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Perceived Benefits of Retail Loyalty Programs: Their Effects on Program Loyalty and Customer Loyalty

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The purpose of our study was to examine the interrelationship among the perceived benefits of retail loyalty programs (i.e., monetary savings, exploration, entertainment, recognition, social benefits), program loyalty, and customer loyalty within the context of apparel retailing. Monetary savings, entertainment, and social benefits were found to be positive predictors of program loyalty. Furthermore, program loyalty fully mediated the effects of entertainment, recognition, and social benefits on customer loyalty, whereas it served as a partial mediator in the link between monetary savings and customer loyalty. The implications of retail loyalty programs are discussed, as are limitations and areas for future research.

KEYWORDS *apparel, loyalty, retail, U.S. consumers*

Loyalty programs are prevalent in the United States. Approximately 90% of U.S. consumers actively participate in some type of loyalty program, with many consumers enrolled in multiple loyalty programs (Berman, 2006). In retailing, loyalty programs involve the issuance of specially coded credit cards or other special scanner-readable plastic cards that are swiped at checkout. Card usage can confer benefits, including immediate price discounts, members-only deals, free gifts at some threshold level of spending, redeemable points, and/or eligibility for sweepstakes and contests (Allaway, Gooner, Berkowitz, & Davis, 2006). The objective of these programs is to foster customer loyalty (Liu, 2007).

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Retail loyalty programs have become increasingly sophisticated through the application of customer relationship management systems. These systems allow retailers to store information about each individual customer and track that individual's purchasing behavior (Smith, 2008). For example, Saks Fifth Avenue, a New York–based apparel retailer, is known for its customer relationship management–based loyalty program, SAKSFIRST. This program provides five different reward tiers, ranging from a $1,000 tier (Classic) up to a $25,000 tier (Diamond), based on customers' spending per calendar year. At the end of each year, the retailer sends each member a discount coupon for store merchandise. Preferred members also receive special coupons and exclusive offers linked to the retailer's strategic partners, such as Ritz-Carlton Hotels and British Airways. The SAKSFIRST program consists of not only rewarding loyal customers but also gaining critical intelligence about how customers think and act. Membership information is used for everything from strategic decision making about store locations to recruiting for focus groups to assist in promotion and merchandising decisions (Alamgir & Maltese, 2005). In the near future, retailers will continue to develop their loyalty programs with information they can gather from the application of smart shopping carts and radio frequency identification devices that can constantly monitor shoppers' locations and purchasing patterns in a store (Smith, 2008).

Despite the use of retail loyalty programs, questions remain about their strategic effectiveness (Liu, 2007). For example, Dowling (2002) suggested that as an important component of a retailer's customer relationship management strategy, loyalty programs may not be cost effective. Dowling further argued that loyalty programs do not necessarily translate into customer loyalty and that the proliferation of loyalty programs may reflect marketing hype (i.e., an exaggerated or extravagant claim made in promotional materials) or a me-too scheme (i.e., a tactic of a market follower who attempts to avoid losing customers to a competitor by offering a loyalty program that is a copy of the competitor's program). In line with his critique, several authors have agreed that there is still much to understand about the effectiveness of loyalty programs and whether they actually deliver on their promise of building customer loyalty (Bridson, Evans, & Hickman, 2008; Liu, 2007; Yi & Jeon, 2003). Although evidence of the effectiveness of loyalty programs has begun to accumulate (e.g., Lewis, 2004; Yi & Jeon, 2003), empirical validations are limited, and a clear picture has yet to emerge (Liu, 2007).

To begin to address this knowledge gap, our research purpose was to investigate how various perceived benefits of loyalty programs are linked to customer loyalty within the context of apparel retailing. Our intended contribution was to critically evaluate and provide empirical evidence for a multifaceted, multidimensional perspective of loyalty program benefits. Prior researchers have suggested that customers value loyalty programs mainly because of the monetary rewards these programs provide (e.g., Berry, 1995;

Peterson, 1995). We consider this claim limited because it overlooks a duality of rewards in consumer behavior, the distinction between performing an act to get something versus doing so because you love it (Babin, Darden, & Griffin, 1994; Chang, Burns, & Francis, 2004). Our study is one of the first empirical studies designed to examine both monetary and nonmonetary benefits of retail loyalty programs and to simultaneously test their differential impacts on customer loyalty. The empirical findings of our study contribute to the literature on the effectiveness of loyalty programs.

With regard to management, our study provides strategic guidelines for retailers. Despite the large number of retailers offering loyalty programs and their high levels of consumer membership (Berman, 2006), many programs have not been successful because of a lack of focus on how members perceive loyalty programs and which advantages individuals derive from participation (Mimouni-Chaabane & Volle, 2010). Also, when it comes to the design and implementation of loyalty programs, retailers largely make use of defensive strategies, and their decision to launch a program is often motivated by fears of competitive parity (Yi & Jeon, 2003). As a result, they end up creating programs that look alike when they would probably benefit from competitive differentiation (Berman, 2006). In view of the considerable investment required to set up and maintain a retail loyalty program, it is theoretically and practically useful to investigate which aspects of the loyalty program are perceived as truly beneficial by customers (i.e., what the program can provide or what value the customer attributes to participation in the program) and how customers' perceptions contribute to their loyalty. This information can provide insight into the development of retail loyalty programs that offer distinct benefits and competitive advantages.

CONCEPTUAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

Our conceptual model was based on Yi and Jeon's (2003) framework (see Figure 1). Yi and Jeon recognized that developing brand loyalty through a loyalty program requires that the program be perceived as valuable by customers. Specifically, they showed that program members' positive attitudes toward a loyalty program (hereafter referred to as *program loyalty*) are a consequence of their value perception of the loyalty program. Furthermore, they demonstrated that program loyalty functions as a partial mediator of the relationship between perceived program value and brand loyalty.

Although Yi and Jeon (2003) deepened understanding of the effectiveness of loyalty programs, they used a single-dimension conceptualization for the perceived program value construct, focusing on the economic gains loyalty programs provide. Given the observation that current loyalty programs reflect a person's intangible needs (Mimouni-Chaabane & Volle, 2010), a theoretical and managerial imperative is to develop a new framework that

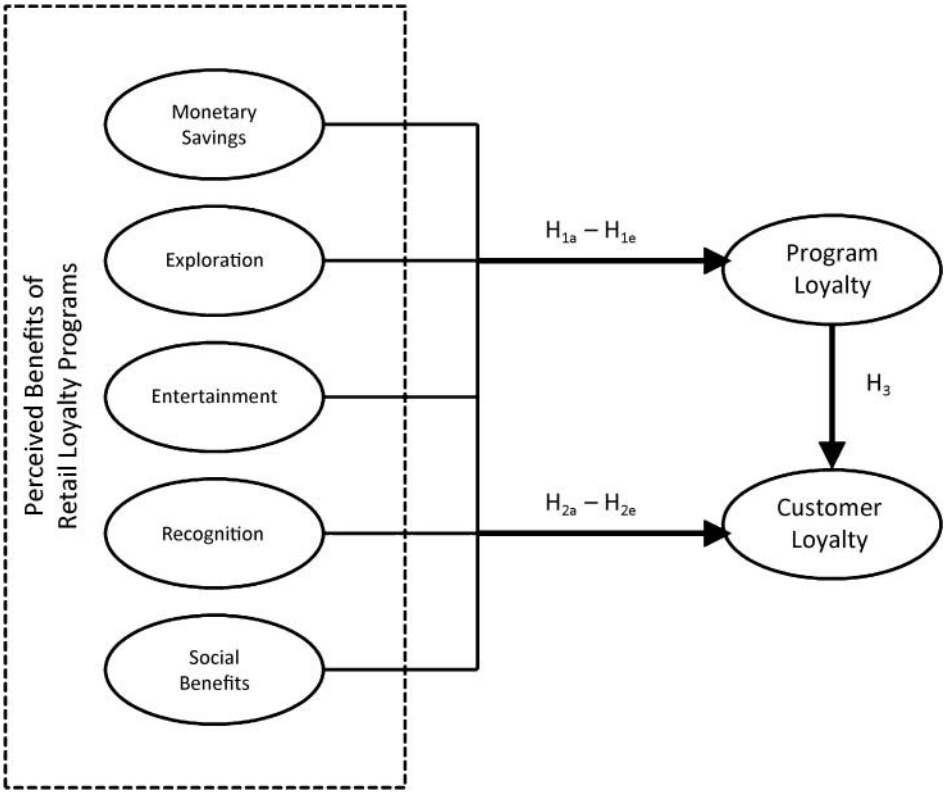

FIGURE 1 Hypothesized Model. H = hypothesis.

can capture various perceived benefits of loyalty programs. A recent advance in this area is represented by the work of Mimouni-Chaabane and Volle (2010), who proposed that the benefits customers obtain from joining loyalty programs consist of utilitarian benefits (monetary savings), hedonic benefits (exploration and entertainment), and symbolic benefits (recognition and social benefits). Mimouni-Chaabane and Volle developed a multi-item scale to measure these benefits on the basis of various customer experiences, following standard scale development procedures using in-depth interviews and pretesting. In the context of apparel retailing, our study extends Yi and Jeon's work by incorporating the multi-benefit framework proposed by Mimouni-Chaabane and Volle. In the sections that follow, we discuss each of the constructs and describe their expected influences.

Perceived Benefits of Loyalty Programs

The major goal of a loyalty program is to provide added value to customers with the purpose of establishing customer retention (Bolton, Kannan, &

Bramlett, 2000; Liu, 2007). As previously noted, to build customer loyalty the program should be recognized as beneficial to customers (Yi & Jeon, 2003). The perceived benefits of loyalty programs are defined as the value(s) that the program provides for members (Mimouni-Chaabane & Volle, 2010). Thus, a critical key of the success of a loyalty program is whether a consumer can perceive and identify the benefits of membership and appreciate receiving rewards (Demoulin & Zidda, 2008).

What are the benefits associated with loyalty programs? Over the years, the benefits linked with participation in loyalty programs have been classified in different ways. For example, in early research, O'Brien and Jones (1995) suggested that five elements determined the values of a loyalty program: cash value, choice of redemption options, aspirational value, relevance, and convenience. Subsequently, several researchers categorized the benefits into two broad categories: hard benefits or soft benefits (Capizzi & Furguson, 2005; Demoulin & Zidda, 2009; Lacey, Suh, & Morgan, 2007). The hard benefits included tangible elements such as discounts, cash rewards, coupons, and gifts. The soft benefits were emotionally oriented elements, such as preferential treatment, restricted check-in counters for loyalty cardholders, special communications, and priority on wait lists, which were thought to give customers a sense of recognition and importance. Likewise, Meyer-Waarden (2007) classified the benefits of participation in loyalty programs into three categories: economic (e.g., discounts), psychological (e.g., sense of community), and sociological (e.g., prestige or recognition, exclusive treatment). Sociological benefits are acquired from a loyalty program's association with social status, social class, or a specific social group, whereas psychological benefits involve a person's basic human need to feel a sense of belonging and acceptance.

Finally, Mimouni-Chaabane and Volle's (2010) classification of benefits is utilitarian, hedonic, and symbolic. The first category, utilitarian, provides a means to some end and includes the value associated with financial advantages (Mimouni-Chaabane & Volle, 2010). Examples include monetary savings that stem from discounts, rebates, and coupons. Research suggests that financial advantages are a major motivation for joining a loyalty program (Allaway et al., 2006). For example, the loyalty program of Gap Inc. allows customers to earn points on purchases at all Gap Inc. brands, which they may then use toward certain monetary rewards.

The second category, hedonic benefits, derive from exploration and entertainment (Mimouni-Chaabane & Volle, 2010). Prior research has highlighted the hedonic aspects of exploratory consumer behavior (Venkatraman & MacInnis, 1985). Consumers often enjoy receiving stimulation because it provides intrinsic gratification, arousal, and emotion (Hirschman & Holbrook, 1982). For example, they sometimes engage in variety seeking and innovativeness with products that provide sensory stimulation, emotion, and images (Venkatraman & MacInnis, 1985). Apparel retail loyalty programs may

provide exploratory benefits through trend information on new styles for the coming season and trying on new styles before others (e.g., Lane Bryant, J. Crew, New York & Company).

According to Johnson (1999), a loyalty program per se can be regarded as entertainment because of the pleasure associated with collecting and redeeming points. In this case, customers act like players participating in a game and experience a feeling of self-fulfillment (Mimouni-Chaabane & Volle, 2010). In the context of apparel loyalty programs, entertainment can be also provided through special promotions, including fashion shows (e.g., Nordstrom, Macy's, Bloomingdale's) and other entertaining events (e.g., American Eagle's bra-fitting parties, Nordstrom's Designer Preview event). Thus, it is likely that a certain amount of pleasure members experience from earning and redeeming loyalty points may be attributed to their anticipation of entertaining rewards.

The final category, symbolic benefits, are the benefits that are linked to customers' need for social approval and sense of worth (i.e., a person's basic need to feel important; Mimouni-Chaabane & Volle, 2010). Symbolic benefits are extrinsic and intangible values of a program that can fulfill consumers' needs for recognition, personal expression, self-esteem, and social approval (Keller, 1993). In our model, symbolic benefits are embodied by two constructs: recognition and social benefits (Mimouni-Chaabane & Volle, 2010). Participants in loyalty programs may receive special treatment, extra attention, or personalized services (e.g., priority queues, exclusive lounges, oversized dressing rooms). These benefits allow participants to feel differentiated from other customers (McAlexander, Schouten, & Koenig, 2002). For example, invitations to in-store events, first-early access to sales, and free beauty samples and makeovers are provided only to Victoria's Secret loyalty program members.

Participation in these exclusive events brings customers into contact with other program members, thus forming a social group. Program members may begin to form social bonds with other members and feel that they are part of an exclusive group, thus reaping social benefits. Consumers can achieve a sense of community when they derive benefits from participation in loyalty programs (McAlexander et al., 2002), such as membership (a feeling of belonging), influence (a sense of mattering), a shared emotional connection (the commitment and value associated with the brand that members have shared), and fulfillment (a feeling that members' needs will be fulfilled through group membership; McMillian & Chavis, 1986).

Program Loyalty

Program loyalty is defined as a highly positive attitude toward the loyalty program (Yi & Jeon, 2003). Several researchers have proposed that there

is a relationship between the benefits of a loyalty program and consumers' program loyalty. For example, Leenheer, van Heerde, Bijmolt, and Smidts (2007) found that the more economic benefits (e.g., saving and discount rates) and noneconomic benefits (e.g., special invitations to an event) a customer associated with a loyalty program, the higher the likelihood of the customer enrolling in the program. In addition, if customers perceive a certain loyalty program to be more attractive than competing programs, it is conceivable that they will be more likely to join and actively participate in that program (Wirtz, Mattila, & Lwin, 2007). Building on the foregoing discussion, the following hypothesis was formulated:

> H1: Each of the following perceived benefits of an apparel loyalty program positively predicts program loyalty: (a) monetary savings, (b) exploration, (c) entertainment, (d) recognition, and (e) social benefits.

Customer Loyalty

Customer loyalty is operationalized as an intention to perform behaviors that signal a motivation to maintain a relationship with an apparel retailer, including allocating a higher share of wallet, engaging in positive word of mouth, and repeat purchasing (Sirdeshmukh, Singh, & Sabol, 2002). Some researchers have documented a positive relationship between customer loyalty and the perceived benefits of a loyalty program. Specifically, researchers have documented that the more attractive a loyalty program is perceived to be, the more a customer purchases (Lewis, 2004; Taylor & Neslin, 2005) and demonstrates store loyalty (Bridson et al., 2008). In addition, customer satisfaction with a loyalty program results in the provider receiving a large share of wallet (Leenheer et al., 2007; Wirtz et al., 2007) and share of visit (Mägi, 2003).

According to previous researchers, the perceived benefits of a loyalty program show a positive effect on customer loyalty. For example, both Anisimova (2007) and Rowley (2007) asserted that functional consumer benefits (e.g., financial rewards) were important predictors of both attitudinal and behavioral loyalty. Demoulin and Zidda (2008) suggested that loyalty cardholders are likely to be loyal to the store if they gain the promotional inducements and if the reward is valuable. In addition, the various strategies and tactics retailers use build upon the notion that customer loyalty may increase through the hedonic and symbolic benefits of loyalty programs. Examples are members-only sales events, invitations to holiday private shopping events (e.g., Nordstrom's fashion reward program), and exclusive cardholder-customer service numbers (e.g., Victoria Secret's Angel program). Our literature review documented that the perceived benefits associated with a loyalty program positively influence loyalty behavior. Therefore, the following hypothesis was formulated:

H2: Each of the following perceived benefits of an apparel loyalty program positively predicts customer loyalty: (a) monetary savings, (b) exploration, (c) entertainment, (d) recognition, and (e) social benefits.

There is limited research on whether the perceived benefits of a loyalty program directly influence brand or customer loyalty or whether benefits impact customer loyalty through program loyalty. Yi and Jeon (2003) investigated the relationship between these variables (i.e., benefits, program loyalty, brand loyalty) with both a low-involvement brand purchase (e.g., buying a fried chicken) and a high-involvement purchase (e.g., using a beauty shop). In the low-involvement condition, the perceived benefits of a loyalty program affected brand loyalty only through program loyalty. In the high-involvement condition, the perceived benefits influenced brand loyalty both directly and through program loyalty.

In subsequent research, Hu, Huang, and Chen (2010) investigated how the perception of the value of a loyalty program affected program loyalty and customer loyalty in hotel services. The perceived benefits of the loyalty program affected customer loyalty only through program loyalty only to the extent that the program provided value to the customer. Furthermore, Hu et al. concluded that customers may want to have a relationship with a retailer as long as the loyalty program is beneficial to them and that a loyalty scheme influences the perceived value of services and elicits customer loyalty. Based on these findings, we developed our final hypothesis:

H3: Program loyalty positively predicts customer loyalty.

METHODS

Data Collection

Data were collected using a Web survey with the help of a marketing research firm. First a total of 3,000 panel members managed by the research firm were randomly selected. E-mail cover letters were sent to them asking for their voluntary participation in our research. The e-mails included the domain address where they could find the questionnaire.

At the outset of the questionnaire, the opening instructions indicated that the research was a study on retail loyalty programs conducted by a research team at a major university. Immediately after this introduction, the term *retail loyalty program* was defined as a retailer's marketing program in which customers are rewarded with discounts or other special offers in order to encourage them to continue purchasing at the retailer. Respondents were asked whether they were a member of any apparel retailer's loyalty program. If the respondents answered "no" to this question, they were not given any more questions. Those who answered "yes" to this question were asked to

indicate an apparel retailer's loyalty program that they had joined. Next they completed a questionnaire making reference to the retailer they had identified. The questionnaire was designed to be completed within 10–15 min. To reduce measurement artifacts, we assessed dependent variables prior to their predictors. The data collection process lasted 2 days. In return for their participation, respondents were given e-currency that could be used to purchase products/services from the firm's redemption partners.

Instrument

The measurement items used were selected based on a review of the literature (see Table 1 for all items). Sixteen measurement items for perceived benefits of retail loyalty programs were adopted from Mimouni-Chaabane and Volle (2010): Monetary Savings ($\alpha = .90$), Exploration ($\alpha = .91$), Entertainment ($\alpha = .89$), Recognition ($\alpha = .97$), and Social Benefits ($\alpha = .96$). The response scale was a 5-point Likert-type scale (1 = *strongly disagree* and 5 = *strongly agree*). Mimouni-Chaabane and Volle demonstrated that their scale had adequate convergent validity (i.e., the explained variance of each of the five benefit dimensions was greater than the variance due to the error) and discriminant validity (i.e., the average variance extracted was higher than the squared correlations among the five dimensions).

Three measurement items for program loyalty were adopted from Yi and Jeon (2003; $\alpha = .86$) and rated on a 5-point Likert-type scale (1 = *strongly disagree* and 5 = *strongly agree*). Yi and Jeon assessed measurement validity by confirmatory factor analysis. Their confirmatory factor analysis results showed strong evidence of unidimensionality and convergent validity. Likewise, four reliable and valid measures for the customer loyalty construct originated from Sirdeshmukh et al. (2002; $\alpha = .90$). The response scale was a 5-point Likert-type scale (1 = *very unlikely* and 5 = *very likely*). Information on participants' demographic characteristics (gender, educational attainment, marital status, employment status, income, ethnic background [close ended], and age [open ended]) was gathered to provide a description of the participants.

RESULTS

Participant Characteristics

A total of 385 members visited our survey (a response rate of 12.8%). Questionnaires with incomplete answers were excluded, as were questionnaires from respondents who indicated that they did not participate in an apparel retailer's loyalty program. Excluding these questionnaires resulted in 294 completed questionnaires that supplied the data for analysis. The

TABLE 1 Summary of Measures

Construct (Source)		Item
Perceived Benefits of Retail Loyalty Programs[a] (Mimouni-Chaabane & Volle, 2010)		
	Monetary savings	Because I participate in this loyalty program, • I shop at a lower financial cost. • I spend less. • I save money.
	Exploration	Because I participate in this loyalty program, • I discover new products. • I discover products I would not have discovered otherwise. • I try new products.
	Entertainment	• Collecting points is entertaining. • Redeeming points is enjoyable. • When I redeem my points, I am good at myself.
	Recognition	Because I participate in this loyalty program, • The store employees take better care of me. • I am treated better than other customers. • I am treated with more respect. • I feel I am more distinguished than other customers.
	Social benefits	Because I participate in this loyalty program, • I belong to a community of people who share the same values. • I feel close to the brand. • I feel I share the same values as the brand.
Program Loyalty[a] (Yi & Jeon, 2003)		• I like this loyalty program more than other programs. • I have a strong preference for this loyalty program. • I would recommend this loyalty program to others.
Customer Loyalty[b] (Sirdeshmukh et al., 2002)		How likely are you to . . . • Do most of your future apparel shopping at this store? • Recommend this store to friends, neighbors, and relatives? • Use this store the very next time you need to shop for a clothing item? • Spend more than 50% of your clothing budget with this store?

[a]Anchored with 5-point Likert-type scale descriptors, from 1 = *strongly disagree* to 5 = *strongly agree*.
[b]Anchored with 5-point Likert-type scale descriptors, from 1 = *not at all likely* to 5 = *very likely*.

click-through rate was 76.4%. Participants' ages ranged from 18 to 73 years, with 65.6% between 18 and 45 years. Slightly more than half of the participants were female (51.4%). With respect to ethnicity, 78.6% were Caucasian. All income categories were represented, with $60,000–$69,999 as the median income. In addition, 61.2% of our participants had a 4-year college degree, and 65.3% were married or lived with a partner. The loyalty programs that the respondents belonged to were offered through department stores (31%), specialty stores (61.9%), and others (6.5%).

TABLE 2 Results: Measurement Model

Variable	1	2	3	4	5	6	7
1. Monetary Savings	—						
2. Exploration	.51 (.26)	—					
3. Entertainment	.38 (.14)	.58 (.34)	—				
4. Recognition	.36 (.13)	.62 (.38)	.44 (.20)	—			
5. Social Benefits	.46 (.21)	.71 (.51)	.65 (.42)	.79 (.62)	—		
6. Program Loyalty	.47 (.22)	.58 (.33)	.64 (.40)	.42 (.17)	.66 (.43)	—	
7. Customer Loyalty	.45 (.21)	.40 (.16)	.50 (.25)	.33 (.11)	.54 (.29)	.67 (.45)	—
M	3.47	3.20	3.53	2.63	2.94	3.59	3.61
SD	.88	.81	.80	.85	.84	.78	.98
Composite Reliability[a]	.87	.83	.84	.92	.85	.86	.91
Variance Extracted[b]	.69	.61	.63	.74	.65	.68	.71

Notes: Correlations are squared correlations.
[a]Composite reliability = ($\sum$ standardized loading)^2/($\sum$ standardized loading)^2 + $\sum$ measurement error. [b]Variance extracted = $\sum$ (standardized loading)^2/$\sum$ (standardized loading)^2 + $\sum$ measurement error.

Measurement Model Evaluation

Table 2 provides an overview of construct means, standard deviations, and correlations for the measurement model. Confirmatory factor analysis indicated that the measurement model had acceptable construct validity and reliability. The chi-square of the measurement model was 394.09 ($df = 207$). The overall fit statistics ($\chi^2/df = 1.90$, confirmatory factor analysis [CFI] = .96, nonnormed fit index [NNFI] = .95, root mean square error of approximation [RMSEA] = .056, standardized root-mean-square residual [SRMR] = .046) suggested that the measurement model had a good fit. All manifest variables had high factor loadings on their respective constructs (>.73).

Convergent validity is the extent to which multiple measures of the same theoretical constructs are in agreement, whereas discriminant validity refers to the extent to which one theoretical construct differs from another (Byrne, 1998). Convergent validity was supported by the following: (a) All loadings were significant ($p < .001$), (b) the composite reliability for each construct exceeded the recommended level of .70, and (c) the average variance extracted for each construct fulfilled the recommended benchmark of .50 (Hair, Anderson, Tatham, & Black, 1988). As evidence of the discriminant validity of the scales, none of the confidence intervals of the phi estimates included 1.00. Further evidence supporting discriminant validity was indicated by the fact that the variance extracted estimates exceeded the square of the phi estimates for all constructs in each sample (see Fornell & Larcker, 1981).

Proposed Model

Structural equation modeling was conducted using the maximum likelihood estimation method to test the hypotheses. The structural model exhibited a

TABLE 3 Results: Proposed Model vs. Revised Model

Endogenous Construct		Proposed Model (With Recognition) Standardized Estimate	*t*	Revised Model (Without Recognition) Standardized Estimate	*t*
Program Loyalty		$R^2 = .55$		$R^2 = .53$	
H_{1a}	Monetary savings	.16	2.48*		
H_{1b}	Exploration	.12	1.27	.19	2.30**
H_{1c}	Entertainment	.29	3.63***	.33	4.24***
H_{1d}	Recognition	–.22	–2.26*	—	—
H_{1e}	Social benefits	.48	3.61***	.31	3.27**
Customer Loyalty		$R^2 = .50$		$R^2 = .50$	
H_{2a}	Monetary savings	.19	2.95**	.19	2.96**
H_{2b}	Exploration	–.15	–1.63	.16	1.8
H_{2c}	Entertainment	.07	0.91	.08	1.02
H_{2d}	Recognition	–.08	–0.79	—	—
H_{2e}	Social benefits	.25	1.76	.184	1.90
H_3	Program loyalty	.49	5.55***	.50	5.94***
Fit Statistics ($N = 294$)					
χ^2 (*df*)		340.48 (187)		262.33 (136)	
χ^2/df		1.82		1.93	
CFI		.96		.96	
NNFI		.96		.95	
RMSEA		.053		.056	
SRMR		.044		.043	

Notes: H = hypothesis; CFI = confirmatory factor analysis; NNFI = nonnormed fit index; RMSEA = root mean square error of approximation; SRMR = standardized root-mean-square residual.
*$p < .05$
**$p < .01$
***$p < .001$

good fit with the data ($\chi^2 = 340.48$, $df = 187$, $\chi^2/df = 1.82$, CFI = .96, NNFI = .96, RMSEA = .053, SRMR = .044). The degree of variance explained by five exogenous constructs for program loyalty was .55, and the variance explained estimate for customer loyalty by six antecedents was .50. Regarding H1, social benefits ($\beta = .48$, $t = 3.61$, $df = 293$) and entertainment ($\beta = .29$, $t = 3.63$, $df = 293$) were significant ($p < .001$), followed by monetary savings ($\beta = .16$, $t = 2.48$, $df = 293$, $p < .05$). What is surprising is that recognition ($\beta = –.22$, $t = –2.26$, $df = 293$) had a significant negative effect on program loyalty ($p < .05$). This might indicate a suppressor effect (Maassen & Bakker, 2001), as the bivariate correlation between recognition and program loyalty was positive (see Table 3). Exploration was not significant. For H2, only monetary savings ($\beta = .19$, $t = 2.95$, $df = 293$) was significant ($p < .01$) in predicting customer loyalty. For H3, program loyalty was found to be a significant predictor of customer loyalty ($\beta = .49$, $t = 5.55$, $df = 293$, $p < .001$).

Suppression Analysis

As noted previously, negative suppression was present in our model. Recognition was identified as a suppressor variable.[1] It had positive zero-order

correlations with other exogenous constructs(s) and with the endogenous construct (i.e., program loyalty); however, when included in the structural model, it had a negative beta weight (see Maassen & Bakker, 2001). In other words, contrary to our hypothesis, the regression weight of recognition had an opposite sign. Further analysis indicated that recognition suppressed some outcome-irrelevant variation or errors in social benefits and improved the overall predictive power of the model. Because of the positive correlation between recognition and social benefits, including recognition in the structural model resulted in two changes: (a) The regression weight of social benefits increased; and (b) the regression weight of recognition was significant, although this value was negative. The negative value indicated that recognition correlated highly with the error in social benefits (Maassen & Bakker, 2001).

Revised Model

Based on Maassen and Bakker's (2001) suggestion, we dropped the suppressor variable (i.e., recognition) from the structural model. The results from the revised structural model are presented in Table 3. The revised structural model exhibited a good fit with the data ($\chi^2 = 262.33$, $df = 136$, $\chi^2/df = 1.93$, CFI = .96, NNFI = .95, RMSEA = .056, SRMR = .043). The degree of variance explained by four exogenous constructs for program loyalty was .53, and the variance explained estimate for customer loyalty by five antecedents was .50. Regarding H1, entertainment ($\beta = .33$, $t = 4.24$, $df = 293$, $p < .001$) was most significant, followed by social benefits ($\beta = .31$, $t = 3.27$, $df = 293$, $p < .01$) and monetary savings ($\beta = .19$, $t = 2.30$, $df = 293$, $p < .01$). Exploration was not significant. For H2, only monetary savings ($\beta = .19$, $t = 2.96$, $df = 293$, $p < .01$) was significant in predicting customer loyalty. For H3, program loyalty was found to be a significant predictor of customer loyalty ($\beta = .50$, $t = 5.94$, $df = 293$, $p < .001$).

Indirect Effects

In the revised model, the indirect effects of the four exogenous constructs (i.e., perceived benefits) on customer loyalty were also assessed. The Sobel test was used to calculate for mediation in the structural model. Applied to our research, the Sobel test assessed whether a mediator variable (program loyalty) significantly carried the effect of an independent variable (perceived benefits) to a dependent variable (customer loyalty; Sobel, 1982). The results of the Sobel test revealed that monetary savings ($\beta_{\text{indirect}} = .08$, $z = 2.75$, $p < .01$) had a significant indirect effect on customer loyalty via program loyalty. Because the direct relationship between monetary savings and customer loyalty was significant (see Table 3), program loyalty could be regarded as a partial mediator in the monetary savings and customer loyalty link. However,

program loyalty fully mediated the effects of entertainment ($\beta_{\text{indirect}} = .16$, $z = 3.78$, $p < .001$) and social benefits ($\beta_{\text{indirect}} = .16$, $z = 3.25$, $p < .01$) on customer loyalty. These findings indicate that increasing program loyalty is requisite to increasing members' customer loyalty.

DISCUSSION AND IMPLICATIONS

We examined the interrelationships among the perceived benefits of retail loyalty programs (i.e., monetary savings, exploration, entertainment, recognition, social benefits), program loyalty, and customer loyalty within the context of apparel retailing. In so doing, we critically evaluated and provided empirical evidence for the multi-benefit framework proposed by Mimouni-Chaabane and Volle (2010). Our data suggest that recognition suppresses irrelevant variance in social benefits when predicting program loyalty. A hypothetical scenario producing such an effect might be that perceived symbolic benefits are related to and may to some extent be subsumed within high-order personality traits such as extraversion and agreeableness (Grubb & Grathwohl, 1967). In this scenario, recognition might be considered an enhancer that suppresses common personality-related variance in social benefits that is unrelated to program loyalty. In this way, the remaining personality-related variance in social benefits that predicts program loyalty gains predictive power. From a theoretical perspective, we leave open the possibility that recognition (a) functions as a consistent and stable suppressor, (b) enhances prediction of program loyalty, and (c) improves understanding of the social benefits construct by explaining the content of the invalid variance components that are partitioned out.

However, we also admit that this suppressor phenomenon can be masked by sample fluctuations and measurement errors. Maassen and Bakker (2001) recommended that "if the suppressor variable and the explanatory variable are substantively strongly related . . ., then one can drop one of the two or both the variables for reasons of parsimony" (p. 267). Thus, we decided to delete recognition from our model to increase statistical power in hypothesis testing, although elimination of this theoretically relevant variable may have resulted in underestimation of parameters.

In the revised model, monetary savings, entertainment, and social benefits were found to be positive predictors of program loyalty. This finding suggests that retailers provide not only monetary but also nonmonetary incentives and integrate entertainment and social benefits into their loyalty programs. Furthermore, this finding supports the contention that retailers can promote both symbolic and hedonic benefits as reasons for enrolling in their loyalty programs (Mimouni-Chaabane & Volle, 2010). Note that although monetary savings was a significant predictor of program loyalty, it

was entertainment that was the most significant predictor. This finding suggests that retailers need to adjust their marketing tactics to reflect the rising importance of entertainment aspects for strengthening program loyalty. Furthermore, in our socially networked society, the social benefits of loyalty programs could help to create or strengthen the connections among loyalty program participants and cultivate a sense of community, thus adding value to a loyalty program.

A surprising finding is that exploration revealed a nonsignificant relationship with program loyalty. This could be a discouraging finding for retailers who are undertaking efforts to promote new products and brands to their loyalty program members. Although our confirmatory factor analysis and tests of discriminant validity provide clear support for a five-dimensional structure for the perceived benefits items, exploration was deemed to be highly correlated with the other benefit variables, and thus the influence of exploration seemed to be explained by other variables.

With respect to H2, monetary savings directly predicted customer loyalty. This finding contradicts Dowling and Uncles's (1997) claim that "probably the least useful rewards for customer loyalty are free gifts ... these are nice to receive but tend to be only short-term tactical froth" (p. 79). This finding also helps refute the contention that in affluent U.S. markets the long tradition of providing customers with monetary savings for their loyalty has worn out the impact of such offers (De Wulf, Odekerken-Schröder, & Iacobucci, 2001). Although this claim is speculative in nature, we suggest that U.S. consumers were enthusiastically responding to the natural appeal of monetary savings during the current economic recession. What is surprising is that none of the hedonic and symbolic benefits exerted a direct influence on customer loyalty. This finding suggests that the hedonic benefits of loyalty programs may very well be a necessary but not a sufficient condition for building customer loyalty. Alternatively, these soft benefits may tie into attitudinal loyalty constructs (e.g., commitment, emotional attachment, affect) rather than the behavioral loyalty we examined (Bridson et al., 2008). Clearly, additional work needs to be done in this area.

Finally, program loyalty was a significant predictor of customer loyalty. This result is similar to Yi and Jeon (2003), who found with service retailers that program loyalty was predictive of overall brand loyalty. The results of the Sobel test revealed that program loyalty fully mediated the effects of entertainment and social benefits on customer loyalty, whereas it served as a partial mediator in the link between monetary savings and customer loyalty. Overall, these mediating effects imply that it is advantageous for retailers to provide both monetary and nonmonetary benefits in their loyalty programs because these benefits result in increased program loyalty that ultimately influences customer loyalty.

LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH

This study has certain limitations and raises questions for future research. First, as in any study, further research is needed to replicate and extend the proposed model. The proposed model was tested in the context of apparel retailing. One should be cautious in generalizing the findings to other contexts. It would be valuable to apply the model to other contexts, such as grocery retailing or retail services, to determine whether the findings corroborate or extend the model.

Second, our findings suggest several limitations associated with the multi-benefit scale developed by Mimouni-Chaabane and Volle (2010): (a) Recognition functioned as a suppressor, and (b) exploration was not a significant predictor of program loyalty because it was highly correlated with other predictors. Given that the results of our study are preliminary and have yet to be replicated, further research is needed to confirm the existence of the suppressor phenomenon. Although there was no evidence of multicollinearity (i.e., variance inflation factors <2.0) in the parallel non–structural equation modeling linear regression models, the high correlation among the exogenous constructs suggests that multicollinearity may influence their usefulness when predicting outcomes other than those examined in our study.

Third, because Mimouni-Chaabane and Volle's (2010) scale was developed in the context of French consumers, it may not fully capture various perceived benefits of loyalty programs U.S. retailers offer. Also, the purpose of our conceptual model was not to include all possible antecedents and consequences of program loyalty but to inject the multi-benefit framework proposed by Mimouni-Chaabane and Volle into an existing loyalty program paradigm (Yi & Jeon, 2003). Thus, another limitation might be the omission of variables important to program loyalty. Additional retailer attributes, such as pricing and promotion, product quality and assortment, and service quality, could be added as antecedents of program loyalty. An interesting avenue for future research is to compare research models incorporating all of these components across different demographic segments.

Finally, we conducted a cross-sectional analysis because of time constraints, and it would be desirable to carry out a longitudinal study, as both program loyalty and customer loyalty develop over time. Furthermore, tracking changes in customer loyalty over time, both before and after the inception of a loyalty program, would provide substantial evidence regarding the effectiveness of loyalty programs (Bridson et al., 2008). Also, the relationships we examined are probably more complex than we initially assumed. We examined a limited part of the question of how loyalty programs translate into customer loyalty. Further research on how the effects of perceived benefits on the tested outcome variables are moderated by different consumer characteristics would advance retailing research as well as be of great managerial significance.

NOTE

1. We used the following formula (Maassen & Bakker, 2001):
$$k < r_{sp} < 2k \div k^2 + 1,$$
where $k = r_{sy} \div r_{py}$, p = explanatory variable, s = suppressor, y = dependent variable.

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