LOYALTY PROGRAM DIMENSIONS AND FUTURE TREND FOR HOSPITALITY AND TRAVEL INDUSTRY: A SYSTEMATIC LITERATURE REVIEW

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LOYALTY PROGRAM DIMENSIONS AND FUTURE TREND FOR HOSPITALITY AND TRAVEL INDUSTRY: A SYSTEMATIC LITERATURE REVIEW

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ABSTRACT

Loyalty program(LP) has long become one of the marketing strategies used by the firms to retain their customer and gain their loyalty. The objective of this study is to identify challenge and opportunity in designing LP. Five dimensions associated with designing loyalty programs such as membership, point structure, benefit, communication program, and partnership have been identified. This Systematic review will focus on loyalty programs in hospitality and travel related industry. This paper reviewed 37 articles to explain the important factor in designing LP. Furthermore, technology advances also

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influence the evolution of the LP. The future direction of LP also identified as a guideline for researcher and practitioner to understand the LP.

Key words: Loyalty programs, Travel industry, Hospitality industry

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1. INTRODUCTION

As an important component of firms' customer relationship management (CRM) strategy Loyalty programs is firm activities that aim to increase customer loyalty by rewarding customers for doing business with the firm. The best know loyalty programs in 1981 when American Airlines launched the first Loyalty Programs (LP). Thereafter, the LP program has grown and is now reaching various industries, including retail, travel, and finance. Most major airlines now offer frequent flyer programs, This gives the customer points in the form of redeemable mileage for free tickets. Hotel and retail also offer LP that encourage customers to earns points that are redeemable to a prize, discount and other rewards [1]. Through this LP, companies can receive more repeat business while collecting consumer data that can be analyzed for targeted marketing activities [2].

LP could increase customer retention and a major advantage in retaining your customers is that the profits generated by them tend to accelerate over time. Many party support LP because of cost for customer acquisition is more than customer retention [3]. Loyalty programs, which often have relationship building, typically including reward cards, gifts, tiered service levels, customer support, and other methods that can positively influence consumer attitudes and behaviors towards the brand or business.

In the past 5 years loyalty program literature provided, some exploring in specific industry that quite popular LP is found, De Boer [4] explore about LP in airlines industry, Tandford [5] explore the trends in hotel LP, Xie [1] and Dorotic et.al [6] research about future research LP in general. Nevertheless, LP has also evolved as a consequence of the influence of technological advancements. New strategy and business model has emerged and implemented by firms. The purposes of this study are to understand the recent and emerging trend of LP research.

This literature reviews features of loyalty program studies published in major journals and synthesize them according to Loyalty Program dimensions. With the focus on the hospitality industry (hotel, Food&beverage and travel related industry (airlines, MVLP). Finally, this paper identifies the challenge and opportunity in five dimensions of LP (benefit, point structure, membership, partnership, and communication) and organize this the paper accordingly. Insight about the future trend in LP also provided.

2. THEORETICAL FOUNDATION

2.1 Loyalty Program Definition

"Loyalty programs" are defined as programs created by companies that allow consumers to collect redeemable points when they make repeated purchases with the company. This kind of programs rarely benefit consumers in one purchase but are intended for consumers to return to doing business with the company, so that over time it can foster customer loyalty. Except for promotions such as instant cards, the promotion is not considered a loyalty program [7].

According to Oliver [8], customer loyalty is "a deeply held commitment to rebuy or re-patronize a preferred product/service consistently in the future, thereby causing repetitive same-brand or same-brand set purchasing, despite situational influences and marketing efforts having the potential to cause switching behavior". Customer loyalty follows four attitudinal phases: cognitive, affective, conative (behavioral intention), action.

Most recent study, focus on attitudinal and behavioral loyalty [9] [10] [11] [12] [13]. Researchers often measure behavioral loyalty with the two most commonly used indicators: the intention to patronize the store/business in the future and/or visit more frequently, and word-of-mouth (WOM), meaning the intention to say positive things about the business and recommend it to others [9]. Behavioral loyalty can occur without attitudinal loyalty, [14] refer to as "spurious loyalty". Consumers visit a firm to buy a good or service because there is no other option, but without attachment to the firm. If there is the possibility of moving to another firm, consumers will move easily.

Attitudinal loyalty results from psychological relationships with products or services, which involve preferences and components such as positive attitudes and commitments that are based largely on positive beliefs about the brand. Therefore the researcher measures customer loyalty utilize two-dimensional factor, attitudinal factor as loyalty commitment and behavioral as buying retention and Word-of-Mouth (WOM).

2.2 Loyalty program Dimensions

Loyalty program design classified into several dimensions such as (1) membership/participants requirement (eg. Open versus selective membership, free versus paid membership) , (2) benefit structure (utilitarian, hedonic and social benefit), (3)reward/point structure (eg. Timeframe, frequency) [15]. Recently [6] proposed two more dimensions, program communication, and partnership (fig 1).

Whereas from the customers perspective, loyalty program offers some dimensions regarding rewards benefit. These benefits induce customer perceived value, thereby create motivations that induce loyalty program usage. There is plentiful research study about loyalty programs benefit has to offer to customers. Utilitarian benefit that consists three items; economic that likely to be monetary is such as discount, free items or redeemable gift; functional which reflect the emphasis of functionality (facilitate purchase, fast service); and informational benefit correspond with greater access to information [16]. Other than economic benefit, Wang [17] and Chiu [16] specify emotional (hedonic) benefits and symbolic/social benefit, the hedonic benefits tend to be irrational and are based on personal emotions, occur during the process of purchasing and arise from the playfulness, fun, and entertainment during the process or participating in loyalty program [18]. Symbolic/social benefit refers to self-expression,

social identity/status, explicit self-esteem, and non-product benefits for example membership tier that belong to a group of privileged customer.

Membership requirement also has some structure: open versus selective, where open means loyalty program is available open for everyone, while selective program where companies invite customers to join loyalty program (eg. Priority banking). Selective membership can lead to customer gratitude toward firms and depend on the type of businesses, selective lead to higher loyalty intention toward firm [19]. Joining to loyalty program also could be free or paid, amazon prime is one of a successful example of paid membership. E-commerce site also adopts loyalty program, and it has an advantage for recruit member, every customer who signs up for e-commerce site automatically become a member of the loyalty program, that different from another firm that still has to attract consumers to become members of their LP.

Point structure is the mechanism of the company in giving rewards to customers. Yi, Jeon [20] categorize reward scheme by timing and reward schedule. Timing as in immediate/segregated/linear and delayed/aggregated/non-linear, and reward schedule as certain and uncertain. For instance, instant-uncertain reward is instant scratch and delayed-certain reward is frequent flyer stamp or token. The non-linear reward is when consumers get a reward after collect accumulated points as determined by the firm, for example, store stamp or punch card which customer can redeem after achieving certain points. Whereas linear reward, points can be redeemed at any time for any amount.

Firm utilize program communication to provide the latest information about LP using omnichannel communication such as website, social media, email, and instant messaging. Social media become more important with the role e-WOM (word-of-mouth), Communication also corresponds with how firms deliver feedback about the status of customer reward point.

Partnership loyalty program designates for loyalty program where multiple firms forming LP and members can earn points from many firms and redeem rewards from the participating firm. Some literature refers to such program as multi-vendor loyalty program (MVLP). There is two type of MVLP, first when one company is a major brand in LP (eg. Frequent flyer card) and second is loyalty card where no firm become dominant, usually this type of LP is operated by firms specializing in loyalty program management (eg. Plus! in Singapore).

These dimensions elucidate elements for loyalty program design with the purposes to attract customer usage in LP and subsequently motivate users to become loyal to firms. Fig 1 describes the five dimensions and their sub-dimension which later become the basis of the organization of this research paper.

Figure 1 Loyalty Program Dimensions

3. RESEARCH METHOD

This paper focused on finding related study in loyalty program design, and from previous study and exploration, designing of loyalty program concern with five dimensions (membership, benefit, point structure, communication, and partnership). This study conducts a review on hospitality and travel industry (hotel, airlines, restaurants/café)

As much as possible, this paper not discussing particular benefit of LP to the firm. Design of the loyalty program has goal to attract customer to become loyal to the firm. Nevertheless, it is possible that some articles missed unintentionally.
This paper restricted to search articles published between 2013 and 2018. For this literature review, there are five-step :

1. a search was conducted in the content and abstract in SCOPUS journal in the following databases :
    1. Wiley online library (https://onlinelibrary.wiley.com/)
    2. Emerald insight (https://www.emeraldinsight.com/)
    3. Springer (https://link.springer.com/)
    4. Science Direct (https://www.sciencedirect.com/)
    5. Sage hub (https://journals.sagepub.com/)
    6. Proquest (https://www.proquest.com/)
    7. AMA (https://www.ama.org/Pages/default.aspx)
    8. Taylor Francis online (https://www.tandfonline.com/)
    9. AISEL library (https://aisel.aisnet.org/)
2. A search in the content use this keyword: "loyalty programs" AND ("card" OR "technology" OR "reward" OR "points" OR "rewards") and "loyalty program" in the abstract. There is some exclusion, in the Springer database, they don't provide abstract search. Hence there is extensive result in Springer database. This search from 9 databases found 564 articles.
3. The articles found were then screened for articles that not research paper. The title of the article then analyze and exclude for not-related topic, the result was 163 articles.
4. The citation information then downloaded in BibTeX format and copied to Mendeley software, the article then analyzed to select articles whose abstract

related to loyalty programs dimension and trends mentions in the literature review.

5. From the previous filtering, 94 articles are found and read thoroughly to evaluate the content. Articles that not related in loyalty programs dimension and travel/hospitality industry has omitted.

6. Finally, 37 articles were obtained and then classified into loyalty program dimensions. Table 1 and fig 2 Summarize of our finding.
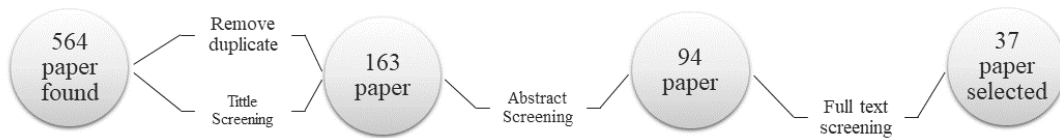

Figure 2 Diagram representing stages in the literature review

Table 1 summarize papers in search stages

Sources	Found	Candidate (title)	Candidate (abstract)	Selected
Wiley online library	34	11	6	2
Emerald insight	51	33	20	6
Springer	294	38	18	7
Science direct	75	34	22	13
Sage pubs	25	20	13	5
Proquest	26	13	3	0
Taylor francis	45	10	8	3
AISEL	108	3	3	1
TOTAL	564	163	94	37

4. RESULTS AND DISCUSSIONS

We identified 37 paper with the study based on hospitality, travel and various industry (table.2). Fig 3 shows the distribution of the paper categorizes of the industry. Specific industry that studies most is airline industry considering as the first industry implement LP, airline industry are still study due to its characteristic and partnership with other industry. The food&beverage industry also contributing to the same amount of paper with airlines. Within 5 years range of paper selection, most of the paper selected is from the year 2017 and 2018 (Fig 4). Advancement in technology recently contributes to an emerging trend in LP.

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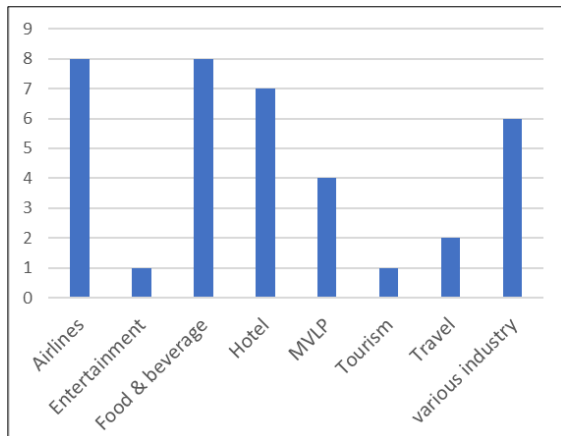Systematic Literature Review
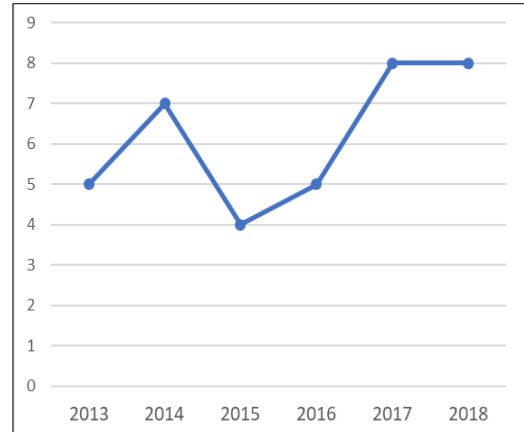

Figure 3 Loyalty program in Industry

Figure 4 Loyalty Program Trend

Table 2 selected paper, author, title, journal/conference, year and industry

No	Author	Title	Journal	Year	industry
1	[21]	Hotel loyalty program…	International Journal…	2014	Hotel
2	[22]	Using Machine Learni…	Journal of Hospitalit…	2018	Entertainment
3	[23]	Loyalty program struc…	Journal of Retailing …	2013	Airlines
4	[24]	Evaluating Loyalty Co…	Journal of Hospitali…	2015	Hotel
5	[25]	Are loyalty program m…	Journal of Business …	2018	various industry
6	[26]	When Loyalty Points B…	E-Business and Telec…	2014	various industry
7	[27]	Consumer psychologic…	Service Business, 12(…	2017	MVLP
8	[28]	Gamification and serv…	SpringerPlus, 3(1), 6…	2014	Food & beverage
9	[29]	Does the reward matc…	Journal of Retailing …	2016	Airlines
10	[30]	Exploring the Ecosyst…	in Strategy in Airlin…	2018	Airlines
11	[31]	Reward redemption eff…	International Journa…	2014	MVLP
12	[19]	Open versus selective…	European Journal of …	2016	various industry
13	[32]	Effect of restaurant …	Journal of Islamic M…	2017	Food & beverage
14	[33]	Antecedents to loyalt…	Journal of Business …	2016	MVLP
15	[34]	Is It My Luck or Loya…	Journal of Travel Res…	2018	Travel
16	[35]	Customer-company iden…	Journal of Business …	2015	various industry
17	[36]	Rewards that undermi…	Psychology & Marketin…	2017	Food & Beverage
18	[37]	The financial impact…	Journal of Business R…	2014	Hotel
19	[38]	Consumer behavior in …	Computers in Human Be…	2018	Food & Beverage
20	[39]	The effects of loyal…	Journal of Services …	2018	Airlines
21	[40]	The impact of reward …	Journal of Services …	2013	Airlines
22	[41]	Accumulation versus i…	Journal of Business R…	2014	Hotel
23	[42]	The dark side of the…	Recherche et Applica…	2017	various industry
24	[43]	What's in a Word? Bui…	Cornell Hospitality Q…	2016	Hotel
25	[44]	An examination of th…	Journal of Air Trans…	2017	Airlines
26	[45]	Loyalty program type…	The International Re…	2013	MVLP
27	[46]	Attracting new custo…	Journal of Consumer B…	2017	various industry
28	[47]	Psychological and ec…	Journal of Retailing…	2014	Airlines
29	[48]	Measuring Perceptions…	Journal of Hospitalit…	2018	Hotel

No	Author	Title	Journal	Year	industry
30	[49]	Loyalty Analytics : P…	in ICIS 2017 Proceed…	2017	Food & Beverage
31	[50]	Developing an Effecti…	Journal of Travel & …	2017	Tourism
32	[9]	The impact of tier l…	International Journa…	2013	Hotel
33	[17]	The antecedents and …	Service Business, 9(2…	2015	Airlines
34	[51]	Investigating the imp…	International Journal…	2015	Food & beverage
35	[52]	Gamification Effect …	Computational Scienc…	2018	Food & Beverage
36	[53]	Factors Contributing…	Cornell Hospitality …	2016	Travel
37	[20]	Segregation vs aggreg…	European Journal of …	2013	Food & Beverage

4.1 Benefit dimension

When firms offer LP to their customer, there is some consideration regarding the challenge and opportunity of how the customer perceived the benefit. Table 3 shows the factor that firms have to take into account in offering benefit of their loyalty programs.

Challenge

Karen [54] found that how customer perceived value of similar LP in some hotel group is different. The result gives evidence that there is no "one-fits-all" program in designing LP. Social benefit that leads to promote customer status also have its own risk, customers might feel entitle or demand something in return from the firm [39]. Customers also calculate the point reward that the firms offer, if the point value not equivalent to or higher than market price, customers might feel it is unfair for them [29]. From the evidence, it found that over time, customer motivation is decreasing for LP based on economic/monetary benefit [52].

Opportunity

Offering LP that have gamification feature (reward, competition, and fun) will generate more engagement from customers [28]. For high-end product or services, giving benefit that gives the customer feel special or privilege will increasing the customer – company relationship [35] [17]. Giving discount, point or other economic benefits to customer increasing customer intention and attractiveness toward LP [47] [35] [46]. But, firms have to encourage customers to redeem their point reward since it will increase customer engagement [25].

Table 3 Benefit dimensions

Challenge			
Sub dimension	**Factors**	**variables**	**author**
Social benefit	perceived value	functional, psycological, externality, financial value	[21]
	customer entitlement	tangible reward, preferential treatment, perceived status	[39]
Utilitarian (Economic) benefit	perceived fairness	point value, makrket price	[29]
	motivation	number of redeemed	[52]
Opportunity			
hedonic	engagement	relationship & reward, competitive &fun	[28]
social	customer-company identification (CCID)	financial benefit, social benefit, share of wallet, financial risk, company loyalty	[35]
	Relationship	perceived recognition & social benefit	[17]

Utilitarian (economic)	consumer intention	goal proximity*+, reward valence*+, perceived effort*-, customer reactance*-	[47]
		financial benefit, social benefit, share of wallet, financial risk, company loyalty	[35]
	Attractiveness	attractiveness of program, likelihood to join, perceived novelty	[46]
	perceived value	reward type, ex(intrinsic) motivation	[40]
	engagement	proactively using card, redeeming points, purchase behavior, sharing & searching information	[25]

*+ positive effect
*- negative effect

4.2 Point Structure dimensions

There is some mechanism that firms utilize when implement LP's point rewards, table 4 describe some issue that firms have to consider.

Challenge

Firms often offer points reward to their customers, with the intention to persuade customers to continue buying from the firm. Then firms gave points for every purchase and after customer collected for a certain amount, they can redeem the points. Some problem arise for this kind of mechanism. First, customers tend to stockpiling the points and did not redeem them. This kind of behavior has post-reward effect, where customer tend to reluctant to buy from the firm [31]. Second, customers are not committed to pursuing the goal to collect points and therefore, the continuance customers to join LP is put at risk [41].

Uncertain points such as lucky draw or surprise reward, customer prefer surprise reward that has un-schedule timing [20]. customers from Asia culture tend to favor lucky-draw rather than western customers [34].

Opportunity

Younger customer prefers to have points reward that they can use immediately [20]. Surprise reward can increase customer satisfaction toward LP and consequently promote customer loyalty [51].

Table 4 Point structure dimensions

Challenge			
Sub dimension	**Factors**	**Variables**	**author**
Non-linear/ delayed	Stockpilling, post-reward effect	redemption amount, redemption timing, purchasing amount	[31]
	Continuance&commitment	controlling policy, benefit type, reward timing	[41]
Uncertainty	perceived uncertainty	Reward timing (segregated, aggregated)	[20]
	cultural effect	behavioral loyalty, interdependent self construal, independent self-construal, general belief in luck	[34]
Opportunity			
instant	Customer intention	reward timing, benefit type	[32]
uncertainty	Satisfaction	cummulative satisfaction	[51]

4.3 membership dimension

Membership in LP concern with how member joins the LP and how many tiers that firms offer. Table 5 describes some challenge and opportunity regarding those membership dimensions.

Challenge

Firms implement tiers membership to generate revenue from their high spender customer. But, usually, most of their customers are in low middle tiers. Tier membership gave negative effect related to low tier member. Such as low motivation and commitment [9] and feeling pressure for losing status or demotion [42] [23].

Opportunity

Even though tier membership has negative effect on low spender customer, and yet it also has positive effect particularly for high tier member. Tier membership can establish loyalty and increasing customers' willingness to spend [27].

As a common rule, customers join LP voluntary. But there is also another option such invited by firms. Customers invited by firms have stronger relationship and intention toward LP [19].

Table 5 Membership dimensions

Challenge			
Sub dimension	Factors	Variables	author
Tier membership	behavioral loyalty	emotional commitment, trust, switching cost	[9]
	Discomfort in relationship, perceived pressure	perceived pressure	[42] [23]
Opportunity			
Selective membership	Intention, relationship	visibility, in-group identification, gratitude	[19]
Tier membership	Perceived status, willingness to spend	perceived advantage, perceived complexity, perceived risk	[27]

4.4 Partnership Dimensions

Nowadays there are many LPs offer by different firms and brands. Customers feel overwhelming due to many choices of offering. Therefore, many firms establish a coalition with other partners to form MVLP (Multi-Vendor Loyalty Program). Table 6 describes the challenge and opportunity for firms in case they consider to join MVLP.

Challenge

Joining MVLP for firms that mean give customer more choice to redeem their points to other partners. It also reduces switching barriers, customers can easily switch to other firms [45].

Opportunity

MVLP increase attractiveness among customer to join the program since it gives more benefit and choices for customers [27]. And the popularity of MVLP increasing when partner increase [53].

Other than that, MVLP can bring ancillary revenue for a well-known brand when the firm sold their point reward to other partners such as credit card or banking network [30] [44].

Table 6 Partnership dimensions

Challenge			
Sub dimension	Factor	variables	author
(MVLP)	switching barriers	intention purchase from partner companies, cross buying intentions	[45]
Opportunity			
MVLP	attractiveness	perceived advantage, perceived complexity, perceived risk	[27]
	popularity	number of partner, number of redemption option, threshold to reaching next tier	[53]
MVLP-major brand	Ancillary revenue	partnership active member, bank&payment network	[30] [44]

4.5 Communication Dimensions

Loyalty program not just offering benefit to customers, but how to communicate the programs as well. Table 7 identifies the challenge and opportunity of communication style from firms affect customers.

Challenge

Offering reward which has messages that is controlled and salient, could have negative effect on customer intention to engage in LP. Such as doesn't offer many choices or have a black-out date [36].

Opportunity

Social media become an important channel of communication for firms. Customer level of trust has been influenced by the word-of-mouth through social media. Besides that, customers tend to spread bad and good experience through social media [24] [43].

In addition to giving rewards to customers, firms also have to provide appropriate feedback, such as information about the program, answer inquiry [36] [48]. Feedback can motivate the customer to reach the goal to obtain reward. Concrete message motivate the customer to reach their goal [50]

Table 7 Communication Dimensions

Challenge			
Sub dimension	Factor	variables	author
Message type	Salient & control message	intrinsic motivation, brand loyalty, attitude toward brand, product involvement	[36]
Opportunity			
Social media	Trust, social media behavior	service quality, perceived value, commitment, trust, communication, satisfaction communication style, information quality	[24] [43]
Communication relay	feedback	intrinsic motivation, brand loyalty, attitude toward brand, product involvement	[36]

		value-based fairness, communication fairness	[48]
	Reward proximity, information quality	progress, description (abstract, concrete)	[50]

4.6 Future Trend

What the future holds for Loyalty program? Technology advancement definitely shifting the process of LP, or maybe also its paradigm. Table 8 explain some findings regarding the future of loyalty programs.

Table 8 Future Trend

Key finding	Author
Customer more likely redeem point through online channel	[33]
Online membership	[49]
Digital environment – virtual currency	[26] [49]
Machine learning helps to target effective reward (discount)	[22]
Ease of use, convenient are a determinant factor for customer switch to mobile apps. especially Younger customer	[38]

5. CONCLUSION

The Prominent goal of LP is to increase customer retention rate and built customer loyalty. Loyalty program has evolved through more value and benefit variety, also the technology advancement such as mobile technology, machine learning, and blockchain have brought loyalty program into a new business landscape.

5.1 theoretical implication

Hospitality industry highly depend on utilitarian and social benefits. More recent research on LP shows that there is a shifting from offline (card, punch card) LP to online LP. New technology encourages LP to evolve into a new business model.

5.1 managerial implication

Additionally, this study provides important implications for management as well. Firms have to design LP carefully since LP can become double-edged swords. When customer became members of LP, they have an expectation of what can firm give them. Economic benefit alone cannot establish real customer loyalty, with giving discounts, rebate, coupon merely entices "hit and run" customer. This called spurious loyalty that often guided by not strong commitment but merely impulsive buying. When customer find there is no attractiveness in firms, they easily switch to competitors. LP economic benefit has to accompanied with other benefits, for that reason firms create tier membership and special treatment. Firms have to consider these LP dimensions to design an innovative LP, firms also have to keep an eye on the trends.

whilst online business (E-commerce) can exploit game like activities (gamification) using mobile game or web game.

5.1 Limitation and future research

This study has limitations, it only searches articles in 8 journal publisher and English language article. There is a possibility other academic publishers have related and more comprehensive article related to Loyalty programs. And also articles in non-English language.

The result from this study shows the direction of future research in loyalty programs field. New LP business model such as MVLP began to emerge, and there is still plenty of research about it. New technology such as machine learning, mobile apps and blockchain still need to explore more and study for their contribution in LP.

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