

Dynamic Management of Loyalty Program Strategies

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Abstract

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Loyalty programs are a major strategy used in firm CRM efforts, with resources in excess of \$48 billion spent in 2013 on loyalty programs in the U.S. alone (Berry 2013). Yet inconsistent returns still result in costly adjustments to loyalty program initiatives in hopes of improving program performance (Allison 2010). However, limited research exists that examines the impact of these adjustments. In two studies, this research thus aims to 1) examine how and when adjustments in loyalty programs (e.g. expansions and contractions of benefits) impact firm value, and 2) understand how customer feelings of gratitude and unfairness help explain the consequences of adjustments to loyalty programs. To investigate the first goal, Study 1 utilizes an event study that estimates the impact of adjustments to loyalty programs on abnormal stock returns using a Fama-French three factor model. To investigate the second goal, Study 2 uses a series of

complimentary experiments on actual loyalty program members to help explain how loyalty program adjustments influence customer feelings of gratitude and unfairness. Results find evidence that loyalty program contractions (e.g. a program termination, or reduction in rewards) are associated with negative abnormal stock returns, while loyalty program expansions (e.g. a program introduction, or expansion of rewards) result in both positive and negative abnormal stock returns, suggesting a role for contextual factors.

Keywords: event study, loyalty program strategies, gratitude, unfairness, relationship marketing

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Loyalty programs, in business practice and as a focus of marketing research, are vastly popular, such that U.S. companies spend more than \$1.2 billion on them each year, program participation has topped 2 billion, and the average U.S. household subscribes to 18 different programs (Hlavinka and Sullivan 2011; Wagner, Hennig-Thurau, and Rudolph 2009). As these numbers suggest, loyalty programs “have become a key component of customer relationship management” (Kivetz and Simonson 2003, p. 454). However, their financial performance rarely meets expectations (Daryanto et al. 2010; Henderson, Beck, and Palmatier 2011), which often results in their termination (Nunes and Drèze 2006). Poor performance necessitated the termination of a Starbucks rewards program and the introduction of an overhauled program, at great expense to the company (Allison 2010). Although researchers substantiate the efficacy of some loyalty programs (Leenheer et al. 2007; Shugan 2005), “it is far from clear what sets a successful [loyalty program] apart from an unsuccessful one” (Kumar and Reinartz 2006, p. 172). Thus, to address this issue, this research is focused on understanding how different types of loyalty program expansions and contractions result in adjustments to firm value.

Loyalty programs can have numerous consequences on both customers and the firm. For the customer, loyalty programs can provide both economic and psychological benefits in the form of accrued rewards and status ranking (Nunes and Drèze 2006; Nunes and Drèze 2011). For the firm, customer benefits can result in firm benefits, such as repeat patronage, enhanced customer retention, and protection of customers from competitive overtures. Although most research and practice acknowledge the benefits to both firms and customers of loyalty programs, part of the inconsistent returns to loyalty programs can be attributed to unintended consequences of common loyalty program design (Henderson, Beck, and Palmatier 2011; Steinhoff and Palmatier 2014). For example, status demotions can drive away customers that are still valuable for the

firm (Wagner, Hennig-Thurau, and Rudolph 2009), while other times loyalty programs essentially serve as unnecessary price discounts that hurt profits (Shugan 2005). As loyalty programs entail the accrual and distribution of resources within a group, I aim to examine the positive and negative consequences of loyalty programs in this dissertation using the theories of gratitude and unfairness based in evolutionary psychology. Gratitude and unfairness can be thought of as complimentary constructs because they serve to either reward/reinforce adherence to group norms (through gratitude) or mitigate/minimize deviance from such norms through punishment (due to perceived unfairness). Both are indispensable for examining relationship marketing initiatives such as loyalty programs because they serve to either reinforce relationship reciprocity and cooperation (through gratitude) or they mitigate its lack thereof (through punishment due to perceived unfairness).

This dissertation aims to understand the effects of loyalty programs on firm value in two complementary studies. In study 1, I aim to establish the extent to which loyalty programs influence firm value, as well as examine contingency factors of these effects, by making use of an event study design to examine abnormal stock returns due to public announcements of loyalty program adjustments. I code each event for common loyalty program tactics, delivery, and timing to examine how prominent adjustment strategies influence the effect of loyalty programs on firm value. Event studies are naturally well suited to examining announcements of marketing strategy initiatives (i.e. brand extensions, sponsorships, loyalty program, etc.) on the creation or destruction of firm value (Srinivasan and Bharadwaj 2004); yet to date no study exists that examines the effect of loyalty programs on firm value in this way. In study 2, I intend to build upon the findings of study 1 by examining the mediating influence of two fundamental emotional mechanisms: gratitude and unfairness. To do so, in Study 2 I conduct a series of experiments to

understand the effects of loyalty program adjustments on customer behavior. When combined with the assessment of abnormal stock returns attributed to unexpected loyalty program announcements, this context provides a more controlled setting to study how the effect of loyalty programs on firm value is mediated by customer feelings of gratitude and unfairness.

This research makes three primary contributions. First, it contributes to better understanding of the effects expanding the benefits of loyalty programs, but also to the limited research investigating how the removal of loyalty program benefits impacts firm value and customer behavior. Second, this research will add to relationship marketing literature by understanding how customer feelings of gratitude and unfairness operate under different types of loyalty program adjustments as to date literature on this topic is sparse. Finally, this research intends to understand the how adjustment strategies (e.g. expansions or contractions of benefits), program tactics (e.g. financial perks or program status), program delivery (e.g. program transparency and program specificity), and timing forces (weekend effects, customer inoculation, and customer sentiment) moderate the effect of program adjustments on firm value to provide guidance to both researchers and practitioners.

I. Literature Review

1. Conceptual Background of Loyalty Programs

Loyalty programs are a significant tactic firms have at their disposal for customer relationship management (Bolton, Kannan, and Bramlett 2000). Loyalty programs utilize numerous marketing activities, including but not limited to rewards cards, perks, hierarchical service levels, reserved service employees, discounts and other engagement activities intended to persuade customers' attitudes and influence customer behaviors such that they benefit the firm. I define a *loyalty program* as “any institutionalized incentive system that attempts to enhance

consumers' consumption behavior over time" (Henderson, Beck, and Palmatier 2011, p. 58). Despite the widespread use of loyalty programs, managers and researcher often struggle to determine the root of the inconsistent performance of loyalty programs (Kumar and Reinartz 2006). While mixed returns may call into question the utility of customer loyalty, researchers have argued that the inconsistent results likely stem from loyalty's varied conceptualizations and operationalizations of the principal construct underlying the loyalty program, customer loyalty (Jacoby and Chestnut 1978; Oliver 1999; Watson et al. 2015).

Customer Loyalty

Research over the past two decades has sought to settle loyalty's conceptual disorganization by exploring and defining the content and nomological placement of customer loyalty among other marketing constructs (Dick and Basu 1994; Oliver 1999, Reichheld 2003). These efforts have resulted in two main perspectives of loyalty. The *independent perspective of loyalty* separates an attitudinal component from a behavioral component to reflect the "two different aspects" of loyalty (Chaudhuri and Holbrook 2001, p. 82). This perspective argues that attitudinal and behavioral loyalty are separate and independent constructs, where various researchers promote one or the other as "loyalty" (Gilliland and Bello 2002; Wagner, Hennig-Thurau, and Rudolph 2009; Yim, Tse, and Wa Chan 2008) or include both as two different types of loyalty (Chaudhuri and Holbrook 2001; Suh and Yi 2006). Others question if a customer should be characterized as being "loyal" when missing one of the two components. Thus, the *holistic perspective of loyalty*, suggests that the joint and consistent influence of both attitudes and behaviors are necessary to characterize a customer as being "loyal" (Brady, Voorhees, and Brusco 2012; Dick and Basu 1994; Sirdeshmukh, Singh, and Sabol 2002). Even after decades of research, there remain two competing perspectives of the fundamental nature of loyalty.

Independent Perspective of Loyalty

Many researchers conceptualize loyalty as separate attitudinal and/or behavioral constructs. *Attitudinal loyalty* is a “cognition” or “pleasurable fulfillment” favoring one entity (Chaudhuri and Holbrook 2001; Oliver 1999, p. 35), whereas *behavioral loyalty* is repeated purchases that stem from a conation or action orientation involving a “readiness to act” favoring one entity (Chaudhuri and Holbrook 2001; De Wulf, Odekerken-Schröder, and Van Kenhove 2003; Oliver 1999, p. 35). Consistent with the theory of planned behavior (Ajzen and Fishbein 1980), this perspective allows, but does not require, attitudinal loyalty to affect both behavioral loyalty and performance outcomes directly.

According to researchers examining attitudinal and behavioral loyalty, each may have unique antecedents and drive separate outcomes. For example, price promotions can negatively impact attitudinal loyalty (Burton et al. 1998) but positively impact behavioral loyalty (Baker et al. 2002), and attitudinal and behavioral loyalty can have differential effects on WOM (Brexendorf et al. 2010; Maxham and Netemeyer 2002). Thus, from this perspective attitudinal and behavioral loyalty is theoretically and empirically independent. For example, models of behavioral loyalty, including the use of recency, frequency, monetary theory, churn/retention, and purchase sequences, are often agnostic about the underlying psychological processes associated with customer behaviors. By ignoring the possibility that repetitive purchase behavior arises only from situational constraints, such as a lack of viable alternatives or usage situations (e.g., habits), without any concurrent attitudinal component, these models are often very sensitive to unforeseen and seemingly trivial situational disruptions (Henderson, Beck, and Palmatier 2011).

For practitioners, the independent loyalty perspective suggests that among a firm's loyal customers their underlying loyalties differ. A portion of customers may be only attitudinally loyal, only behaviorally, or both simultaneously, each with significantly different effects on outcomes (Dick and Basu 1994). Thus, the value of loyalty for a seller depends not only on the level of loyalty but also on the loyalty composition across a seller's customer portfolio. For example, a customer with very high attitudinal loyalty may report a high Net Promoter Score (NPS), a popular metric among Fortune 500 companies for measuring loyalty (Reichheld 2003), but a lack of corresponding behavioral loyalty may reduce the effect of NPS on performance (Keiningham et al. 2007). Thus, from this perspective, the ultimate effect on a specific outcome depends largely on which loyalty (attitudinal or behavioral) a researcher uses and on the often-unmeasured "other loyalty." Consequently, marketing investments may be misallocated simply because of the "type" of loyalty used to evaluate the investment, and assessments of customers' future value may be biased by the loyalty metric used as an intermediate indicator of future performance.

Holistic ("True") Perspective of Loyalty

In contrast to the independent perspective of loyalty, other researchers conceptualize loyalty, often differentially termed *true loyalty*, as a "favorable correspondence between attitudes and behaviors" stemming from an underlying motivation to maintain a relationship with one entity over another (Dick and Basu 1994, p. 102; Sirdeshmukh, Singh, and Sabol 2002). From this perspective, it is the underlying *relational motivation* that favorably *aligns both attitudes and behaviors* that defines loyalty, which precludes mere attitudes (liking without buying; e.g., "I like but can't afford a Maserati.") or behaviors (buying from habit; e.g., "I buy from the same gas station every week, but don't really care about them.") from being "loyalty." In neither case

is an underlying relational motivation aligning *both* attitudes and behaviors. In other words, for those who are truly loyal or “fully bonded,” attitudes and behaviors align in the service of relationship maintenance over time, which makes true loyalty more enduring to situational and competitive shocks (Henderson, Beck, and Palmatier 2011; Oliver 1999, p. 40). Researchers from this perspective typically find relational strategies are most effective for building true loyalty, and they often observe less variance in the effects of true loyalty across different outcomes (Sirdeshmukh, Singh, and Sabol 2002). Consequently, this paper will define customer loyalty to be “*a collection of attitudes aligned with a series of purchase behaviors that systematically favor one entity over competing entities*” (Watson et al. 2015, p32)

2. Positive Consequences of Loyalty Programs

One of the principal goals and positive consequences for the firm of loyalty programs is the stimulation of customer purchase behavior. Loyalty programs can positively influence purchase behavior via a reinforcing cycle where additional experience with the product or service stimulates more usage, which in turn leads to more leads to more experience (Bolton, Kannan, and Bramlett 2000). Beyond the stimulation of repeated purchase, loyalty programs members have been shown to be more forgiving of service transgressions, such as billing errors, and can be less affected by perceived losses or gains from previous transactions (Bolton, Kannan, and Bramlett 2000). Other research has found that the idiosyncratic fit of the loyalty program with customer conditions and preferences is a key factor influencing customer response to loyalty programs (Kivetz and Simonson 2003). The authors show that additional rewards program milestones can increase the overall perceived value of the program when customers believe they have an effort advantage over others.

In this vein, loyalty programs can serve as part of the firm value proposition for the customer, serving as instruments that can enhance consumers' perceptions of the firm's offerings (Yi and Jeon 2003). The increased value to the customer, as well as the structural dependence a loyalty program can create, serve an important function in the firm's ability to both acquire and retain customer relationships (Sirdeshmukh, Singh, and Sabol 2002; Woodruff 1997). Loyalty programs can provide both psychological and economic value to the customer. Although loyalty program points issued at the time of purchase have no economic value until they are redeemed, research demonstrates their important psychological worth to customers (van Osselaer, Alba, and Manchanda 2004), which in turn increases the utility of the exchange with the firm (Thaler 1985). This in turn enhances the overall value perception of doing business with the firm (Hsee et al. 2003). At a later point, these program points can be redeemed for discounted or free rewards, increasing the economic utility of the program to the customer. Additionally, the accumulation of points themselves can create both motivation to finish a goal within the program as well as increases customer anticipation of positive future events (Drèze and Nunes 2011). For the firm, this serves to achieve the primary purpose of a loyalty program, namely repeated purchase and the continuation of the customer-firm relationship (Lemon, White, and Winer 2002; Sheth and Parvatiyar 1995). Loyalty program rewards can also show the firm's appreciation to loyalty customers, and privileges afforded to customers can enhance their status and recognition (Henderson, Beck, and Palmatier 2011). Status and recognition can in turn enhance the customer's sense of well-being and strengthen the customer-firm relationship, helping to shield the customer from competitive overtures (Bitner 1995; Gwinner, Gremler, and Bitner 1998). Other research shows additional psychological benefits to the customer, such as the ability to indulge in luxuries guilt-free (Kivetz and Simonson 2002) and a sense of membership

to a group (Dowling and Uncles 1997). These psychological and economic benefits the customer receives from a loyalty program can translate into an attractive proposition for the firm, in that a well-executed program can serve as a strategic competitive asset by driving repeated purchase, increase customer retention, and buffer competitive forces.

3. Inadvertent Consequences of Loyalty Programs

Despite the myriad of customer and firm benefits that loyalty programs may provide, they can at times fail to deliver on their promise for a multitude of reasons. Many loyalty programs function primarily through quantity-price discounting, which can negatively impact future profits (Shugan 2005). It is entirely possible that firms reward their most loyal customers for behavior they would have exhibited without the incentives of a loyalty program, and thus unnecessarily expend limited resources that could be better utilized elsewhere in the firm. Conversely, yet still detrimental to the firm, some customers may respond primarily to the value proposition of the loyalty program but actually provide little value for the company (Gummesson 2002). Thus, loyalty program rewards that are primarily economic in nature may not lead to true customer loyalty, rather loyalty programs are more likely to increase customer retention and share of wallet when they influence customer affect, rather than calculative commitment (Verhoef 2003).

Just as economic value from a loyalty program has both positive and negative consequences, the same status structures that can serve as a stimulus for desired customer behaviors can also have downsides. Customer demotion, i.e. a loss of elevated status when a customer fails to meet program requirements, can quickly result in decreased customer loyalty (Wagner, Hennig-Thurau, and Rudolph 2009). However, the result of a demotion is not necessarily the return to previous levels of customer loyalty, but rather it is likely that a customer may feel strong negative emotions that actually drive customers out of the program entirely (Lacey, Suh, and

Morgan 2007). This effect can in part be explained through Kahneman and Tversky's (1979) prospect theory. According to the loss aversion bias of prospect theory, people evaluate perceived losses more negatively than gains of the same magnitude (Tversky and Kahneman 1991). It follows that the loss of utility associated with giving up the benefits of a loyalty program status level is greater than the gain in utility associated with receiving it. Thus, a demotion hurts the customer-firm relationship more than the original promotion fortified it. Such an experience may be unpleasant and can induce negative emotions including anger, disappointment, humiliation, and unfairness (Fournier, Dobscha, and Mick 1998; Henderson, Beck, and Palmatier 2011). Additionally, the selection and delivery of loyalty program rewards to preferred customers can have additional, unanticipated collateral damage to non-favored customers witness to rewards delivery (Steinhoff and Palmatier 2014). For example, when Starbucks baristas hands out free drink coupons to selected customers in line, neighboring bystanders may feel neglected or treated unjustly. These examples serve to demonstrate the potential downsides of poorly executed loyalty programs, which can lead to wasted resources, lost customers and ultimately the failure of a program to deliver on its promise.

- Insert Table 1 here -

4. Conceptual Background of Gratitude and Unfairness

The psychological traits which allow humans to feel both gratitude and perceived unfairness likely developed as evolutionary survival mechanisms during our ancestral hunter-gatherer past, and can be explained through evolutionary psychology. Evolutionary psychology combines modern psychology with evolutionary biology and uses the logic of natural selection to explain the development of human mental processes and behaviors. A key assumption of evolutionary psychology is that organisms adapt numerous psychological mechanisms in order to ensure

survival and the propagation of genes into future generations (Colarelli and Dettmann 2003). For example, hunter-gatherers often formed cooperative coalitions to assist with survival: sharing of food, helping in times of danger (e.g. accidents, predation), caring for the sick/wounded/very young or old, and sharing tools and knowledge would have provided ancestors who banded together with differential reproductive success over non-participating ancestors, paving the way for the evolution of those psychological mechanisms that promote and reinforce these cooperative coalitions (Wasieleski and Hayibor 2009). Therefore, cooperation and reciprocity became two key ingrained psychological mechanisms for helping humans to adapt and survive.

A key success factor for cooperation and reciprocity to work effectively relates to adherence to the group's social norms. Groups were more likely to survive over the years if they protected themselves from the selfish behaviors of non-cooperating individuals (Ridley 1985). Therefore, rewarding group members who cooperated and punishing those group members who violated norms was important. Research suggests that natural selection favored psychological systems that allowed groups to reap the mutual benefits of reciprocal exchanges while simultaneously protecting them from cheaters and/or selfish individuals who didn't reciprocate at all or who reciprocated too little (Trivers 1971). In short, group survival depended on rewarding those who followed group norms and punishing those who failed to adhere to such norms.

5. Shared Linkages between Gratitude and Unfairness

Gratitude and unfairness can be thought of as the two opposite sides of the same coin because they serve to either reward/reinforce adherence to group norms (through gratitude) or mitigate/minimize deviance from such norms through punishment (due to perceived unfairness). Both serve to reinforce cooperation within groups, and similarly, many of us today are predisposed to be kind to those who do us kindness (gratitude) or be unkind to those who are also

unkind to us (unfairness). In either case, gratitude and unfairness are indispensable traits in relationship marketing because they serve to either reinforce relationship reciprocity and cooperation (through gratitude) or they mitigate its lack thereof (through punishment due to perceived unfairness).

Gratitude and unfairness are related in three ways. First (and as mentioned above), both reinforce adherence to group norms (through either rewarding the following of such norms or through punishing deviation from such norms). Second, both gratitude and unfairness may disproportionately reciprocate an act, either positively (through gratitude) or negatively (through punishment/unfairness). Research suggests that humans are willing to sacrifice resources to be kind to those who are being kind and punish those who are being unkind to the point where they are willing to incur losses or unrecoverable costs related to the rewarding or punishment (Wasieleski and Hayibor 2009; Bowles, Fehr, and Gintis 2003). In short, individuals may make material sacrifices to reward fair behaviors or punish unfair behaviors despite receiving no economic benefit now or into the foreseeable future (Fehr, Fischbacher, and Gächter 2002). Examples of such disproportionate acts of gratitude and unfairness abound in today's modern world. For example, a business person while traveling on business away from home may leave a disproportionately generous tip for good service while never expecting to interact with that server ever again (thus, there is no chance of future reciprocity to recoup such an economic outlay). Similarly, research in hunter-gatherer contexts suggests that aggression towards injustice/unfairness is often out of proportion to the offenses committed, such as killing a friend over trivial disputes or for not sharing food (Marshall 1961). However, such small inequities over time may also enact a heavy toll on the group's ability to continue and propagate, thus providing at least some rationale for why such behaviors are so punitive or disproportionate

(Trivers 1971). Emotions are seen as the primary cause of such disproportionate (i.e., irrational) acts of gratitude and unfairness (Wasioleski and Hayibor 2009; Fehr and Fischbacher 2004).

Violation of norms leads to negative affect, and therefore strongly negative reciprocal behaviors in the form of punishment, while adherence to norms or exceeding their requirements often leads to positive affect and therefore altruistic rewarding without expectation for repayment.

A third important way that both gratitude and unfairness are critically linked is that humans assess both the relative benefits and costs when calculating the degree to which feelings of gratitude and unfairness are evoked. Regarding gratitude, Pruitt (1968) has provided evidence that humans reciprocate more when the original act was expensive for the benefactor, suggesting that higher costs/benefits are returned in kind. Trivers (1971, p. 49) also states that, "...the emotion of gratitude has been selected to regulate human response to altruistic acts and that the emotion is sensitive to the cost/benefit ratio of such acts". Regarding unfairness, equity theory (Adams 1965) suggests that individuals compare the ratios of their own rewards and outcomes to their own perceived inputs and costs to the corresponding ratios of a comparison other (e.g. someone else in the group). If the ratios are unequal, then the party whose ratio is lower is inequitably under-rewarded and is consequently likely to experience anger and tension. Individuals often respond to such unfairness by punishing the offending party, even at a cost to themselves (Samaha, Palmatier, and Dant 2011). Thus, unfair acts could potentially incite an even greater negative retaliation and backlash than what other negative behaviors would normally cause or engender, due to this need to punish (Offerman 2002; Turillo et al. 2002).

To summarize, gratitude and unfairness both fit together because they 1) evolved as psychological mechanisms to reinforce cooperation and reciprocity (or to mitigate non-compliance of such group norms), 2) they both can bring forth disproportionate acts of kindness

(gratitude for beneficial acts) or punishment (due to perceived unfairness), and 3) they both incorporate the relative costs and benefits of behaviors when determining the degree to which perceived gratitude or unfairness will be felt or evoked. For these reasons, they are critical to the success of RM and firms must manage both in order to facilitate the development of long-term reciprocal relationships. Due the ability of both gratitude and perceived unfairness to cause disproportionate acts of kindness and punishment, firms can leverage these evolutionary mechanisms to either mitigate costs or enhance benefits (Samaha, Palmatier, and Dant 2011; Palmatier et al. 2009).

6. Understanding and Generating Gratitude

Evolutionary psychologists argue that feelings of gratitude, pleasure from reciprocating, and guilt for failing to reciprocate are well-developed, genetic “systems” that encourage reciprocal, cooperative behaviors (Becker 2014; Trivers 1985). Reciprocating behaviors get reinforced over time by culturally relevant social norms, which span all societies. The emotions and resultant behaviors are so ubiquitous that clinical psychologists use a person’s failure to feel gratitude as an indication of psychosis. Because people are “hard-wired” to feel gratitude, they instinctively repay others who provide them some benefit, through a sophisticated, emotional carrot-and-stick system. A salesperson takes a client to lunch, so the client feels gratitude and acts on the psychological drive to reciprocate, perhaps by providing helpful information or an additional order (Palmatier et al. 2009). If the client succumbs to this urge to reciprocate, he or she is rewarded with a sense of pleasure. If the client fails to reciprocate, he or she starts to feel guilt. From an evolutionary psychology perspective, the emotion of guilt developed in humans partly in order to motivate cheaters to compensate for their misdeeds and to behave reciprocally in the future, and thus to prevent the rupture of reciprocal relationships (Trivers 1971). Similarly,

feelings of gratitude (which result in giving and reciprocity) is an adaptive mechanism that evolved as a result of the survival benefits associated with food-sharing, coalition formation, and predator avoidance (Saad and Gill 2000).

Few other marketing activities are so innately supported, both positively (carrot) and negatively (stick), by multiple emotional and evolutionary systems that drive action. The strength of gratitude-related systems in generating positive returns thus should not be underestimated. In one study of 313 business customers from 34 different firms, researchers found that spending on social relationship marketing programs (e.g., lunches, entertainment) generated returns of 180% in the subsequent year. Other, non-relational programs, such as discounting, instead produced negative returns over this same period (Palmatier, Gopalakrishna, and Houston 2006).

Gratitude also serves another important function, as a catalyst of the process of relationship development (Palmatier et al. 2009). The close link between feelings of gratitude and reciprocal behaviors appears responsible for a strengthening cycle, by which partners switch off being in each other's debt. This back-and-forth provides an ongoing bond, linking them and enhancing their relationship. Gratitude thus represents the emotional core of successful relationship marketing efforts, by providing the "imperative force" to repay benefits received. Most effective relationship marketing programs tap this force. Even Adam Smith (1759, p. II.I.4) acknowledged that "The sentiment which most immediately and directly prompts us to reward, is gratitude." Similarly, much movement of individuals from one band to another in hunter-gatherer relationships (e.g. relationship termination) occurred in response to lack of reciprocity or from cheating (Lee and DeVore, 1968). Thus, gratitude is essential for creating an ongoing cycle of relationship continuity.

So how can managers use these insights to design and deliver more effective relationship marketing programs? Many features that define relationship marketing activities also determine customers' levels of gratitude and behaviors, and thus overall program effectiveness. Four factors emerge as especially critical: Gratitude is higher in response to the same investment or benefit if customers perceive higher levels of free will and recognize benevolence motives in the program delivery, when the benefits match their needs, and if customers have a timely window in which to reciprocate.

First, to leverage their relationship marketing investments, firms need programs that make customers feel as if their partner provided the benefits freely. The relationship marketing benefits that everyone receives, those in response to a customer's request, those that represent an attempt to match a competitor's offer, or benefits built into the overall product or service offering generate little gratitude. For example, formal loyalty programs with written rules about how customers can "earn points" toward a reward will not generate significant gratitude or resulting reciprocation efforts, because they seem mandated and are just part of the "deal," rather than an expression of free will. These types of program serve more as a price discounting than a relationship building function. To increase gratitude, companies instead should grant their boundary-spanning employees more discretion (within reasonable financial boundaries), such as allowing them to customize policies or even "adjustment the rules" as needed to solve a customer's problem, personalize otherwise standardized communications, or provide small favors. The Ritz-Carlton Hotels permits every employee to spend up to \$2,000 to make any single guest satisfied (Reiss 2009). Ideally, all programs should retain some random or discretionary elements, because structured, quid pro quo programs tend to become integrated into the overall value proposition, such that they lose their ability to generate gratitude and promote

the relationship. When any incentive comes to be expected, it loses much of its ability to motivate incremental behaviors.

Second, the program delivery should increase customers' perceptions of the benevolence of the provider—which is why customers who know that salespeople work on commission feel less gratitude or indebtedness. For customers, even the simplest offer of paying for someone else's cup of coffee can enact gratitude if there are "no strings attached". At a Connecticut Starbucks, more than 1,400 customers cheerfully agreed to sequentially pay for the customer's order in line behind them in order to continue the "pay it forward" chain, illustrating the power that gratitude and reciprocity has on random acts of kindness (Northrup 2013). Since such an act represents pure benevolence without any expectation for repayment in the future, it has a powerful effect on evoked feelings of gratitude. Thus, instead of providing benefits that the customer skeptically reads as tactics to benefit the salesperson or the firm, companies need to reposition themselves as caring partners, focused more on the customer or on doing "good" than on the profit each customer generates. Relationship marketing investments are unparalleled in this effort. When an insurance firm offers honest competitive rate comparisons that sometimes show that it is not the most desirable choice or a retailer refers customers to a competitor's store if it does not have the right product in stock, then the customer can believe that a firm's intention is to do whatever it can for the customer. Such efforts are much more likely to generate gratitude, reciprocation, and future purchase loyalty than efforts that seem designed only to increase sales or lock the customer in.

Third, benefits should arrive precisely when the customer's need is highest and the benefit provides the most perceived value. Imagine the level of gratitude and likelihood of future reciprocation felt by a business traveler who has followed all the program rules and accumulated

sufficient miles to upgrade her entire family to first class on an international flight. It is a structured part of the deal, so little gratitude results. Now imagine the levels of gratitude felt by a family that receives a spontaneous upgrade on the same flight, in appreciation for their patronage in the past. The airline could target this latter program toward high-value customers who often pay full-fare business rates or fly highly competitive routes, which increases the likelihood that the customer has opportunities to reciprocate. This example also integrates the advantage of surprise, which increases gratitude and offers some “emotional value” in its own right.

Fourth, programs need to generate high levels of gratitude, but returns accrue only if customers act on these feelings. Therefore, customers must have timely opportunities to reciprocate, relatively soon after they receive a benefit, to take advantage of their high levels of gratitude as they feel them, prevent guilt rationalization, and encourage cycles of reciprocation. Gratefulness decays over time; in a worst-case scenario, customers may try to relieve their feelings of guilt by rationalizing why they did not reciprocate (e.g., assigning a negative motive to the seller). Thus the airline in the preceding example should contact the frequent flier with an offer promising that if he or she books multiple flights over the next six months, the airline will provide a discount. This offer provides the flier an opportunity to act on any feelings of gratitude and leads to further gratitude-based reciprocal behaviors. However, the airline should avoid mentioning the previous benefit or structure the request as “payback” for benefits received. Without such prompts, people often reciprocate far in excess of the value received (300% to 500% in some situations) and even continue to feel grateful.

7. Understanding and Reducing Unfairness

A negative event can overwhelm the cumulative effects of many years of positive activities, such that long-term relationship marketing success often depends more on preventing or

mitigating the “bad” than on accumulating the “good.” Researchers report, in a meta-analysis of 38,000 business relationships and their relationship marketing activities, that the effect of negative activities was approximately twice as strong as that of positive activities (Palmatier, Gopalakrishna, and Houston 2006). In another study, based on nearly 2000 business customers of a Fortune 500 firm over three years, results suggest that perceived unfairness is a powerful relationship poison (Samaha, Palmatier, and Dant 2011). It directly damages relationships by undermining customer cooperation, flexibility, and performance, far more than any other negative activity. It also aggravates the negative effects of other, normally less damaging activities, such as disagreements, opportunism, and conflict. This problem magnification due to perceived unfairness is key to understanding why unfairness is so toxic. From an evolutionary psychology standpoint, researchers have identified that the single best predictor of punitive sentiment is the degree of the person’s own participation in the cooperative coalition, such that the higher the degree of participation by an individual, the more that person wanted to punish the free-rider (Price, Tooby, and Cosmides 2002). Thus, when one person is devoting much to the relationship while another is free-riding or cheating, this causes anger and tension, and it motivates the inequitably rewarded person to punish those who aren’t reciprocating. The notion of punishment for unfair acts takes negative reciprocity to a higher level, because people are willing to sacrifice resources and incur costs to inflict punishment, even if such sacrifices do not result in any future economic benefit.

Another reason why unfairness causes so much retaliation and punishment is that people often seek explanations for a negative than a positive event (Folkes 1988), and unfairness provides a clear indication, to consumers, of a negative motive or intent. Some conflict is inevitable in relationships, so customers rarely hold a partner accountable for “expected”

negative interactions. But the presence of unfairness implies an underlying negative motive that prompts customers to perceive that conflict is not just expected or unavoidable but rather is the direct result of the seller's actions. That is, in the presence of unfairness perceptions, customers assign more accountability and responsibility for problems to the seller, with a higher degree of intentionality. When those problems arise, customers react more emotionally and often punitively. Reactions to unfair treatment also are strongly ingrained in people's psychological makeup; children as young as five years of age have an innate, well-developed sense of "fairness" that causes them to respond angrily to any violations. Such negative emotions often therefore compel people to take on costs associated with inflicting punishment despite receiving no net economic benefit in the present, near short-term, or long-term from the action (Bowles, Fehr, and Gintis 2003). Such punitive behaviors to sacrifice without benefit in order to punish an individual likely evolved in humans because such actions likely benefitted the entire group as a whole when members followed group norms relative to groups whose members behaved in a self-interested manner (Wasioleski and Hayibor 2009). Thus, motivating adherence to group norms through punishment would have positively affected the group's ability to survive and propagate. Research also suggests that such strongly negative reciprocal behaviors like punishment might also have had a positive influence on group size, which also would have reduced the chances of group extinction (Bowles, Fehr, and Gintis 2003). Because perceptions of unfairness provide the customer with information about the motives and intentions of the seller, problems become amplified. Typical disagreements and conflict have little effect on customer performance when perceived unfairness is low; they exert massively negative effects when accompanied by high unfairness perceptions (Samaha, Palmatier, and Dant 2011). The perceptions of unfairness also lead directly into emotional, punitive, and retaliatory behaviors.

For example, “lost customer” analyses often show that customers leave because the emotional push of perceptions of unfairness motivate them to expend substantial effort and cost to switch to another brand.

Unfortunately, companies often seem to be the ones exposing themselves to these toxic effects, because they generate and even encourage customers’ perceptions of unfairness. Loyalty or rewards programs are notable culprits, because bystanders—those customers not targeted by the loyalty program—despise the unfair treatment they receive compared with other customers. The hotel scene from *Up in the Air* portrayed the situation dramatically: George Clooney, as a premium customer, provokes the resentment of a long line of waiting customers when he skips ahead to be served instantly. Bystander effects occur directly, through explicit observation; then they continue to exert indirect effects, through customers’ word-of-mouth communication and social media. When customers believe the ratio of benefits to costs they receive is somehow worse than others’, their anger leads them to a desire to punish the firm to help restore the balance. In an airline study, bystanders’ perceptions of unfairness when they watched other customers receive priority boarding were so high that the resulting effects on their loyalty and annual sales were nearly ten times greater than the parallel effect of gratitude in increasing the target customers’ loyalty and annual sales (Steinhoff and Palmatier 2014). Some firms, using sales and profit analyses, might argue that unfairness perceptions by bystanders are not really all that critical; bystanders only represent a small portion of the firm’s sales and profits. But nearly every customer first interacts with the firm as a bystander. If the firm treats them unfairly or delegates them to low status levels during their first interaction, no relationship is likely to develop from that inauspicious start.

When managers finally recognize unfairness as a poison, they have several options and recourses to take. To start, they should revise their relationship marketing programs to prevent or mitigate these effects. The benefits to targeted customers need to be invisible to bystanders. If that is impossible, the explanations for why certain customers are treated differently must be clear, comprehensive, and constant—though such communications also might have the unfortunate effect of suppressing the gratitude of target customers by eliminating the element of surprise. A study designed to evaluate the rewards provided by most airlines (e.g., priority boarding, priority check-in, reduced baggage fees), among both targets and bystanders, suggests that among targets, gratitude accounts for about 60% of the incremental lift in annual sales, but for bystanders, unfairness accounts for about 70% of the incremental sales drop due to the same programs. Since “bad is stronger than good” (Baumeister et al. 2001), it is critical that firms not only manage building positive sentiment from RM programs but also mitigate any negative sentiment due to perceptions of unfair treatment.

More preemptive or proactive approaches thus might be better options for reducing unfairness. For example, firms can develop specific training initiatives that stress the importance of fairness, identify the types of situations most likely to generate unfairness perceptions, and suggest preventative strategies that employees can implement immediately. Whereas contracts that enforce an “unfair” division of benefits and costs may be legally viable, they significantly and strongly aggravate the negative effects of unfairness. Firms that cite contracts are likely to suffer customers’ retaliation, as they see a chance to “get even.” In general, it is hard to build a strong customer relationship when a contract governs the interactions, as many cell phone and cable providers have come to learn. United Airlines learned this lesson very well when it cited its contractual policies for not spending \$1200 to repair a passenger’s guitar that it carelessly broke;

United Airlines had informed the passenger that he was ineligible for compensation because he had failed to make the claim within its stipulated standard 24-hour timeframe. The passenger vented his frustration by creating a song entitled “United Breaks Guitars” and uploaded it on YouTube. As of March, 2014, it has garnered almost 14 million views and it has been suggested that it may have cost United Airlines \$180 million (Ayres 2009). Managers who understand the importance of proactively managing unfairness perceptions will be better equipped to increase the quality of their customer relationships and prevent the loss of high-value customers to relationship-poisoning inequity perceptions.

- Insert Table 2 here –

I. Conceptual Model and Hypotheses

Loyalty Program Expansions and Contractions

Figures 1 and 2 depict the conceptual models the two planned studies of this dissertation, and Table 3 provides a summary of its main hypotheses. Firm changes to loyalty programs can be broadly categorized into two different schemas: expansions and contractions. I define loyalty program expansions to be an event associated with positive changes to customer welfare, such as the introduction of a new loyalty program, the expansion of program benefits or rewards, or the introduction of a loyalty program partnership with another firm. In general, loyalty program expansions provide additional incentives for customer purchase behavior, which in turn increases the rewards he or she earns. Thus, “loyalty programs create an expectancy of positive outcomes associated with making a purchase” (Liu 2007 p.23; Vroom 1964). Additionally, loyalty program partnerships also provide variety, and thus value, to the customer by augmenting the set of possible rewards. This creates more choice and reinforces the loyalty program’s potential to demonstrate to customer’s that their purchase behavior is instrumental in achieving a positive

outcome, which in turn reinforces purchase behavior (Latham and Locke 1991). These customer welfare-enhancing events should on the whole increase the firm-value enhancing mechanisms such as customer repeated purchase, customer retention, customer resistance to competitive overtures, all of which positively impact firm value.

However, not all loyalty program changes are necessarily positive. I define a loyalty program contraction to be an event associated with negative changes to customer welfare, such as the termination of a new loyalty program, the reduction or removal of program benefits or rewards, or the termination of a loyalty program partnership. Parallel to the logic of loyalty program expansions, loyalty program contractions remove incentives for customer purchase behavior, in turn decreasing or even eliminating the rewards he or she earns. This consequently reduces the expectancy of positive outcomes beyond the core utility of the offering associated with making a purchase and thus tempers repeat purchase behavior. Likewise, the eliminations of a loyalty program partnership reduce customer variety, and thus choice, to the customer by reducing the previously available set of possible rewards (Schumann, Wunderlick, and Evanschitzky 2014). In turn, this mitigates the loyalty program's potential to demonstrate to customers that their purchase behavior is instrumental in achieving a positive outcome, thus decreasing incentives for patronage (Kumar and Shah 2004). These customer welfare-reducing events should result in decreases to firm-value enhancing mechanisms such as customer repeated purchase, customer retention, and customer resistance to competitive overtures, the consequences of which serve to reduce firm value. Accordingly,

H₁: Loyalty program adjustments have mixed effects on firm value, such that (a) expansions have a positive effect on returns, and (b) contractions have a negative effect on returns.

Loyalty Program Tactics

Loyalty programs often attempt to induce greater customer loyalty through a number of different tactics (Henderson, Beck, and Palmatier 2011). Two of the most often used sets of tactics involves the use of 1) financial perks offered to program participants (Watson et al. 2015), and 2) prioritization through status (Drèze and Nunes 2009). I define financial perks as loyalty program benefits given to customers that are primarily monetary in nature, such as discounts, rebates, and coupons (Zhang and Breugelmans 2012). There are many extant empirical findings that demonstrate positive impacts behavioral loyalty for a number of reasons (Bolton, Kannan, and Bramlett 2000). Such benefits provide a direct financial incentive to customers which can motivate customer purchases (van Heerde and Bijmolt 2005), as well as can enhance behavioral loyalty by increasing switching costs (Corstjens and Lal 2000). Furthermore, financial perks induce positive emotions and motivate customers to repurchase when customers attribute the received discount to their own effort in the program, and often overestimate the value of such rewards (Kivetz 2005; van Osselaer, Alba, and Manchanda 2004). Thus, financial perks provide tangible utility to loyalty program participants, and as such should be perceived as valuable to customers.

Status oriented tactics work more through socially driven motivations than the monetary motivations of financial perks, and have been shown to be powerful motivators of customer loyalty (Drèze and Nunes 2009; Bateson, Nettle, and Roberts 2006). Conferring status in loyalty programs can motivate desirable customer behavior such as WOM and repurchase through social comparisons and a desire to bolster self-image by belonging to higher status groups (Festinger 1954; Tajfel and Turner 1979; Henderson, Beck, and Palmatier 2011). Downward comparisons provide self-enhancement by allowing customers to compare themselves to lower status groups, while upward comparisons have been shown to motivate achievement in consumers (Han,

Nunes, and Drèze 2010). Similarly, a desire to enhance self-image can motivate customers to achieve higher loyalty status through behaviors that benefit the firm, while lateral social comparisons help to reinforce this motivation (Han, Nunes, and Drèze 2010; Henderson, Beck, and Palmatier 2011). As such, conferring status on customers is in general a valuable benefit of many loyalty programs. However, once benefits from a loyalty program have been conferred on customers, they are likely loss averse to the removal of loyalty program benefits, in line with the endowment effect (Thaler 1980). The more a customer liked a given benefit, it is also more likely that the contraction of said benefit will result in decreased customer loyalty as losses are received worse than equivalent gains (Kahneman and Tversky, 1979). Thus, I expect.

H₂: Program tactics moderate the effect of loyalty program adjustments on firm value, such that a) expansions of financial perks have a positive effect on returns, while b) contractions of financial perks have a negative effect on returns.

H₃: Program tactics moderate the effect of loyalty program adjustments on firm value, such that a) expansions of program status have a positive effect on returns, while b) contractions of program status have a negative effect on returns.

Loyalty Program Delivery

In addition to adjusting loyalty program tactics, a program manager can also make adjustments in how the program is delivered as well as to whom the adjustments affect. Given that a loyalty program must have a set of rules and stipulations that define how the program rewards customers for their actions, managers must not only decide the program rules, but they must also decide how easily and widely disseminated this internal rule set may be (Steinhoff and Palmatier 2011). Loyalty program transparency refers to the ease, speed, and convenience of which a customer may assess their progress, rewards, and program standing as well as the rules by which that information is determined. Corporate transparency in general is one of the basic conditions in establishing positive relationships between customers and firms (Reynolds and Yuthas 2008), and has been shown to influence WOM and purchase intentions (Kang and

Hustvedt 2014). Firms may influence the level of loyalty program transparency by improving (or removing) technology related to the program administrations (e.g., website, phone app, dedicated phone number, etc.), as well as increasing (or decreasing) the complexity of the rules associated with the program. Additionally, firms may make program adjustments that apply to all program members (e.g. general adjustment), or that apply to only a specific group of customers (e.g., senior citizens, college students, etc.) as is common practice in many prioritization schema (Drèze and Nunes 2009). I define adjustment specificity as the degree to which an adjustment applies only to a precise customer segment (i.e. high specificity), versus all customers in general (i.e. low specificity).

These program delivery decisions directly affect the perceptions of the program as well as the procedures (i.e. rules) used to allocate program benefits among customers. Yet rarely, if ever, do customers have negotiating power over the rules or administration of the loyalty program beyond exit or switching to a competitor. In so much as the benefits of the loyalty program as perceived as scarce and valuable (i.e. the customer cares about the program), customers' perceptions of the adjustment and fairness of the process will likely influence their reactions to these changes. This basis of customer judgement is often referred to as procedural justice in extant of literature (Lind and Tyler 1988; Konovsky 2000; Griffith, Harvey, and Lusch 2005). It focuses on the "perceived fairness of decision-making procedures itself and on the attitudes of those directly involved in or affected by those decisions" (Korsgaard et al. 1995; Griffith, Harvey, and Lusch 2005, p. 87). Parallel to extant literature, when delivery decisions are perceived as fair, and when the benefits of the loyalty program are valued by the customer, the customer should experience feelings of social indebtedness to the firm and desire to reciprocate the procedurally fair policies by developing positive attitudinal and behavioral outcomes (e.g. loyalty) toward the firm. If

however these delivery decisions are perceived as unfair, a customer is likely to react punitively. This is because the degree of transparency and specificity of an adjustment is directly attributable to the firm and provide the customer with negative information about the motives of the seller (Samaha, Palmatier, and Dant 2011). This in turn produces emotionally powerful, negative attributions directly to the seller (Kumar, Scheer, and Steenkamp 1995; Samaha, Palmatier, and Dant 2011). An increase in transparency should clarify the procedures used to allocate loyalty program benefits. Yet an adjustment with high specificity naturally creates discrimination between groups, which could be particularly salient if a customer cannot benefit from the specificity of the adjustment based on his or her difficult-to-change demographic (e.g. senior citizenship, etc.). Therefore, I expect

H4: Program delivery moderates the effect of loyalty program adjustments on firm value such that a) expansions of program transparency have a positive effect on returns, while b) contractions of program transparency have a negative effect on returns.

H5: Program delivery moderates the effect of loyalty program adjustments on firm value, such that a) expansions with high specificity have a negative effect on returns, and b) contractions with high specificity have a negative effect on returns.

Loyalty Program Timing

Finally, managers must decide on the timing of loyalty program adjustments. In general, individuals prefer an immediate reward to a delayed reward of the same amount, which is referred to as temporal discounting (Green and Myerson 2004). Likewise, individuals tend to prefer certain rewards to uncertain rewards, which is referred to as probability discounting (Green and Myerson 2004). As a result, individuals tend to be heavily biased toward the present (Thaler 1981; Zauberman 2003). Although there exist numerous models of time discounting and time preference (Frederick, Loewenstein, and Donoghue 2002), in general extant findings have shown that individuals exhibit a present bias, such that the rate at which an outcome is discounted shrinks over as the time horizon increases (i.e. hyperbolic discounting) (Thaler 1981).

When alternatives differ on only one dimension, e.g. reward/punishment size or delay or probability, preference is relatively predictable in favor of the larger, immediate, or certain outcome (Thaler 1981; Zauberman 2003), while a complementary set of principles for negative outcomes exist as well (e.g., smaller punishments will be chosen over larger ones, etc.).

However, when the choice is removed from the customer and imposed by the adjustment in the loyalty program, such as when a program manager dictates the timing of the adjustment, only the discounting of the expansion or contraction remains.

There are two natural timing decisions program managers may make. First, a program manager can decide the day of the week upon which to make the announcement of a program adjustment. If he or she makes an announcement closer to or during a gap in trading days (i.e. a weekend), he or she increases the time between the adjustment and the likely attention it receives, and thus delays the uptake of the adjustment. Second, a program manager may inoculate their program enrollees, so to speak, by increasing the delay in which the newly announced program adjustments, whether contractions or expansions, take effect (e.g. starting today... vs. starting next year...). Both of these actions serve to increase the time between the contraction and expansion, and thus increase the amount of discounting applied to the adjustment by customers. Accordingly, I believe

H₆: Timing moderates the effect of loyalty program adjustments on firm value, such that a) program expansions announced closer to non-trading days have a negative effect on returns, while b) program contractions announced closer to non-trading days have a positive effect on returns.

H₇: Timing moderates the effect of loyalty program adjustments on firm value, such that increasing adjustment inoculation for a) program expansions has a negative effect on returns, and b) program contractions has a positive effect on returns.

Along with concrete timing decisions as described in the previous section, how customers react to program adjustments are likely influenced by general consumer sentiment (a.k.a.

confidence) in that loyalty programs attempt to directly influence customer consumption decisions in favor of the firm (Lemmens, Croux, and Dekimpe 2007). Consumer sentiment is a psychological construct that measures customers' beliefs of the general economic climate as well as the expected changes and variance of their own household finances (Curtin 2007; Katona 1974). When consumer sentiment is low, customers are more likely to be pessimistic about their own finances and uncertain about future economic prosperity, but when consumer sentiment is high, tend to be more optimistic about their own economic wellbeing and that of the economy in general. Consumer sentiment has been shown to influence purchase decisions and consumption behavior (Allenby, Jen, and Leone 1996; Curtin 2007), such that lower consumer sentiment usually leads to lower spending, while higher consumer sentiment leads to higher spending (Ou et al. 2014). Considering that lower consumer sentiment customers are prone to saving more (and thus spending less) than customers with higher consumer sentiment due to pessimism about the future (Ludvigson 2004), they may be more sensitive to gains and losses than customers with higher consumer sentiment (Lamey et al. 2007; Souleles 2001). Accordingly, during times of high consumer sentiment, customers have a perception that scarce resources and competitive offerings are relatively plentiful, such that benefits associated with a loyalty program adjustment will be less valued as their marginal utility is relatively diminished compared to times of lower consumer sentiment. As such, I believe that

H₈: Timing moderates the effect of loyalty program adjustments on firm value, such that a) program expansions announced during high customer sentiment periods have a negative effect on returns, while b) program contractions announced during high customer sentiment periods have a positive effect on returns.

Customer Gratitude and Unfairness

Since loyalty program expansions generally enhance customer welfare by providing new and/or greater rewards, I expect changes of this type to influence both feelings of customer gratitude as well as perceptions of unfairness. When customers receive additional benefits due to loyalty program expansions, this gesture is attributable to the firm. This clear attribution serves as the foundation for customer perceptions of gratitude and unfairness. Research in early childhood development demonstrates people's ability to understand that others are intentional beings whose actions are motivated by belief and desire (McAdams and Bauer 2004).

Inherent in the concept of gratitude is the idea that benevolence is given with intention (McAdams and Bauer 2004; Palmatier et al. 2009). The benevolent gesture of a loyalty program expansion motivates the recipient to in turn reward the firm through reciprocal actions (Goei and Boster 2005). Actions that are perceived as unintentional generate little or no gratitude (Bonnie and De Waal 2004). However, should the recipient perceive the benevolence as intentional and attribute these good intentions to the giver, her or she should experience feelings of gratitude (Gouldner 1960). It follows that a customer's recognition of a seller's intentional benevolent activities (i.e. loyalty program expansions that enhance customer welfare) "will generate attributions regarding the motives of the giver, engaging the customer's emotional systems, leading to feelings of gratitude on the part of the customer, and increasing intentions to repay the seller" (Palmatier et al. 2009, p. 5).

Like gratitude, unfairness also relies on how intentions are perceived and to whom or what they are attributable, as this serves as the basis for making comparison judgements. Equity theory holds that people make judgements of interactions that weigh the benefits or rewards in proportion to their own relative efforts or inputs (Adams 1965; Brown, Cobb, and Lusch 2006; Kumar, Scheer, and Steenkamp 1995). Since loyalty program expansions can reward customers

for behavior they already exhibited, the customer receives more benefits for the same level of efforts after an expansion, which should decrease customer perceptions that the relationship is unfair. Conversely, since loyalty program contractions generally reduce customer welfare by mitigating or eliminating rewards, I expect changes of this type to influence both feelings of customer gratitude as well as perceptions of unfairness in the opposite direction as loyalty program expansions. Loyalty program contractions remove the original source of benevolence that spurred customer feelings of gratitude, which in turn tempers customer desires to reward the firm through reciprocal actions (McCullough et al. 2001). No longer does the loyalty program serve as the locus of positive firm intentions, but instead a loyalty program contraction can be perceived as damaging to the customer's welfare. Not only does this remove the positive attribution originally engendered by the firm, the loss of program benefits can result in perceptions of unfairness. Prospect theory (Kahneman and Tversky 1979), "helps explain asymmetries in people's evaluations and behaviors relative to their perceived losses or gains in conditions of perceived uncertainty" (Wagner, Hennig-Thurau, and Rudolph 2009, p. 70). Two key parts of this theory are useful to gauging the influence of loyalty program contractions on perceptions of unfairness. First, the theory holds that losses or gains are evaluated relative to a reference point, rather than in terms of absolute magnitude (Qualls and Puto 1989). Second, people tend to be more sensitive to changes they perceive as losses than to equally strong changes they interpret as gains, a phenomena known as loss aversion bias (Ho, Lim, and Camerer 2006; Thaler 1980). Consequently, the contraction of loyalty program benefits represents a loss relative to the customer's reference point, (i.e. their previous level of program benefits). This increases the perceived ratio of customer inputs, such as purchase behavior, to the

benefits received for those behaviors, namely previous program rewards, which increases perceptions of unfairness.

Loyalty programs exemplify long-term exchange relationships based on a series of relationship marketing activities across many transactions. Although over the course of the loyalty program customer feelings of gratitude may vary, they none the less result in various gratitude-based reciprocal behaviors that positively affect sellers' performance outcomes (Liu 2007). It has been shown that customers satisfy feelings of gratitude by changing their purchase behavior (Dahl, Honea, and Manchanda 2005). These changes can include customer behaviors such as higher share of wallet, reduced price sensitivity, and buffering of competitive offerings (Morales 2005; Palmatier 2009), all of which contribute to firm revenues and thus enhance firm value.

The construct of unfairness suggests an underlying negative motive and intent (Campbell 1999; Weiner 1995). When customer perceptions of unfairness increase, they are likely to attribute a greater negative motive to the seller and perceive loyalty program contractions as deliberate intentions to capture a greater share of the exchange benefits. Because the source, intention, and controllability of unfairness is clearly attributable to the firm, customers perceiving unfairness are likely to respond severely over its cause and results in a desire of retributive justice (Betancourt and Blair 1992; Hibbard, Kumar, and Stern 2001). Evolutionary psychology research has identified that one of the best predictors of punitive sentiment is the degree of the person's own participation in the cooperative coalition, such that the higher the degree of participation by an individual, the more that person wants to punish the transgressor (Price, Tooby, and Cosmides 2002). Typically, customers respond to these feelings by adjusting their own inputs or efforts, such as reductions in purchase behavior, or undertaking punitive

behaviors, such as switching to a competitor or spreading negative word-of-mouth, so as to punish the firm and move their unpleasant state into a more equitable one (Adams 1965; Kaufmann and Stern 1988; Utne and Kidd 1980; Samaha, Palmatier, and Dant 2011).

Consequently, these punitive actions reduce firm revenue and thus negatively impact firm value.

Accordingly, I hypothesize

- H₉:** The positive effect of loyalty program expansions on purchase intentions is mediated by gratitude.
- H₁₀:** The negative effect of loyalty program contractions on purchase intentions is mediated by unfairness.

When managers choose to make program adjustments that target only a specific group (i.e. high-specificity), they are likely invoke customers to make comparisons of the new program to the previous program (Steinhoff and Palmatier 2014). When customers receive benefits from a firm, in general they should feel grateful, and wish to reciprocate similarly (Cialdini 2009; Morales 2005). Loyalty programs also induce customers to examine the ratio of benefits received in exchange for their own level of input contributed to the firm, which is based in Equity Theory (Adams 1965; Carrell and Dittrich 1978). In doing so, customers evaluate their treatment in two ways. First, they internally compare the benefits received vis-à-vis their own inputs, and second they externally their own input-to-benefits ratio with that of others (Butori and De Bruyn 2013). Inequity in these ratios lead to perceptions of unfairness (Adams 1965), which can be detrimental to the customer-firm relationship (Samaha, Palmatier, and Dant 2011). The source of these perceptions in unfairness can be due to distributive inequalities, or procedural inequalities, or both (Henderson, Beck, and Palmatier 2011). When customers experience perceptions of unfairness due to these inequalities, they may feel upset and respond by adjusting their own efforts or punishing the firm to restore a more equitable state (Adams 1965; Butori and De Bruyn 2013). Loyalty programs likely trigger unfairness perceptions due to cross-customer comparisons

(Steinhoff and Palmatier 2014), particularly for customers (i.e. bystanders) not privy to the high-specificity adjustment (Darke and Dahl 2003). A loyalty program adjustment that targets a specific group automatically changes distributive assessments (i.e. one groups now gets “less”), as well as procedural assessments (i.e. the reason for this appear arbitrary), which could be particularly salient if a customer cannot benefit from the specificity of the adjustment based on his or her difficult-to-change demographic (e.g. senior citizenship, etc.). For high-specificity program expansions, social comparison induces in negative reactions to special benefits not given to the focal customer (Wagner, Hennig-Thurau, and Rudolph 2009), while the removal of benefits from specific groups prime potential feelings of loss aversion that induce in negative reactions (Melnyk and Bijmolt 2015), such that the expansion of benefits to only one group is tantamount to the contraction of benefits to the non-prioritized group. As a results, I expect that

H₁₁: The negative effect of high-specificity loyalty program expansions (vs. no expansion) on purchase intentions is mediated via a parallel process by (a) reductions in gratitude, and (b) increases in unfairness.

Customer-firm relationships are not made overnight, but instead need time to grow stronger (Gundlach and Murphy 1993; Henderson, Beck, and Palmatier 2011). Loyalty program participants do not always join a loyalty program at the same point in time, and as such, there is a natural variation in the length of tenure across customers. This is an important consideration in that extant research has demonstrated that firm generated reward and other relationship marketing strategies differ in effectiveness based on the customer’s relationship stage (Jap and Ganesan 2000), and customers “first establishing their relationship with a seller may be especially sensitive to the type of loyalty programs the seller uses as a signal of their intentions” (Henderson, Beck, and Palmatier 2011, p. 15). If rewards are deemed inappropriate, it could actually undercut any future relationship-building efforts (McGraw and Tetlock, 2005). New

program participants are often unfamiliar with how the loyalty program will specifically benefit them, and as such, the customers weigh the potential benefits, obligations, and burdens of continued exchange (i.e. search and trial) (Dwyer, Schurr, and Oh 1987). Newer enrollees naturally have less program experience on which to base the judgements of loyalty program benefits, particularly since any previous customer behaviors directed to the firm were not formally rewarded prior to joining the loyalty program. As such, any recognition is likely to be met with feelings of gratitude (Palmatier et al. 2009), as customers have comparatively little information as to what is fair and what is not fair in the program beyond the no-benefits condition prior to enrollment. Conversely, loyalty program participants who have been a part of the program for longer periods should have more information on which to base their assessments of program benefits, as well as time in which to accrue these benefits. As such, customers with longer tenure should be more sensitive to perceived unfairness, as well as less sensitive to the gratitude-inducing effect of additional benefits as their marginal utility diminishes. Accordingly, I predict

H₁₂: Customer tenure moderates the mediating effects of gratitude and unfairness, such that (a) the positive mediating effects of gratitude are stronger when customer tenure is low, and (b) the negative mediating effects of unfairness are stronger when customer tenure is high.

- Insert Table 3 here -

II. Study 1: The Effects of Loyalty Program Adjustments on Firm Value

The primary goals of study 1 are twofold. First, I aim to demonstrate that different types of loyalty events have different effects on firm value. Second, this study will show that program adjustment characteristics as well as the timing of program adjustments, influence the effect of loyalty program events on firm value.

- Insert Figure 1 here -

To accomplish this, I use an event study design that is naturally well suited to examining announcements of marketing strategy initiatives (i.e. brand extensions, sponsorships, loyalty program, etc.) to the creation or destruction of firm value (Srinivasan and Bharadwaj 2004). Event study design relies on the belief that the price of a stock reflects the time and risk discounted present value of all future cash flows expected to accrue to the holder of that security (Rappaport 1997). Under the efficient markets hypothesis, the price of the stock accounts for all of the publically available information in an unbiased manner such that it is not possible to earn economic rents on the basis of this information (Brown and Warner (1985). Only unexpected information can adjustment the price of a stock, where the adjustment is equal to the time and risk discounted future cash flows expected due to the event. Thus, any abnormal movement in the price of the stock is the result of an event that, across millions of investors, is expected to impact the financial performance of the firm, such that the adjustment in stock price estimates the value of this new information. Consequently, it is possible to estimate the impact of loyalty program events, (e.g. the introduction of a new rewards program), on firm value via abnormal adjustments in the stock price of the focal firm.

- Insert Table 4 here -

1. Data Collection

To establish the relationship between loyalty program expansions and contractions on firm value, I compiled a preliminary sample of publically available announcements of such events from press releases and news articles from three respected syndicated sources, ProQuest Newsstand, LexisNexis® Academic, and Factiva, focusing on US firms listed in the New York Stock Exchange or NASDAQ to facilitate matching stock return data. Key words used to search

for loyalty program events included generic terms such as “loyalty program,” or “rewards program,” as well as specific loyalty program names such as “My Starbucks Rewards” or “Southwest Rapid Rewards.”

I then employed a two stage process to ensure that loyalty program events to be used for preliminary empirical analysis were not subject to potential confounds, and thus invalidate resulting abnormal stock return results. First, I eliminated any events that could not be unequivocally attributed to a certain date, as this is important for accurately determining the influence of loyalty program events on abnormal stock returns. Second, I then eliminated any announcements for which a possible confounding event occurred within +/- one week to eliminate possible influence of other events on abnormal stock returns. Confounding events include 1) earnings reports, 2) dividends, 3) executive adjustments, 4) stock splits and structural stock adjustments, 5) damage suits, 6) product recalls, 7) new product announcements, and 8) merger and acquisition activities (Borah and Tellis 2014; Homburg, Vollmayr, and Hahn 2014).

Once each event was deemed unlikely to be confounded with other firm value influencing events, I then coded loyalty program events for multiple informational aspects. The two primary coding definitions determined whether an event was a loyalty program expansion, or whether the event is a loyalty program contraction. A loyalty program expansion is an event associated with positive adjustments to customer welfare, such as 1) the introduction of a loyalty program that did not previously exist, 2) the addition of new program benefits or rewards, or 3) the introduction of a loyalty program partnership. A loyalty program contraction is an event associated with negative adjustments to customer welfare, such as 1) the termination of an existing loyalty program, 2) the reduction or removal of program benefits or rewards, and/or 3)

the termination of a loyalty program partnership. For conceptual definitions, coding guidelines and examples see Appendix A.

2. Independent Variables

I collected data on three types of independent variables using Compustat, publically available data, and the press releases themselves: 1) The delivery characteristics of the program adjustment, 2) the timing characteristics of the program adjustment, and 3) control variables. To capture the delivery characteristics of a program adjustment, I coded dummy variables for events for whether an expansion or contraction pertained to 1) financial perks, 2) program status, 3) program transparency, and/or 4) applied to a specific target of customers (e.g. senior citizens). Two continuous timing characteristics were calculated using the date of the event, 1) the day of the week, with 1=Monday and 7=Sunday, and 2) the delay between the date of the announced adjustment and the date the adjustment comes into effect, in number of days. A third continuous timing characteristic captures the general consumer environment in which a loyalty program is adjusted, The General Consumer Sentiment Index, which the University of Michigan publishes in monthly intervals. Table 5 presents the descriptive statistics of the sample. Please see Appendix A and Appendix B for definitions and example event codings.

- Insert Table 5 here -

3. Model Specification

To determine whether loyalty programs influence firm value, I use abnormal stock returns calculated via the Fama-French three factor model as my primary dependent variable (Agrawal and Kamakura 1995; Mazodier and Resaee 2013). Fama and French (1993) observed that two classes of stocks have tended to do better than the market as a whole: (i) small caps and (ii) stocks with a high book-to-market ratio, customarily called value stocks. The Fama-French three

factor model thus includes measures of historic excess returns of small caps over big caps and of value stocks over growth stocks. Using daily stock market returns gathered from the Center for Research in Security Prices for U.S. companies, I estimate abnormal stock returns, AR_{it} , which are the difference between the expected normal stock return of a firm had the event not occurred, $E(R_{it})$, and the actual return for that firm on the day of the event, R_{it} , for each firm during a 255-day trading period ending 6 days before the event window:

$$(1) \quad E(R_{it}) = \alpha_i + R_{ft} + \beta_i(R_{mt} - R_{ft}) + \beta_{is}SMB_t + \beta_{ih}HML_t + \varepsilon_{it}$$

Where $E(R_{it})$ is the expected daily returns for firm i on day t if the loyalty program event had not taken place, R_{ft} is the risk free return rate, R_{mt} is the market return rate (Sand P 500 index), SMB_t is the "Small-Minus-Big" market capitalization factor that controls for differences accrued due to firm size, HML_t is the "High-Minus-Low" book-to-market ratio factor that controls for differences accrued to value stocks versus growth stocks, α_i , β_i , β_{is} , β_{ih} , are firm specific factors, and $\varepsilon_{it} \sim N(0, \sigma_\varepsilon)$. The three Fama-French factors, 1) $R_{mt} - R_{ft}$, 2) SMB_t , and 3) HML_t , are calculated with available historical market data and combinations of portfolios composed of ranked book-to-market stocks and market capitalization stocks, accessible on Kenneth French's web page.

I used estimates obtained from this model to predict abnormal stock returns, AR_{it} , for each firm on the events days, which is the difference between actual stock return, R_{it} , and the expected stock return, $E(R_{it})$.

$$(2) \quad AR_{it} = R_{it} - E(R_{it}) = R_{it} - R_{ft} = \alpha_i + \beta_i(R_{mt} - R_{ft}) + \beta_{is}SMB_t + \beta_{ih}HML_t + \varepsilon_{it}$$

This value, which is a random variable with mean equal to zero, provides an unbiased estimate of the future earnings as a result of a loyalty program event for a given day.

Next, I needed to determine the length of the event window, $[t_1, t_2]$ that was sufficiently long enough to ensure the dissemination of information pertaining to the loyalty program event through the market (Swaminathan and Moorman 2009; Homburg, Vollmayr, and Hahn 2014; Borah and Tellis 2014). Following established procedures (Agrawal and Kamakura 1995; Geyskens, Gielens, and Dekimpe 2002), I first calculated the cumulative (summed) abnormal returns (CAR_i) for incremental lengths of event windows $[-t_1, t_2]$, from -5 days before the event, to 5 days after the event:

$$(3) \quad CAR_i[-t_1, t_2] = \sum_{t=-t_1}^{t_2} AR_{it}$$

I then empirically validated the length of the event window by calculating the cumulative average abnormal returns ($CAAR_i$) of the firms in my sample (N) for various event windows, $t_1=5$ days before the event, and $t_2 = 5$ days after the event. I finally tested these alternative event windows using the Brown and Warner (1985) t-test (Homburg, Vollmayr, and Hahn 2014; Borah and Tellis 2014):

$$(4) \quad CAAR_i[-t_1, t_2] = \sum_{t=-t_1}^{t_2} CAR_i[-t_1, t_2] / n$$

A significant t-statistic would indicate the presence of abnormal returns across the portfolio for the given event window.

Finally, to test my additional hypotheses, I specify the following two OLS regressions where the dependent variable is the cumulative average return of each firm (CAR_i) for the event window $[-t_1, t_2]$ determined by equation (4), in which the subscript i denotes a specific firm and subscript j denotes the specific loyalty program event.

$$(5) \quad \text{Expansion Returns} = CAR_{ij}[-t_1, t_2] = \beta_0 + \beta_1(\text{Financial Perks}_{ij}) + \beta_2(\text{Status}_{ij}) \\ + \beta_3(\text{Transparency}_{ij}) + \beta_4(\text{Specificity}_{ij}) + \beta_5(\text{Day of Week}_{ij}) \\ + \beta_6(\text{Days Delay}_{ij}) + \beta_7(\text{Consumer Sentiment}_{ij})$$

$$\begin{aligned}
& + \beta_8(\text{Program Introduction}_{ij}) + \beta_9(\text{Firm Market Share}_{ij}) \\
& + \beta_{10}(\text{Number of Previous Adjustments}_{ij}) + \text{Industry Dummies}_i \\
& + \text{Year Dummies}_j + \text{Firm Dummies}_i + \varepsilon_{ij}
\end{aligned}$$

$$\begin{aligned}
(6) \quad \text{Contractions Returns} = \text{CAR}_{ij}[-t_1, t_2] = & \beta_0 + \beta_1(\text{Financial Perks}_{ij}) + \beta_2(\text{Status}_{ij}) \\
& + \beta_3(\text{Transparency}_{ij}) + \beta_4(\text{Specificity}_{ij}) + \beta_5(\text{Day of Week}_{ij}) \\
& + \beta_6(\text{Days Delay}_{ij}) + \beta_7(\text{Consumer Sentiment}_{ij}) \\
& + \beta_8(\text{Program Termination}_{ij}) + \beta_9(\text{Firm Market Share}_{ij}) \\
& + \beta_{10}(\text{Number of Previous Adjustments}_{ij}) + \text{Industry Dummies}_i \\
& + \text{Year Dummies}_j + \text{Firm Dummies}_i + \varepsilon_{ij}
\end{aligned}$$

4. Study 1 Results

Using the Fama-French three factor model to estimate abnormal stock returns in the 11 days around each events reveals loyalty program events influence firm value. Consistent with previous studies, I select the event window with the most significant t-statistic (Raassens, Wuyt, and Geyskens 2012; Homburg, Vollmayr, and Hahn 2014; Swaminathan and Moorman 2009). This corresponds to an event window from 1 day before the event to 1 day after the event (Table 6), for both expansions and contractions $\text{CAAR}_i[-1,1] = -0.56\%$ ($t = 1.81, p < .05$), such that on average, a loyalty program adjustment results in a slight decrease in firm value. For program expansions, the corresponding $\text{CAAR}_i[-1,1] = -0.41\%$ ($t = 1.21, p = .11$). For program contractions, the corresponding $\text{CAAR}_i[-1,1] = -1.43\%$ ($t = 1.83, p < .05$), such that on average, a loyalty program contraction event results in a slight decrease in firm value. These results thus provide only partial evidence in support of H₁.

To investigate H₂ through H₈, I examine the regression results from equation (5) and equation (6). Table 7 presents the results of the regression of expansion events in Model 1 and the results

of the regression on contraction events in Model 2. The significant and positive coefficient for financial perks ($\beta = 1.69, p < .05$) in Model 1, and the significant and negative coefficient for financial perk contraction in Model 2 ($\beta = -7.50, p < .05$), provide support for H₂. Similarly, the significant and positive coefficient for status expansions ($\beta = 1.82, p < .01$) in Model 1, and the significant and negative coefficient for status contractions in Model 2 ($\beta = -11.51, p < .05$), provide support for H₃, demonstrating the effectiveness of common loyalty program tactics, as well as the negative reaction of when these benefits are taken reduce. However, the program delivery adjustments of transparency and specificity appear to only hold for program expansions. For example, there is a positive and significant effect of expansions of transparency ($\beta = 2.92, p < .01$), yet a non-significant effect for transparency for program contractions ($\beta = -0.86, p > .10$), showing only support for H_{4a}. Likewise, there is a negative and significant effect of specificity in Model 1 ($\beta = -1.76, p < .01$), yet a non-significant moderating effect for specificity on contractions in Model 2 ($\beta = 0.51, p > .10$), and thus only support for H_{5a}.

Considering the timing of adjustments for loyalty programs, timing matter more in general for program contractions than for program expansions. For example, the negative effect of program contractions is mitigated when the adjustment is announced closer to a non-trading day (i.e. weekend) ($\beta = 0.47, p < .05$), yet this is non-significant for expansions ($\beta = -0.07, p > .10$), thus only H_{6b} is supported. There also exists a small, but near significant benefit of increasing the inoculation of a contraction adjustment, such that there is small benefit by increasing the delay a contraction takes effect ($\beta = 0.01, p < .10$). Conversely, there is a negative and significant effect for program expansions ($\beta = -0.01, p < .05$), implying that increasing the delay in the time an expansion takes effect results in a slight negative effect on firm value, in support of H_{7a}. Although there is a non-significant effect for consumer sentiment in Model 1 ($\beta = -0.02, p > .10$),

loyalty program managers can potentially mitigate the negative effects of program contractions by announcing them during times of relatively high consumer sentiment ($\beta = 0.09, p < .01$), in support of H_{8b}. Finally only one control appears to have significant effect. The introductions of new loyalty programs has a positive effect on firm value ($\beta = 0.99, p < .10$), although the preceding evidence demonstrates that the effect of subsequent program adjustments are highly context specific.

- Insert Table 6 here -

- Insert Table 7 here -

III. Study 2: The Effects of Loyalty Program Adjustments on Customer Behavior

The primary goal of Study 2 is to understand how customer feelings of gratitude and unfairness mediate the effect of loyalty program adjustments on firm value. I do so using a series of experiments on actual loyalty program participants that are complimentary to Study 1.

- Insert Figure 2 here -

1. Study 2a: Program Expansions - Experimental Data, Design, and Procedure

Participants, Design, and Procedure. One-hundred and sixty-nine U.S. adults (74 women, median age = 32 years) recruited from Amazon's Mechanical Turk (AMT) panel completed this study in exchange for \$.35 each. Sample size was determined a priori to ensure a minimum of 50 participants per cell. Under the guise of a loyalty program (LP) survey with several parts, Starbucks customers were invited to participate and randomly assigned to one of three LP expansion (high specificity, low specificity, or control) conditions and completed the manipulation. Following this, participants rated purchase intentions, gratitude toward Starbucks, perceived LP unfairness, and program tenure. Lastly, participants completed post-measures.

Loyalty Program Manipulation. I constructed an externally valid manipulation that involved reading about Starbucks' current LP and then reading about immediate changes to that program. Those in the low-specificity expansion condition read that Starbucks would be expanding its benefits to include "free refills, text ordering, and reserved seating." Those in the high-specificity expansion condition read that these benefits would only be available to college students. Those in the control condition did not read any information about LP changes.

Performance Measures. Participants rated purchase intentions ("How likely are you to make a purchase at Starbucks in the near future?") on a 7-point scale (1 = "extremely unlikely," 7 = "extremely likely"). Participants rated intentions to participate in the LP ("How likely is it that you will participate in the My Starbucks Rewards program in the future?") on a 7-point scale (1 = "extremely unlikely," 7 = "extremely likely").

Mediation Measures. The gratitude measure was adapted from prior research (Palmatier et al. 2009). Participants rated gratitude ("I feel grateful to Starbucks," "I feel thankful to Starbucks," "I feel appreciative of Starbucks"; $\alpha=.96$) using a 7-point scale (1 = "strongly disagree," 7 = "strongly agree"). The unfairness measure was also adapted from prior research (Kwak, Puzakova and Rocereto 2015). Participants rated LP unfairness using a 7-point bipolar scale with four items (1 = "fair, just, reasonable, acceptable," 7 = "unfair, unjust, unreasonable, unacceptable"; $\alpha=.95$)

Customer Program Tenure Measure. Program tenure was scored based on number of years as a customer (0 = less than 1 year, 1 = 1 year, ...10 = 10 years, 11 = more than 10 years).

Post Measures. As a manipulation check, participants rated LP expansion ("Starbucks is offering more rewards than before," "Starbucks rewards is expanding its offering," and "customer can now get more out of the Starbucks rewards program"; $\alpha=.91$) using a 7-point scale

(1 = “strongly disagree,” 7 = “strongly agree”). As an additional manipulation check, participants rated impact of changes (“Changes to Starbucks Rewards affect all customers” and “All customers will be affected by loyalty program changes”; $\alpha=.90$) using a 7-point scale (1 = “strongly disagree,” 7 = “strongly agree”). As controls, participants rated purchase frequency (0 = “fewer than once per week,” 8 = “more than 7 times per week”), LP status (0 = “not enrolled,” 1 = “welcome level,” 2 = “green level,” 3 = “gold level”), and whether they are a college student (1 = “yes,” 2 = “no”). Table 8 reports the descriptive statistics of Study 2a.

2. Study 2a: Results

Manipulation Checks. Confirming the effectiveness of my expansion manipulation, a one-way ANOVA of expansion ratings yielded a significant effect of expansion condition ($F(2, 158) = 8.81, p = .000$). A contrast revealed a significant effect of expansion vs. control conditions ($M_{\text{expand}}=5.06, SD=1.25, M_{\text{control}}=4.44, SD=1.33; t(158) = 2.93, p = .004$). Confirming the effectiveness of my scope manipulation, a one-way ANOVA of scope ratings yielded a significant effect of condition ($F(2, 158) = 4.95, p = .008$). A contrast revealed a significant effect of high-specificity (vs. other) conditions ($M_{\text{specificity}}=3.83, SD=1.66, M_{\text{control/broad}}=4.65, SD=1.48; t(158) = 3.14, p = .003$).

Purchase Intentions. I submitted purchase intentions to a one-way ANOVA with expansion condition as the primary predictor. Results revealed a significant effect of condition ($F(2, 164) = 4.72, p = .01$). Contrasts revealed that those in the high-specificity expansion condition ($M=4.48, SD=1.83$) reported lower purchase intentions than those in the low-specificity expansion condition ($M=5.32, SD=1.49; t(164) = 2.66, p = .009$) or control condition ($M=5.33, SD=1.68; t(164) = 2.66, p = .009$). There was not a significant difference between the low-specificity expansion and control conditions ($t(164) = .02, p = .99$).

Gratitude. A one-way ANOVA of gratitude ratings revealed a significant effect of condition ($F(2, 160) = 3.78, p = .03$). Contrasts revealed that those in the high-specificity expansion condition ($M=3.62, SD=1.67$) reported marginally lower gratitude than those in the low-specificity expansion condition ($M=4.15, SD=1.53; t(160) = 1.67, p = .10$) and significantly lower gratitude than in the control condition ($M=4.49, SD=1.75; t(160) = 2.73, p = .007$). There was not a significant difference between the low-specificity expansion and control conditions ($t(160) = 1.09, p = .27$).

Unfairness. A one-way ANOVA of unfairness ratings revealed a significant effect of condition ($F(2, 161) = 14.65, p = .000$). Contrasts revealed that those in the high-specificity expansion condition ($M=3.72, SD=1.74$) reported higher unfairness than those in the low-specificity expansion condition ($M=2.43, SD=1.36; t(161) = 4.60, p = .000$) and significantly higher unfairness than in the control condition ($M=2.37, SD=1.25; t(161) = 4.78, p = .000$). There was not a significant difference between the low-specificity expansion and control conditions ($t(161) = .22, p = .82$).

Moderated Mediation Analyses. Table 10 reports the results of Study 2a. I predicted that the positive effect of program expansions on outcomes was mediated by gratitude (H_9). Furthermore, I predicted that high-specificity expansions would reduce feelings of gratitude and increase perceptions of unfairness, thereby reducing purchase intentions (H_{11}). Additionally, I predicted these two mediators would vary in strength of mediation across the customer program tenure (H_{12}). I examined this process by testing whether gratitude and unfairness mediated the effect of high-specificity expansion on purchase intentions and whether program tenure moderated these mediating effects. Using Hayes' (2013) PROCESS macro (model 15; 10,000 bootstrapped samples), I constructed a model with expansion condition (1 = high-specificity expansion, 0 =

control) as the primary predictor, gratitude and unfairness as parallel mediators, program tenure as the moderator, and purchase intentions as the outcome. I also included purchase frequency, LP status, and college student status (1 = yes, 2 = no) as covariates. Results revealed a higher-order index of moderated mediation for gratitude (index = .08, SE=.04; 95% CI: .03, .17).

Decomposing this higher-order index, results revealed that gratitude mediated the negative effect of high-specificity expansion on purchase intentions earlier (-1SD) in the program tenure (effect = -.54, SE=.22; 95% CI = -1.06, -.18) but not later (+1SD) in the program tenure (effect = .03, SE=.13; 95% CI = -.23, .32). For unfairness, though the higher-order index of moderated mediation was not significant (index = -.04, SE = .04; 95% CI: -.14, .03), the pattern of mediation was consistent with my prediction. Unfairness mediated the negative effect of high-specificity expansion on purchase intentions later (+1SD) in the program tenure (effect = -.41, SE=.25; 95% CI = -1.03, -.05), but not earlier (-1SD) in the program tenure (effect = -.13, SE=.22; 95% CI = -.55, .33). Thus I find evidence in support of H_{9a}, H_{10a}, and H₁₂.

3. Study 2b: Program Contractions – Experimental Data, Design, and Procedure

Participants, Design, and Procedure. One hundred and seventy two U.S. adults (77 women, median age = 30 years) recruited from AMT panel completed this study in exchange for \$.35 each. Sample size was determined a priori to ensure a minimum of 50 participants per cell. As in Study 2a, under the guise of a loyalty program (LP) survey with several parts, Starbucks customers were invited to participate and randomly assigned to one of three LP contraction (high-specificity, low-specificity, or control) conditions and completed the manipulation. Following this, participants rated purchase intentions, gratitude toward Starbucks, perceived LP unfairness, and program tenure stage. Lastly, participants completed post-measures.

Loyalty Program Manipulation. Similar to Study 2a, I constructed an externally valid manipulation that involved reading about Starbucks' current LP and then reading about immediate changes to that program. Those in the low-specificity contraction condition read that although normal rewards will continue as usual, there will be a reduction of benefits, such that participants will "no longer receive special promotions or deals on selected beverages or merchandise." Those in the high-specificity contraction condition read that these reductions were only applicable to college students. Those in the control condition did not read any information about LP changes.

Performance Measures. Participants rated purchase intentions and intentions to participate in the LP as in Study 2a.

Mediation Measures. Participants completed the same gratitude ($\alpha=.97$) and unfairness ($\alpha=.97$) measures used in Study 2a.

Customer Program Tenure Measure. As in Study 2a, program tenure was scored based on number of years as a customer.

Post Measures. As a manipulation check, participants rated the same LP expansion measure ($\alpha=.97$) from Study 2a, reverse-scored to reflect contractions. Also, as in Study 2a, participants rated scope of change ($\alpha=.88$). Again, as controls, participants rated purchase frequency, LP status, and whether they are a college student. Lastly, participants provided demographic information. Table 9 reports the descriptive statistics of Study 2b.

4. Study 2b: Results

Manipulation Checks. Confirming the effectiveness of my contraction manipulation, a one-way ANOVA of contraction ratings yielded a significant effect of contraction condition ($F(2, 165) = 19.77, p = .000$). A contrast revealed a significant effect of contraction vs. control

conditions ($M_{\text{contract}}=5.16$, $SD=1.59$, $M_{\text{control}}=3.61$, $SD=1.33$; $t(165) = 3.08$, $p = .002$). Confirming the effectiveness of my scope manipulation, a one-way ANOVA of scope ratings yielded a significant effect of condition ($F(2, 164) = 6.82$, $p = .001$). A contrast revealed a significant effect of high-specificity (vs. other) conditions ($M_{\text{specificity}}=3.67$, $SD=1.80$, $M_{\text{control/broad}}=4.67$, $SD=1.56$; $t(164) = 3.67$, $p = .000$).

Purchase Intentions. I submitted purchase intentions to a one-way ANOVA with contraction condition as my primary predictor. Results revealed a significant effect of condition ($F(2, 169) = 7.62$, $p = .001$). Contrasts revealed that those in the high-specificity contraction condition ($M=4.00$, $SD=1.89$) reported lower purchase intentions than those in the control condition ($M=5.22$, $SD=1.48$; $t(169) = 3.80$, $p = .000$). Also, those in the low-specificity contraction condition ($M=4.36$, $SD=1.81$) reported lower purchase intentions than those in the control condition ($t(169) = 2.67$, $p = .008$). There was not a significant difference between the high-specificity and low-specificity contraction conditions ($t(169) = 1.10$, $p = .27$), indicating that contraction scope had no effect on purchase intentions, but contractions generally reduced purchase intentions.

Gratitude. A one-way ANOVA of gratitude ratings revealed a significant effect of condition ($F(2, 168) = 9.08$, $p = .000$). Contrasts revealed that those in the high-specificity contraction condition ($M=3.10$, $SD=1.47$) reported lower gratitude than those in the control condition ($M=4.32$, $SD=1.50$; $t(168) = 4.20$, $p = .000$). Also, those in the low-specificity contraction condition ($M=3.53$, $SD=1.71$) reported lower gratitude than those in the control condition ($t(168) = 2.71$, $p = .007$). There were no significant differences between the high-specificity and low-specificity contraction conditions ($t(168) = 1.47$, $p = .15$).

Unfairness. A one-way ANOVA of unfairness ratings revealed a significant effect of condition ($F(2, 168) = 9.08, p = .000$). Contrasts revealed that those in the high-specificity contraction condition ($M=3.81, SD=1.61$) reported higher unfairness than those in the control condition ($M=2.67, SD=1.27; t(168) = 5.36, p = .000$). Also, those in the low-specificity contraction condition ($M=3.79, SD=1.74$) reported lower gratitude than those in the control condition ($t(168) = 5.25, p = .000$). There were no significant differences between the high-specificity and low-specificity contraction conditions ($t(168) = .09, p = .93$).

Moderated Mediation Analyses. Table 10 reports the results of Study 2b. I predicted that the negative effect of contractions on outcomes was mediated by unfairness (H_{10}). Furthermore, I predicted that any contractions would reduce feelings of gratitude and increase perceptions of unfairness, thereby reducing purchase intentions (H_{11}). Additionally, I predicted these two mediators would vary in strength of mediation across the customer program tenure (H_{12}), as in Study 2a. I examined this process by testing whether gratitude and unfairness mediated the effect of contractions on purchase intentions and whether program tenure moderated these mediating effects. Using Hayes' (2013) PROCESS macro (model 15; 10,000 bootstrapped samples), I constructed a model with contraction condition (1 = contraction [high-specificity or low-specificity], 0 = control) as the primary predictor, gratitude and unfairness as parallel mediators, program tenure as the moderator, and purchase intentions as the outcome. I also included purchase frequency, LP status, and college student status (1 = yes, 2 = no) as covariates.

Results revealed a higher-order index of moderated mediation for gratitude (index = .08, $SE=.03$; 95% CI: .03, .16). Decomposing this higher-order index, results revealed that gratitude mediated the negative effect of contraction on purchase intentions earlier (-1SD) in the program tenure (effect = -.54, $SE=.19$; 95% CI = -.99, -.23) but not later (+1SD) in the program tenure

(effect = .01, SE=.15; 95% CI = -.32, .29). Results also revealed a higher-order index of moderated mediation for unfairness (index = -.09, SE=.04; 95% CI: -.19, -.02). Decomposing this higher-order index, results revealed that unfairness mediated the negative effect of contraction on purchase intentions later (-1SD) in the program tenure (effect = -.82, SE=.26; 95% CI = -1.39, -.38) but not earlier (-1SD) in the program tenure (effect = -.14, SE=.20; 95% CI = -.54, .25). Thus I find evidence in support of H_{10a}, H_{11b}, and H₁₂.

- Insert Table 8 here -

- Insert Table 9 here -

- Insert Table 10 here -

IV. Discussion, Limitations, and Research Directions

This dissertation aimed to understand the effects of loyalty programs on firm value in two complementary studies. In Study 1, I use an event study to assess abnormal stock returns due to public announcements of loyalty program adjustments to better understand the extent to which loyalty programs influence firm value, as well as to examine contingency factors of these effects. After coding each event for common loyalty program tactics, delivery, and timing, I examine how prominent adjustment strategies influence the effect of loyalty programs on firm value. In Study 2, I pair these insights with a series of internally valid experiments on actual loyalty program members designed to better understand the processes of the effects shown in Study 1.

Second, this research adds to relationship marketing literature by understanding how customer feelings of gratitude and unfairness operate under different types of loyalty program adjustments, as to date literature on this topic is sparse. Finally, this dissertation helps researchers and practitioners understand the how adjustment strategies (e.g. expansions or

contractions of benefits), program tactics (e.g. financial perks or program status), program delivery (e.g. program transparency and program specificity), and timing forces (weekend effects, customer inoculation, and customer sentiment) moderate the effect of program adjustments on firm value to provide guidance to both researchers and practitioners. Thus, this dissertation helps to understand how loyalty program adjustments influence firm value as well as the emotional processes for how these outcomes occur.

1. Theoretical Implications

This research has three main theoretical implications. First, this research contributes to better understanding of the emotional processes involved when loyalty program adjustments are made. Study 2 finds that customer feelings of gratitude and unfairness mediate the effects of loyalty program adjustments on future purchase intentions (Study 2). Program contractions, for example, both increase customer feelings of unfairness while reducing levels of gratitude (Study 2), in effect doing double damage by additionally reducing the effectiveness of already endowed benefits. Program expansions however do not show a significant effect on gratitude, indicating the likelihood of diminishing returns on additional gratitude inducing program expansions.

Second, this research helps to understand the consequences of contractions and expansions of program benefits targeted to specific groups. While the specificity of the program adjustment is not a significant moderator of the negative effect of loyalty program contraction on customer gratitude and unfairness, interestingly, high specificity program expansions show the same pattern of effects as general or high specificity contractions on customers. Program expansions (and program contractions) that target only a specific group increase feelings of customer unfairness while diminishing feels of customer gratitude. This implies that customers neither like when benefits are given to a special group, nor do they like when the same benefits are taken

away from that same customer set. It's possible that for high specificity program expansions, social comparison induces in negative reactions to special benefits not given to the focal customer, yet the removal of benefits from specific groups prime potential feelings of loss aversion that induce in negative reactions.

Third, timing in loyalty program adjustments matters for how expansions and contractions are perceived. Delays in both uptake and implementation of loyalty program adjustments mitigate their effect of firm value. For example, the negative effect of program contractions is mitigated when the adjustment is announced closer to a non-trading day (i.e. weekend) ($\beta = 0.47$, $p < .05$), but this is non-significant for expansions ($\beta = -0.07$, $p > .10$). There also exists a small, but near significant benefit of increasing the delay in implementation (i.e. inoculation) of a contraction adjustment ($\beta = 0.01$, $p < .10$), while there is a negative and significant effect for program contractions ($\beta = -0.01$, $p < .05$). Although there is a non-significant effect for consumer sentiment in Model 1 ($\beta = -0.02$, $p > .10$), loyalty program managers can potentially mitigate the negative effects of program contractions by announcing them during times of relatively high consumer sentiment ($\beta = 0.09$, $p < .01$). Furthermore, customer program tenure, or time spent in the loyalty program, is a significant moderator of the effects of gratitude and unfairness on purchase intentions, such that unfairness matters more for older customers, while reductions in gratitude matter more for newer customers.

2. Managerial Implications

This dissertation has three primary managerial implications. First, the positive and negative effects of loyalty program adjustments are highly context specific. In general, making any change to a firm's loyalty program results in a general downtick in stock returns $CAAR_i[-1,1] = -0.56\%$ ($t = 1.81$, $p < .05$). Although introductions of new loyalty programs have a positive effect

on firm value ($\beta = 0.99, p < .10$), expansion of programs show limited appreciable benefit to the firm and may even be negative in certain circumstances. Common loyalty program tactics such as financial perks ($\beta = 1.69, p < .05$) and status ($\beta = 1.82, p < .05$) expansions do show positive impacts on firm value, but managers contemplating the contraction of financial perks ($\beta = -7.50, p < .05$) and status ($\beta = -11.51, p < .05$) benefits may see substantial backlash should they implement such adjustments. A potentially beneficial delivery option is to increase the transparency of the loyalty program ($\beta = 2.92, p < .05$) by given customer easier and clearer access to their standing in the program, and the rules by which this is determined, and is likely to be less costly long term than the continued distribution of discounts, coupons, prices breaks, and other financial perks.

Second, managers should consider how timing aspects of both the adjustment (e.g. time delay, customer sentiment) and the customer (e.g. program tenure) can influence how well adjustments are received. For example, the negative effect of program contractions can be mitigated by announcing them closer to non-trading days ($\beta = 0.47, p < .05$), increasing the delay of their implementation ($\beta = 0.01, p < .10$), and during times of relatively high consumer sentiment ($\beta = 0.09, p < .05$). As such, during times of economic prosperity, it is likely that firms can allow higher consumer confidence soften the blow of loyalty program contractions.

Finally, managers should be cognizant of the potential downside of expanding loyalty programs for specific customer sets. Study 1 shows that high specificity expansions can actually hurt firm value ($\beta = -1.76, p < .05$), while Study 2 shows that this is likely the result of both increasing customer feelings of unfairness while simultaneously decreasing customer feelings of gratitude. Although this type of prioritization is common practice, managers should take care to

balance the size and portfolio value of the selected customers with those not in the specific group to ensure such as adjustment makes financial sense.

5. Limitations and Future Research

Unfortunately, the methodology of this research was selected in part due to data limitations, particular as it pertains to more detailed costs and cash flows associated with loyalty programs. The choice of an event study was necessitated by the inability to access actual cash flow changes associated from making program expansions or contractions, and as such, my analysis is limited to publically traded firms within the United States. Future research would benefit from firm level data to examine the real time and delayed consequences of adjustments in loyalty programs to help increase the internal validity of these findings.

Second, this research does not speak to potential competitive effects of loyalty program adjustments. Although anecdotally firms within the same competitive market (e.g. airlines), appear to make loyalty program adjustments in response to competitor adjustments, an analysis of the effect of loyalty program adjustments on abnormal stock returns of nearest competitors (as specified by *Hoover's Database*) did not show a statistically significant effect when estimated with a similar Fama-French three factor model, implying that competitor adjustments may not directly impact one another. However, future research could examine leader-follower effects, such as estimating the effect of previous adjustments on the likelihood of making another adjustment, as well as inducing a competitor to adjust their loyalty program.

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Figure 1
 Study 1 Conceptual Model: The Effects of Loyalty Programs on Firm Value

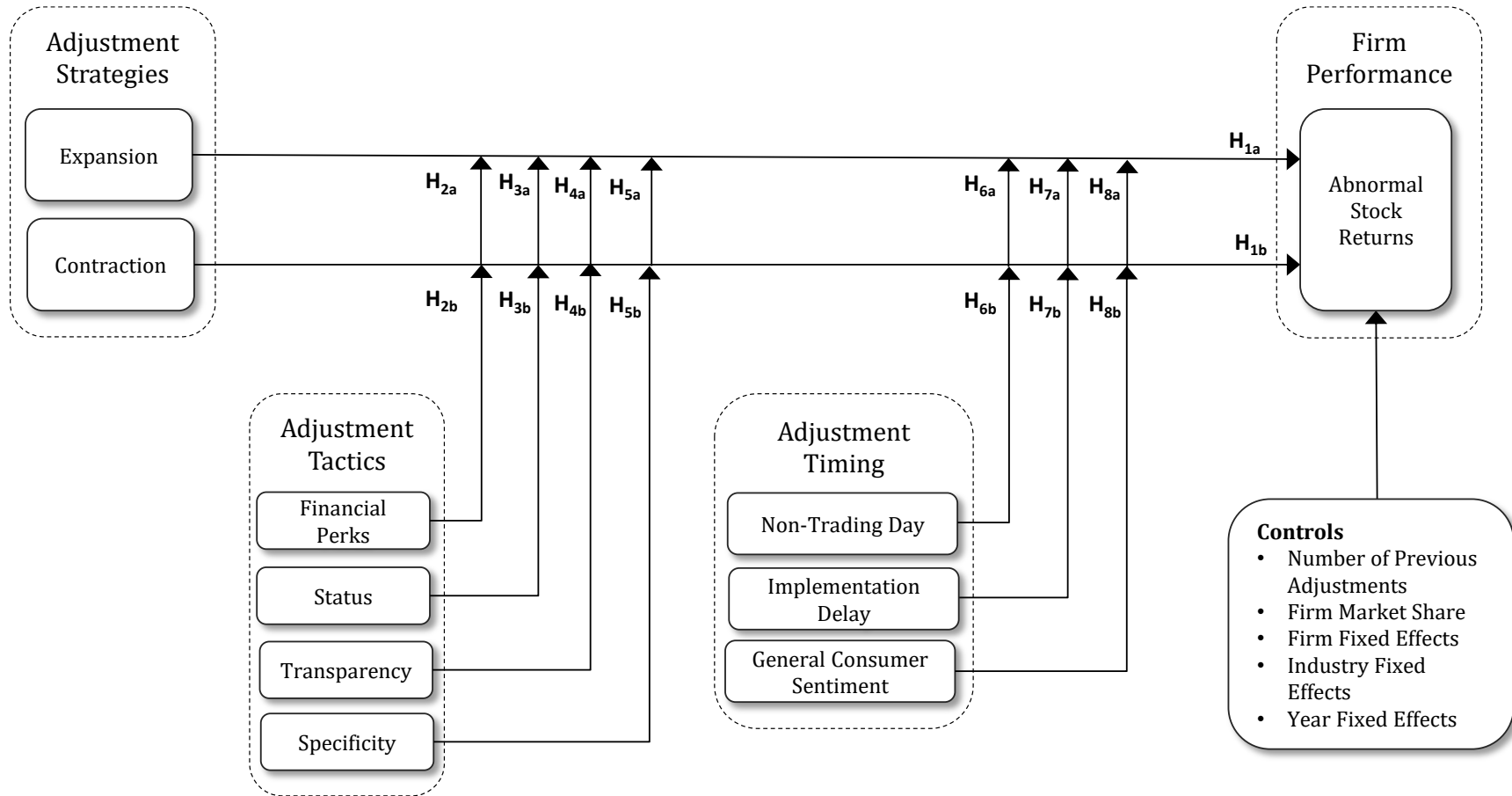


Figure 2
Study 2 Conceptual Model: The Mediating Roles of Gratitude and Unfairness

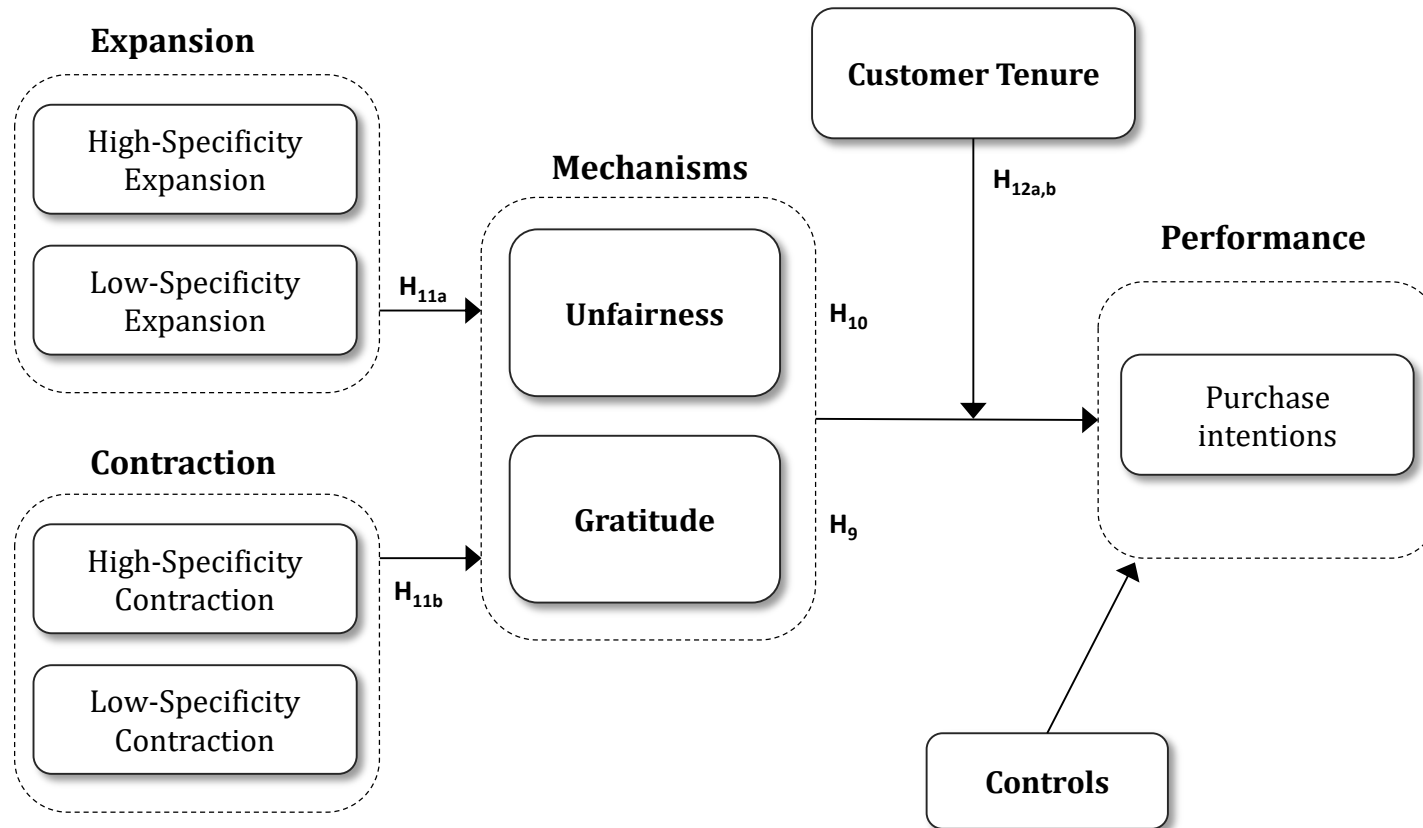


Table 1
Representative Research on Loyalty Programs

Reference	Context	Key Constructs	Major Findings
Kim et al. (2009)	Retail department store	VIP membership, purchase history, commitment	Consumers reaction to a VIP program introduction was mixed. Of consumers given VIP status, those who were previously the heaviest buyers reacted negatively (decrease in <i>purchase frequency</i>), but those who were lighter buyers reacted positively. Attitudinal commitment moderated these results.
Kivetz & Simonson (2003)	Retail loyalty programs	Loyalty program idiosyncratic fit	Consumers <i>prefer</i> loyalty programs in which they have a relative advantage in obtaining benefits compared with the average consumer. Relative advantage is more important than overall value or personal ease.
Kumar & Shah (2004)	Loyalty programs	Behavioral and attitudinal loyalty, consumer goals	Using one rewards plan for all consumers is suboptimal. Instead, loyalty programs should provide a baseline level of rewards to all, aimed to help consumers meet lower-level, short-term, tangible goals and secretly reward targeted customers with benefits that help them achieve higher-level, aspirational goals.
Wagner, Hennig-Thurau, and Rudolph (2009)	Airline, retail firms	Status, locus of control, affect, seller apology	Customer demotion, or loss of benefits, associated with a tiered loyalty program results in decreased <i>loyalty</i> , attenuated by meaningful apologies from the firm and perceptions of locus of control (fault).
Breivik & Thorbjørnsen (2008)	Online brand communities	Consumer-brand relationship, habit strength	Indicators of habit strength predicted <i>repurchase likelihood</i> beyond that of commonly used measures of relationship strength or quality. The impact of habits increases with frequently bought or consumed categories.
Kivetz Urmitsky, and Zheng (2006)	Café patrons, Internet users	Goal-gradient effect, <i>persistence</i> , <i>loyalty program reengagement</i>	Consumers accelerate <i>effort</i> , <i>persistence</i> , and <i>behavior frequency</i> 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 <i>program reengagement</i> and <i>loyalty</i> . The goal-gradient effect does not directly account for this effect as the goal distance resets.
Fishbach, Ratner, and Zhang (2010)	Sequential product choice	<i>Consistency vs. variety seeking</i> , mental construal	Nonconscious support of behavioral selection <i>consistency</i> increases when consumers are primed with concepts of loyalty, but concepts related to satiation (boredom) promote <i>variety seeking</i> . Loyalty programs may prime consistent behavior and support the development of habitual loyalty.
Rosenbaum, Ostrom, and Kuntze (2005)	Communal loyalty programs	Communal benefits, <i>loyalty</i>	Loyalty programs differ in terms of the extent to which they provide communal engagement and communal benefits shared among their customers. Communal loyalty programs elicit stronger <i>loyalty</i> than programs relying on financial incentives.
De Wulf, Odekerken-Schröder, and van Kenhove (2001)	Food, apparel retail	Relationship investment, relationship quality, <i>loyalty</i>	Consumers' perceptions of relationship investments enhance relationship quality, a composite of trust, commitment, and satisfaction, which is positively associated with <i>behavioral loyalty</i> . Interpersonal communication has the strongest association with perceived relationship investment.
Giesler (2006)	Online peer-to-peer	Gift system, reciprocity norms	A dyadic analysis of gift exchange fails to capture <i>community development</i> function of gift systems, in which gifts exchanged among consumers aid in the <i>development of consumer relationships</i> .
Marcoux (2009)	Moving to a new home	Consumer gifts, <i>cooperation</i> , 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.
Morales (2005)	Retail setting	Gratitude, persuasion, <i>willingness to pay</i>	Extra effort expended by the firm enhanced customer <i>willingness to pay</i> , <i>choice of store</i> , and <i>overall evaluations</i> . Inferred persuasion motivations diminished this relationship.
Palmatier, Gopalakrishna, and Houston (2006)	Business-to-business relationship	Social, financial structural relationship investments	The <i>return on investments</i> in relationships with customer firms 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.

Table 2
Key Research on Gratitude and Unfairness

Reference	Key Theories	Key Findings	Managerial Implications
Gratitude			
Becker (2014)	Reciprocity theory	Human feels an ingrained psychological pressure to reciprocate, such that the act of reciprocation can generate pleasure and the failure to repay obligations can lead to negative feelings.	Managers should focus on relationally-oriented customers since other transactionally-oriented customers may be avoid relationship marketing initiatives to avoid guilt from non-reciprocation.
McCullough, Tsang, and Emmons (2004)	Gratitude theory	Positive feelings associated with gratitude may decay over time.	Managers should ensure customers have a timely window in which to reciprocate before feelings associated with gratitude diminish too greatly to influence feelings and behavior.
Palmatier et al. (2009)	Reciprocity theory, social exchange theory	Gratitude is higher if customers perceive higher levels of free will and recognize benevolence from the seller, as well as when benefots match customer needs.	Managers should provide customer-facing employees with flexibility, discretion, and resources to best ensure customer needs are met. "Random" acts of kindness will generate greater amounts og gratitude than "calculated" acts designed to lock in the customer.
Unfairness			
Samaha, Palmatier, and Dant (2011)	Equity theory	Perceptions of unfairness aggravate the negativove effects of other negative behaviors and undermine the efficacy of contracts.	Firms should avoid using contracts to enforce policies that are potentially perceived as being unfair. Firms should also manage perceptions of unfairness before managing other negative behaviors, as unfairness exceserbates the effects of other relationship problems.
Adams (1965)	Equity theory	People compare the ratios of their percieved outcomes to their inpute with corresponding ratios of others. If the ratio seems unequal, the person with the lower ratio feels inequitably rewarded and experiences anger and tension.	Perceptions of unfairness are relative, and firms should avoid negative perceptions of unfairness for those not receiving preferential treatment (e.g. should mitigate customer comparison effects). Managers should also clearly explain to customers who feel they are being treated unfairly why customers are recieving the additional benefits and how they can also receive such benefits.
Trivers (1971); Wasieleski, and Hayibor (2009); Bowles, Fehr, and Ginitis (2003)	Evolutionary psychology	Group survival in early humans depended on rewarding those who followed group norms and punishing those who failed to adhere to such norms. Punishment evolved to benefit the entire group and to discourage cheating and/or free-riding.	Customers are willing to incur losses to punish unfair behaviors. Considering loses are percieved as more damaging than equal gains, firms shoud mitigateperceptions of unfairness as they can undermine relationship marketing programs and benefits. Employee training and preventative strategies can help achieve these goals.

Table 3
Overview of Research Hypotheses

Hypothesis	
Study 1	
H ₁	Loyalty program adjustments have mixed effects on firm value, such that (a) expansions have a positive effect on return, and (b) contractions have a negative effect on returns.
H ₂	Program tactics moderate the effect of loyalty program adjustments on firm value, such that a) expansions of financial perks have a positive effect on returns, while b) contractions of financial perks have a negative effect on returns.
H ₃	Program tactics moderate the effect of loyalty program adjustments on firm value, such that a) expansions of program status have a positive effect on returns, while b) contractions of program status have a negative effect on returns.
H ₄	Program delivery moderates the effect of loyalty program adjustments on firm value such that a) expansions of program transparency have a positive effect on returns, while b) contractions of program transparency have a negative effect on returns.
H ₅	Program delivery moderates the effect of loyalty program adjustments on firm value, such that a) expansions with high specificity have a negative effect on returns, and b) contractions with high specificity have a negative effect on returns.
H ₆	Timing moderates the effect of loyalty program adjustments on firm value, such that a) program expansions announced closer to non-trading days have a negative effect on returns, while b) program contractions announced closer to non-trading days have a positive effect on returns.
H ₇	Timing moderates the effect of loyalty program adjustments on firm value, such that increasing adjustment inoculation for a) program expansions has a negative effect on returns, and b) program contractions has a positive effect on returns.
H ₈	Timing moderates the effect of loyalty program adjustments on firm value, such that a) program expansions announced during high customer sentiment periods have a negative effect on returns, while b) program contractions announced during high customer sentiment periods have a positive effect on returns.
Study 2	
H ₉	The positive effect of loyalty program expansions on purchase intentions is mediated by gratitude.
H ₁₀	The negative effect of loyalty program contractions on purchase intentions is mediated by unfairness.
H ₁₁	The negative effect of high-specificity loyalty program expansions (vs. no expansion) on purchase intentions is mediated via a parallel process by (a) reductions in gratitude, and (b) increases in unfairness.
H ₁₂	Customer tenure moderates the mediating effects of gratitude and unfairness, such that (a) the positive mediating effects of gratitude are stronger when customer tenure is low, and (b) the negative mediating effects of unfairness are stronger when customer tenure is high.

Table 4
Representative Event Studies in Marketing Literature

Reference	Context	Sample Size (N)	Dependent Variable	Major Findings
Agrawal and Kamakura (1995)	Celebrity endorsements	110	Daily abnormal returns	Celebrity endorsements are on average associated with positive returns and as consequently positive marketing investment.
Lane and Jacobson (1995)	Brand extensions	89	Daily abnormal returns	The effect of brand extension announcement on market value depends on brand attitude and brand familiarity.
Houston and Johnson (2000)	Contracts and joint ventures	208	Daily abnormal returns	Abnormal market returns of vertical joint ventures and contracts predominantly benefit the supplier firm, whereas horizontal joint ventures and contracts provide synergistic gains.
Geyskens, Gielens, and Dekimpe (2002)	Introduction of internet channel	98	Daily abnormal returns	The addition of internet channels provide positive NPV investments on average, and are influenced by numerous firm and marketplace characteristics.
Mazodier and Rezaee (2013)	Sponsorships announcements	293	Daily abnormal returns	Sponsorship announcements show substantial negative abnormal returns following announcement dates, with philanthropic sponsorships and event sponsorships receiving smaller, yet still negative market reactions.
Homburg, Vollmayr, and Hahn (2014)	Major channel expansions	240	Daily abnormal returns	The establishment of a major channel expansion on average has a positive effect on market value. However, increases in channel distribution intensity can lead to both strong positive or strong negative market reactions, depending on contingencies.

Table 5
Study 1: Descriptive Statistics and Correlations

	Mean	SD	1.	2.	3.	4.	5.	6.	7.	8.	9.	10.	11.	12.	13.	14.
1. Returns	-0.54	3.76	1.00													
2. Loyalty Program Contraction	0.13	0.34	-.09	1.00												
3. Loyalty Program Expansion	0.58	0.49	.09	-1.00	1.00											
4. Loyalty Program Introduction	0.29	0.46	.09	-.21	.21	1.00										
5. Loyalty Program Termination	0.13	0.34	-.03	.48	-.48	-.04	1.00									
6. Financial Perks	0.10	0.29	.13	-.09	.09	.34	-.07	1.00								
7. Status Adjustment	0.09	0.28	.05	-.05	.05	.02	-.06	-.06	1.00							
8. Adjustment Transparency	0.06	0.23	.12	-.05	.05	.14	.02	.07	.08	1.00						
9. Adjustment Specificity	0.12	0.33	-.10	-.14	.14	.09	-.02	.02	.03	.04	1.00					
10. Days Until Change In Effect	8.9	39.53	-.10	.13	-.13	-.04	.14	-.07	.28	.16	-.06	1.00				
11. Day of the Week Announced	3.74	1.33	.01	-.06	.06	-.10	.01	-.12	-.02	.03	-.08	-.10	1.00			
12. Consumer Sentiment	83.98	13.73	-.08	-.10	.10	.19	-.11	.00	.11	.01	.06	-.01	-.05	1.00		
13. Firm Market Share	8.9	9.53	.05	.03	-.03	.06	-.01	.00	-.01	-.06	.01	.01	-.06	.00	1.00	
14. Number of Previous Adjustments	2.48	3.62	.05	.20	-.20	-.32	-.07	-.15	-.01	-.13	-.04	.13	.02	-.30	.03	1.00

Table 6
Study 1 Results: Effect of Loyalty Program Adjustments on Abnormal Stock Returns

Windows	Returns	T-stat	<i>p</i> -value	Hypothesis
Panel A: All Loyalty Program Adjustments				
(0,0)	.01%	-.01	.50	
(-1,0)	-.30%	-1.19	.12	
(0,1)	-.26%	-1.03	.15	
(-1,1)	-.56%	-1.81	.04 **	
Panel B: Loyalty Program Expansions				
(0,0)	.07%	.35	.36	H _{1a}
(-1,0)	-.18%	-.66	.25	
(0,1)	-.16%	-.57	.28	
(-1,1)	-.41%	-1.21	.11	
Panel C: Loyalty Program Contractions				
(0,0)	-.51%	-1.13	.13	H _{1b}
(-1,0)	-1.08%	-1.70	.04 **	
(0,1)	-.85%	-1.34	.09 *	
(-1,1)	-1.43%	-1.83	.03 **	

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

Table 7
 Study 1 Results: Effect of Loyalty Program Adjustment Tactics and Timing on Abnormal Stock Returns

Loyalty Program Adjustment	Model 1: Expansions			Model 2: Contractions		
	Coef.	SE	Hypothesis	Coef.	SE	Hypothesis
<i>Tactics</i>						
Financial perks	1.69	(.82)	** H2 _a	-7.50	(1.88)	*** H2 _a
Status	1.82	(.87)	*** H3 _a	-11.51	(2.33)	*** H3 _a
Transparency	2.92	(1.01)	*** H4 _a	-.86	(1.89)	H4 _a
Specificity	-1.76	(.67)	*** H5 _a	.51	(1.17)	H5 _a
<i>Timing</i>						
Day of week announced	-.07	(.18)	H6 _a	.47	(.24)	** H6 _a
Days until adjustment comes into effect	-.01	(.00)	*** H7 _a	.01	(.00)	* H7 _a
Consumer sentiment	-.02	(.02)	H8 _a	.09	(.03)	*** H8 _a
<i>Controls</i>						
Introduction	.99	(.56)	*			
Termination				-.01	(.78)	
Number of previous program adjustments	.11	(.09)		.08	(.08)	
Firm market share	.87	(1.58)		2.77	(2.09)	
Industry Fixed Effects Included	Yes			Yes		
Year Fixed Effects Included	Yes			Yes		
Firm Fixed Effects Included	Yes			Yes		
Intercept	.14	(1.79)		-10.45	(3.08)	***
<i>N</i>	255			41		
Log Likelihood	-439.09			-68.83		
AIC	906.18			165.66		
BIC	949.23			186.22		

Note: *p<0.1; **p<0.05; ***p<0.01

Table 8
Study 2a: Descriptive Statistics

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
Purchase Intention	High-Specificity Expansion	56	4.48	1.83	0.24	3.99	4.97	1	7
	Low-Specificity Expansion	56	5.32	1.49	0.20	4.92	5.72	2	7
	Control	55	5.33	1.68	0.23	4.87	5.78	1	7
	Total	167	5.04	1.71	0.13	4.78	5.30	1	7
Program Participation Intention	High-Specificity Expansion	55	3.93	1.95	0.26	3.40	4.45	1	7
	Low-Specificity Expansion	56	4.50	1.98	0.27	3.97	5.03	1	7
	Control	54	4.83	1.91	0.26	4.31	5.35	1	7
	Total	165	4.42	1.97	0.15	4.11	4.72	1	7
Gratitude	High-Specificity Expansion	54	3.72	1.74	0.24	3.24	4.19	1	7
	Low-Specificity Expansion	56	2.43	1.36	0.18	2.07	2.80	1	6
	Control	54	2.37	1.25	0.17	2.03	2.71	1	5.75
	Total	164	2.84	1.58	0.12	2.59	3.08	1	7
Unfairness	High-Specificity Expansion	53	3.62	1.67	0.23	3.16	4.08	1	7
	Low-Specificity Expansion	56	4.15	1.53	0.20	3.74	4.56	1	7
	Control	54	4.49	1.75	0.24	4.02	4.97	1	7
	Total	163	4.09	1.68	0.13	3.83	4.35	1	7

Table 9
Study 2b: Descriptive Statistics

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
Purchase Intention	High-Specificity Contraction	58	4.00	1.89	0.25	3.50	4.50	1	7
	Low-Specificity Contraction	56	4.36	1.81	0.24	3.87	4.84	1	7
	Control	58	5.22	1.48	0.19	4.84	5.61	1	7
	Total	172	4.53	1.80	0.14	4.26	4.80	1	7
Program Participation Intention	High-Specificity Contraction	57	3.25	2.06	0.27	2.70	3.79	1	7
	Low-Specificity Contraction	56	3.39	1.98	0.26	2.86	3.92	1	7
	Control	58	4.41	2.02	0.27	3.88	4.94	1	7
	Total	171	3.69	2.08	0.16	3.38	4.00	1	7
Gratitude	High-Specificity Contraction	57	3.10	1.47	0.19	2.71	3.49	1	6
	Low-Specificity Contraction	56	3.53	1.71	0.23	3.07	3.99	1	7
	Control	58	4.32	1.50	0.20	3.93	4.72	1	7
	Total	171	3.66	1.63	0.12	3.41	3.90	1	7
Unfairness	High-Specificity Contraction	57	3.81	1.61	0.21	3.38	4.24	1	7
	Low-Specificity Contraction	56	3.79	1.74	0.23	3.32	4.25	1	7
	Control	58	2.26	1.27	0.17	1.93	2.60	1	7
	Total	171	3.28	1.70	0.13	3.02	3.54	1	7

Table 10
Study 2 Results: Effects of Loyalty Program Adjustments on Customer Behavior

Structural Paths	Hypotheses	Study 2a		Study 2b
		Expansion β	(SE)	Contraction β (SE)
<i>Interaction Effects on Mediating Mechanisms</i>				
Advanced Customer Lifecycle x Gratitude → Purchase Intentions		$\beta = -.09$	(.02) ***	$\beta = -.08$ (.03) ***
Advanced Customer Lifecycle x Unfairness → Purchase Intentions		$\beta = -.03$	(.03)	$\beta = -.06$ (.02) *
<i>Process Test of Indirect Effects</i>				
High-Specificity Expansion → Gratitude → Purchase Intentions		$\beta = -.30$	(.16) **	
<i>Earlier in customer lifecycle (-1SD)</i>		$\beta = -.42$	(.21) **	
<i>Later in customer lifecycle (+1SD)</i>		$\beta = .05$	(.12)	
High-Specificity Expansion → Unfairness → Purchase Intentions		$\beta = -.23$	(.20)	
<i>Earlier in customer lifecycle (-1SD)</i>		$\beta = -.12$	(.22)	
<i>Later in customer lifecycle (+1SD)</i>		$\beta = -.45$	(.26) **	
Contraction → Gratitude → Purchase Intentions				$\beta = -.29$ (.19) **
<i>Earlier in customer lifecycle (-1SD)</i>				$\beta = -.52$ (.19) **
<i>Later in customer lifecycle (+1SD)</i>				$\beta = .02$ (.15)
Contraction → Unfairness → Purchase Intentions				$\beta = -.46$ (.18) **
<i>Earlier in customer lifecycle (-1SD)</i>				$\beta = -.15$ (.20)
<i>Later in customer lifecycle (+1SD)</i>				$\beta = -.81$ (.25) **
<i>Effects of Condition on Performance</i>				
Expansion → Purchase Intentions		$\beta = -.43$	(.28)	
High-specificity Expansion → Purchase Intentions		$\beta = -.85$	(.33) *	
Contraction → Purchase Intentions				$\beta = -1.05$ (.28) ***
<i>Effects On Mediating Mechanisms</i>				
Expansion → Gratitude		$\beta = -.60$	(.28) *	
Expansion → Unfairness		$\beta = .69$	(.26) ***	
High-Specificity Expansion → Gratitude		$\beta = -.87$	(.33) ***	
High-Specificity Expansion → Unfairness		$\beta = 1.35$	(.29) ***	
Contraction → Gratitude				$\beta = -1.01$ (.25) ***
Contraction → Unfairness				$\beta = 1.54$ (.25) ***
<i>Effects of Mediating Mechanisms on Performance</i>				
Gratitude → Purchase Intentions		$\beta = .63$	(.07) ***	$\beta = .62$ (.07) ***
Unfairness → Purchase Intentions		$\beta = -.43$	(.09) ***	$\beta = -.50$ (.07) ***
<i>R²</i>				
Unfairness			<i>R² = .17</i>	<i>R² = .18</i>
Gratitude			<i>R² = .06</i>	<i>R² = .09</i>
Purchase Intentions			<i>R² = .62</i>	<i>R² = .48</i>

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

Appendix A
Measurement Description

Variable	Description	Source(s) and Items
Dependent variable		
Abnormal stock returns	Actual stock returns minus expected stock returns for the event window.	Center of Research in Security Prices
Loyalty program expansions		
	An event associated with positive changes to customer welfare, such as the introduction of a new loyalty program, the expansion of program benefits or rewards, or the introduction of a loyalty program partnership.	Proquest Newsstand, Business Source Complete
New Loyalty Program Introduction	The launch of a customer loyalty or rewards program that did not previously exist.	Proquest Newsstand, Business Source Complete
Increased Rewards	The addition of new or increased rewards or benefits.	Proquest Newsstand, Business Source Complete
Loyalty Program Partnership Introduction	The alliance of the customer loyalty or rewards programs between two different firms, such that the benefits are exchangeable across firms.	Proquest Newsstand, Business Source Complete
Loyalty program contractions		
	An event associated with negative changes to customer welfare, such as the termination of a new loyalty program, the reduction or removal of program benefits or rewards, or the termination of a loyalty program partnership.	Proquest Newsstand, Business Source Complete
Loyalty Program Termination	The launch of a customer loyalty or rewards program that did not previously exist.	Proquest Newsstand, Business Source Complete
Decrease Rewards	The removal or lowering of rewards or benefits.	Proquest Newsstand, Business Source Complete
Loyalty Program Partnership Dissolution	The dissolution of a loyalty program partnership.	Proquest Newsstand, Business Source Complete
Mediators		
Gratitude	The emotional appreciation for benefits received which serve as the emotional foundation for reciprocal behaviors	Experimental
Unfairness	Negative feeling arising from customer perceptions of inequity from the ratio of payoff to inputs (e.g. distributive unfairness), or from loyalty program procedures and processes in relation itself and other customers (e.g. procedure unfairness)	Experimental
Loyalty Program Tactics		
Program Financial Perks	Loyalty program benefits given to customers that are primarily monetary in nature, such as discounts, rebates, and coupons.	Proquest Newsstand, Business Source Complete
Program Status	A hierarchical loyalty program structure that distinguishes customers by their position or standing vis a vis other customers based on a established set of rules.	Proquest Newsstand, Business Source Complete
Program Transparency	The ease, speed, and convenience of which a customer may assess their progress, rewards, and program standing as well as the rules by which that information is determined.	Proquest Newsstand, Business Source Complete
Program Specificity	The degree to which an adjustment applies only to a precise customer segment (i.e. high specificity), versus all customers in general (i.e. low specificity).	Proquest Newsstand, Business Source Complete
Controls		
Number of previous program adjustments	The number of loyalty program adjustments made prior to the event of interest.	Proquest Newsstand, Business Source Complete
Market share	Firm sales relative to total industry sales within corresponding four-digit SIC code.	Compustat

Appendix B
Example Event Coding

Variable	Description	Source(s)	Example Coding
Loyalty Program Expansion	<i>An event associated with positive changes to customer welfare, such as the the introduction of a new loyalty program, the expansion of program benefits or rewards, or the introduction of a loyalty program partnership.</i>		
New Loyalty Program Introduction	The launch of a customer loyalty or rewards program that did not previously exist.	Proquest Newsstand, Business Source Complete	ANN ARBOR Mich. Feb. 21, 2006 /PRNewswire/ -- <u>Borders Inc. today launched Borders Rewards, a new loyalty program</u> designed to reward customers who shop at the more than 1000 Borders Borders Express Borders Outlet Borders airport and Waldenbooks stores throughout the U.S. Membership in Borders Rewards is free with no enrollment costs or annual fees. Members earn rewards every time they shop enjoy exclusive savings every week and earn Personal Shopping Days(TM) every month.
Increased Rewards	The addition of new or increased benefits to an existing program.	Proquest Newsstand, Business Source Complete	WASHINGTON, May 28, 2003 /PRNewswire-FirstCall/ -- <u>Marriott International, Inc. (NYSE: MAR) announced today the launch of several major enhancements to Marriott Rewards(R)</u> that are specifically designed to recognize the program's most loyal members. Effective June 2, members of Marriott Rewards can achieve Elite level status faster than ever before and receive exclusive benefits across all Marriott brands that participate in the program.
Loyalty Program Partnership Introduction	The alliance of the customer loyalty or rewards programs between two different firms, such that the benefits are exchangeable across firms.	Proquest Newsstand, Business Source Complete	DALLAS, Aug. 19, 2010 /PRNewswire-FirstCall/ -- <u>Southwest Airlines (NYSE: LUV) announced today the addition of Starwood Hotels & Resorts Worldwide, Inc. as a new Partner of the carrier's frequent flyer program, Rapid Rewards.</u> Rapid Rewards Members now have the option to earn a half (0.5) Rapid Rewards credit for each eligible stay at one of Starwood's global hotel brands including: St. Regis(R), The Luxury Collection(R), W(R), Westin(R), Le Meridien(R), Sheraton(R), Four Points by Sheraton(R), Aloft(R), and Element(SM).
Loyalty Program Contraction	<i>An event associated with negative changes to customer welfare, such as the the termination of an existing loyalty program, the reduction or removal of program benefits or rewards, or the termination of a loyalty program partnership.</i>		
Loyalty Program Termination	The launch of a customer loyalty or rewards program that did not previously exist.	Proquest Newsstand, Business Source Complete	New York Times, Late Edition, 14 January 2001: Simon Property Group (NYSE: SPG), the nation's largest mall developer, <u>is ending its five-year-old frequent shopper loyalty program.</u> Four times a year, the program offered participants merchandise discounts.
Decrease Rewards	The removal or lowering of rewards without changes to program structure.	Proquest Newsstand, Business Source Complete	Los Angeles Times, 14 February 2015: Southwest has announced that rewards points earned by fliers will vary in value based on destination, time, day of travel, demand and other factors... "In an effort to stay competitive in the current market conditions and provide the most customer-friendly redemption policies in the airline industry, <u>Southwest Airlines has slightly increased the number of Rapid Rewards Points needed to redeem flights.</u> " the airline said.
Loyalty Program Partnership Dissolution	The dissolution of a loyalty program partnership.	Proquest Newsstand, Business Source Complete	Wall Street Journal, 17 April, 1987: <u>Pan American World Airways and American Airlines said they will break off their joint frequent-flyer program,</u> effective Nov. 1, ending a simmering dispute between the two carriers that began shortly after they merged their programs in June 1986.
Loyalty Program Tactics			
Program Financial Perks	Dummy variable indicating the event contained information how (1) financial incentives such as rebates, coupons, discounts, etc. was impacted by the program adjustment.	Proquest Newsstand, Business Source Complete	CANTON Mass. Jan. 27 2014 .PRNewswire. -- Dunkin' Donuts America's all-day everyday stop for coffee and baked goods today launched a new DD Perks(R) Rewards program <u>offering guests nationwide points toward free Dunkin' Donuts beverages</u> for every visit they make at participating Dunkin' Donuts locations...Once a member accrues 200 points <u>he or she receives a coupon for a free medium beverage of choice</u> redeemable at participating Dunkin' Donuts restaurants.
Program Status	Dummy variable indicating the event contain information how (1) program status was impacted by the program adjustment	Proquest Newsstand, Business Source Complete	SEATTLE Jan. 10 2012. PRNewswire. -- Seattle-based Nordstrom Inc. (NYSE: JWN) announced today a significant redesign of Nordstrom Fashion Rewards(R) as part of its broader efforts to build customer loyalty... <u>Easier access to higher benefit levels: Customers no longer have to spend as much to achieve Level 3 and 4 rewards status. Under the new program customers become Level 3 members when they reach \$5000 in annual net Nordstrom spend on their Nordstrom credit or debit cards. Previously the spend threshold for Level 3 was \$10000. Additionally the threshold for becoming a Level 4 member has been lowered to \$10000 from \$20000.</u>
High Program Specificity	Dummy variable indicating the event impacts (1) a specific customer segments (e.g. seniors 55+) (1), or impacts all loyalty program participants (0).	Proquest Newsstand, Business Source Complete	NEW YORK, NY, 28 FEB, 2005 -- /BusinessWire/ -- Rite Aid (NYSE, PCX:RAD) today <u>announced the launch of a new free senior loyalty program called Living More that provides benefits and savings to Rite Aid's patients who are at least 60 years old.</u> Included in the benefits for seniors who enroll in the Living More program are 10% off all cash prescriptions, 10% off Rite Aid brand products every day, and special offerings targeted to their lifestyles based on their buying habits.
High Program Transparency	Dummy variable indicating event (1) impacts the ease, speed, and convenience of which a customer may assess their progress, rewards, and program standing as well as the rules by which that information is determined.	Proquest Newsstand, Business Source Complete	NEW YORK Jan. 15, 2010. PRNewswire. -- Duane Reade today announced the launch of Duane Reade FlexRewards(TM) <u>its new easier-to-use customer rewards program</u> that replaces Dollar Rewards(TM) the Company's previous customer rewards program. <u>All FlexRewards points are now tracked and redeemed electronically so there will no longer be a need for easy-to-lose paper coupons and customers will be able to keep track of FlexRewards points online and via in-store point-of-purchase key pads.</u>

Note: formatted text to highlight coding criteria example.