

Loyalty Program Factors and How do they affect Customer Behavior

Alazzam, Fahad

Department of Technology Management
School of Engineering
University of Bridgeport
126 Park Avenue
Bridgeport
CT 06604

Christian Bach

Department of Technology Management
Department of Biomedical Engineering
School of Engineering
University of Bridgeport
221 University Avenue
Room 153 Technology Building
Bridgeport
CT 06604

Abstract

This paper based on analysis and study of how organizations gain a customer loyalty, and what are affect a consumer behavior. The reader can can simply prove that increase customer lifetime value, build real customer relationship base on relevance, influence the elasticity of a purchase decision, and increasing share of wallet are very and important factors that guide any to gain a customer loyalty. The findings prove that the factors that mentioned in this research have a direct effect on the customer behavior, and give them a specific data to gain customer loyalty. This paper focus on customer behavior, understanding this behavior will guide to gain a customer loyalty. These factors can guide to gain this loyalty before the competitors do. The designing of the practical implication is very willing, and it can be used by any organization that needs to gain a customer. Examples are the originality of this article which is used to build a good reputation and achieve the success in an honest way. The four factors which have a positive effect for organizations to stay customer behavior.

Keywords: Customer loyalty, Share of wallet, Customer behavior, Organic Loyalty

Introduction

One of the important sources of competitive advantages nowadays from a service provider point of view is a customer loyalty. Many studies showed that the direct link between increasing the loyalty of the customer and profitability of the organization[1]. What is a Loyalty program? It is one of the most important element today of the relation between the customer and the management is a loyalty program which is "Information technology that enables firms to practice individual-level marketing has facilitated the spread of loyalty programs into such diverse industries as gaming, financial services, and retailing [2]p. 290. "Also, there are other definitions for the loyalty programs such as: A) A loyalty is simulated with an attitude, which is lead the customer to build a relationship with a brand[3]. B) " loyalty mainly expressed in terms of revealed behavior [4] p.12." C) The purchase situation, circumstances and individual's characteristics, all of these factors affect the moderate of buying[5].

Today, Many organizations initiated this program and support it with an investment in creating databases on its members [6].

For the time being, 62% of the customer which they represent the one third of the whole number of the customers they said that they are joined the loyalty program at least one of them, although only 26% agree that it leads to greater loyalty [7]. If we consider the theory behind customers loyalty theory, we will find it very simple: Money will be made by organizations that return their customers, are more and continuous than that organizations that lower the cost but will pay more to acquire new customers [8]. Meeting customer needs and demands is one of the most important factors of any organization's success [9].

In this paper we will see the most important factors that affect a customer behavior toward a customer loyalty program which are: Customer Lifetime Value, Build real customer relationships based on relevance, Influencing the elasticity of a purchasing decision, and increasing share of wallet.

Research Methodology

Today many studies are based on one kind of research method, also some of them are based on combination between two of these methods. One form for "developing new theoretical insights"[10]p. 506" is the review centric research approach in which a researcher reviews "existing theory and research [10] p. 506" which had been used in this literature. Some articles are using case studies which are used widely in methodological literature. It is research's strategy focusing on the dynamics to be understood, the dynamics which are presented within available settings[11]. There are two reasons to use a case study which are: to test and generate theory and for the description to be provided[12]. Based on studies done by:[13-17], there are many factors effects a customer behavior. Be comparing them and evaluate the studies I found the following: 1) Customer Lifetime Value, 2) Build real customer relationships based on relevance, 3) Influencing the elasticity of a purchasing decision, 4) Increasing share of wallet. These are the most effective factors that affect a customer behavior.

Types of Customer Loyalty Programs

It is known that, the customer are different we have a long term customer, also on the other hand we have a short term customer, we distinguish them be knowing this future exchanges. Transaction's customer oriented they are not fix on satisfaction, they are rely. Moreover, relational exchange's customer orientated they are relay on commitment and trust [18]. Since there are many types of customer behaviors, there should be a different loyalty programs, and all of them are targeting a customer loyalty. Many organizations use at least one of them; some organizations use more than one. Here are some of these programs:

Frequent Buyer's Rewards System

This is the most common program it is based on the point. How much the customer, he/she will gain a point on it. After that the customer can exchange the point with many free things such as: discounts, free gifts, etc. For example, if the customer spend 20\$ in the grocery shop, he/she will gain 20 points, once the customer reach 100 points he/she deserve a discount with 25% on any product from the shop[19].

Tier System

This system is classifying the customer, be the small rewards to be offered for the new customer to enable he/she to try the product. After that monitor customer's behavior by increasing these rewards with a purchasing behavior. For example, hook a new customer by giving him/her very good and attractive offers to enhance him/her to come back. Once he/she come back, the program's path to reach a highest level or stage of the organization's loyalty program should be shown to them[20].

Fee-Based Loyalty System

Taking a one-time fee or an annual (not big amount of money) from the customer to let them able to see the special offers offered be the company or give the customer a special opportunity such as a free delivery, VIP lung and extra discount in some items. A good example here is AMAZON ,which is an online big market, offers a surface called prime, it cuts the customer 75\$ per year and allowed them to ship any item in a free two days shipping without limitation in year and also without minimum items[21].

Rebates System

By give a customer and fixed amount of many back from his/her purchasing amount. Here we can consider a VISA credit card reward system, it gives back for the customer, in cash, 1% of his/her purchasing amount[22].

Non-Monetary/Community Program

In this kind of loyalty program the customer has an opportunity to support a case that he/she believe on it. This is depend about the knowledge of the organization in the customer personality, and how their brand affect this [23].

Coalition

In this kind the organization find a strategic partner for their programs; this will help a lot in the growth of the company and customer retention. To find a good and fit company to make this partnership, the seller should understand very well the customer behavior and he/she purchase process. A good example here is American Express; they have a big number of partners. They have redeemed over 2\$million in rewards, their customer can use these amounts in one of their partners such as Staples, Zappos, and whole food [24].

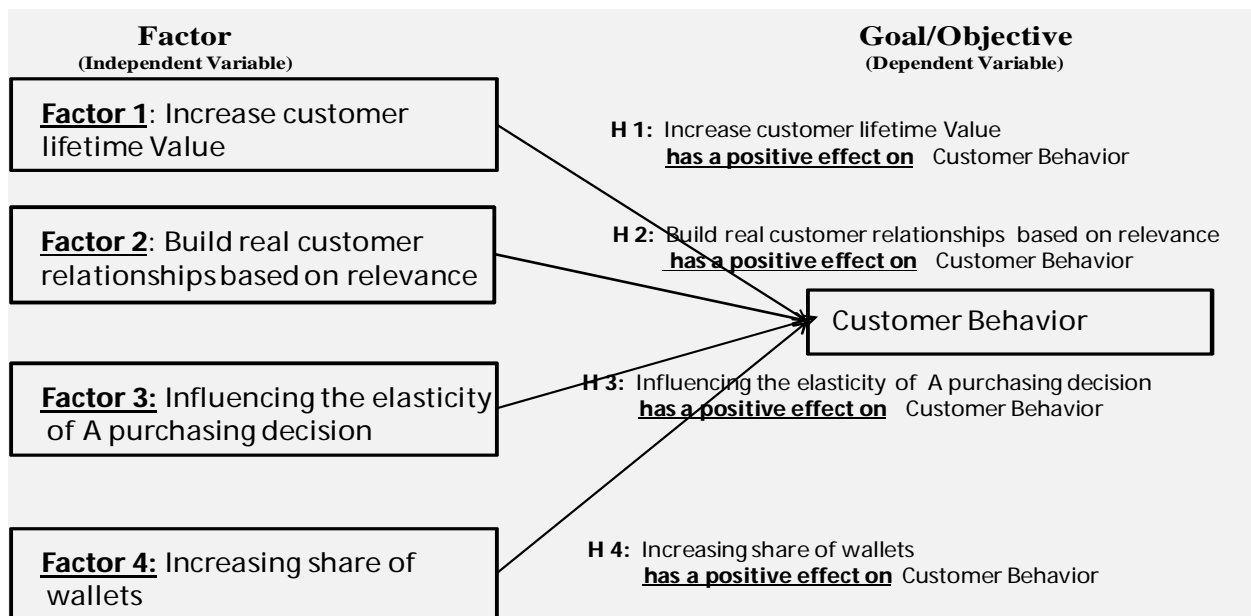
Organic Loyalty

Hardest and best, this is the best explanation for this program. Implementing this program needs an effort from the seller to attract a new customer and let he/she tries out the product and also the seller should be able to impress he/she on the get-go. The seller should be able to share and also to communicate the brand's value on the first time when the customer interacts. Voluntary loyalty is a kind of this program's results, which not needs from the seller a big efforts to maintain[25].

Importance of the Factors that affect Customer Behavior

This model below is representing how it is important to understand a customer behavior to gain his/her loyalty, deep understanding and reading of the customer's behavior will make him/her easy to attract. The model provides useful tools which assist to reach a customer concerns before the competitors. Also, the model gives a specific step about some human concern in a market. Some researches and studies were the basic of these steps. These researches and studies are from much recourse where many organizations did them in their business. To be familiar and to understand the market's situation these days, these models will help a lot and what the customer needs in any kind of business the used in daily life. It will be clear later on this paper that the explanation under each factor from the foure factors is not enough to gain and be successful in gaining a customer loyalty, It is clear recognized that In the model four factors have shown details under each one explain that factors are not only enough to get succeed with to gain a customer loyalty, actually the small moves that will be done will affect any decision that firm will have made, then these factors will help achieving the goal.

Factors Affect a Customer Behavior



Goal: Customer Behavior

"It is the behavior of the customer which impacts their decision to purchase or not purchase the product.

Depending on their decision and their usage, an organization decides which products to manufacture and to continue. The positioning of the product is dependent on the consumption of the product and this behavior of consumers may be related to any kind of products or services[26] p.11. "

Factor 1: Customer Lifetime Value (CLV)

" CLV is increasingly being recognized as one of the most important measures of the worth of a customer. It takes into account not only the customer's value now but the expected value over their projected lifetime as a customer. Being able to identify customers through a loyalty programme means being able to monitor long-term customer lifetime value, and being able to identify the demographic, sociographic, and even purchase profiles that define the most profitable customers - and that knowledge enables you to target and develop more of them [27]p.14. "

Factor 2: Build real customer relationships based on relevance

"Building a relationship with customers can lead to improved behavioral loyalty and thus to increase bottom-line profits. The key element, trust, can be built up by always excelling in customer service and problem correction, and by providing consistently good products and services that suit the customer's unique needs. Surprise and delight can be achieved by delivering personal offers for the most profitable loyalty program members, such as birthday discount shopping days[28]p. 460."

Factor 3: Influencing the elasticity of a purchasing decision

"Elasticity expresses the importance and weight of a purchasing decision - effectively the level of involvement or indifference. This applies to both the customer and the business. The more important your product or service is to the customer, the more trouble they have probably taken in their decision to do business with you, and the more likely they are to stick with what they have decided[29]p. 220."

Factor 4: Increasing share of wallet

"Share of wallet expresses how much of a consumer's total spend in a given category their award to your company. As markets become saturated and customers have so much more to choose from, share of wallet becomes increasingly important. It is cheaper and more profitable to increase your share of what the customer spends in your sector, than to acquire new customers[30]p.13."

Factors Analysis

Customer Lifetime Value

It is a useful factor for the seller to forecast and estimate a future sales and profit, also, it is extremely helpful to control the cost and the efficiently use of the resources[31]. Customer lifetime value shows the seller how much he/she should spending to acquire a new customer[32]. Furthermore, it is helpful to know which customer bringing the most profit to the business. There are two reasons to find the lifetime value of a customer which are: to know, identify, and understand the customer and customer's behaviors with different characteristics. Also, to identify what influence customer's behavior and then change their life time value[33]. It is healthy factor for any business. It is very important for any business to focus not only in short-time benefits but for long-time benefits. The strong financial performance is a logic result for applying and understand customer life time value[34].

Build Real Customer Relationships Based on Relevance

The most important thing about this factor is the existing customers can be a good and useful source to provide a new sales leads[35]. By building a good relationships with a customers, the question's doors can be opened[36]. Are the characteristics of the current customer shared with other people are they might meet? Maybe the current customers know some people they will be ideal customer for your now services or products that you are planning[37]. However, these things will not be clear unless you ask. Also, the current customer can be good eyes for you to know about your competitions; actually they are a good source. They can keep you informed and updated about your competitions and what they are doing, and this is a good source for improvement[38]. This information are free you don't have to pay for it since the good relationship are built. The customers know what they want, or where they are willing to spend their many. If this information clear, then you can return your customer back in future[39].

Influencing the Elasticity of a Purchasing Decision

We can consider that the price elasticity of the product is more than one, if we consider a product are price's elastic. On the other hand, the demand of the product will be raised to highest level of proportion than the price, if the price elasticity of the good is less than one[40]. Also, the business owners can determine an income elasticity, the easiest way to do this is by conducting a survey[41]. This will help the companies to divide the users into two groups. Then understand and determine how their purchases decision are effected by their income[42]. This survey can contain some type of questions to under the average that can be paid be the customers or what they are willing to bay[41]. Moreover, the firm's pricing decisions are effected by price elasticity, by determining the reasonable profit margin. the rate of change of demand is described in response to price's change by the price elasticity of demand[43].

Increasing Share of Wallet

Taking 100% as a share of wallet from the customer, that means this customer completely loyal to the business, and will not spend any dollar with any competition[9]. Also, if the share of wallet shows a small percentage this is can be considered as an indicator that the customer are not satisfied. So this open an horizons of improvement to meet a customer satisfaction[30]. To acquire a new customer, it will cost eight times than to retain an existing one. So increasing the share of wallet should be increased to increase the profitability[44]. Because it will be more easy to offer and sell an additional products for an existing customer than offer them to a new customer[45]. Understand and measure a share of wallet will help the seller to increase the budget in some accounts that will help the business, all of the previous information came from a real feedback, it's a customer share of wallet[46]. Also, it gives the seller an opportunity to profile the ideal customer's account. Developing a plans for this account and also, plan a recovery for this account[47].

Conclusion

The market today is very big, a lot of variety a lot options in front of the customer. The competitors are always there to gain a big market-share by gaining the customers. Applying these factors increase customer lifetime value, build real customer relationship base on relevance, influence the elasticity of a purchase decision, and increasing share of wallet will enhance the understanding of the customer behavior which will guide to gain bigger market share by win a customer loyalty. Moreover, there are some programs and software helps the companies to understand the customers. Questions will be helpful such as survey or friendly questions. But the ways to open the doors for questions are by applying these factors.

References

- Wang, C.-Y. and L.-W. Wu, *Customer loyalty and the role of relationship length*. *Managing Service Quality*, 2012. **22**(1): p. 58-74.
- Lewis, M., *The influence of loyalty programs and short-term promotions on customer retention*. *Journal of Marketing Research*, 2004: p. 281-292. Jacoby, J. and R.W. Chestnut, *Brand loyalty: Measurement and management*. 1978: Wiley New York.
- Dick, A.S. and K. Basu, *Customer loyalty: toward an integrated conceptual framework*. *Journal of the academy of marketing science*, 1994. **22**(2): p. 99-113.
- Oliver, R.L., *Satisfaction: A behavioral perspective on the consumer*. 2010: ME Sharpe Incorporated.
- Kopalle, P.K., et al., *The Joint Sales Impact of Frequency Reward and Customer Tier Components of Loyalty Programs*. *Marketing Science*, 2012. **31**(2): p. 216-235.
- Khatibi, A.A., H. Ismail, and V. Thyagarajan, *What drives customer loyalty: An analysis from the telecommunications industry*. *Journal of Targeting, Measurement and Analysis for Marketing*, 2002. **11**(1): p. 34-44.
- Kumar, V., et al., *Practice Prize Report—The power of CLV: Managing customer lifetime value at IBM*. *Marketing Science*, 2008. **27**(4): p. 585-599.
- Perkins-Munn, T., et al., *Actual purchase as a proxy for share of wallet*. *Journal of Service Research*, 2005. **7**(3): p. 245-256.
- LePine, J.A. and A. Wilcox-King, *Developing novel theoretical insight from reviews of existing theory and research*. *Academy of Management Review*, 2010. **35**(4): p. 506-509.
- Eisenhardt, K.M., *Building theories from case study research*. *Academy of management review*, 1989: p. 532-550.
- Dreher, A.U., *Foundations for conceptual research in psychoanalysis*. 2000: Karnac books.
- Gómez, B.G., A.G. Arranz, and J.G. Cillan, *The role of loyalty programs in behavioral and affective loyalty*. *Journal of Consumer Marketing*, 2006. **23**(7): p. 387-396.
- Leenheer, J., et al., *Do loyalty programs really enhance behavioral loyalty? An empirical analysis accounting for self-selecting members*. *International Journal of Research in Marketing*, 2007. **24**(1): p. 31-47.
- Liu, B.S.-C., N.C. Petruzzi, and D. Sudharshan, *A service effort allocation model for assessing customer lifetime value in service marketing*. *Journal of services marketing*, 2007. **21**(1): p. 24-35.
- McCall, M. and C. Voorhees, *The Drivers of Loyalty Program Success An Organizing Framework and Research Agenda*. *Cornell Hospitality Quarterly*, 2010. **51**(1): p. 35-52.
- Park, C.-H. and Y.-G. Kim, *Identifying key factors affecting consumer purchase behavior in an online shopping context*. *International Journal of Retail & Distribution Management*, 2003. **31**(1): p. 16-29.
- Furinto, A., T. Pawitra, and T.E. Balqiah, *Designing competitive loyalty programs: How types of program affect customer equity*. *Journal of Targeting, Measurement and Analysis for Marketing*, 2009. **17**(4): p. 307-319.
- Schultz, J. and D. Irion, *Automated purchase reward accounting system and method*. 1991, Google Patents.
- Chen, T.T., *System and method of targeted marketing*. 2005, Google Patents.
- Algiene, K. and M. Thompson, *System and methods for disclosing transaction information to customers*. 2004, Google Patents.
- Lambert, G.W., A.K. Wheeler, and C.A. Rosenblatt, *Enhanced system and method for point of sale cash rebates*. 2005, Google Patents.
- Ogrean, C. and M. Herciu, *Strategic Management between the Constraints and Incentives of Globalization—the Role and Contribution of Business Ethics and Corporate Social Responsibility*. *THE ECONOMIC GEOGRAPHY OF GLOBALIZATION*, 2011: p. 21.
- Oliver, G. and T. Ketudat, *Location-based wireless loyalty program*. 2003, Google Patents.
- Neumeier, M., *The designful company*. *Design Management Review*, 2008. **19**(2): p. 10-15.
- Sheth, J.N., B. Mittal, and B. Newman, *Consumer behavior and beyond*. NY: Harcourt Brace, 1999.
- Marshall, N.W., *Commitment, loyalty and customer lifetime value: investigating the relationships among key determinants*. *Journal of Business & Economics Research (JBER)*, 2010. **8**(8).
- Liao, C.-H., H.R. Yen, and E.Y. Li, *The effect of channel quality inconsistency on the association between eservice quality and customer relationships*. *Internet Research*, 2011. **21**(4): p. 458-478.
- Andreyeva, T., M.W. Long, and K.D. Brownell, *The impact of food prices on consumption: a systematic review of research on the price elasticity of demand for food*. *Journal Information*, 2010. **100**(2).

- Wirtz, J., A.S. Mattila, and M.O. Lwin, *How effective are loyalty reward programs in driving share of wallet?* Journal of Service Research, 2007. **9**(4): p. 327-334.
- Berger, P.D. and N.I. Nasr, *Customer lifetime value: marketing models and applications.* Journal of interactive marketing, 1998. **12**(1): p. 17-30.
- Jain, D. and S.S. Singh, *Customer lifetime value research in marketing: A review and future directions.* Journal of interactive marketing, 2002. **16**(2): p. 34-46.
- Ramachandran, R., *Customer Lifetime Value.* Changing Scenario of Consumerism, 2006.
- Malthouse, E.C. and R.C. Blattberg, *Can we predict customer lifetime value?* Journal of Interactive Marketing, 2005. **19**(1): p. 2-16.
- Helm, S., *Viral marketing-establishing customer relationships by 'word-of-mouse'.* Electronic Markets, 2000. **10**(3): p. 158-161.
- Chen, I.J. and K. Popovich, *Understanding customer relationship management (CRM): People, process and technology.* Business Process Management Journal, 2003. **9**(5): p. 672-688.
- Lemon, K.N., T.B. White, and R.S. Winer, *Dynamic customer relationship management: incorporating future considerations into the service retention decision.* The Journal of Marketing, 2002: p. 1-14.
- Ryals, L., *Making customer relationship management work: the measurement and profitable management of customer relationships.* Journal of Marketing, 2005: p. 252-261.
- Gummesson, E., *The new marketing—developing long-term interactive relationships.* Long range planning, 1987. **20**(4): p. 10-20.
- GHOSHAL, A., *Price Elasticity of Demand for Air Passenger Service: Some Additional Evidence.* Transportation Journal, 1981. **20**(4): p. 93-96.
- Starr, M.K. and J.R. Rubinson, *A loyalty group segmentation model for brand purchasing simulation.* Journal of Marketing Research, 1978: p. 378-383.
- Krishnamurthi, L. and S.P. Raj, *An empirical analysis of the relationship between brand loyalty and consumer price elasticity.* Marketing Science, 1991. **10**(2): p. 172-183.
- De Ruyter, K., M. Wetzels, and J. Bloemer, *On the relationship between perceived service quality, service loyalty and switching costs.* International Journal of Service Industry Management, 1998. **9**(5): p. 436-453.
- Mägi, A.W., *Share of wallet in retailing: the effects of customer satisfaction, loyalty cards and shopper characteristics.* Journal of Retailing, 2003. **79**(2): p. 97-106.
- Meyer-Waarden, L., *The effects of loyalty programs on customer lifetime duration and share of wallet.* Journal of Retailing, 2007. **83**(2): p. 223-236.
- Keiningham, T.L., et al., *The value of different customer satisfaction and loyalty metrics in predicting customer retention, recommendation, and share-of-wallet.* Managing Service Quality, 2007. **17**(4): p. 361-384.
- Keiningham, T.L., T. Perkins-Munn, and H. Evans, *The impact of customer satisfaction on share-of-wallet in a business-to-business environment.* Journal of Service Research, 2003. **6**(1): p. 37-50.