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## Loyalty program value: Give me more or treat me better?

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**Abstract:** Customer loyalty programs are frequently used by companies to establish and improve relationships with customers by providing them with rewards. Loyalty programs investigated in the literature focus mainly on tangible rewards and economic benefits offered to the customers. However, some research done on intangible rewards of loyalty programs suggest that they can be superior to tangible benefits in affecting customer loyalty. Previous research drew conclusions in industry-specific settings. The aim of the paper is to assess the impact of tangible and intangible benefits on customer loyalty using an on-line customer panel representing different industries. The data collected from over 300 customers is subjected to CFA/SEM analysis in R environment. The main contribution of the present study is that it represents the first attempt (to the best of authors' knowledge) to capture loyalty programs' tangible and intangible value in an Arab cultural context, given the fact the focus was on the participants from the United Arab Emirates. Several important dimensions of LP programs in an Arab country are revealed. Firstly, the study confirmed that social value of a loyalty program significantly impacts customer loyalty. In addition, it was confirmed that the flexibility of a loyalty program increased customer loyalty. Ultimately, it was established that customers value intangible benefits more than the tangible ones.

**Keywords:** loyalty program value, economic value, social benefits, intangible benefits, tangible benefits

**JEL classification:** M31

## Vrednost programa lojalnosti: Daj mi više ili me tretiraj bolje?

**Sažetak:** Kompanije često koriste programe lojalnosti kako bi razvili i unapredili odnose sa svojim kupcima, uz obezbeđivanje različitih nagrada. Programi lojalnosti koji su istraženi u literaturi se najčešće fokusiraju na opipljive nagrade i ekonomske koristi koje se kupcima nude. Međutim, određene istraživačke studije koje su se bavile neopipljivim nagradama programa lojalnosti sugeriraju da upravo neopipljive koristi mogu biti superiornije u odnosu na opipljive i efektivnije u obezbeđivanju lojalnosti kupaca. Većina ranijih istraživanja je

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analizirala konkretne privredne grane. U ovom radu istražuje se uticaj opipljivih i neopipljivih koristi na lojalnost kupaca, uz upotrebu panela kupaca iz različitih privrednih grana. Podaci su prikupljeni od više od 300 kupaca i analizirani su uz pomoć CFA/SEM u R okruženju. Glavni doprinos istraživanja se sastoji u tome da, koliko je autorima poznato, ova studija predstavlja pionirski pokušaj obuhvatanja opipljivih i neopipljivih benefita programa lojalnosti u kontekstu jedne arapske države, tj. Ujedinjenih Arapskih Emirata. Istraživanje je ukazalo na bitne dimenzije programa lojalnosti kod kupaca u jednoj arapskoj zemlji. Studija je prvenstveno potvrdila da društvena vrednost programa lojalnosti značajno opredeljuje lojalnost kupaca. Pored ovoga, istraživanje je potvrdilo da fleksibilnost programa podiže lojalnost kupaca. Na kraju, utvrđeno je da kupci u većoj meri vrednuju neopipljive koristi od programa lojalnosti u odnosu na opipljive.

**Ključne reči:** vrednost programa lojalnosti, ekonomska vrednost, društvene koristi, neopipljive koristi, opipljive koristi

**JEL klasifikacija:** M31

## 1. Introduction

Companies tend to capitalize from their relationships with external stakeholders and therefore invest significant efforts in relational capital, which captures knowledge embedded in organizations relationships with customers, suppliers, creditors, and other external partners (Gunay et al., 2021). Loyalty programs (LPs) are one of the main marketing tools companies implement to nourish customer loyalty, both in B2C (Kwiatek et al., 2018) and B2B markets (Kwiatek & Thanasi-Boçe, 2019). Ha and Stoel (2014) define a loyalty program as an “identity marketing tool” which is based on providing customer with rewards. Steinhoff and Palmatier (2016) define LPs as “any institutionalized incentive system that attempts to enhance consumers’ consumption behavior over time” LPs are used by companies not only to increase sales, but also to create long-lasting (Yi & Jeon, 2003) and stronger (Uncles et al., 2003) relationships with customers. In attempts to increase customers’ engagement in LPs, companies emphasize the LP value and the potential benefits customers might gain thanks to a LP. LPs are presented in the literature as the main tool to build customer loyalties (Buhalis & Volchek, 2021; Hollebeek et al., 2021). From the customer’s perspective, LP value is referred to as a bundle of perceived benefits (Zakaria et al., 2014). This bundle consists of tangible (i.e. economic) value the customers gather such as monetary savings (Kopalle et al., 2012), and intangible (soft) benefits such as psychological value (Liu, 2007). The higher perceived value of a loyalty program, the stronger customer’s response is (Kopalle et al., 2012; Yi & Jeon, 2003). Certainly, it is an imperative for successful management of a LP to develop a compelling set of benefits for customers.

The recent research on this topic appears to present inconclusive results. For example, tangible benefits strongly affect the customer satisfaction with a loyalty program, while intangible benefits, like being personally recognized, do not have significant effects (Mimouni-Chaabane & Volle, 2010). On the contrary, Brashear-Alejandro et al. (2016) find that customer recognition and social value (i.e., belonging to a social network) are the soft benefits that positively affect customer-company identification and thus strengthen the bonds that brands form with customers. It is also worth noting that previous research was limited and carried out in industry-specific context, like retail (Mimouni-Chaabane & Volle, 2010) and hospitality (Kim et al., 2013). Thus, the purpose of the current study is to compare tangible and intangible benefits for customers or (both customer and companies) of a LP and assess their relative impact on customer loyalty outside of any industry-specific context.

## 2. Theoretical background

### 2.1. Specifics of loyalty programs in the hospitality industry

A couple of decades ago leading hospitality companies started introducing a range of LPs to enhance their relationships with the guests. The fundamental premise which led to such initiatives' popularity were mainly because of an understanding that "loyal customers exhibit long-term commitment to the brand, leading to increased buying intention, higher revenue per customer; a willingness to pay more for comparable products/services; and reduced vulnerability to substitution by alternative brands" (O'Connor, 2021). Moreover, since loyalty of customers represents one of the key objectives of any organization (whether product or service oriented), achieving customer satisfaction is seen as the most important prerequisite for this. In order to achieve customer satisfaction, there should be a positive difference between anticipated expectations and realized service experience (Jevtić et al., 2020). The customer loyalty is also seen as an important part of intellectual capital, more specifically, relational capital of hotels, which is considered to have a major value creating effect for these organizations (Bontis et al., 2015). The LPs are a significant factor of customer loyalty, which in turn create satisfied guests who are more satisfied and thus more loyal. This in turn, causes repeated visits and positive word-of-mouth. All these factors have significant positive impact on hotel profitability (Vujić et al., 2019).

LPs have never been as relevant as they are in recent time as hospitality giants such as, the American Airline, Hilton and Marriott have seen that LPs' effectiveness is important for overcoming recent global crisis invoked by Covid-19 pandemic (Pascual & Cain, 2021). This assertion could be attributed to the growing competition, increasingly informative customers, emphasis on service quality perception, price, and satisfaction (Arora & Narula, 2018; Dewitte et al., 2021). It has become more obvious, that in the hospitality sector certain critical factors, such as innovative business model, "sharing economy" and collaborative commerce enabled by technological advancement of digital platform, have disrupted the traditional way of doing business (Altinay & Taheri, 2019; Kuhzady et al., 2021; Lima & de Assis Carlos Filho, 2019; Sigala, 2017). These disruptions came at a low operational cost, and also are linked to the constant changes in the customer buying behaviors in this sector (Satti et al., 2020).

LP normally stems from a place of customer acquisition and retention strategies, and as a result of intense competition. Additionally, in the hospitality industry, service quality, price perception and customer satisfaction are seen as factors responsible for customers embracing loyalty practices (Satti et al., 2020). Hospitality sector falls more within the ambit of service industries. Service quality has been identified as the predominant factor of satisfaction and loyalty among customers (Arora & Narula, 2018). Although these researchers suggest that, achieving service quality is dependent on a number of elements such as time and situation, during Covid-19 pandemic, LPs facilitated and maintained loyal customers in the hospitality sector (Pascual & Cain, 2021). It is also important to note the challenges associated with LPs. For example, such programs' benefits may not be sustainable since they could easily be replicated by competitors as most of them are either identical or there is hardly any cost for the customers to switch (Premayani et al., 2018).

Businesses now prefer to maintain existing customers as it is presumed to be cost effective to retain than putting huge efforts and investment to attract new ones (Arora & Narula, 2018). The existing customers retention has advantages as is argued that loyal customers become insensitive to prices, have built attachment to their preferred brand, all of which reduce costs of advertisement as well as marketing (Lentz et al., 2021). A proper application of LPs in the hospitality industry is said to be effective in profit maximization and sustainability, as it

assists businesses to maintain competitive advantage and generate more revenue due to repeat visits from loyal customers (Lentz et al., 2021).

Kim et al. (2021) highlight LP dynamics for understanding the operational, psychological and design characteristics supporting the different stages/levels the customer experiences in such a relationship. It begins with the cognitive value assessment, in which the customer identifies the monetary benefits of such a LP. It goes through an emotional value characterized with an exclusive bond between the company and the customer (Kim et al., 2021). The cognitive and emotional elements are delicate in such relationship considering the four stages normally a customer experience (i.e., acquisition, onboarding, expansion, and retention) (Kim et al., 2021; Pascual & Cain, 2021). Other researchers have noted importance of LP, since these programs in the hospitality sector helped companies' bond and build customer relation as they are used to stimulate and promote comeback buying behaviors which comes from a place of value adding (Chen et al., 2021).

## **2.2. Loyalty program value**

A number of conceptualizations present the value and utility of the loyalty program from different perspectives (Nesset et al., 2021). O'Brien and Jones (1995) broadly conceptualized loyalty program value as a composition of five elements: (1) monetary value of redemption rewards, (2) the scope of these different rewards, (3) the rewards' aspirational value, (4) the perceived prospect of realizing rewards, and (5) the LP's ease of use. This conceptualization builds on both objective (cash value, redemption choice) and subjective (ease of use, aspirational value, attainability of a reward) components of value. Alshurideh et al. (2020) presented a comprehensive analysis of the various benefits in this regard.

In a comparative study Kwiatek et al. (2018) show that benefits offered in a loyalty program are the most important element of loyalty program value. Supposed benefits could provide rationale why customers take part in loyalty programs, because these benefits increase loyalty and strengthen the relationship with the company (Bolton et al., 2004). Earlier research studies suggest that the customer benefits from a loyalty program entail utilitarian benefits (monetary savings and convenience), hedonic benefits (exploration and entertainment), and symbolic benefits (recognition and social benefits). Mimouni-Chaabane and Volle (2010) used hedonic-utilitarian-symbolic triad to derive more specific list of subjectively perceived benefits. In similar line, Evanschitzky et al. (2012) proposed three components of loyalty program value, namely social value, special treatment (both representing intangible value), and program value (economic). These days there are hardly any hospitality companies without a loyalty program for their customers (Lentz et al., 2021). Given the increased importance hospitality sector placed on LPs because of presumed value, a sound understanding of the effectiveness of such LPs is necessary for key stakeholders. This paper attempts to answer the question to what extent intangible effects of LPs contribute to the level of customer loyalty.

## **2.3. Hypotheses development**

Social Exchange Theory (SET) suggests that an individual's behavior varies depending on the exchange process of material goods, services, or social value with the company (Homans, 1961). Every party's aim in an exchange relationship is to minimize costs and maximize benefits. If customers get more engaged in a LP, they may expect social gratification, with social status being an example of this gratification. The premise of a reward for customers to feel recognized and appreciated, their behavior is likely to endure and enhance their relationship. SET provides an economic framework for the analysis of noneconomic social

situations (Chen et al., 2021). According to Blau, “engaging in ongoing social exchanges can create a platform of trust that facilitates the development of close relationships” (Blau, 1964).

The relationship links between customers and a company are positively affected by recognition (Alshurideh et al., 2020; Melancon et al., 2011). It creates customers’ awareness of a higher status that moves them forward to a positive relationship outcome (Drèze & Nunes, 2011). Subsequently, customers would amplify their attempts to maintain this position and demonstrate the higher status (Tanford, 2013). Thus, if customers feel special and are recognized, they should respond with higher loyalty. In line with SET and previous research (Kwiatek & Thanasi-Boçe, 2019; Liu, 2007; Mimouni-Chaabane & Volle, 2010), the anticipated outcome is that economic value also affects perceived LP value. In conclusion, we propose the following hypotheses:

*H1: Intangible value, i.e. a) psychological value, and b) social value of a loyalty program positively affects customer loyalty*

*H2: Tangible value, i.e. a) economic value, and b) flexibility of a loyalty program positively affects customer loyalty*

*H3: Intangible benefits affect loyalty more than tangible benefits*

### **3. Methodology**

Loyalty program value was conceptualized based on Kim et al. (2013), i.e., with two subdimensions for tangible value (economic value and flexibility), and two subdimensions for intangible value (social value and recognition). Building on previously validated scales, each subdimension was described and measured using 3-items Likert-type scales (Evanschitzky et al., 2012; Kim et al., 2013).

The targeted sample for this study was active loyalty program members who belong to consumer programs. We used customer panel managed by YouGov, a well-established consumer panel boasting 11 million members worldwide. For the purpose of the current study, we concentrated on members that represent the population of the United Arab Emirates (UAE) and are at least 18 years old. Members of the panel were invited to participate in an online survey using a quantitative questionnaire and offered a possibility to enter a draw for rewards upon completing the survey. All items were measured using 7-point Likert-type scales (1=strongly disagree to 7=strongly agree). The recognition component on a scale provided by Hennig-Thurau et al. (2002), and Evanschitzky et al. (2012). Social value component measurement was based on symbolic dimensions and adopted from (So et al., 2015). Program’s flexibility was based on Xiong et al. (2014), and economic value on So et al. (2015).

The loyalty towards the LP scale comprised of attitudinal items (Baloglu, 2002); (Evanschitzky et al., 2012), behavioral items (Omar et al., 2010; Umashankar et al., 2017; Xiong et al., 2014), and recommendation items from Raab et al. (2016). Based on demographic statistics provide by the United Nations, the population of the UAE is 10 million, whereas approximately 7.5 million are above 18 years of age. The statistics for loyalty program membership are not available. Based on previous studies, we note 25% penetration rate of the loyalty program. The required sample size is 289. The actual sample consisted of 302 respondents, all of whom belonged to at least one loyalty program based on collecting points and/or miles. The demographic characteristics are presented in Table 1.

Table 1: Participants' demographic profile

<b>Demographic</b>	<b>n</b>	<b>%</b>
<b>Gender</b>		
Male	200	66.2
Female	102	33.8
<b>Age</b>		
18-24	36	11.9
25-29	79	26.2
30-34	84	27.8
35-39	55	18.2
40+	48	15.9
<b>Income</b>		
Below \$19,200	66	21.9
\$19,201-31,980	37	12.3
\$31,981-63,984	58	19.2
\$63,985 or above	74	24.5
Not disclosed	67	22.2
<b>Membership tenure</b>		
Less than one year	102	33.8
One to two years	74	24.5
Two to three years	56	18.5
More than three years	70	23.2

Source: Author's research

## 4. Results

We analyze data in R environment using psych (Revelle, 2018) and lavaan (Rosseel, 2012) package.

Table 2: Confirmatory factor analysis statistics

	Item	$\beta$
<b>Loyalty Program Economic Value (LPVE; CR = .82; AVE = .60)</b>		
1. Being a member of this Loyalty Program allows me to save money	LPVE1	0.81
2. Being a member of this Loyalty Program allows me to get more out of my purchase	LPVE2	0.73
3. This Loyalty Program provides good value for money	LPVE3	0.80
<b>Loyalty Program Flexibility Value (LPVF; CR = .71; AVE = .46)</b>		
1. What I accumulate in this Loyalty Program will never expire	LPVF1	0.80
2. The Loyalty Program offers numerous reward redemption possibilities	LPVF2	0.78
3. I feel that members in this Loyalty Program share similar values	LPVF3	0.76
<b>Loyalty Program Social Value (LPVS; CR = .84; AVE = .63)</b>		
1. Being a member of this Loyalty Program is like being a member of a social club	LPVS1	0.86
2. This Loyalty Program adds to my identity	LPVS2	0.90
3. This Loyalty Program makes special offers to earn extra bonuses (points, miles etc.)	LPVS3	0.81
<b>Loyalty Program Recognition Value (LPVR; CR = .83; AVE = .63)</b>		
1. I feel special as a member of this Loyalty Program	LPVR1	0.83
2. I receive special treatment as a member of this Loyalty Program	LPVR2	0.87
3. As a member of this Loyalty Program I get discounts or special deals other customers don't get	LPVR3	0.88
<b>Loyalty (LOY; <math>\alpha</math> = .92; CR = .92; AVE = .60)</b>		
1. Overall, I am overall satisfied with this Loyalty Program	LOY3	0.83
2. I enjoy being a member of the Loyalty Program	LOYAC1	0.85
3. Although there are other loyalty programs I still prefer being a member of this Loyalty Program	LOYAC2	0.76
4. This Loyalty Program makes me buy more often from particular brand	LOYB1	0.76
5. I prefer to spend more money buying from the company which runs this Loyalty Program	LOYB2	0.76
6. I would recommend my favorite loyalty program to others	LOYR1	0.75
7. I took the opportunity to recommend the loyalty program to others	LOYR2	0.79

Note: Model fit:  $\chi^2(139) = 289.371$ ,  $p = .00$ , CFI = 0.960, TLI = 0.951, RMSEA = 0.060, SRMR = 0.036,  $cmin/df = 2.19$ , AVE = average variance extracted; CR = Cronbach's  $\alpha$ ; CFI = comparative fit index; TLI = Tucker-Lewis index; RMSEA = root mean square error of approximation, SRMR = standardized root mean square residual

Source: Author's research

All construct validity thresholds were satisfying the 0.7 criterion (Fornell & Larcker, 1981) and ranged from 0.71 (flexibility) to 0.92 (loyalty). Composite reliability was satisfying for

all constructs, ranging from 0.89 to 0.92 (Nunnally, 1978). Average variance extracted exceeded the 0.5 threshold (Fornell & Larcker, 1981) for all constructs but flexibility (0.46). The value is accepted based on the rationale that average variance extracted (AVE) is lower than 0.5, composite reliability is above 0.6, making the convergent validity of the construct still satisfactory (Fornell & Larcker, 1981). To determine the extent to which variances in the constructs could be explained by the model, R<sup>2</sup> values of the dependent constructs were calculated and found to be significant. Loadings for each construct, composite scores, and AVE per construct are shown in Table 2. The convergent validity of the model is established, since all items are significant at 0.05 levels and indicate loadings of 0.6 or higher (Fornell & Bookstein, 1982).

Table 3: Constructs means and correlations

Construct	M	SD	1	2	3	4	5
1. LPVE	2.20	0.80	0.77				
2. LPVF	2.20	0.70	0.79	0.68			
3. LPVS	2.40	0.91	0.77	0.80	0.79		
4. LPVR	2.30	0.97	0.80	0.83	0.80	0.79	
5. LOY	2.20	0.83	0.87	0.91	0.88	0.91	0.77

Note: LPVE = Loyalty Program Economic Value; LPVF = Loyalty Program Flexibility Value; LPVS = Loyalty Program Social Value; LPVR = Loyalty Program Recognition Value; LOY = Loyalty; Numbers on the diagonal present square root of AVE

Source: Author's research

In order to test H3 new scales were created by merging economic and flexibility value into tangible benefits (LPVEF) and social and recognition value into intangible benefits (LPVRS). The new scales were subjected to same analysis and provided satisfactory validity and reliability results. Composite reliability for all three constructs exceeded 0.7 threshold and the AVE values ranged from 0.55 to 0.61. The new model yielded slight decrease in quality but still within acceptable range ( $\chi^2(146) = 332.160$ , CFI = 0.950, TLI = 0.942, RMSEA = 0.065, SRMR = 0.039,  $cmin/df = 2.28$ ).

As provided in Table 4, three out five hypotheses are supported by the analysis of the data. First, recognition has the highest impact on customer loyalty ( $\beta = 0.58$ ,  $p < 0.01$ ). The flexibility of a loyalty program (like non-expiring points and numerous redemption possibilities) has significant impact on loyalty ( $\beta = 0.34$ ,  $p < 0.05$ ). Contrary to our expectations, both social value ( $\beta = -0.11$ ,  $p = 0.49$ ) and economic value ( $\beta = 0.17$ ,  $p = 0.89$ ) have no significant impact on loyalty. When aggregate measures are used (i.e. tangible and intangible benefits) both are significant. The difference between standardized estimates favors intangible benefits ( $\beta$  in T -  $\beta$ T = 0.02) but is marginal. However, we accept the hypothesis H3 bearing in mind higher value of Wald statistic.



Table 4: Path results

Structural Path	B	z value	Hypothesis
LPVS->LOY	-0.11	0.49	H1a not supported
LPVR->LOY	0.58	2.81**	H1b supported
LPVE->LOY	0.17	0.89	H2a not supported
LPVF->LOY	0.34	2.08*	H2b supported
LPVSR->LOY	0.47	4.48**	H3 supported
LPVEF->LOY	0.45	4.28**	

Note: LPVE = Loyalty Program Economic Value; LPVF = Loyalty Program Flexibility Value; LPVS = Loyalty Program Social Value; LPVR = Loyalty Program Recognition Value; LOY = Loyalty; LPVSR = Intangible Program Value; LPVEF = Tangible Program Value; Paths significant at: \*  $p < 0.05$ , \*\*  $p < 0.01$

Source: Author's research

## 5. Conclusion

This study extends previous works (Kim et al., 2013; Mimouni-Chaabane & Volle, 2010; Raab et al., 2016) by simultaneously testing the relationships between focal constructs on LPs. In this respect, it also extends the knowledge on cross-cultural aspects such as of loyalty programs value that concentrated mainly on the Western culture. Previous research was carried out in French (Mimouni-Chaabane & Volle, 2010) and USA (Kim et al., 2013) cultural contexts. Further, these studies investigated retail and hospitality industry. To the best of authors' knowledge, the present research study is the first to address the loyalty program's social and recognition value in Arab cultural context, since the current study focused on the sample from participants living in the United Arab Emirates and who are 18 years old and above. The sample included 302 respondents where they participated in at least one loyalty program.

An LP can be an important driver of company's sales when customers can identify additional value they receive from it (Evanschitzky et al., 2012; Kwiatek & Thanasi-Boçe, 2019). Loyalty program's perceived value is composed of tangible and intangible elements. Tangible value of a loyalty program is typically depicted by points/miles ratios, discounts, scope and choice of material rewards. Though these types of benefits do influence customer behavior (Meyer-Waarden, 2013) they come at a considerable cost to a sponsoring company. Recognition and social benefits offered to loyalty program members can increase their response at lower cost for a company. For example, material reward needs to be bought in order to be offered. Intangible benefits on the other hand include immaterial benefits like treating customers individually.

In particular, previous research on LPs suggested that social value (feeling of belonging and recognition), and subsequent personalized communication are the drivers of loyalty in collectivist and high-power distance cultures, while monetary rewards are more appealing to individualistic cultures (Kwiatek et al., 2018). Also, cultural elements could be added to the constructs to assess the regional, cultural differences in the value of intangible benefits for LP perception and acceptance by the customers. An important limitation of the present empirical study is its scope. The study focused on a single economy (United Arab Emirates), which could not be seen as a good representative of the Arab countries, due to its stage of development, economy openness, and tourism orientation. Additionally, the research sample is limited quantitatively, and for the future research should be expanded. Finally, the research, due to the respondent level, could not provide focused results in a sense that it could focus on a specific industry. On the other hand, the study reveals several important

aspects of LP programs in an Arab country. Firstly, the study confirmed that social value of a loyalty program significantly impacts customer loyalty. Secondly, it was confirmed that the flexibility of a loyalty program among consumers in the UAE plays important role in enhancing their loyalty. Finally, and most importantly, it was confirmed that customers value intangible benefits to a greater extent than the tangible ones, which brings back the notion of importance of investing in customer capital.

## Conflict of interest

The authors declare no conflict of interest.

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