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Loyalty Programmes: Current Knowledge and Research Directions*

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Loyalty programmes (LPs) have increased in number and popularity, but their effects on customer behaviour remain equivocal, due to a lack of understanding of the drivers of LP effectiveness and insufficient generalizable conclusions across prior studies. This paper synthesizes current knowledge pertaining to LPs, reconciles opposing findings by exploring the conditions that mediate and moderate the effects of LP participation on consumer responses, and charts important avenues for research. Overall, we find that LPs are effective in increasing consumer purchase behaviours over time, but the impact differs across consumer segments and markets. Currently, neither firms nor consumers fully benefit from the opportunities that LPs offer. To that end, we identify aspects which help researchers and practitioners increase their understanding of LP benefits and pitfalls. Through this study, companies that already have LPs will be able to improve their performance, and those that are about to introduce one will better understand the implications of the LP launch.

Introduction

The boom in information technology and the shifting of firms toward customer-centric focus have prompted the development of customer relationship management programmes, also known as loyalty programmes (LPs), to encourage customer loyalty. During the 1990s, the number of LPs among European retailers grew 25%–30% annually (Ziliani and Bellini 2004). By 2003, approximately 92% of UK consumers had participated in LPs (Berman 2006). Similarly, LPs have proliferated in other developed countries (Ferguson and Hlavinka 2009a); in the USA, for instance, LP membership grew 25% to 1.8 billion from 2006 to 2008. Moreover, consumer interest in LPs has increased during the recent recession (Burness *et al*. 2009; Ferguson and Hlavinka 2009b).

The spike in LPs has spurred substantial academic research in the field as well. Unfortunately, the studies seem to bring more confusion than guidance to managers (McCall and Voorhees 2010). Some authors have questioned the effectiveness of LPs (e.g. Dowling and Uncles 1997; Sharp 2010; Sharp and Sharp 1997); Shugan (2005) even refers to LPs as shams. However, other authors emphasize the value of LPs (Berman 2006; McCall and Voorhees 2010; Nunes and Drèze 2006a; Wansink 2003). Empirical research shows divergent findings. Some studies indicate a positive impact on customer behaviour (Lal and Bell 2003; Liu 2007; Taylor and Neslin 2003), while others report little or no impact (e.g. Meyer-Waarden and Benavent 2006; Sharp and Sharp 1997). Diverse research methodologies, concepts and measurements make it difficult to compare the results. Sufficient literature exists to support

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initial generalizations, though, even if incomparable methodologies prevent empirical, meta-analytical generalizations.

Given the prevalence of LPs, and the growing number of studies and divergent findings on them, this paper offers an overview of extant research on them. It is an attempt to outline and reconcile the results and their sources, draw conclusions about the impact of LPs, and highlight relevant avenues for further research. Unlike prior overviews which have targeted a managerial audience (Berman 2006; Nunes and Drèze 2006a; O'Brien and Jones 1995; Uncles *et al*. 2003; Wansink 2003), we synthesize the insights from academic research to reach some generalizable conclusions. We thus expect this paper to support both researchers and practitioners through a comprehensive, research-based synthesis of current knowledge. By separating what we know from conjecture, we identify existing knowledge gaps and outline some future trends. Furthermore, our study aims to help companies with LPs improve their performance. Meanwhile, companies that are still contemplating LPs will better understand the implications and perils of such programmes through this study.

Definition of LPs

The abundance of loyalty-building schemes under the umbrella of LPs makes it difficult to establish a single definition covering all types. The main purpose of LPs is to 'reward, and therefore encourage, loyal behavior' (Sharp and Sharp 1997, p. 474) or customer loyalty. The American Marketing Association's dictionary refers to LPs as 'continuity incentive programs offered by a retailer to reward customers and encourage repeat business', though we suggest that this definition also include manufacturers as potential offerees. Prior literature uses many different terms to describe LPs, including reward programmes, frequency reward programmes, frequent-shopper programmes, loyalty cards or schemes, points cards, advantage cards and frequent-flyer programmes. We adopt the term 'loyalty programme' to encompass all these terms and various programme designs that should contain the following characteristics (Berman 2006; Blattberg *et al*. 2008; Leenheer *et al*. 2007).

- *Fosters loyalty*: The main purpose of an LP should be to foster and reward members' behavioural and attitudinal loyalty and therefore encourage customer retention and customer share development. Through relationship building, successful LPs encourage a consumer to purchase frequently from the programme provider, increase purchase amounts over time (e.g. cross-purchases, upgrades) and increase the share of wallet (SOW) at the focal provider/brand (Stone *et al*. 2004).
- *Structured*: Customers must (formally) become LP members to obtain benefits, which implies that LPs should be membership-based. Therefore, the LP provider can identify the LP member and use the information obtained through the LP to manage the relationship with its members.
- *Long term*: An LP is typically expected to be enduring, so that it cannot be introduced for only a short time span, as a sales promotion might be. Instead, an LP is a long-term investment for both sides.
- *Rewarding*: An LP should reward members for their loyalty on the basis of their current or future value to the firm, usually through the accumulation of some form of LP currency based on purchase behaviour. Cardholders are given discounts, goods, services, personalized offers or preferential treatment.
- *Ongoing marketing efforts*: The programme provider should tailor its marketing efforts to fit the members (e.g. targeted mailings, LP events, personalized offers) on an ongoing basis.

We will describe the different types and structures of LPs in detail later in this study; at this point, we only highlight the major difference between short-term LPs (e.g. 'buy X amount, receive a gift'), which are more similar to sales promotions, and continuous LPs with long-term orientations (e.g. frequent-flyer programmes).

Method

Literature on LPs appears in various fields, including marketing, management and economics. We reviewed 131 papers that we retrieved from academic databases, such as EBSCO, Web of Science, Science Direct, Emerald, JSTOR and EconLit, and from the Web (i.e. surveys, working papers). Our search keywords included 'loyalty program*', 'reward program*', 'loyalty card' and so on. To expand the initial list of publications, we went through their reference lists. The studies we used had appeared within the past 15 years – the peak of publishing in this area. Because our overview aims to provide initial generalizations and customer loyalty and LPs

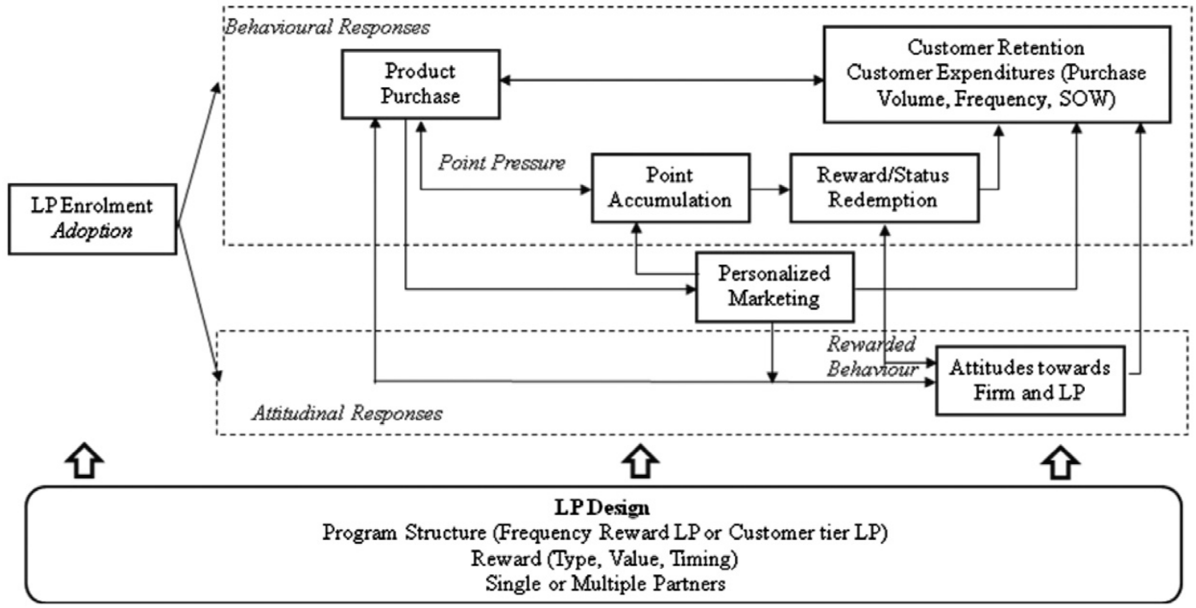

Figure 1. Customer responses to LPs (based on Blattberg et al. *2008)*

have not been defined uniformly, we thoroughly examined the definitions and measures of the constructs used by the studies we analysed. The initial analysis revealed significant variation in the definitions, measurements and methodologies, confirming that we could not use meta-analytical methods to obtain empirical generalizations. Instead, we adopted a descriptive review approach.

In the following sections, we begin by proposing a conceptual framework (Figure 1) that structures our literature overview. We conclude with initial generalizations at the end of the paper. A detailed overview of selected empirical studies, presented chronologically, can be found in tables available in the electronic version of the paper (Tables S1–S3).

Conceptual framework

To guide our conceptual approach, we adopt a framework by Blattberg *et al*. (2008) that describes how LPs influence customer behaviour and reinforce customer loyalty. Furthermore, we augment the framework with an attitudinal dimension (see Figure 1) to accommodate the two-dimensional view of customer loyalty (Dick and Basu 1994).

In a typical LP, members earn loyalty points (or some other form of LP currency) for buying from the LP provider. Accumulated points can be exchanged for discounts, gifts or membership in higher LP tiers. Three main mechanisms influence this process (Blattberg *et al*. 2008). First, the accumulation of loyalty points operates on a *points-pressure mechanism*: the closer the members feel to obtaining a reward, the more likely they are to make additional purchases to gain it (Kivetz *et al*. 2006; Nunes and Drèze 2006b; Taylor and Neslin 2003). Second, a *rewarded behaviour mechanism* affects members' behavioural and attitudinal responses after they obtain a reward, such that the act of rewarding reinforces their attachment to the firm (Palmatier *et al*. 2009; Taylor and Neslin 2003). Third, the *personalized marketing mechanism* enhances the behavioural and attitudinal responses of the members.

If everything else is constant, the influence of LPs on member behaviours and attitudes should be contingent on the LP design (Keh and Lee 2006; Wirtz *et al*. 2007). Specifically, programme design affects enrolment, behavioural and attitudinal responses, and the effectiveness of the three mechanisms. We define the LP design as comprising LP structure, rewards, number of LP partners, and enrolment requirements.

Following our framework, we next discuss in detail (1) LP enrolment, (2) LP effects on customer behaviour, (3) LP effects on customer attitudes, (4) points-pressure and rewarded behaviour mechanisms, (5) personalized marketing and sales promotions, and (6) LP design.

Enrolment in LPs

Although LPs span many industries, from manufacturing to retailing, they are particularly pronounced in service sectors: airlines, grocery, apparel, and book retailers; financial service firms; hotels and casinos; and car rental companies (*Consumer Reports* 2008; Dekay *et al*. 2009). Among these sectors, LPs are more common in customer-oriented firms, particularly those that strive to identify customer preferences to increase their marketing effectiveness (Gable *et al*. 2008; Smith *et al*. 2004). For example, LPs are frequent among customer-centric retailers with relatively similar assortments and retailing sectors characterized by high purchase frequencies and different profitability potentials for various customer segments (Leenheer and Bijmolt 2008). Another key driver of LP adoption by companies is the level and nature of competition within a sector; many firms introduce their LPs in response to a competitor's introduction of such a programme (Leenheer and Bijmolt 2008; Liu and Yang 2009; Ziliani and Bellini 2004).

A customer's decision to enrol in an LP reflects his or her evaluation of the potential benefits of membership relative to the cost and risks of such enrolment and relationship maintenance (Demoulin and Zidda 2009; De Wulf *et al*. 2003; Leenheer *et al*. 2007). Therefore, the likelihood of LP adoption depends on the customer's assessment of how much effort he or she must invest to obtain the expected benefits – usually in the form of reward attainment (Kivetz and Simonson 2003; Lara and de Madariaga 2007). Accordingly, low shopping frequency is a key reason for the refusal to join a particular LP (Mauri 2003; Noble and Phillips 2004; Stauss *et al*. 2005; Wright and Sparks 1999). Decreasing the perceived costs of participation and facilitating the usage of the LP increases enrolment and market penetration (Demoulin and Zidda 2009). However, it may also encourage customers to participate in multiple LPs and divide their purchases across competitors, which implies lower LP usage after enrolment (Allaway *et al*. 2006; Mauri 2003; Uncles *et al*. 2003).

LP participation

Benefits. Members of LPs probably perceive multiple advantages, including utilitarian (e.g. economic savings, convenience, gifts), hedonic (e.g. personalized treatment, exploration of new products, entertainment) and symbolic (e.g. recognition by firm, social status, belonging) benefits. Most consumers attach more importance to the utilitarian benefits of LP participation (Bridson *et al*. 2008; Furinto *et al*. 2009; Gable *et al*. 2008; Mimouni-Chaabane and Volle 2010; Steyn *et al*. 2010; Wright and Sparks 1999), perhaps because utilitarian benefits are tangible and easier to evaluate than hedonic and symbolic benefits. The strong preference for utilitarian benefits reflects the tendency of customers with an economic shopping orientation to enrol in LPs (Demoulin and Zidda 2009; Leenheer *et al*. 2007; Magi 2003). Firms should carefully evaluate their customers' potential for loyalty, though, because those with strong economic shopping orientations (i.e. 'cherry pickers') also likely hold multiple LP memberships and may be less loyal to any particular LP provider (Bellizzi and Bristol 2004; Leenheer *et al*. 2007; Meyer-Waarden 2007).

Although a customer's decision to enrol is determined by an LP's benefits, some findings indicate that the importance and impact of the benefits on behaviour decline soon after enrolment (Leenheer *et al*. 2007; Meyer-Waarden and Benavent 2009). That is, after a customer has been an LP member for some time, perceived LP benefits no longer influence his or her behaviour directly; instead, perceived benefits influence the member's attitudes and feelings, which, in turn, may affect his or her behaviour (Rosenbaum *et al*. 2005; Steyn *et al*. 2010). Therefore, LP providers should carefully tailor utilitarian benefits to increase the attractiveness of the LP and the perceived member benefits, but they should also consider hedonic and symbolic benefits to enhance and develop relationships over time.

Perceived costs. To minimize the monetary and non-monetary costs of membership (De Wulf *et al*. 2003; Leenheer *et al*. 2007), before they enrol customers assess the transportation and convenience costs of LP participation, which depend primarily on their distance from the store and purchase frequency (Allaway *et al*. 2003; Hunneman *et al*. 2008; Meyer-Waarden 2007). In addition, privacy concerns are a strong impediment to LP enrolment (Demoulin and Zidda 2009; van Doorn *et al*. 2007; Noble and Phillips 2004). Other LP issues include enrolment and participation requirements (Kivetz and Simonson 2003; Noble and Phillips 2004; Stauss *et al*. 2005; Wendlandt and Schrader 2007). Enrolment in some LPs requires an invitation or the achievement of qualifying criteria, whereas other LPs allow open access (Kim *et al*. 2009; Lacey *et al*. 2007). Moreover, the acquisition of members matters for a programme's success: customers who join on their own initiative exhibit higher future behavioural intentions, relationship duration and expenditure levels (Dholakia 2006; Steffes *et al*. 2008). Automatically enrolling intrinsically motivated customers in an LP may increase their behavioural loyalty, though, as enrolment represents a relational reward that reinforces the consumer–firm relationship (Dholakia 2006). Likewise, acquisition channels offer different levels of effectiveness: direct mail is more effective than direct selling, telesales or the Internet (Steffes *et al*. 2008).

Characteristics of LP adopters

Typical early LP adopters are heavy users in a category, who already exhibit relatively high loyalty to the provider, live close to the store or hold multiple card memberships (Allaway *et al*. 2003; Demoulin and Zidda 2009; Leenheer *et al*. 2007; Meyer-Waarden and Benavent 2009). Heavy buyers, particularly those with high levels of attitudinal commitment, have the strongest motivation to enrol in an LP because they can reap the most benefits from the programme without having to change their purchase behaviour or substantially increase their effort (Demoulin and Zidda 2009; Dholakia 2006; Kivetz and Simonson 2003). Although the percentage of such members among all consumers is low (6%–12%), they exert a strong influence on new member enrolment through social interaction, such as word-of-mouth recommendations (Allaway *et al*. 2003, 2006).

Sociodemographic characteristics (e.g. age, gender) generally have little or no influence on LP enrolment (Demoulin and Zidda 2009; Magi 2003; Lara and de Madariaga 2007). Income levels suggest some interesting effects. Higher-income households are more likely to be early adopters of LPs (Allaway *et al*. 2003), but they also tend to engage in multiple LPs (van Doorn *et al*. 2007), exhibit greater concern about the use of their personal data (Graeff and Harmon 2002) and be more selective (Leenheer *et al*. 2007). In other words, higher-income households appear to be more open to new LP memberships but are also pickier about which LPs to join.

Further research directions

1. *Understanding the obstacles to LP participation*: The proliferation of LPs has prompted greater customer reactance, such that some members even stop using LPs in which they are enrolled. Researchers should investigate why customers refuse to participate in an LP, decrease their participation rate over time, or stop using the LP.
2. *The effects of enrolment strategies on subsequent behaviour within an LP*: There is little research that looks into the effects of diverse enrolment strategies. Is it better to impose entry requirements to increase member selectivity, or is it more viable to decrease the cost of membership to attract a broader customer base?
3. *Consequences of LP termination*: Few LPs have been terminated, and firms struggle to predict the consequences of LP termination. The initial findings of Melnyk and Bijmolt (2008) suggest that the positive behaviour of only 10% of LP members would persist if the LP were terminated. More insights into the consequences of LP termination are needed.

LP effects on customer behaviour

Participation in the LP changes customers' consumption behaviour over time (Figure 1). First, we focus on behavioural responses, which we group into two levels of outcomes to facilitate interpretation. Initially, we discuss the available evidence at the aggregate level (average effects across all consumers and sales levels), and then proceed with a survey of the impacts on key behavioural metrics at the individual level (customer retention and expenditures). At the end of this section, we present our synthesis to reconcile divergent empirical findings.

Impact of LPs on aggregate levels

Overall, LPs create small positive changes in aggregate performance measures, such as penetration levels, average purchase frequency and average SOW. According to Cigliano *et al*. (2000), early adopters of LPs among grocery retailers enjoyed average sales increases of 1%–3% and department stores 5%–8% in the first year of the programme. In the airline industry, the average increase in purchase frequency resulting from LP membership is 4.24% (Liu and Yang 2009). Certain studies have found that some similar firms have posted similar patterns of growth in aggregate performance measures, whether or not they had an LP (Meyer-Waarden and Benavent 2006; Sharp 2010; Sharp and Sharp 1997).

The performance of an LP depends on the level of competition (LP market saturation) and the firm's relative market share. Therefore, its overall effectiveness diminishes as saturation increases, unless the LP expands the category (Kopalle and Neslin 2003; Liu and Yang 2009; Noordhoff *et al*. 2004), because the impact of an LP decreases with the number of other LPs in existence (Bellizzi and Bristol 2004; Leenheer *et al*. 2007; Magi 2003; Meyer-Waarden 2007). Firms with bigger market shares benefit more from the introduction of an LP (Leenheer *et al*. 2007; Liu and Yang 2009; Meyer-Waarden and Benavent 2006; Sharp and Sharp 1997) because they have more buyers and higher levels of brand loyalty (due to the 'double jeopardy phenomenon', Meyer-Waarden and Benavent 2006; Sharp and Sharp 1997). Accordingly, late entrants, smaller firms and particularly firms that introduce 'me too' LPs as a response to competition face a higher risk of LP failure.

Effects on retention rates

Empirical findings indicate positive effects of LP participation on members' retention, whether in industries with high exit barriers (e.g. contractual financial services; Verhoef 2003) or non-contractual settings (e.g. grocery retailing; Meyer-Waarden 2007). An LP may increase customer retention and relationship duration by creating economic or psychological switching barriers (Carlsson and Löfgren 2006; Klemperer 1987; Wendlandt and Schrader 2007). Economic barriers refer to the utilitarian and monetary benefits (e.g. discounts, rewards) that customers forgo by switching to another provider (Mimouni-Chaabane and Volle 2010). For example, the estimated economic switching costs for frequent-flyer LP members are 8%–12% of the ticket price (Carlsson and Löfgren 2006; Nako 1992; Proussaloglou and Koppelman 1999). However, economic switching barriers are not likely to secure long-term retention because they often harm the customer–firm relationship as a result of customers' psychological reactance and reduced intrinsic motivation to participate in the LP (Dholakia 2006; Hennig-Thurau and Paul 2007; Kivetz 2005; Wendlandt and Schrader 2007). Moreover, the effect of LP-induced economic switching barriers appears overrated for many customer groups. For example, frequent purchasers experience negligible switching costs because they buy frequently enough to avoid any deadlines; very infrequent customers rarely reach LP reward thresholds, so they do not experience switching cost pressure either (Hartmann and Viard 2008; Wirtz *et al*. 2007).

In contrast, psychological incentives to stay develop through attitudinal loyalty, perceived recognition, reciprocity and a sense of belonging (Bolton *et al*. 2000; Mimouni-Chaabane and Volle 2010; Palmatier *et al*. 2009). Psychological barriers are hard to quantify, but their effects drive attitudinal and behavioural responses, particularly in the long run (Hallberg 2004; Kim *et al*. 2009; Steyn *et al*. 2010). Bolton *et al*. (2000) also find an indirect effect of LP participation on customer retention, in that members are more likely to discount or forgive negative experiences. Thus, customer retention and relationship duration depend on members' intrinsic motivation (attitudinal commitment) and the LP's perceived value (Dholakia 2006; Furinto *et al*. 2009; Hennig-Thurau and Paul 2007; Kivetz and Simonson 2003; Verhoef 2003; Wirtz *et al*. 2007).

Effects on customer expenditures

Many studies address the effects of LPs on consumer expenditures, as measured by purchase volume, purchase frequency or SOW. The latter reflects a customer's expenditures in a product or service category that are devoted to a specific vendor relative to his or her total expenditures within the category (Leenheer *et al*. 2007; Magi 2003; Verhoef 2003).

In general, LP members exhibit higher levels of behavioural loyalty than non-members (Gómez *et al*. 2006; Magi 2003; Mauri 2003; Meyer-Waarden 2008; Smith *et al*. 2003). However, to account for potential self-selection effects, several studies assess behavioural changes after LP enrolment relative to the consumers' previous behaviour. The size of the change in expenditures varies according to the type of LP. The greatest absolute increase in purchase behaviour appears for short-term LPs, such as spending clubs that promise a reward for consumers who spend a certain amount within a specified period (Drèze and Hoch 1998; Lal and Bell 2003). Thus, this type of LP resembles a sophisticated sales promotion that aims to increase purchase frequency and volume during the promotional period. Taylor and Neslin (2003) report a 6% increase in average expenditure levels during an eight-week promotional period; Drèze and Hoch (1998) indicate that a category-related, short-term LP boosted category sales by 25%, for a 190% profit jump. In all cases, the increases mainly involve greater purchase volumes exhibited by moderate and light buyers and new customers (Drèze and Hoch 1998; Lal and Bell 2003; Taylor and Neslin 2003).

Likewise, sales increased – although on a comparatively smaller scale – as a result of the continuous LPs employed by on-line and off-line retailers (Leenheer *et al*. 2007; Lewis 2004; Liu 2007; Meyer-Waarden 2007), department stores (Kim *et al*. 2009; Lacey 2009), financial services (Verhoef 2003) and airlines (Kopalle *et al*. 2006; Liu and Yang 2009). Across 22 airline LPs, Liu and Yang (2009) found that purchase frequencies rose more than 4%; similar increases in SOW emerged for grocery retailers (Leenheer *et al*. 2007) and an insurance company (Verhoef 2003). Attitudinal loyalty and the perceived attractiveness of the LP help amplify this effect (Demoulin and Zidda 2008; Kim *et al*. 2009; Wirtz *et al*. 2007). Yet, the sharpest spike in purchase frequency and volume occurs within a few months of the LP introduction (Liu 2007; Meyer-Waarden and Benavent 2009).

The effects of LPs also differ across customer segments; their impact is strongest among light and moderate buyers, whether in the short term (Lal and Bell 2003; Taylor and Neslin 2003) or continuously (Kim *et al*. 2009; Liu 2007). The reason may involve ceiling effects: heavy buyers have less capacity to increase their purchase volume and frequency (Bolton *et al*. 2000; Lal and Bell 2003), though they maintain their high usage levels (Kim *et al*. 2009; Liu 2007). In turn, the different impacts across diverse customer segments have important consequences on firm profitability. Since loyal heavy buyers are more likely to redeem their rewards (Lal and Bell 2003; Liu 2007) and respond to price promotions (Cortinas *et al*. 2008), LP profitability depends mainly on the sales impact among members who initially exhibited light or moderate purchase frequencies and volumes (Kim *et al*. 2001; Lal and Bell 2003; Liu 2007). It is thus worrisome that brand managers overestimate the importance of the heavy-user segments and underestimate the potential of the other segments (Wansink 2003). Nevertheless, it would be wrong to conclude that heavy buyers are less valuable. Instead, these findings emphasize the importance of tailoring and nurturing relationships with diverse consumer segments (Verhoef *et al*. 2007). Adequate personalized marketing strategies should appeal to each segment of LP members, as we discuss subsequently.

Synthesis

The above discussions of LP effects span the diverse findings and opposing conclusions of existing studies. To summarize, some authors claim that LPs do not substantially change consumer behaviour in stationary markets (Bellizzi and Bristol 2004; Gómez *et al*. 2006; Lacey 2009; Meyer-Waarden and Benavent 2006; Sharp and Sharp 1997), while many others declare positive effects on members' behaviour, firm sales and profitability.[1] We offer four main explanations to reconcile these divergent findings. First, heterogeneity in responsiveness exists across various customer segments, markets and LP designs, but it is often not taken into account, specifically in studies using aggregate data (e.g. aggregate sales). Aggregate views of LP effects across all customer groups, product categories or markets may provide a confounded picture, particularly when compared with individual-level analyses. Individual-level studies typically demonstrate positive LP effects in selected customer groups. For example, LP effects are larger on intermediate customer groups than on high-purchase groups. Second, the types of LPs differ substantially. The short-term effects on customer expenditures of LPs that are like sales promotions (e.g. Drèze and Hoch 1998; Taylor and Neslin 2003) tend to be stronger than the effects of continuous LPs, which are more oriented towards relationship building (e.g. Leenheer *et al*. 2007; Magi 2003; Sharp and Sharp 1997). Third, the self-selection of loyal customers into LPs creates a positive bias in the interpretation as regards the effects of LP membership on behaviour. Customers with higher purchase behaviour and attitudinal commitment levels are more likely to participate in LPs (Leenheer *et al*. 2007; Sharp 2010). In the studies that do not account for such selection bias (e.g. Liu 2007; Liu and Yang 2009; Meyer-Waarden 2007; Verhoef 2003), the estimated effects of LPs on customer behaviour are substantially higher than in studies that do (Leenheer *et al*. 2007; Meyer-Waarden and Benavent 2009; Sharp and Sharp 1997). Nevertheless, when self-selection effects are taken into account, LP membership generally induces positive (albeit small) effects on customer behaviour (Leenheer *et al*. 2007; Sharp 2010). Finally, multiple studies use different forms of customer metrics operationalization (i.e. actual

[1]See Tables S2 and S3 in the electronic version of the paper.

behaviour, intentions, retention rates, expenditures, SOW etc.), thereby impeding comparisons. Moreover, studies differ substantially in the methodology used (Verhoef *et al*. 2007), which may also explain some divergent findings.

Despite the divergent findings, the majority of the studies discussed point to a positive effect of LP membership on individual customer metrics. LPs indeed foster customer loyalty, although the effects differ among customer segments, markets etc.

Further research directions

Although substantial research has noted the effects of LPs on customer behaviour, several areas warrant further attention.

1. *Effects of LPs on firm value*: This refers to the increased importance of accountability and the financial consequences of research on marketing demand that relates LP effects to firm valuation metrics, such as Tobin's *Q* (e.g. Lehmann 2004; Srinivasan and Hanssens 2009).
2. *Differences in LP effectiveness across customer segments*: Major differences in LP effectiveness and profitability have been found across customer segments (e.g. light, moderate and heavy buyers). It is important to establish the cause of such differences and offer directions for targeting these segments.
3. *Differences in LP effectiveness across contextual factors*: Future research should analyse the potential moderating roles of various contextual factors on LP effectiveness. Most studies analyse the LPs of off-line retailers, and more insight is needed into other consumer markets, business-to-business markets and on-line settings.

LP effects on customer attitudes

Effects on attitudinal loyalty

A relationship-building instrument must enhance customers' affective commitment or attitudinal loyalty to produce lasting effects (Dick and Basu 1994; Hallberg 2004; Kim *et al*. 2009). Attitudinal loyalty (through commitment, satisfaction and positive word of mouth) is an important indicator and driver of the behavioural loyalty of LP members (Furinto *et al*. 2009; Hallberg 2004; Hansen *et al*. 2010; Lacey 2009; Lacey *et al*. 2007; Steyn *et al*. 2010; Wirtz *et al*. 2007). Without attitudinal loyalty, an LP might spuriously retain customers who lack other alternatives, are inert or merely value convenience (Hansen *et al*. 2010; Phillips Melancon *et al*. 2010). If customers express low attitudinal loyalty, an attractive LP reward might increase the switching costs of a forgone opportunity and temporarily increase SOW (Wansink 2003; Wirtz *et al*. 2007), but once a reward is obtained the principal purchase reason disappears and the customers search out a better deal (Dick and Basu 1994; Rothschild and Gaidis 1981). Spurious loyal customers prefer incentives/rewards to the relationship (Kivetz 2003; Yi and Jeon 2003). For example, Whyte (2004) found that 28% of frequent flyers among Australian business executives feel more tied to LP rewards than to an airline.

In contrast, if customers are prone to relationship building, LP participation may boost their emotional benefits, giving them a sense of gratitude, belonging, elevated status, prestige or recognition, which induces attitudinal loyalty (Dholakia 2006; Drèze and Nunes 2009; Evanschitzky and Wunderlich 2006; Gruen 1994; Kim *et al*. 2009; Lacey *et al*. 2007; Mimouni-Chaabane and Volle 2010; Palmatier *et al*. 2009; Rosenbaum *et al*. 2005). A firm can increase satisfaction and attitudinal loyalty by enhancing the perceived attractiveness of the LP and its rewards (Demoulin and Zidda 2008; Furinto *et al*. 2009; Keh and Lee 2006; Steyn *et al*. 2010; Wirtz *et al*. 2007) or the quality of employee interactions (Smith *et al*. 2004; Vesel and Zabkar 2009). LP members will probably forgive minor service failures (Bolton *et al*. 2000), but are inclined to give feedback and be more critical in their evaluation of or be more sensitive to big service failures (Lacey 2009; Smith *et al*. 2003; von Wangenheim and Bayón 2007). Therefore, including and empowering employees is an important but often neglected aspect of LP management. Employee interaction with members enhances the latter's satisfaction and perceived relationship investment, which increases their behavioural loyalty (De Wulf *et al*. 2001; Vesel and Zabkar 2009).

Further research directions

We suggest two main directions for additional research on this topic.

1. *Effects of LPs on customer attitudes and behaviour*: Prior research largely neglects the simulta-

neous impact of the LP and customer attitudes on their behaviour. Such studies should employ longitudinal data related to LP membership and customer attitudes and behaviour, and account for the endogenous nature of LP membership.
2. *Loyalty to the LP or to the firm*: No extant research investigates inherent attitudes and loyalty toward an LP extensively. Do customers become loyal to the LP incentives or the retailer running the LP?

Points-pressure and rewarded behaviour mechanisms

The points-pressure mechanism

The effects of the LP on customer behaviour and attitudes may proceed through several processes (Figure 1). If LP rewards are based on thresholds of accumulated purchases, the points-pressure mechanism probably encourages customers to increase their purchase frequencies or volume to obtain the reward (Kivetz *et al*. 2006; Nunes and Drèze 2006b). Firms can enhance these effects by manipulating customers' perceptions of their proximity to the reward, such as by endowing them with initial points (Kivetz *et al*. 2006) or dividing the process into subgoals (e.g. 50- and 100-point increments rather than only 100-point increments) (Drèze and Nunes 2007). However, subgoal thresholds that are too low can demotivate customers and decrease reward attractiveness (Drèze and Nunes 2007), whereas overly high thresholds exert a reverse points pressure, discouraging infrequent users from buying because they cannot reach the thresholds (Blattberg *et al*. 2008; Lewis 2004). The strength of points-pressure effects also depends on the type of reward, such that they seem stronger in relation to economic rewards (or fear of lost investments) than attitudinal commitment (Phillips Melancon *et al*. 2010).

Researchers offer some evidence of points-pressure effects, mainly in experimental and empirical studies of short-term LPs (e.g. 'buy ten cups of coffee, get one free') (Kivetz *et al*. 2006; Lal and Bell 2003; Taylor and Neslin 2003). However, in continuous LPs, members earn some form of reward currency (e.g. points) with each purchase, which they can accumulate for years and then redeem a plethora of rewards for the currency whenever they choose to (*Consumer Reports* 2008; Smith and Sparks 2009). Without deadlines for reaching reward thresholds, points-pressure effects seemingly should dissipate (Blattberg *et al*. 2008). Nevertheless, initial empirical evidence indicates the existence of points-pressure effects in continuous LPs (Hartmann and Viard 2008; Kopalle *et al*. 2006; Lewis 2004), except for light and infrequent customers (Hartmann and Viard 2008; Lewis 2004). It remains unclear whether these effects are systematic in continuous LPs, and what drives them.

The rewarded behaviour mechanism

When a customer obtains a reward, he or she may feel encouraged to maintain or increase purchase levels, due to either the increased emotional attachment (Palmatier *et al*. 2009; Smith and Sparks 2009; Steyn *et al*. 2010) or the behavioural lesson learned: 'Repurchase leads to a reward' (Rothschild and Gaidis 1981; Taylor and Neslin 2003). The rewarded behaviour mechanism thus cushions the firm against falling purchase patterns after it grants a reward (Blattberg *et al*. 2008; Taylor and Neslin 2003). The strength of the effect depends on previous levels of loyalty, intrinsic relationship motivation and the type of reward (Dholakia 2006; Keh and Lee 2006; Lal and Bell 2003; Liu 2007; Liu and Brock 2010; Roehm *et al*. 2002; Taylor and Neslin 2003; Wirtz *et al*. 2007). Reward redemption behaviour in continuous LPs varies more than in short-term LPs, and the redemption options tend to be richer. Therefore, certain LP members exhibit planned behaviour in which they collect points to earn larger rewards, although the majority redeem smaller-value rewards more often (Smith and Sparks 2009).

Reward redemption may help firms build relationships and achieve longer-term loyalty (Taylor and Neslin 2003), particularly if the reward increases customers' attitudinal commitment (Phillips Melancon *et al*. 2010). For example, increased purchase probability before the reward carries over into post-reward periods in both short-term (Lal and Bell 2003; Taylor and Neslin 2003) and continuous frequent-flyer LPs (Kopalle *et al*. 2006). However, the rewarded behaviour effect appears to have a relatively short duration (e.g. two weeks (Kopalle *et al*. 2006); seven weeks (Taylor and Neslin 2003)). The effect seems to be prominent among light and moderate users (Kopalle *et al*. 2006; Lal and Bell 2003; Liu 2007; Taylor and Neslin 2003).

For the rewarded behaviour effects to occur, an LP member must redeem points for a reward; for points-pressure effects to occur, he or she must value the reward. In many cases, the customer does not act as expected; up to 70% of potential LP rewards go unredeemed (Drèze and Hoch 1998; Lal and Bell 2003; Liu and Brock 2010; Smith and Sparks 2009; Taylor and Neslin 2003). Dekay *et al*. (2009) report that there were 17 trillion unredeemed frequent-flyer miles at the end of 2007, with an estimated value of \$480 billion. Likewise, 64.8% of a Chinese credit card's LP members never redeem their rewards, mainly because they are not highly involved in the LP (35%) or are unaware of the importance of reward redemption (52%) (Liu and Brock 2010). Few empirical findings attempt to explain this phenomenon (Smith and Sparks 2009).

Further research directions

Relatively few studies explore the underlying drivers of LP effects, leaving wide avenues for further research.

1. *Understanding the mechanisms underlying both points-pressure and rewarded behaviour mechanisms, including the processes that drive the loyalty-reinforcing effect of rewards*: Does rewarded behaviour occur as a result of behavioural learning or of cognitive and affective changes in customer attitudinal loyalty? Does points pressure influence continuous LPs with long redemption windows? If not, what drives behaviour in LPs in which accumulated points do not expire and members decide when and how much to redeem?
2. *Reasons to redeem or not*: Though redemptions are critical elements of LPs, we do not really know why LP members redeem or why they do not. In addition, research needs to determine whether LP operators ought to raise redemption rates, how they will do so, and how the increase will affect profitability.
3. *Long-term effects of rewarded behaviour mechanisms*: A few studies have investigated the effects of both points-pressure and rewarded behaviour, but more longitudinal studies should evaluate the potential and long-term impacts of these mechanisms.

Personalized marketing and sales promotions

Benefits of personalized marketing

LPs yield a wealth of data about individual customer behaviour (e.g. purchases, responses to marketing communications) – an important source of information for fine-tuning various marketing efforts (Berman 2006; Kumar and Shah 2004; Stone *et al*. 2004). First, LP data can help segment a market and increase the value of targeted offers, as the practice of the UK retailer Tesco demonstrates (Kumar and Reinartz 2006; Rowley 2005; Turner and Wilson 2006). Second, personalized communication through direct mail or newsletters boosts behavioural loyalty (van Heerde and Bijmolt 2005; Meyer-Waarden 2007; Rust and Verhoef 2005; Seiders *et al*. 2005; Verhoef 2003). Preferential treatment and personalized attention also increase the relational bonds between the LP member and the firm, which reinforces the member's behavioural loyalty (Bridson *et al*. 2008; Lacey *et al*. 2007; Phillips Melancon *et al*. 2010; Steyn *et al*. 2010). Third, personalized marketing offers may increase purchases in new consumption areas, which implies cross- and up-selling to LP members (Berman 2006; Knott *et al*. 2002).

Costs of personalized marketing

The benefits of personalized marketing must be leveraged against its costs; in particular, personalized marketing can evoke negative reactions if members perceive it as discriminatory. This negative reaction probably increases if targeted efforts to attract new members offer non-members or light users lower prices than LP members pay (Feinberg *et al*. 2002; Lacey and Sneath 2006). Yet the effectiveness and profitability of customized promotions also depend on the market context (e.g. on-line versus off-line) beyond the sensitivity of programme members (Zhang and Wedel 2009). Customized price promotions are more viable in on-line settings, whereas low redemption rates are a major impediment to the success of customized promotions in off-line stores (Zhang and Wedel 2009).

Personalized marketing and sales promotions

Few studies consider the effectiveness and profitability of LPs compared with other marketing instruments, such as traditional sales promotions (e.g. price discounts, in-store promotions). Zhang *et al*. (2000) show that the impact of sales promotions with immediate rewards is greater than the impact of LPs' delayed incentives, yet it is not clear whether firms should prefer one over the other. Analytical findings are mixed (see Kim *et al*. 2001; Kopalle and Neslin 2003; Singh *et al*. 2008; Villanueva *et al*.

2007), empirical studies are scarce, and the indirect influence of LPs on performance complicates any evaluation.

Therefore, rather than choosing between LPs and sales promotions, it might be better to tap their synergies (Lewis 2004; Mauri 2003). In general, LPs increase customer loyalty in tandem with other marketing efforts. As Liu and Yang (2009) and Lewis (2004) show, LPs create incremental sales when interacting with other marketing mix elements. Scarce and mixed evidence about these interaction effects indicates, on the one hand, a synergy between sales promotions and LPs that support strategies for various customer segments. That is, LP strategies appeal to involved customers, whereas short-term sales promotions attract non-members or less involved customers (Cortinas *et al*. 2008; van Heerde and Bijmolt 2005; Taylor and Neslin 2003). On the other hand, sales promotions in conjunction with an LP may enhance the latter's effectiveness in the sense that short-term promotions increase LP members' purchase incidence, spending volume and average revenues (Drèze and Hoch 1998; Kim *et al*. 2009; Kivetz *et al*. 2006; Lewis 2004; Mauri 2003).

However, short-term promotions could hinder LP effectiveness and profitability if they encourage deal-prone behaviour among consumers who would have purchased anyway (Bellizzi and Bristol 2004; Cortinas *et al*. 2008; Zhang *et al*. 2000). The solution may be to use promotions and LP rewards that reinforce each other's impacts on the firm's image and are relatively less tangible (e.g. special treatment) (Roehm *et al*. 2002). We might also conclude that the points-pressure effect in an LP appears to interact positively with a sales promotion effect (Kivetz *et al*. 2006).

Further research directions

1. *Effects of the interaction between the three LP mechanisms* – points pressure, rewarded behaviour and personalized marketing – warrant further investigation. Initial evidence suggests that members who are close to obtaining a reward are more receptive to promotional offers that help them reach that threshold (Kivetz *et al*. 2006).
2. *The interaction effects between LPs and other elements of the marketing mix* offer fruitful avenues for further research. For example, what impact does an LP have on firm success relative to or in combination with retailers' pricing policies, sales promotions, quality perceptions, location and so on?

Effects of LP design

LP design

The design of an LP has a major impact on both the enrolment in and effectiveness of an LP, as it determines customers' perceptions of value and thus drives customer behaviour. Even seemingly irrelevant information (e.g. different allocations of the same points) can affect purchase choices and LP performance (Drèze and Nunes 2007; van Osselaer *et al*. 2004). An LP design comprises the programme structure, rewards and programme partners. Although many other practical aspects of LP design must be considered as well, our focus is to synthesize available literature findings; we suggest other sources for more information on the tactical aspects of LP design (e.g. Berman 2006; Blattberg *et al*. 2008; McCall and Voorhees 2010).

LP structure

The two prevalent LP structures being applied are frequency reward and customer tier (Blattberg *et al*. 2008). The former promises 'buy X amount, get a reward' and awards discounts or gifts to all LP members who reach the required thresholds, with little distinction among the members. The latter, on the other hand, assigns customers to different segments according to their value to the firm, and may be based on actual or potential profitability (Blattberg *et al*. 2008; Kumar and Shah 2004). The firm also extends preferential treatment to higher tiers and segment-tailored offers (Drèze and Nunes 2009; Lacey *et al*. 2007), which enables it to serve diverse customer needs better and build 'true' loyalty (Kopalle *et al*. 2006; Lacey *et al*. 2007; Phillips Melancon *et al*. 2010; Zeithaml *et al*. 2001). Yet, scarce empirical evidence directly compares the effectiveness of the different programme structures. To the best of our knowledge, only Kopalle *et al*. (2006) consider both structures; they find that the vast majority (94%) of an airline's business customers prefer the customer-tier component to the frequency-reward component.

Four prerequisites seem necessary to achieve an effective customer-tier programme. First, the firm must identify important differences for delineating the customer tiers, including not only appropriate behavioural and attitudinal indicators but also indicators of the customer's potential value (Kumar and Shah 2004; Zeithaml *et al*. 2001). Second, it must discriminate among customers without alienating or demotivating those who are sensitive to what they obtain relative to other customers (Feinberg *et al*. 2002; Kivetz and Simonson 2003; Stauss *et al*. 2005). However, perceptions of status for a tier may get diluted if the LP's membership expands too much or too many tiers appear in the structure (Drèze and Nunes 2009). Third, a customer-tier LP must induce customers to increase their loyalty over time (Blattberg *et al*. 2008; Drèze and Nunes 2009; Kumar and Shah 2004). They can create points pressure for members who are close to qualifying for a higher tier (or a negative pressure for those who are close to being downgraded; Drèze and Nunes 2009), as well as a rewarded behaviour effect by moving customers into a higher tier. Personalized treatment and efforts to delight top customers can be very costly, though, and the resulting gain is uncertain. If heavy buyers cannot further increase their expenditures regardless of the firm's efforts, while light users in lower tiers are ignored, the firm fails to fully exploit its LP. Fourth, the stratification of LP members elevates high-tier customers' perceptions of status, which increases overall positive feelings about the relationship (Drèze and Nunes 2009), but it may also make these comfortable members more critical in their evaluations (Stauss *et al*. 2005). Customers in the higher tiers tend to be particularly sensitive to service failures and loss of status (Wagner *et al*. 2009; von Wangenheim and Bayón 2007), such that the negative effects of downgrading are stronger than the positive effects of upgrading.

LP rewards

LPs offer rewards that reflect members' purchase history, through which they have accumulated some form of reward currency (Berman 2006; Kopalle *et al*. 2006).

Reward types. Rewards in LPs may or may not relate to the focal firm's offering or line of business, and may be monetary or non-monetary. Direct rewards relate to the focal firm (e.g. 'buy ten packs of coffee, get one free'), whereas indirect ones are unrelated (e.g. 'rent a car ten times, get a massage coupon'). Existing research indicates that direct rewards tend to be preferred over indirect rewards, and can enhance customers' brand associations with the LP provider. Therefore, a direct reward reinforces attitudinal attachment and the intrinsic relationship motivation (Roehm *et al*. 2002). Such effects also increase customer loyalty, particularly in high involvement settings or when members must invest effort in obtaining the reward (Kivetz 2003, 2005; Yi and Jeon 2003). The attractiveness of indirect rewards rises with their level of luxury and the amount of effort needed to obtain them (Kivetz and Simonson 2002).

Economic or hard rewards usually offer savings through discounts, coupons, rebates or cash. Non-monetary or soft rewards provide psychological and emotional benefits, such as preferential treatment, additional services or upgrades, special events, entertainment or elevated status. Firms have experimented with various creative non-monetary LP rewards, including meeting with a famous actor or private flying lessons (Capizzi and Ferguson 2005; De Lollis 2007). Meanwhile, empirical evidence suggests that direct economic rewards are more effective (Keh and Lee 2006; Kivetz 2005; Yi and Jeon 2003), although cash rewards are often inefficient for a firm because they incur high unit costs (Kim *et al*. 2001; Palmatier *et al*. 2006). Cash rewards are viable only if the heavy-user segment is small and more price sensitive than the light-user segment (Kim *et al*. 2001). Though attractive to customers, economic rewards may reduce customer loyalty. The rewards may draw attention away from the brand and move it toward the reward, which induces spurious loyalty and decreases customers' intrinsic relationship motivation (Dholakia 2006; Hennig-Thurau and Paul 2007; Phillips Melancon *et al*. 2010; Roehm *et al*. 2002; Wendlandt and Schrader 2007).

In contrast, soft rewards tend to induce more sustainable loyalty effects because they enhance attitudinal commitment (Phillips Melancon *et al*. 2010). Studies of soft and non-monetary rewards mainly focus on their psychological and emotional benefits. For example, a reward obtained through an LP can cause customers to believe they have received a good deal or windfall (Smith and Sparks 2009; Thaler 1985), encourage self-gifting (Smith and Sparks 2009) and provoke a feeling that the firm appreciates them. As a result, reciprocal feelings, such as gratitude (Gwinner *et al*. 1998; Kumar and Shah 2004; Palmatier *et al*. 2009), a sense of belonging (Dowling and Uncles 1997) and an elevated sense of status (Drèze and Nunes 2009) are cultivated in customers. Preferential treatment has a positive influence on customers' commitment, satisfaction, word of mouth, perceived status, repurchase intentions and willingness to cooperate (Bridson *et al*. 2008; Drèze and Nunes 2009; Lacey *et al*. 2007; Phillips Melancon *et al*. 2010; Smith *et al*. 2003).

Reward timing. When customers are not intrinsically motivated to build a relationship with a firm, they prefer immediate rewards to delayed ones, even if the immediate rewards are of less value (Keh and Lee 2006; Kivetz 2003; Yi and Jeon 2003). The delayed rewards offered by LPs may be viable in markets that are prone to variety-seeking behaviour (Zhang *et al*. 2000), for high-preference brands (Dhar *et al*. 1996) and among satisfied LP members (Keh and Lee 2006). In an experimental setting, Roehm and Roehm (2010) find that the concrete features of a reward, such as its face value or mode of presentation (e.g. percentages, dollar discounts) are more relevant with regard to the favourability of immediate rewards over delayed rewards. Members respond more favourably to delayed rewards that have high goal congruity and fit with their personal values (e.g. health club gift certificate for members who favour a healthy lifestyle). However, the importance of the fit is attenuated by the communication of rewards: the strongest impact on perceptions and behaviour occurs when prevention-focused members obtain a prevention-framed reward and promotion-focused members a promotion-framed reward (Daryanto *et al*. 2010).

Single-vendor versus LP partnerships

Although single-vendor LPs have dominated historically, partnerships are becoming more prominent and are likely to increase (Berman 2006; Capizzi and Ferguson 2005; Ferguson and Hlavinka 2009a). Partnering in LPs takes two forms (Blattberg *et al*. 2008; Lemon and von Wangenheim 2009). In one, a dominant firm offers an LP and allows members to earn or redeem points with complementary partners, such as when an airline's frequent-flyer programme includes travel agencies, car rental firms and hotels. In the other, a coalition of companies allows the external management of their LP by a specialized operator. These multi-vendor LPs (also known as coalition or multi-partner LPs) usually feature partnerships in frequently purchased sectors (e.g. groceries, gasoline, apparel, credit cards), such as Nectar in the UK and Air Miles in Canada, Spain and the Netherlands.

For members, LP partnerships offer convenience, faster point accumulation and more redemption options (Berman 2006; Capizzi and Ferguson 2005; O'Brien and Jones 1995; Wright and Sparks 1999). A UK survey reveals that multi-vendor LPs account for more than half of LP participation (52%), and members use these LP cards more frequently than they do single-vendor cards. Similarly, a Spanish survey indicates the importance of diverse reward options for members, particularly those related to intangible, social concepts (e.g. charity, ecology, tourism) (Lara and de Madariaga 2007).

For partnering firms, LP coalitions offer cost and strategic advantages related to networking, the spillover effects of partners' images, and cross-selling opportunities (Lemon and von Wangenheim 2009; Rese *et al*. 2008; Simonin and Ruth 1998; Varadarajan 1986). A single card that can be used to buy at multiple vendors may encourage members to patronize vendors in the network and exploit promotions to collect loyalty rewards more quickly. However, an incongruence of LP benefits with focal products and a division of loyalty across vendors could have negative effects (Dowling and Uncles 1997; Kivetz 2005; Roehm *et al*. 2002).

One study that has analysed LP partnerships considers one with a dominant firm and shows that customer usage and satisfaction with the core service increase cross-buying from complementary partners, which in turn reinforces usage of the core service (Lemon and von Wangenheim 2009). However, these effects appear limited to highly complementary partners, and the reinforcing mechanism does not apply to partners with a weak fit. Furthermore, three empirical studies assess aggregate purchase patterns across vendors and obtain mixed findings. Sharp and Sharp (1997) find no network effects across competing partners (cf. complementary businesses). Using the same methodological approach, Meyer-Waarden and Benavent (2006) find significant positive network effects in two French retail stores in the same multi-vendor LP, such that LP members were more likely to purchase across partners than from non-partner stores. Finally, Dorotic *et al*. (2010) assess the potential cross-vendor effects of promotional mailings across complementary partners and find that, in aggregate, members do not significantly increase their cross-purchasing in response to promotional mailings. Overall, these findings imply that coalition LPs should actively promote and encourage cross-purchasing to attain their full potential, which will probably be greatest among highly complementary partners.

Further research directions

1. *Short-term versus long-term LPs*: In many markets, short-term LPs with predetermined end dates and durations of only a few months have become popular. In the long run, which is more viable for a firm: introducing several short-term LPs or maintaining a continuous LP?
2. *Multi-vendor versus single-vendor LPs*: So far, empirical evidence is insufficient to determine whether multi-vendor LPs perform better than their single-vendor counterparts or vice versa. We particularly need to know more about the existence and size of spillover effects in multi-vendor LPs.
3. *Effects of changes in reward structures*: Reward structures do not necessarily remain stable over time; firms can adapt them to their altered strategic directions. Do such changes in reward structures have repercussions in programme attractiveness and effectiveness?

A final reflection on LPs

At this point, one could ask the more philosophical question of whether actors in the marketplace would do better without LPs. The subject has three perspectives: (1) a firm perspective, (2) a consumer perspective, and (3) an environmental (market and society) perspective. From the firm's perspective, our review indicates that, depending on some critical issues (i.e. LP design, type of market, competition etc.), LPs enhance customer loyalty. Moreover, firms can create competitive advantage and boost business performance through the utilization of the value which lies within the LP's customer-related data. This is because LPs allow firms to build long-term relationships with customers. However, there is a lack of knowledge on the exact profit consequences of many LPs because the existing studies frequently lack data on the cost of running the LP. In the end, the return on investment in running an LP could turn out negative if the cost of rewarding outweighs the loyalty enhancement and expenditure gains of some customer segments. As sometimes happens in sales promotions, LPs could get snagged in a prisoner's dilemma. Firms are forced to keep running an LP as a response to competitors who continue using their LPs or because programme termination may result in negative publicity and customer retaliation (Cigliano *et al*. 2000; Melnyk and Bijmolt 2008). Afraid of customer reactions and losing their market shares, firms may become trapped in the LP battle. Despite the evidence of positive effects of an LP on customer behaviour, there is yet insufficient empirical evidence to conclude that LPs are truly beneficial for diverse firms. This especially holds true when an LP lacks the long-term strategic perspective or when it underutilizes the opportunities for improved targeting of customers and deriving marketing strategies from LP data.

From the consumer perspective, LPs are beneficial since they offer rewards for purchases. Regular customers and heavy buyers may particularly benefit from LP rewards, which they obtain relatively easily. However, other consumers may not fully benefit from these rewards, as many potential LP rewards often remain unredeemed (Dekay *et al*. 2009; Mauri 2003). Furthermore, the successful utilization of LP data may improve consumer welfare through the increased customization of offers and marketing communication (Rowley 2005; Rust and Verhoef 2005; Turner and Wilson 2006). Conversely, LPs may also increase switching barriers, which induce customers not to look for the best offer, resulting in overall lower consumer welfare (Klemperer 1995). Firms should therefore carefully analyse the potential costs and benefits for diverse customer segments and utilize tailored marketing strategies to increase the LP's effectiveness for each segment.

From the market environment perspective, one could argue that only firms with large market shares will ultimately survive in the arena. Prior literature has shown that larger firms are frequently more likely to undertake relationship marketing activities, such as LPs (Verhoef and Hoekstra 1999). Moreover, our overview suggests that LPs will mainly benefit the large-share brands, which have already successfully established competitive advantage (Leenheer *et al*. 2007; Liu and Yang 2009; Meyer-Waarden and Benavent 2006; Sharp and Sharp 1997). Interestingly, though, larger firms are not more inclined than smaller firms to adopt LPs (Leenheer and Bijmolt 2008). Thus, there is no strong evidence that only larger firms launch LPs. In essence, any firm, small or large, which uses an LP to build up relationship-based market assets (Srivastava *et al*. 1998) can create a sustainable competitive advantage and survive in the market. Nevertheless, smaller firms, particularly late entrants introducing 'me too' LPs without a true value proposition, face a higher risk of LP failure. In an analysis of the airlines industry, Liu and Yang (2009) found that LPs had insignificant effects on the sales of companies with an average market share and LP saturation level.

LPs and similar relationship-building businesses are used to compete on a specific dimension: building relational bonds with customers. LPs are not the only competitive strategy, though. Some firms compete through strong value propositions, primarily using everyday low-price strategies that often opt against introducing an LP. Which of these two strategic options will excel depends on many factors, among which the management's business vision prevails. Both types of strategies can be successful and coexist in the market (Singh *et al*. 2008; *Supermarket News* 2010). For example, without an LP, relatively small airlines such as EasyJet, Ryanair and Southwest Airlines have successfully competed using strong unique-value propositions (e.g. low price) against large airlines such as British Airways, KLM-Air France and United Airlines (Kumar 2004). An LP may actually be inconsistent with the 'no frills' strategy of low-cost airlines (Porter 1980; Treacy and Wiersema 1993). Similar patterns can be observed in retailing. Discounters without LPs, such as Aldi, Lidl and Wal-Mart have built strong positions in retail markets around the globe without LPs (*Supermarket News* 2010). At the same time, large retailers – Tesco and Boots in the UK, Kroger and CVS Pharmacy in the USA etc. – reap important benefits from their LPs (*Supermarket News* 2010; Turner and Wilson 2006). In sum, the above discussion suggests that larger firms are not more likely to use LPs, although they might benefit more from them. However, LPs *per se* will not create incremental sales and induce firms to successfully compete in markets. For any kind of firm, true survival rather comes from a consistent value-building marketing strategy (Kumar and Shah 2004; Treacy and Wiersema 1993).

Finally, from a mere societal environment perspective, one could also raise the question of whether LPs might lead to overconsumption. In many western societies, overconsumption has created severe problems, such as obesity (Wansink and Huckabee 2005). LPs are primarily used to increase customer loyalty; thus, their purpose is not to raise consumption levels. Still, firms with LPs aim at expanding their share of consumer expenditures in a specific market or category, which may increase consumption levels and lead to overconsumption. Such potentially negative societal aspects of LP strategies (overconsumption, privacy concern etc.) may increase customer vulnerability (Graeff and Harmon 2002; Menzel Baker *et al*. 2005). These aspects have gained little or no attention in the literature so far. Given their societal importance, more attention could be devoted to these potential negative consequences of LPs.

In conclusion, although LPs can be beneficial to both consumers and firms, the total welfare consequences are not yet clear, partly because firms and consumers do not fully understand and benefit from the opportunities that LPs offer.

Conclusion

This review summarizes insights from extant literature pertaining to LPs and differentiates these findings according to the strength of the supporting evidence. Thereby, this review facilitates a better understanding of the impact of LPs; it also provides guidelines for how firms could benefit from running an LP, and consumers from participating in one. Based on this overview we note in Table 1 the important generalizations that hold across studies.[2]

One of the most important findings of this extensive analysis of published evidence is that participation in LPs has positive but small overall effects on customer behaviour. LPs indeed foster customer loyalty, although they significantly change the behaviour of only a minority of customers. The effects differ among customer segments, markets, types of LP design etc. In particular, LPs increase the expenditures (spending levels and frequency of purchasing) of low and moderate buyers. Finally, to be sustainable, LPs must reinforce the attitudinal attachment (loyalty) of customers in addition to behavioural loyalty.

Another important contribution of this synthesis is the identification of important areas for further research. We believe that in the battle for market success in the future, loyalty differentiation will remain important. Firms whose LPs are able to efficiently leverage the data of their cardholders and introduce better targeted promotional campaigns have bigger chances of succeeding in the long run. Further research issues identified in this study serve to help in this endeavour. Moreover, in the final

[2]Tables S1–S3 available in the electronic version of the paper provide a more detailed picture of the results of selected key studies.

Table 1. Initial generalizations about the impacts of LPs

Area	Initial generalizations
Enrolment	The likelihood of enrolling in a new LP depends on perceived benefits, the distance from the store, previous purchase levels, and the attitudinal commitment of LP members (self-selection into LPs)
	Privacy concerns and inconvenience are increasingly important impediments to LP participation
	The utilitarian (economic) benefits of LPs are the most important incentive for enrolment
	Sociodemographic characteristics have little effect on LP enrolment
Effects on customer behaviour	LP participation has, overall, small positive effects on customer behaviour (retention and expenditures)
	LP participation increases expenditures (spending, frequency) among low and moderate buyers
	Firms with higher market shares benefit more than low-share firms from the introduction of an LP
	LP effectiveness diminishes with market saturation, unless the LP expands the focal category
	Switching costs occur in LPs, but they are most relevant to medium-level users
	The effects of LP participation on behavioural loyalty depend on members' intrinsic motivation to join the LP (attitudinal commitment) and perception of the value of the LP
Effects on customer attitudes	To be sustainable, LPs must reinforce attitudinal loyalty in addition to behavioural loyalty
	LP participation enhances members' perceived emotional benefits, which subsequently affect behaviour
	The perceived attractiveness of an LP and its rewards enhances satisfaction and overall attitudinal loyalty among LP members
Mechanisms	LP members increase their expenditures when they get closer to obtaining a reward (points-pressure mechanism), particularly in short-term LPs
	Initial evidence suggests that there are positive effects of obtaining a reward on subsequent attitudinal and behavioural responses of LP members (rewarded behaviour effect)
Design	Rewards related to a firm's offer are more effective than unrelated rewards
	Cash rewards are inefficient incentives
	Preferential treatment in LPs increases members' attitudinal and behavioural responses
	Delayed rewards should be used for loyalty building among satisfied and committed customers

section, we reflected upon the potential implications of LP usage for firms, consumers and the market environment, providing a critical view of the positive and negative aspects of LPs in general.

We sincerely hope that this research overview will help readers improve their understanding of LPs. Moreover, we hope that it will stimulate research on this exciting and important topic, particularly in marketing, retailing (Grewal *et al*. 2009) and customer relationship management (Verhoef *et al*. 2007).

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Supporting information

Additional supporting information may be found in the online version of this article:

Table S1. Adoption of LPs.
Table S2. Effects of LPs on customer behaviour (attitudinal and behavioural loyalty) and sales.
Table S3. Design of LPs.

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