

PROPOSAL FOR CLASSIFYING MULTISPONSOR LOYALTY PROGRAM REWARDS SCHEME

Pedro Reinares Lara, Rey Juan Carlos University
pedro.reinares@urjc.es

Alicia Blanco González, Rey Juan Carlos University
alicia.blanco@urjc.es

ABSTRACT

The authors propose a classification of the rewards offered by multi sponsor loyalty programs whose added value is that it is elaborated from the point of view of the demand (the program users). Despite their presence in every industry, their clear economic implications, and recent academic interest in them, there are still basic deficiencies in an element considered essential to the administration and positioning of these programs: their rewards scheme. The purpose of this reward classification is to incorporate typologies not proposed massively till now by loyalty programs, which would be useful in subsequent investigations.

I. INTRODUCTION

Loyalty programs (LP) are today regarded as essential by many companies. In order to encourage repeat purchases, these programs offer customers incentives (points or other exchanges units), which can be redeemed for different items of value. Technological advances, substantial investment in loyalty programs, increased capacity for managing the information provided by the cards associated with these programs, the adoption of these methods on a mass scale, and competition between different programs, have not been accompanied by a sufficient understanding of the basic elements of the strategy underlying these programs, the goals they pursue, and the management of the different elements associated with their structure.

Nonetheless, as these programmes reach a level of maturity, the acquisition of knowledge begins to be considered a priority from both academic and business points of view. Numerous sources indicate that an important element of the programme's viability is innovative management of incentives. Authors such as Kivetz and Simonson (2002), Neslin et al. (1985) and Hartmann and Viard (2005) highlight the limited theoretical knowledge of specific elements of managing incentives within these programs. Meyer Waarden (2006) highlights that the efficiency of rewards and their ability to create value for consumers have been the subject of only a few studies.

Lack of research can also be found in the business sector. Incentives are descriptively analysed on the basis of their financial implications. As a result, the progress of scientific research has undoubtedly been hindered by the lack of real data.

While several sources argue that the value of the incentives and rewards associated with the program are a vital element of viable management, there is no unanimity regarding the effects of different types of incentives.

Studies sponsored by program administrators show that the main reason given by consumers for either not participating, or leaving the program, is that they do not

view the rewards offered as interesting or adequate (Reinares and Reinares, 2005). This reinforces potential interest in applying research to the type of incentives which would be most recommendable.

II. REWARD CLASSIFICATIONS

Many sources consulted seek to evaluate certain effects of the incentives based on classifications which are too reductionist to encompass the complex reality of this key element in the management of a program. Reward classifications group programme incentives according to variables which make it possible to adopt simple categorisations depending on the researcher's objectives. These facilitate investigation and subsequent conclusions. The variables used are frequently dichotomous. Dowling and Uncles (1997) and Rothschild and Gaidis (1981) classify program rewards according to their relationship to the brand (direct/indirect) and the time of redemption (immediate/delayed).

Authors such as Roehm et al. (2002), Benavent and Meyer Waarden (2001), and Kim et al. (2001) categorise incentives as shown in table I. They then analyse the effects of these offerings within the framework of single-sponsor programs. However, these classifications, which are useful for facilitating future empirical development, ignore the fact that consumers perceive and value rewards in a less abstract fashion. Given that these categorisations are based on the rewards offered, it could be that hitherto unknown incentives, or less common ones, were not included.

For O'Brian and Jones (1995) a major part of a loyalty program's potentiality lies in selecting suitable incentives or awards and managing them appropriately. Kivetz and Simonson (2002) demonstrate the positive effects of adapting a program's incentive structure to the specific characteristics of the individual. According Mimouni and Volle (2003) the current categories of incentives are insufficient, as they are focused on utilitarian benefits with an economic component which is virtually exclusive, and which ignores other types of rewards.

TABLE I: CLASIFICACION OF REWARDS

- High reward program, moderate reward program, low reward program.	Wansink (2003)
- Indirect reward-Directly support product value reward. - Immediate rewards –Delayed rewards.	Dowling and Uncles (1997)
- Luxury reward-Necessity reward.	Kivetz and Simonson (2002)
- Inefficient reward –Efficient reward	Kim <i>et al</i> (2001)
- Hard benefits, soft benefits.	Benavent and Meyer Warden (2001)
- Cue compatibility reward- incompatibility reward. - Tangible benefits -abstract benefits.	Roehm <i>et al</i> (2002)
- Utilitarian reward. - Recreational reward. - Social Benefits.	Mimouni and Volle (2003)

Source: Wansink (2003), Dowling and Uncles (1997), Kivetz and Simonson (2002), Kim *et al* (2001), Benavent and Meyer Warden (2001), Roehm *et al* (2002), Mimouni and Volle (2003)

Despite the fact that the sources mentioned are of great interest, classifying rewards based on their tangibility, time element, relationship to the company or financial cost is insufficient to determine empirically whether current incentives as perceived by members of multi sponsor programs are adequate. If a sample of consumers are asked what category a certain reward, e.g. a trip, falls into, some will say that it has hedonic value, others functional, and others financial. This perception will vary according to the socio-demographic profile of the consumer, or other variables which it will be necessary to determine. Consumers believe, as this research shows, that programme incentives are less abstract elements such as trips, cd players, hotel stays or cinema tickets. Following this premise, and as a necessary preliminary step towards assessing the effects of incentives on the goals of a loyalty program, it becomes necessary to categorise according to the perceptions held by the users of the programs themselves.

The relevance of the goal proposed in this work is essential for the management and dynamization of loyalty programs. Likewise, analysis of business practice reinforces the relevance of this work. An overview of the typologies of incentives used by the programs reveals the limited imagination of program managers. The rewards are not only very similar among programs from the same sector (for example, in food brands), but this similarity also occurs in programs in general.

III. METHODOLOGICAL ASPECTS

In order to determine how consumers perceive the rewards associated with the program, it is necessary to gather information from the demand side (the program users). The decision was made not to apply pre-defined incentive categories determined by the programs' usual way of operating, in order to attempt to introduce types not previously proposed on a mass scale by loyalty programs.

A specific incentive is a reflection of a specific motivation. As such, the best way to highlight the motivations associated with different incentives would be to apply qualitative techniques based on focus groups: Six focus groups with a sample of 60 people over the age of 18 representing a socio-demographic cross-section of the Spanish population. Three focus groups with loyalty program users and three with non-users, carried out in Madrid in June 2005. With the qualitative information, we then proceeded to group the results into 26 different incentive categories.

These results were specifically linked to a series of questions presented in questionnaire form, which would subsequently be applied, at a later quantitative stage, to a sample of 550 consumers (Universe: Residents of Spain over the age of 18). The Sample unit was Active users of at least one multi-sponsor loyalty program (stratified by sex, age and MOSAIC group). In this questionnaire, the 26 incentives obtained were evaluated by means of a ten-point Likert scale. The data collection method was Personal survey by phone, administering a structured questionnaire. The final goal was to determine the degree of interest in new types of rewards for users of current programs.

With the information from the questionnaire, the 26 questions corresponding to evaluating the incentives were grouped by means of a principal components analysis. Numerous combinations with different levels of representation were created. The final result was a group of thirteen factors. A preliminary study of the eigenvalues table might seem to suggest that only six factors be retained. However, the variance explained by these six factors is only 59.5% of total variance. For this reason, it seems advisable

to take a greater number of factors into consideration in order to explain a significant amount of information.

CHART I. PRINCIPAL COMPONENTS ANALYSIS RESULTS

Initial Factor Method: Principal Components

Eigenvalues of the Correlation Matrix: Total = 26 Average = 1

	Eigenvalue	Difference	Proportion	Cumulative
1	8.03837143	5.84676137	0.3092	0.3092
2	2.19161007	0.62757030	0.0843	0.3935
3	1.56403977	0.04900449	0.0602	0.4536
4	1.51503527	0.39938662	0.0583	0.5119
5	1.11564865	0.07037220	0.0429	0.5548
6	1.04527645	0.06340895	0.0402	0.5950
7	0.98186750	0.09057805	0.0378	0.6328
8	0.89128946	0.06618993	0.0343	0.6670
9	0.82509953	0.06824953	0.0317	0.6988
10	0.75685000	0.03024298	0.0291	0.7279
11	0.72660702	0.08731312	0.0279	0.7558
12	0.63929390	0.04671055	0.0246	0.7804
13	0.59258335	0.02414659	0.0228	0.8032
14	0.56843676	0.04289547	0.0219	0.8251
15	0.52554129	0.01968305	0.0202	0.8453
16	0.50585824	0.05297288	0.0195	0.8647
17	0.45288536	0.01036827	0.0174	0.8822
18	0.44251709	0.01916535	0.0170	0.8992
19	0.42335174	0.02834442	0.0163	0.9155
20	0.39500732	0.01469328	0.0152	0.9307
21	0.38031404	0.04232200	0.0146	0.9453
22	0.33799204	0.03719750	0.0130	0.9583
23	0.30079454	0.01535235	0.0116	0.9699
24	0.28544220	0.02224932	0.0110	0.9808
25	0.26319288	0.02809876	0.0101	0.9910
26	0.23509411		0.0090	1.0000

13 factors will be retained by the NFACTOR criterion.

Source: Own design

The group of 13 factors explains 80.32% of the total variance. It was decided to use 13, given the ease of assigning a different name to each of them. A smaller number of factors would have meant creating a classification which would be difficult to interpret for the purposes of the research, and which would have had a number of groups similar to the classifications proposed by the literature previously consulted. The goal was to obtain a classification with mutually-exclusive rewards which are at the same time easily identifiable by potential users of loyalty programs.

IV. RESULTS AND CONCLUSIONS

This research has established that consumers distinguish a total of 187 specific rewards which can be associated with a loyalty program as the final item of exchange. Once the analysis had been carried out, the results were grouped under 13 factors (types of reward), as shown in table I.

None of the incentive classifications provided by the scientific literature described makes it possible to classify all of the 13 types of reward established by this research. The different classifications based on program offerings or researchers' need for simplicity are insufficient, given that according to the results of this research we find:

- Rewards which may be part of different categories: various types of *tangible rewards*.
- Rewards which are difficult to categorise according to customer classifications, e.g. *discounts* and *services* which may be immediate or delayed.

- Rewards which cannot be categorised *a priori* as they depend on the functions which each individual consumer assigns to them: rewards which may be luxuries or necessities.
- Rewards which are difficult to categorise according to the subjective classification criteria employed by certain authors, e.g. the efficient-inefficient grouping.
- Rewards not found in the current categorisations: *solidarity, ecological*.

TABLE II. NAME OF THE REWARDS GROUPED BY FACTORS

TYPE	EXAMPLES
Tourism:	Trips, hotels, flights.
Ecology:	Energy savings, protecting the environment.
Solidarity:	Social services for underprivileged third parties.
Recreational tangibles:	Stereo equipment, DVD.
Discounts:	Direct or indirect price reduction.
Services:	Guarantees, maintenance, expedited delivery.
Culture:	Tickets for the cinema, exhibitions, museums, cooking courses, concerts.
Leisure:	Restaurants, bars, amusement parks.
Social benefits:	Exclusivity, preference, prestige.
Information:	Reports about health, stock market, fashion, cars...
Personal tangibles:	Clothing, accessories, glasses, jewellery.
Utilitarian tangibles:	Practical everyday needs such as a small appliance.
Recreational intangibles:	Contests, prize draws, games.

Source: Own design

This research clearly reveals a perception which differentiates between 13 types of reward, going beyond the reductionist and abstract grouping of all incentives possible in a loyalty program according to categorisations based on current offerings of programs. The main conclusion for operational purposes is the potential for improving the management of programs with some rewards rarely or never used in many programmes, such as *Ecology, Culture, Solidarity and Social benefits*. The most used rewards in current L.P. are *Tourism, Personal tangibles, Utilitarian tangibles* and *Recreational tangibles* (Ponzoa, 2007).

The 13 incentive categories obtained in this research make it possible to establish potential channels for managing loyalty programs, as the majority of these types lie outside the ordinary practices of the programs (“consumers perceive the programs as similar, given that the rewards they offer are similar”: descriptive analysis of 100% of Spanish programmes carried out (Reinares and Ponzoa, 2002) .In conclusion, this work has established categories for new rewards. Incorporating these into L.P. could make it possible to:

- Distinctly position different programs.
- Strengthen positive associations between multi sponsor loyalty programs and the promoting brand/company.
- Improve the administration of current programs.

Using this consumer-centred classification it will be possible (in further research) to empirically apply the results to the potential effects of these rewards in the context of a multi sponsor program.

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