative only helps the firm, *italics* represents where a loyalty initiative only hurts the firm, normal text represents either no expected impact of a loyalty initiative or where a loyalty initiative should help and hurt the firm.

Limitations and Future Research

This research is the first major effort to evaluate loyalty initiatives in the context of preexisting intrinsic loyalty mechanisms, and therefore, is not without limitations that are worth addressing in future research. First, the data came from a single telecom provider. Further research would be wise to extend beyond telecom, beyond continuous service providers, and beyond a single year period. These extensions would provide opportunities to evaluate the generalizability of the findings and to identify relevant moderating conditions. For example, many retail contexts require customers to actively choose to buy, and defection can be a passive act, which may alter the role habits play in guiding future behavior. The extent to which habit, dependence, and relationship are present in a given context should alter the need to consider how a loyalty initiative might alter their preexisting effects on customer performance.

Second, the data focused on existing customers. Future research could examine how acquisition promotions shape future intrinsic loyalty in similar ways. Relatedly, acquisition promotions targeted towards competitors' customers may be more or less effective depending on the extent to which they alter those customers' intrinsic loyalty towards their current provider. If it were possible to break a potential customer's habits at a competitor company, a two-staged attack that first breaks the habits and then persuades these potential customers to switch providers with a follow up campaign would be interesting to investigate. Competitive data was not available and competitive dynamics were not considered in the current research, but certainly worth investigation.

Third, the particular loyalty initiative investigated in this research occurred once and lasted for two months, similar to Haisley and Lowenstein's field experiment evaluating a "novel rewards program" (2011, p. 103). The majority of prior research on loyalty initiatives has

examined characteristics of longer lasting, traditional loyalty reward programs, and shown that specific elements of the design contribute to different performance outcomes (Drèze and Nunes 2009; Kopalle et al. 2012; Zhang and Breugelmans 2011). Future research could examine how the interaction effects uncovered with the particular loyalty initiative in the current research are suppressed or enhanced across different loyalty initiatives with different characteristics. For example, prior research suggests that because the loyalty initiative provided customers with the company's service for free it may have led suspicious customers to believe the service less valuable (Raghubir 2004); loyalty initiatives that reward customers with another company's product (e.g., tickets to an entertainment event) may avoid this problem. When examining alternative loyalty initiatives, especially the longer reaching traditional loyalty reward programs, additional research could consider how the interaction effects may grow stronger or diminish over time as customers get used to the loyalty initiative. A potential finding could be that initially a new loyalty initiative breaks habits, but over time, the same loyalty initiative could become ingrained into the consumption context and help customers build habits by encouraging consistent consumption behavior. If this were the case, changes of customer behavior such as defection and expansion would be especially likely early in a loyalty initiatives life but become increasingly rare over time. In sum, there are numerous avenues for fruitful research by following the recent recommendation that "researchers should consider the additive effects of multiple loyalty-inducing mechanisms and the interactions between these mechanisms while recognizing that these effects will vary over time and across different consumers" (Henderson, Beck, and Palmatier 2011, p. 271).

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Figure 1
CONCEPTUAL MODEL AND RESEARCH DESIGN TO STUDY HOW LOYALTY INITIATIVES ALTER PREEXISTING EFFECTS OF INTRINSIC LOYALTY MECHANISMS

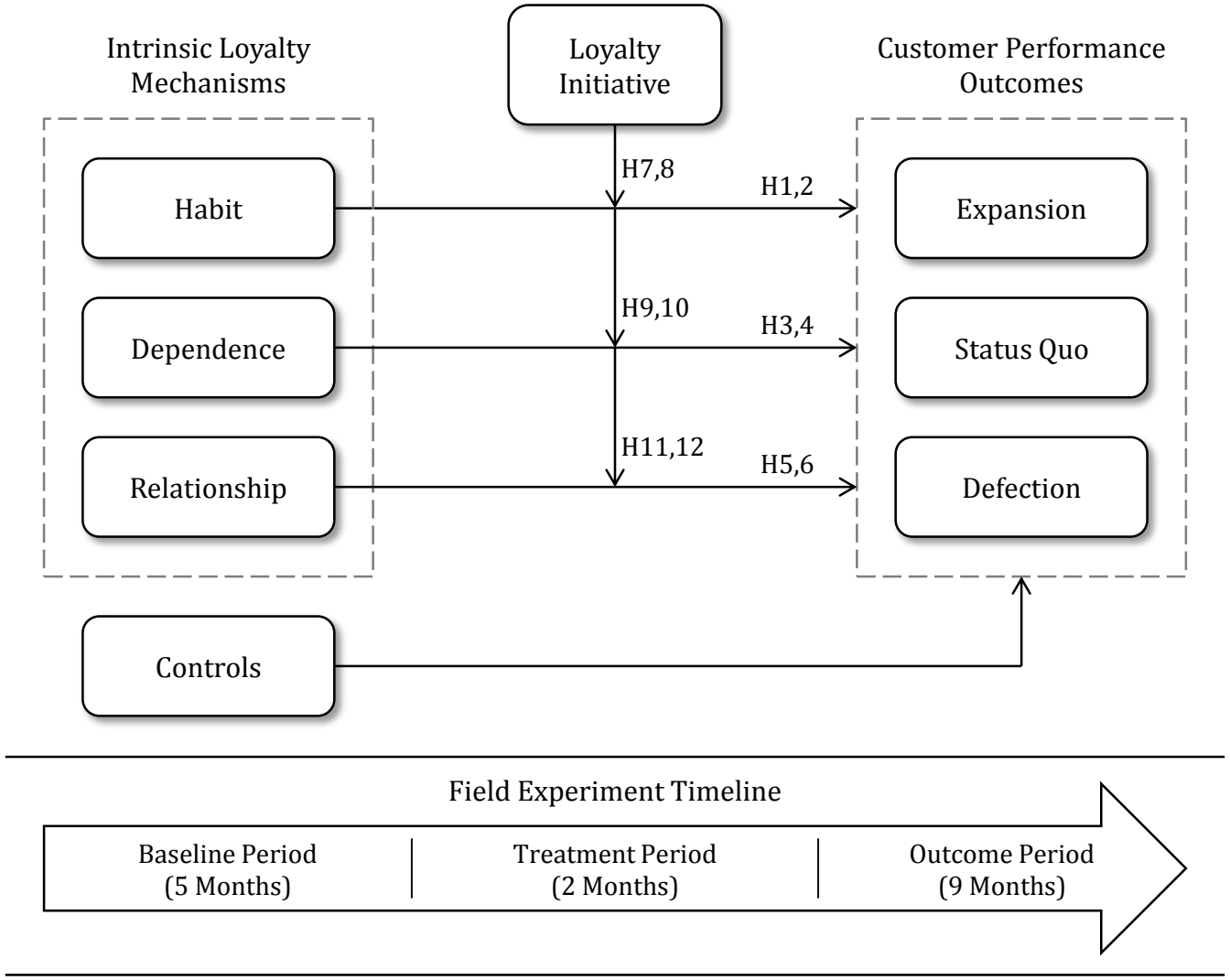
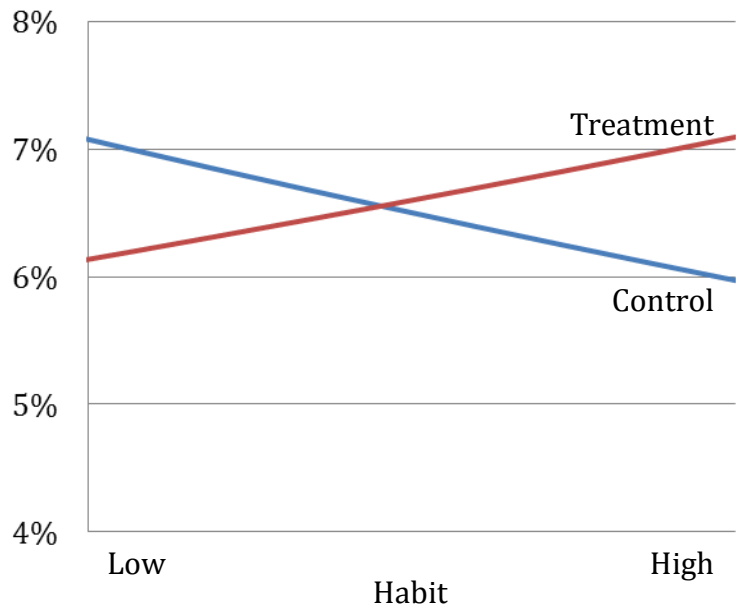


Figure 2
EFFECT OF HABIT-BASED INTRINSIC LOYALTY
ACROSS EXPERIMENTAL CONDITIONS

A: Effect on Defection Rate



B: Effect on Expansion Rate

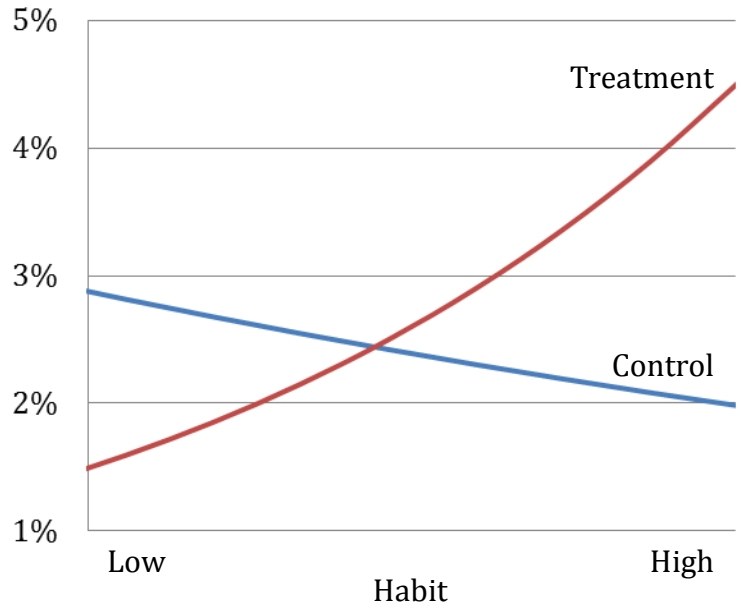
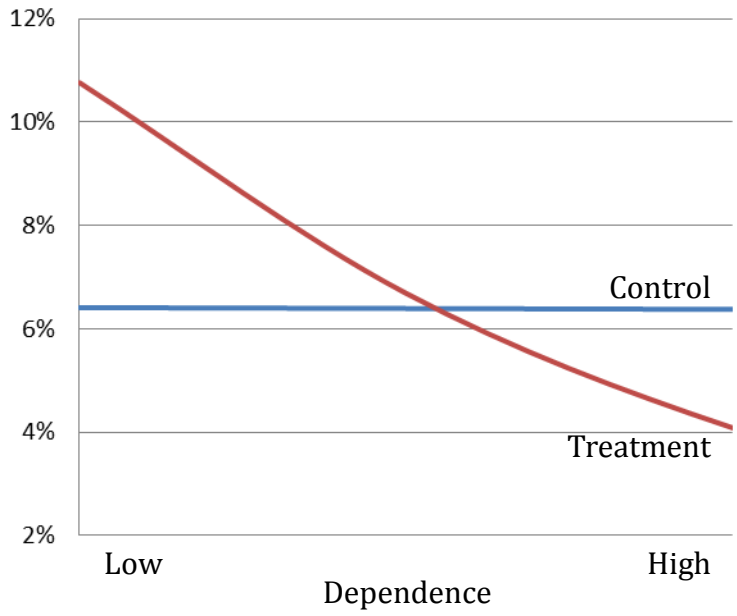


Figure 3
EFFECT OF DEPENDENCE-BASED INTRINSIC LOYALTY ACROSS EXPERIMENTAL CONDITIONS

A: Effect on Defection Rate



B: Effect on Expansion Rate

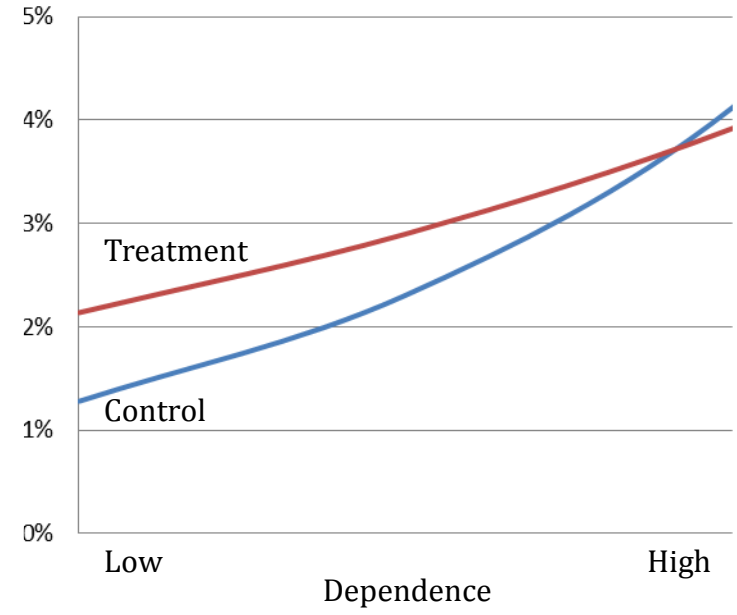
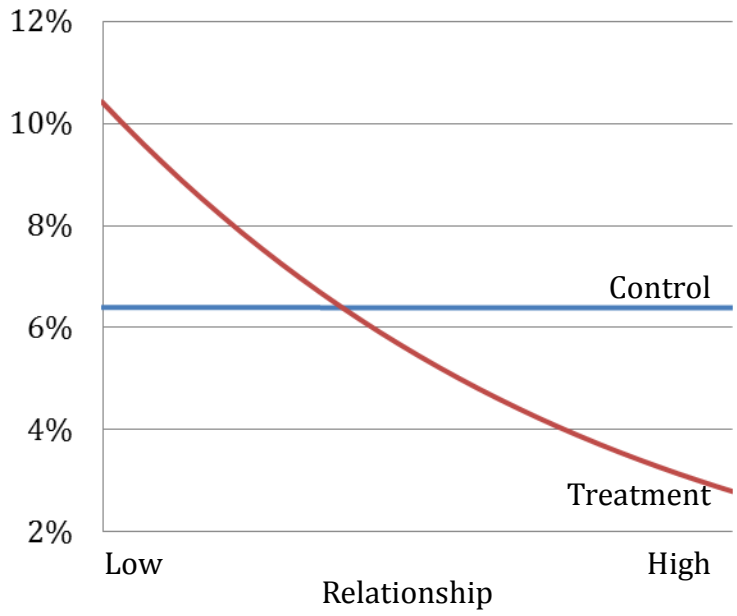


Figure 4
EFFECT OF RELATIONSHIP-BASED INTRINSIC LOYALTY ACROSS EXPERIMENTAL CONDITIONS

A: Effect on Defection Rate



B: Effect on Expansion Rate

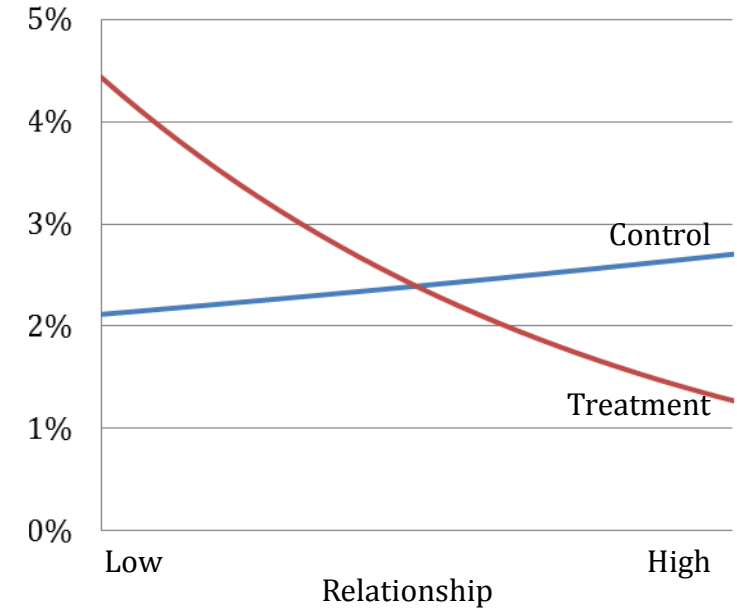


Table 1
RELEVANT RESEARCH ON HABIT-BASED INTRINSIC LOYALTY

Reference	*Context*	*Key Constructs*	*Major Findings*
Breivik & Thorbjørnsen, 2008	Online brand communitie	Consumer-brand relationship, habit strength	Indicators of habit strength predicted *repurchase likelihood* beyond that of commonly used measures of relationship strength or quality. The impact of habits increases with frequently bought or consumed categories.
Fishbach et al., 2010	Sequential product choice	*Consistency vs. variety seeking*, mental construal	Nonconscious support of behavioral selection *consistency* increases when consumers are primed with concepts of loyalty, but concepts related to satiation (boredom) promote *variety seeking*. Loyalty programs may prime consistent behavior and support the development of habitual loyalty.
Ji & Wood, 2007	Restaurant, media, and commute	Habit strength, intentions	Repeated behaviors predicted *subsequent behavior* in a fast-food, TV, and transportation setting, even in light of opposing intentions. Intentions predicted behavior when behavior repetition was low—a proxy for weak habits.
Kivetz et al., 2006	Café patrons, Internet users	Goal-gradient effect, *persistence*, *loyalty program reengagement*	Consumers accelerate *effort*, *persistence*, and *behavior frequency* when approaching a loyalty reward. The acceleration cannot be explained by habit but may help build a baseline habit. After receiving a reward, consumer effort decreased, but not to the original level, and acceleration positively predicts *program reengagement* and *loyalty*. The goal-gradient effect does not directly account for this effect as the goal distance resets.
Murray & Häubl, 2007	Online Web search	Repetition, *product preference*, ease of use, goal activation	*Product preferences* are shaped by prior experience with the product. This relationship is mediated by ease of use. Goals associated with product use moderated the relationship between experience and preference, with consumers preferring experienced products only when ease of use was high. Therefore, habits can indirectly affect preferences supporting ease of use and brand loyalty.
Tobias, 2009	Recycling campaign	Accessibility, *behavior*, commitment, habit strength	Habits provide a strong memory advantage over competing behaviors. Intention accessibility decays as habits develop but is enhanced by reminders. Reminders' positive impact on accessibility is positively moderated by behavior commitment. Reminder's potency increases with proximity to behavior context, but its salience decreases with exposure.
Verplanken & Wood, 2006	Fast food and commute	*Habit change*, environmental change	*Habit change* is easiest when environmental context is altered or disrupted. Informational campaigns to help consumers break habits will be most effective when the habit performance context is tumultuous.
Wood, 2010	Retail, restaurant	Life change, familiarity, habit performance	Despite actors' predictions about others' behaviors, people in states of high life change tended to *choose* unfamiliar, novel items rather than familiar, traditional items, suggesting that life changes inhibit habit performance.

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with italics. Table adapted from Henderson, Beck, & Palmatier 2011.

Table 2
RELEVANT RESEARCH ON DEPENDENCE-BASED INTRINSIC LOYALTY

Reference	*Context*	*Key Constructs*	*Major Findings*
Anderson & Weitz 1992	Channel partners	Relationship investments, *commitment*	There is a cyclical relationship between a partner's pledges of commitment to the actor's commitment to the actor's pledges of commitment. Idiosyncratic relationship investments are effective, tangible, signals of commitment.
Bendapudi & Berry 1997	Conceptual, service focused	constraint vs dedication based *relationship maintenance*	Dependence arises from constraints (cost-based) and dedication (benefit-based). Although constraint-based dependence supports relationship maintenance, constrained customers have more *interest in alternative* providers and will leave as soon as perceptions of dependence change.
Burnham, Frels, & Mahajan 2003	Service provider, telecom & finance	Breadth of use, switching costs, *intent to stay*	Breadth of use was one of the main drivers of procedural, financial, and relational switching costs (dependence). All three supported customers *intent to stay* with the provider, but financial switching costs had the weakest effect.
Fullerton, 2003	Service vignette longitudinal experiment	cost-based dependence, identification, *loyalty*	Without relationship identification, cost-based dependence helps *retention.* Relationships help cost-based dependent customers feel better towards the relationship. However, increased salience of economic switching costs make relational ties less potent.
Johnson, Herrmann, & Huber 2006	Service, telecom customers	Benefit-based dependence, affective commitment	At the beginning of a relationship, perceived value created a benefit-based dependence that directly drove loyalty, but as relationships develop, it acted as a spring board to support *loyal intentions* through improved affective commitment and brand equity.
Kumar, George, & Pancras 2008	catalog retailing	Product returns, mailings, *cross-buying*	*Cross-buying* provides benefits from expansion at a retailer but also risks from increased dependence. Factors that theoretically should decrease perceived risk empirically support *cross-buying* .
Kumar, Scheer, & Steenkamp 1995	Channel partners	Interdependence level and asymmetry	Interdependence level has positive effects on *trust* and *commitment,* and reduces *conflict.* Asymmetry hurts the relationship on all outcomes.
Martin & Camarero 2005	Service provider, auto	Information asymmetry, dependence, *trust*	Customers, uncertain of a seller's true competence and intentions, will interpret seller investments as signals of *trustworthiness.* Dependent customers, exclusive to one seller, interpret seller investments (e.g. warranty) as a signal of benevolent intentions in addition to competence, reducing fear of *opportunism* .
Palmatier, Dant, & Grewal 2007	Channel partners	Interdependence level and asymmetry	Interdependence supports commitment and encourages relationship specific investments. Commitment and relationship specific investments drive *financial performance* and *cooperation.* Interdependence asymmetry causes *conflict* .

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formating each outcome with *italics* .

Table 3
RELEVANT RESEARCH ON RELATIONSHIP-BASED INTRINSIC LOYALTY

Reference	*Context*	*Key Constructs*	*Major Findings*
Bansal et al., 2004	Auto-repair services	Normative, affective, and *continuance commitment*	Subjective norms are associated with normative *commitment*, while trust is tied to affective *commitment*. Continuance *commitment* results from increased switching costs. Normative and continuance *commitment* are negatively associated with switching intentions.
De Wulf et al., 2001	Food, apparel retail	Relationship investment, relationship quality, *loyalty*	Consumers' perceptions of relationship investments enhance relationship quality, a composite of trust, commitment, and satisfaction, which is positively associated with *behavioral loyalty*. Interpersonal communication has the strongest association with perceived relationship investment.
Dholakia 2006	Service, auto and financial	Customer self-determination, loyalty	Self-determined customers, naturally drawn to the firm, are more loyal than those drawn in with incentives. Self-determined customers respond positively to rewards perceived as relational investments but negatively to discounts perceived as controlling.
Giesler, 2006	Online peer-to-peer	Gift system, reciprocity norms	A dyadic analysis of gift exchange fails to capture *community development* function of gift systems, in which gifts exchanged among consumers aid in the *development of consumer relationships*.
Goodwin, 1996	Services	Communality, service delivery	Transitions to communal relationships are a function of service delivery, consumer traits, and situational factors. Likelihood of strong relationship formation increases with self-disclosure, time, and personality congruence in encounters.
Jap & Ganesan 2000	Channel partners	Relationship investments, life-cycle	Retailer (customers) perceptions of supplier's commitment increase with supplier investments and established norms, but decrease with contracts and their own investments (dependence). Early in the relationship, commitment is highest when relationship investments are mutual rather than just from retailer; as relationships mature, supplier investments are generally perceived as signals of commitment.
McGraw & Tetlock, 2005	Various consumer settings	*Opportunism*, relational exchange styles	Context of relational exchange influences consumers' exchange style, with communal and equality matching conditions associated with *egalitarian exchange* and market-pricing exchange related to *opportunism*.
Palmatier et al. 2006	Meta-analysis	dependence, duration, benefits, *trust, commitment*	Dependence and relationship duration have relatively small but positive effects on commitment and trust. Investments, expertise, similarity, and benefits had larger effects. Conflict had the largest effect, but was negative. Both commitment and trust drove relationship performance outcomes.
Reimann et al. 2012	Brand recall experiments	relationship length, love	As consumer's relationships with their favorite brand endure, the arousal reactions decline but the inclusion of the brand in the self concept solidifies.
Thomson et al., 2005	Self-reported brands	Emotional attachment, *brand loyalty*	Brand emotional attachment is associated with three factors: brand affection, connection, and passion. These factors are ultimately associated with stronger *brand loyalty* and a higher *willingness to pay*.

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with italics. Table adapted from Henderson, Beck, & Palmatier 2011.

Table 4
RELEVANT RESEARCH ON LOYALTY INITIATIVES

Reference	*Context*	*Key Constructs*	*Major Findings*
Haisley & Loewenstein 2011	Financial services	Unexpected rewards, change in reward value	Unexpected rewards boosted *account balance* for customers without a long-held relationship. If subsequent rewards declined in value, then they hurt performance by failing to meet expectations from increased entitlement.
Hennig-Thurau & Paul 2007	Restaurants, scenario experiment	Economic loyalty program	Economic loyalty rewards decrease perceptions of self-determination. Self-determination supports repeat patronage and loyalty.
Lal and Bell 2003	Grocery retail	Purchase incentives	Purchase incentives (e.g. a free ham with $X spending) led to increased profits among those customers who were not already spending at high levels.
Liu 2007	convenience store retail	Initial purchase level	Customers only responded positively to a new loyalty program with *increased consumption* when there initial consumption level was low.
Marcoux, 2009	Moving to a new home	Consumer gifts, *cooperation*, subjection	A variety of emotions are associated with accepting gifts from others, and these emotions may spur consumers toward market-based exchanges to forgo negative affect and relational obligations associated with accepting a gift.
Melancon, Noble, & Noble 2011	Sports fans, hypothetical experiment	Rewards, controlling program	Customers who perceive relational rewards and benefits as controlling are less likely to respond with appreciation and provide less benefits in turn.
Morales, 2005	Retail setting	Gratitude, *willingness to pay*	Extra effort expended by the firm enhanced customer *willingness to pay*, *choice of store*, and *overall evaluations*. Inferred persuasion motivations diminished this relationship and can undermine appreciation for extra effort.
Palmatier et al., 2006	Business-to-business relationship	Social, financial structural relationship investments	The *return* on relationship marketing investments is greatest if the investment is social in nature (e.g. taking a client to dinner). Financial investments (e.g. discounts) fail to deliver a positive return. Structural investments (e.g. infrastructure) only pay off if interactions are frequent.
Palmatier et al., 2009	Retail and business-to-business relationship	Gratitude, relationship investments	Gratitude mediates the effect of relationship investment on *performance*, along with trust and commitment. Relationship investments effect on gratitude is positively moderated by customers' perceptions of seller benevolence, free will, and investment value.
Rosenbaum et al., 2005	Communal loyalty programs	Communal benefits, *loyalty*	Loyalty programs differ in terms of the extent to which they provide communal engagement and shared benefits. Communal loyalty programs elicit stronger *loyalty* than programs relying on financial incentives.
Shen, Wan, & Wyer Jr 2011	Person to person gifts	Communal vs exchange, gifts	People in exchange relationships may refuse gifts if they anticipate feeling indebted due to an inability or disinterest in repaying gift.
Wood & Neal, 2009	Review of multiple studies	Habit, goals, rewards, context	Rewards that change the context or make consumption goals salient will *disrupt habits*.

Note: These studies examined a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with *italics*. Table adapted from Henderson, Beck, & Palmatier 2011.

Table 5
CONSTRUCT, DEFINITION, AND OPERATIONALIZATION

Construct	*Definition*	*Customer Database Metrics for Variable Operationalization*	*Source*
Manipulated Moderator: Loyalty Initiative			
Loyalty Initiative	A special benefit discretionarily provided to specific existing customers, which is additional, non-essential, to the seller's core offering.	An indicator of whether or not a customer received two months of free calls on their home phone lines, with "no-strings attached". Customers were randomly selected.	Haisley and Loewenstein 2011
Antecedents: Preexisting Intrinsic Loyalty Mechanisms			
Habit-based intrinsic loyalty (habit)	Customers' increased propensity to remain with a seller arising from memory-based advantages for the established patronage pattern over alternatives, created by consistently performing the same behavior in a regular context.	A lack of variance in behavior over time, represented by the following calculation: $100 / (1 + \mathrm{Var}(X))$, where X represents the customer's monthly bill divided by their average bill for each of the 5 months preceding the experiment.	Based on Roy, Chintagunta, and Haldar 1996; Azjen 2002.
Dependence-based intrinsic loyalty (dependence)	Customers' increased propensity to remain with a seller arising from cognitive evaluations of potential switching costs, specifically the unique benefits lost and expenses incurred if the customer defected.	The number of service categories. Multi-category subscribers receive bundling discounts but sign contracts with early termination penalties. Contracts expired after the distribution of the loyalty initiative but before the end of the observation period, thus all customers could defect without penalty.	Crosby, Evans, and Cowles 1990; Reinartz and Kumar 2003; Burnham, Frels, and Mahajan 2003
Relationship-based intrinsic loyalty (relationship)	Customers' increased propensity to remain with a seller arising from the emotional bond and mutual learning built over time through the formation of relational ties.	The length of time the seller has served the customer, captured at the beginning of the observation period[a].	Dagger, Danaher, and Gibbs 2009; Cooil et al. 2007
Control Variables: Typical Segmentation Descriptors			
Personal characteristics	Commonly available descriptors that might correlate with the attractiveness of an individual to the existing provider and its competitors, as well as the attractiveness of the existing provider and its competitors to the individual.	• Age (collapsed into ordinal brackets)[a] • Size (natural log of pre-experiment spending level)[a] • Lifestyle (three nominal categories)[b] • Region (five regions)[b]	Mende, Bolton, Bitner 2013; Verhoef 2003
Dependent Variables: Customer Performance Outcomes			
Defection	An existing customer's discontinued patronage.	A multinomial indicator of whether the customer either: A) no longer subscribed to the seller's services (defection), B) maintained their original subscriptions (status quo)[c], or C) subscribed to more of their original subscriptions (expansion). Assessed by comparing pre and post-experiment subscriptions.	Based on Aurier and N'Goala 2010; Mende, Bolton, Bitner 2013; Verhoef 2003.
Status quo	An existing customer's continued patronage.		
Expansion	An existing customer's increased patronage.		

[a] For confidentiality, values were shifted by a constant.

[b] For confidentiality, meaning of individual categories of nominal variables are not specified.

[c] This category served as the reference category in multinomial logit analysis. An ordinal logit would not allow for testing all hypothesized (e.g., habits limit both defection and expansion).

Table 6

DESCRIPTIVE STATISTICS

Variables	*Control (N = 1132)* [a]		*Treatment (N = 1132)* [a]		*Correlations* [b]				
Continuous Variables	*Mean*	*Std Dev*	*Mean*	*Std Dev*	1.	2.	3.	4.	5.
1. Habit	97.94	6.75	97.63	7.37	1.00				
2. Dependence	1.61	0.74	1.63	0.77	-0.02	1.00			
3. Relationship	13.74	9.69	14.12	10.50	0.08	-0.04	1.00		
4. Age	9.04	2.40	9.05	2.45	0.09	-0.13	0.40	1.00	
5. Size	5.23	0.44	5.24	0.45	0.26	0.05	-0.02	-0.10	1.00
Nominal Variables	*Frequency*	*Percent*	*Frequency*	*Percent*					
Lifestyle 1	264	12%	262	12%					
Lifestyle 2	672	30%	680	30%					
Lifestyle 3	196	9%	190	8%					
Region 1	262	23%	303	27%					
Region 2	247	22%	207	18%					
Region 3	413	36%	412	36%					
Region 4	182	16%	185	16%					
Region 5	28	2%	25	2%					
Defection	64	6%	75	7%					
Status quo	1034	91%	1009	89%					
Expansion	34	3%	48	4%					

[a] No significant differences between the control group and treatment group (*t*-tests for continuous variables $p > .30$ and chi-square tests for nominal variables $p > .15$).

[b] Correlations greater than .04 are significant at $p < .05$.

Table 7

SURVEY VALIDATION OF CUSTOMER DATABASE METRICS

Intrinsic Loyalty Mechanisms	*Transactional Satisfaction* [a]				*Attitudinal Loyalty* [b]				*Theoretical Interpretation*	
	Correlation Coefficient	*Regression Coefficient*	*Standard Error*	*t-Value*	*Correlation Coefficient*	*Regression Coefficient*	*Standard Error*	*t-Value*	*Expectation*	*Source*
Habit	.22 ***	.125	.033	3.84 ***	.09	.064	.042	1.53	Actors allow habits to take over when an intended behavior consistently results in a satisfactory outcome.	Ajzen 2002; Wood & Neal 2009
Dependence	-.14 *	.618	.400	-1.5	.05	.553	.516	1.07	Dependent customers have high switching costs and thus are unlikely to defect despite lower satisfaction.	Bendapudi & Berry 1997
Relationship	.11	.003	.034	.08	.21 ***	.093	.044	2.11 **	Relational customers will have higher commitment to the seller and risk their reputation to advocate for the seller.	Palmatier et al. 2006

*p < .10.

**p < .05.

***p < .01.

[a] Transactional Satisfaction: Calculated as "Satisfaction" plus "Value". Cronbach's alpha α = .889. Satisfaction: "How would you rate your overall satisfaction with [provider] as a telecommunication provider in the last 3 months?" (11 point scale with 0 = "extremely unsatisfied" and 10 = "extremely satisfied"). Value: "How would you rate [provider] as being worth what you pay for?" (11 point scale with 0 = "poor" and 10 = "excellent")

[b] Attitudinal Loyalty: Calculated as "Word-of-Mouth" less "Defection Intention". Cronbach's alpha α = .612. Word-of-Mouth: "How likely would you be to recommend [provider] to a friend, family member, or colleague in the next 12 months?" (11 point scale with 0 = "extremely unlikely" and 10 = "extremely likely"). Defection Intention: "How likely would you be to leave [provider] in the next 6 months?" (11 point scale with 0 = "extremely unlikely" and 10 = "extremely likely")

Notes: The survey data comes from the company's customer experience survey. Analysis is on data from 192 customers that were not participating in the experiment. Regression models include the same control variables from the multinomial logit analysis, but significant effects remain even without control variables in the models.

Table 8

RESULTS OF MULTINOMIAL LOGIT ANALYSIS FOR CUSTOMER DEFECTION AND EXPANSION VERSUS STATUS QUO

		Defection			*Expansion*	
		Model 1 Main Effects	*Model 2 Interactions*		*Model 1 Main Effects*	*Model 2 Interactions*
Antecedents:						
Preexisting Intrinsic Loyalty Mechanisms						
Habit	H1-	-.004	-.024 **	H2-	-.012	-.051 ***
		(.012)	(.014)		(.015)	(.016)
Dependence	H3-	-.266 **	-.003	H4+	.415 ***	.599 ***
		(.130)	(.178)		(.141)	(.216)
Relationship	H5-	-.023 **	.000	H6+	-.019	.008
		(.012)	(.015)		(.017)	(.023)
Manipulated Moderator:						
Loyalty Initiative						
Loyalty initiative		.203	-2.930		.369	-18.583 **
		(.178)	(2.688)		(.234)	(8.904)
Loyalty initiative X habit	H7+		.045 **	H8+		.204 **
			(.027)			(.090)
Loyalty initiative X dependence	H9-		-.517 **	H10-		-.287
			(.261)			(.286)
Loyalty initiative X relationship	H11-		-.044 **	H12-		-.048 *
			(.021)			(.031)
Control Variables:						
Typical Segmentation Descriptors						
Intercept		-2.237	-.940		-6.588 ***	-4.141 **
		(1.404)	(1.543)		(1.866)	(1.757)
Age		-.089	-.096 *		-.045	-.045
		(.055)	(.055)		(.068)	(.069)
Size		.277	.290		.772 ***	.906 ***
		(.208)	(.208)		(.259)	(.268)
Lifestyle (three categories)		Included *	Included *		Included *	Included *
Region (five regions)		Included	Included		Included	Included
Model Evaluation						
Log-likelihood of null model	1739.604					
Log-likelihood Model 1 main effects	1621.773		Likelihood ratio test: $\chi^2(24) = 117.831$***			
Log-likelihood Model 2 interactions	1597.081		Likelihood ratio test: $\chi^2(6) = 24.692$***			

*$p < .10$.

**$p < .05$.

***$p < .01$.

Notes: Hypotheses for defection are inverted from formal hypotheses for effects on retention. Retention was captured by an increase or decrease in probability of defection in a multinomial analysis with defection, status quo, and expansion as the three customer outcomes observed. "Status quo" is the baseline category. Standard errors listed in parentheses below the parameter estimates. One tail test for hypothesized effects.

Table 9

SIMPLE SLOPE ANALYSIS

	Defection					*Expansion*				
Intrinsic Loyalty Mechanism	*Main Effect Hypothesis*	*Main Effect Significant ?*	*Interaction Significant ?*	*Slope in the Control Group*	*Slope in the Treatment Group*	*Main Effect Hypothesis*	*Main Effect Significant ?*	*Interaction Significant ?*	*Slope in the Control Group*	*Slope in the Treatment Group*
Habit	H1 –	No	Yes	-.024 **	.021	H2 –	No	Yes	-.051 ***	.153 *
				(.014)	(.024)				(.016)	(.088)
Dependence	H3 –	Yes	Yes	-.003	-.521 ***	H4 +	Yes	No	.599 ***	.312 **
				(.178)	(.024)				(.216)	(.190)
Relationship	H5 –	Yes	Yes	.000	-.044 ***	H6 +	No	Marginally	.008	-.040 **
				(.015)	(.016)				(.023)	(.023)

*$p < .10$.

**$p < .05$.

***$p < .01$.

Notes: Hypotheses for defection are inverted from formal hypotheses for effects on retention. Retention was captured by an increase or decrease in probability of defection in a multinomial analysis with defection, status quo, and expansion as the three customer outcomes observed. "Status quo" is the baseline category. Standard errors listed in parentheses below the parameter estimates. One tail test for hypothesized effects.

Table 10

CONFIRMING THAT THE LOYALTY INITIATIVE BREAKS HABITS BY REGRESSING POST-EXPERIMENT HABIT ON THE LOYALTY INITIATIVE

	Estimate (Std Error)	*t-Value*	*Theoretical Expectation*	*Source*
Antecedents:				
Preexisting Intrinsic Loyalty Mechanisms				
Habit	.191 (.018)	10.8 ***	Habitual customer should behave more consistently post-experiment.	Wood & Neal 2009
Dependence	.020 (.157)	.13		
Relationship	-.008 (.013)	-.60		
Manipulated Variable:				
Loyalty Initiative				
Loyalty initiative	-.788 (.235)	-3.35 ***	Loyalty initiatives promote new behaviors and make costs salient, and thus break habits.	Wood & Neal 2009
Control Variables:				
Typical Segmentation Descriptors				
Intercept	80.209 (2.222)	36.1 ***		
Customer age	0.126 (.088)	1.43		
Account size	-0.095 (.292)	-.33		
Lifestyle (three categories)	Included	N.S.		
Region (five regions)	Included	N.S.		
Model Evaluation				
R-Square	.067			

*p < .10.

**p < .05.

***p < .01.

Notes: Standard errors listed in parentheses below the parameter estimates. One tail test for hypothesized effects. As a strong test of our expectation, we restricted the sample to customers who did not make changes to their subscription (status quo), N = 2043.

Table 11

ROBUSTNESS ANALYSIS

	Rare Events[a]				IIA Assumption[b]			
	Defection		*Expansion*		*Defection*		*Expansion*	
Antecedents:								
Preexisting Intrinsic Loyalty Mechanisms								
Habit	-.021	*	-.047	***	-.024	*	-.048	***
	(.014)		(.016)		(.014)		(.016)	
Dependence	.006		.637	***	-.028		.600	***
	(.184)		(.229)		(.178)		(.216)	
Relationship	.002		.011		-.001		.008	
	(.015)		(.023)		(.015)		(.023)	
Manipulated Moderator:								
Loyalty Initiative								
Loyalty initiative	-2.309		-18.018	**	-2.412		-18.386	**
	(2.925)		(8.695)		(2.623)		(8.918)	
Loyalty initiative X habit	H7+ .040	*	H8+ .200	**	H7+ 0.039	*	H8+ .201	**
	(.029)		(.088)		(.026)		(.090)	
Loyalty initiative X dependence	H9- -.568	**	H10- -.356		H9- -0.513	**	H10- -.244	
	(.268)		(.298)		(.260)		(.285)	
Loyalty initiative X relationship	H11- -.045	**	H12- -.050	*	H11- -0.042	**	H12- -.045	*
	(.021)		(.031)		(.021)		(.031)	
Control Variables:								
Typical Segmentation Descriptors								
Intercept	-.699		-4.117	**	-1.107		-4.450	**
	(1.570)		(1.816)		(1.520)		(1.736)	
Age	-.106	*	-.056		-.091	*	-.034	
	(.058)		(.071)		(.055)		(.068)	
Size	.247		.892	***	.246		.880	***
	(.217)		(.272)		(.207)		(.266)	
Lifestyle (three categories)	Included		Included		Included		Included	**
Region (five regions)	Included	*	Included	*	Included		Included	**
Model Evaluation								
Log-likelihood of null model	1588.181				1045.021		705.173	
Log-likelihood of full model	1453.242				998.774		613.274	
Likelihood ratio test:	$\chi2(30) = 134.939$***				$\chi2(15) = 46.247$***		$\chi2(15) = 91.899$***	

*p <.10.

**p <.05.

***p <.01.

[a] To address rare event concerns, we dropped 624 random cases where the outcome selected was "Status Quo", thus each outcome category (i.e., defection, status quo, expansion) represents at least 5% of all outcomes. "Status quo" is the baseline category in the multinomial logit analysis. Even with the full sample, the rare event risk is relatively low (less than 1%) given our sample is greater than 2,000 and each outcome represents at least 3% of all outcomes (King & Zeng 2001).

[b] To address concerns the possible violation of the assumption of independence of irrelevant alternatives (IIA), we tested two separate binomial logit models with whether outcomes "defection yes/no" and "expansion yes/no". Long and Freese (2006) state that given the structure of our data, tests of the IIA assumption are not reliable and more flexible models (i.e., nested logit) are not estimable.

Notes: One tail test for hypothesized effects.

Table 12
SUMMARY OF HYPOTHESES AND RESULTS

Hypotheses	*Supported ?*	*Notes*
H1: Habit positively affects retention (i.e., reduces defection).	No	Slope analysis shows habit helped retention in the control group but not in the treatment group where habits break.
H2: Habit negatively affects expansion.	No	Slope analysis shows habit hurt expansion in the control group but helped in the treatment group where habits break.
H3: Dependence positively affects retention.	Yes	
H4: Dependence positively affects expansion.	Yes	
H5: Relationships positively affect retention.	Yes	
H6: Relationships positively affect expansion.	No	
H7: Loyalty initiatives diminish the positive effect of habit on retention.	Yes	
H8: Loyalty initiatives diminish the negative effect of habit on expansion.	Yes	
H9: Loyalty initiatives increase the positive effect of dependence on retention.	Yes	
H10: Loyalty initiatives diminish the positive effect of dependence on expansion.	No	
H11: Loyalty initiatives increase the positive effect of relationships on retention.	Yes	
H12: Loyalty initiatives decrease the positive effect of relationships on expansion.	Partial	Marginally significant, $p < .10$.

Notes: Effect on retention was captured by an increase or decrease in probability of defection in a multinomial analysis with defection, status quo, and expansion as the three customer outcomes observed.

Table 13

SPOTLIGHT ANALYSIS: CONSEQUENCES OF THE LOYALTY INITIATIVE FOR DIFFERENT INTRINSIC LOYALTY PROFILES

Spotlight Location: Intrinsic Loyalty Profile			*Relationship Low*			*Relationship Mean*			*Relationship High*		
			Habit			*Habit*			*Habit*		
			Low	*Mean*	*High*	*Low*	*Mean*	*High*	*Low*	*Mean*	*High*
Dependence	Low	Expansion	*N.S.*	+2.36%	+3.95%	N.S.	N.S.	+1.60%	N.S.	N.S.	N.S.
		Defection	*+5.86%*	+7.93%	+8.81%	N.S.	N.S.	+3.30%	N.S.	N.S.	N.S.
	Mean	Expansion	N.S.	+2.50%	+4.43%	N.S.	N.S.	**+1.94%**	-2.88%	N.S.	N.S.
		Defection	N.S.	+4.41%	+5.17%	N.S.	N.S.	**N.S.**	-4.59%	N.S.	N.S.
	High	Expansion	N.S.	N.S.	N.S.	-8.61%	**N.S.**	N.S.	-11.76%	**N.S.**	**N.S.**
		Defection	N.S.	N.S.	N.S.	-5.32%	**-4.31%**	N.S.	-6.39%	**-5.49%**	**-5.14%**

Notes: "Low" ("High") represents the "spotlight" effect of the loyalty initiative where customers are in the bottom (top) 5% of the sample. "N.S." indicates the "spotlight" effect of a loyalty initiative is non-significant. Values represent the % increase or decrease in the likelihood of "expansion" or "defection" from providing a customer with a loyalty initiative. **Bold** text indicates where a loyalty initiative only helps the firm, *italics* represents where a loyalty initiative only hurts the firm, normal text represents either no expected impact of a loyalty initiative or where a loyalty initiative should help and hurt the firm.