



Loyalty Programs – Beyond Behavioral Loyalty

(A hypothesis of the psychological working of loyalty programs)

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LOYALTY PROGRAMS - BEYOND BEHAVIORAL LOYALTY

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1.0 Introduction

As a United Airlines' Mileage Plus member, I have always been very pleased with various aspects of United's flight experience: The Hemispheres magazine, the extra legroom in 'Economy-plus', the channel 9 pilot and ATC chatter, etc. If anyone asked me why I often flew United, it was not because of my membership, but because of all these experiential facets. But recently I ran into an old friend at the Chili's café at O'Hare and given the location and our travel intensive lives, we got into discussing airlines. Thanks to all the competition, my friend pointed out, the legroom in American has gotten so much better and the in-flight reading as well. And, my friend, the AAdvantage member added, the frequent upgrades she got were simply delightful. Why wasn't I flying American then? Because, as I realized, due to my continued interaction with United, I knew and experienced their positive aspects, *and* was exposed to them so much more, that I had no clue what other airlines were doing to provide a competitive passenger experience!

If you are a practitioner, check out the concept mentioned above in your firm. Conduct a survey among your regular customers (customers who transact frequently with you). These may be regular customers for a variety of reasons: your store is close to where they live, they like your service, they like your private label brands, they like the 'atmosphere', they like your prices, they like your loyalty program, etc.

Ask them this question: 'please complete this sentence 'I like to shop at *Yourplace* because....'. Take the responses and run a correlation with what you yourself think your firm's differentiators are with respect to your competition. Don't be astounded if you find that many of the reasons your customers give for shopping with you are actually aspects that you, being aware of your competition, know are available at your competition as well.

If such results mystify you, you'll be glad to know that this is normal behavior for most consumers. Any consumer transacting regularly with a brand is more open to that brand's communication and experience, and relatively closed to competing brands. We'll see why as we go on.

Now let us examine the continuing debate about loyalty programs. The fact that loyalty programs increase temporary behavioral loyalty (i.e. actual repurchase), is agreed upon by most, but it is said that

- the loyalty is to the loyalty program not the brand
- the customers attracted are those who are 'bargain-hunters', not the type you'd want to attract
- if all competitors offer similar loyalty programs, all-round profitability reduces without gain to anyone

In short, will your consumers begin to show long-lasting commitment to your brand as a result of a loyalty program?

The answer would be no, commitment to your brand would not be sure to increase as a direct effect of a loyalty program. However, indirectly, one may expect a loyalty program to lead to some favorable attitude change towards the brand. And this happens due to the same reasons that had led to my thinking United was special. Lets move on to those reasons then.

2.0 Behavior and Attitude

2.1 The Loop

It has been proven that while attitude may produce behavior, behavior can also induce attitude change. Loyal behavior exposes the customer to more number of ‘experiments in satisfaction’ with a specific brand. As those experiments are successful, it produces a learning that brand X is a good brand to transact with.

To quote Sabine Adams et al from their paper on 'Managerial and Strategic Implications of Customer Loyalty' [1]:

".... When the resulting "loyal" customer behaviors are positively reinforced, the consequences of customers' loyalty create a continuing loop that can be broken only by extreme dissatisfaction, unusual price increases or the introduction of a far superior substitute. Customers behave loyally when they (1) buy again, (2) buy more, (3) buy more often, and (4) buy other company products. The consequences of these behaviors include: (1) A higher tolerance for momentary dissatisfaction; (2) resistance to counter-persuasion; (3) reduced search motivation; and (4) reduced price sensitivity. "

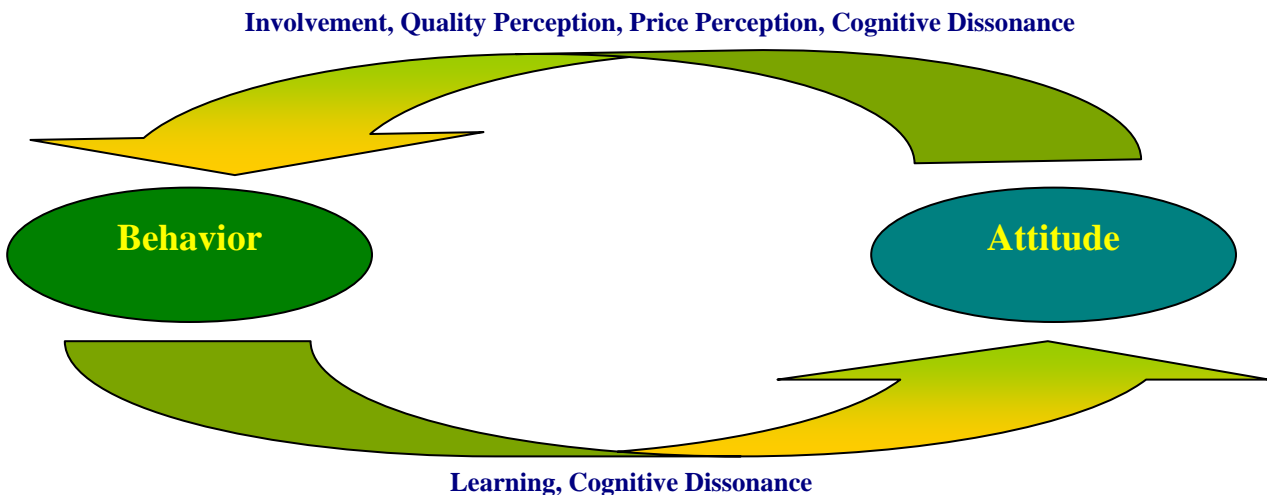


Fig. 1: The Behavior- Attitude Loop

Loyal behavior creates a continuing loop of action and reward in terms of satisfaction; leading to an attitude that propels positive behavior again. This is a process of learning. As we shall see as we go further, consistent learning also gives rise to a psychological element of ‘blocking’. We shall also see that ‘cognitive dissonance’ may play a part in changing of attitudes given loyal behavior.

But, for both these psychological processes to have a favorable impact, the basic necessary condition is that the product / service offered provides satisfaction.

2.2 Dissatisfaction and Defection

As we know, a loyalty program is not a solution against customers leaving due to dissatisfaction. The need for such programs stems from the fact that providing satisfaction to consumers is necessary but not sufficient for ensuring retention. While dissatisfaction is almost sure to lead to defection, satisfaction may or may not lead to retention.

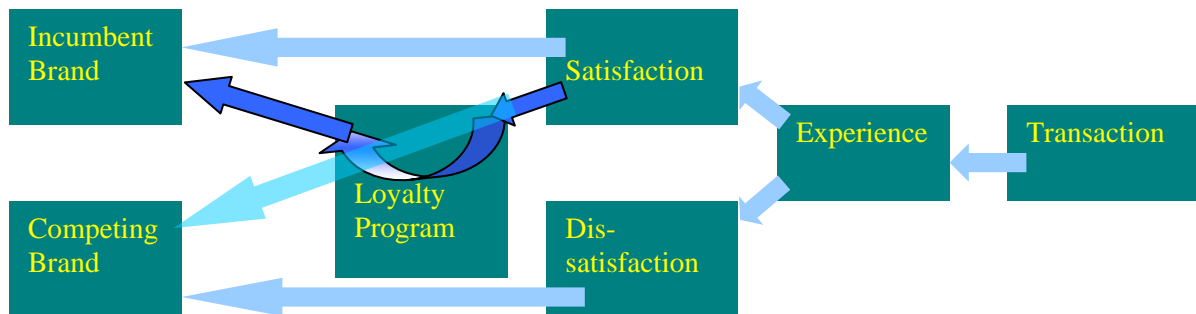


Fig. 2: A Loyalty Program is used to prevent 'defection in spite of satisfaction'

So, what are the other reasons for which a satisfied customer may defect?

- Satisfaction being a continuum, dissatisfaction could be relative and the customer might leave seeking or expecting greater satisfaction (influenced by competitor's advertisements, promotions, and word of mouth). *[Note that this type of dissatisfaction might not show up in surveys etc. since per se the consumer is satisfied.]*
- Or the customer may just be the type who loves to try out new sources for a change.

3.0 Different Consumers

From above, we can see that customers who are at risk of switching in spite of satisfaction can be divided into two groups

- **Rational Switchers**
They are not loyal to a brand and will generally be influenced by price/ value/ competing promotions. They frequently re-evaluate their options and scan offers in the market before most transactions.
- **Promiscuous**
They love to purchase the product but get bored of being loyal. They are likely to try out new brands, locations, price points, etc. "just for a change".

Of these, the promiscuous set is almost impossible to make loyal since the very consistency of experience that your brand loyalists love, will drive the promiscuous set away.

In the case of the rational switcher the key is to encourage the creation of a heuristic by them, and to educate them about the nuances in your competitor's advertising so they can see through more of them. (I.e. change their attitudes to those of rational brand loyal customers - those that aren't loyal due to habit or emotional attachment, but those that are increasingly weary to evaluate all options because given their satisfaction with the brand they see little point in frequent re-evaluation of options.)

The rational switcher, unlike the promiscuous, has a higher level of involvement in the decision of where to shop, or which product to prefer. This very involvement is what also makes an attitude change possible.

4.0 Attitude change

4.1 Blocking

As a consumer keeps on experiencing a product/ service without dissatisfaction, his confidence in the offering grows and in the absence of other strong influences, he is likely to remain loyal even if a loyalty program is discontinued. This happens due to development of either a habit or an attitudinal loyalty towards the offering, through a process of learning.

Also, as he learns about the "cause and effect" of purchasing from a certain source and experiencing satisfaction, his vulnerability to competitor promotions etc. is reduced by the process of "blocking". As mentioned earlier, in a survey of customers displaying behavioral loyalty, one will find many of the customers talking of various benefits of the brand they're transacting; while many of these benefits, if one truly checks, are available with other brands too. This phenomenon is what makes it likely that there is a process of "blocking" that works on the psychology of a behaviorally loyal customer.

"As originally documented in the study of classical conditioning, the learning of one predictive cue can "block" the learning of subsequently encountered predictive cues. Specifically, once the relationship between a conditioned stimulus (e.g., a tone) and an unconditioned stimulus (e.g., a shock) is fully learned, consistent co-presentation of a second stimulus (e.g., a light) with the original conditioned and unconditioned stimuli will fail to produce any evidence of learning of the relationship between the second conditioned stimulus and the unconditioned stimulus (Kamin [1969](#)). That is, the second stimulus evokes no response from the organism despite being perfectly predictive of the unconditioned stimulus. Analogous effects have been reported in human learning tasks (e.g., Dickinson, Shanks, and Evenden [1984](#); Waldmann and Holyoak [1992](#)).

This phenomenon is pertinent to consumer learning because consumers often do not encounter all predictive cues simultaneously, and it is likely that exposure to certain cues will precede exposure to information about other similarly causal cues. "

(Consumer Learning and Brand Equity - Journal of Consumer Research - Stijn M. J. Van Osselaer & Joseph W. Alba [11])

Behavior	Result	Learning
Purchase of Brand A	<u>Satisfaction</u>	<i>This item is of satisfactory quality</i>
Re-purchase of Brand A	<u>Satisfaction</u>	<i>Brand A gives satisfaction</i>
n th repurchase of Brand A	<u>Satisfaction n times</u>	<i>Brand A is a good brand to buy</i>
Occasional purchase of Brand B	<u>Satisfaction</u>	<i>Item is satisfactory.</i>
Next occasional purchase of Brand B	<u>Satisfaction</u>	<i>Item satisfactory. (learning 4) Brand to buy is: A. (learning 3)</i>

		<i>Brand B? (Blocked)</i>
Occasional purchase of Brand C	<u>Delight</u>	<i>Item gives delight.</i>
Next purchase of Brand C	<u>Delight</u>	<i>Brand C gives delight. Brand C is a better brand to buy.</i>

**Fig. 3: Blocking will reduce receptiveness to competing brands.
(Except in case of a very superior level of satisfaction from a competing brand.)**

Thus, the trial and repurchase and continued repurchase induced by a loyalty program can help in putting the brand first in the consumer's learning process thus utilizing the blocking process to the brand's favor. This effectively reduces customer vulnerability to competitor promotions.

While blocking can explain why a behaviorally loyal customer is resistant to competitor promotions, it does not explain another phenomenon. This phenomenon is the one where we find some behaviorally loyal customers being more prone to believing and internalizing incumbent brand promotions than they were before they started exhibiting behavioral loyalty.

4.2 Cognitive Dissonance

Since the original attitude of a rational switcher is to be skeptical with regard to brand loyalty, the behavior in buying more from one brand is an 'attitude-discrepant' behavior, which can be expected to cause dissonance. (A person who has dissonant or discrepant cognitions is said to be in a psychological state of dissonance that is experienced as unpleasant psychological tension.) Note that consumers that do not consider the transaction to be of importance at all will not experience dissonance. However, we have seen that rational switchers do consider the transaction important, which is why they re-evaluated options frequently in the first place.

As per 'The Theory of Cognitive Dissonance' (Festinger, 1957 [4]), a person experiencing dissonance consciously or unconsciously strives to reduce it. The dissonance, in this instance, can be reduced by either ceasing to behave in the prescribed manner; or by way of convincing oneself that: since this brand is likely to keep providing satisfaction, the attitude of re-evaluating brand options was not justified in the first place (i.e. ceasing to harbor the earlier attitude).

Multiple researchers have shown that consumers are more receptive to a brand's promotions *after* they have experienced a high involvement transaction with the brand.

<<Winsor and Hesperich [12] point out certain research findings that clearly demonstrate the attitude changing influence of cognitive dissonance. For example,

1. "It would appear then, that dissonant purchasers may use several methods to attempt to reduce feelings of dissonance. One of these ways would be for an individual to "seek new information in order to justify his action" (Engel, J. F. & Light, M. L. The role of psychological commitment in consumer behavior – 1968 [3])."

2. "...the consumer will often control his own exposure to information and advertising to support what he wants to believe" (Kassarjian, H. H. & Cohen, J. B. Cognitive dissonance and consumer behavior – 1965 [8]) >>

Thus one can look at this phenomenon in two steps, 1. the loyalty program led to behavioral loyalty, and 2. since rational switchers considered the transaction important, they experienced dissonance against their switching tendencies and became more open to the brand's promotion in

the hope of gaining some information that will help reduce their dissonance. This, when it occurs, is the first step in creation of an attitude of brand-loyalty via a rational heuristic (based on the promotions the rational switcher begins to believe frequent re-evaluation of options is not necessary) and this is a loyalty which is more permanent to the brand.

4.2.1 Cognitive Dissonance and Incentive Management

Dissonance created by behavior-attitude mis-match shall be reduced by the consumer, either by ceasing of the behavior or by shifting of attitude. Now, the important question is whether the cognitive dissonance experienced due to incentivised re-purchase leads to ceasing of the re-purchase behavior or leads to an attitude change toward the brand. This depends on:

- the basic quality of need fulfillment
- the explicit attractiveness of the incentive
- the effectiveness of re-assuring brand communication

Attractiveness of the incentive is an important factor. Analogous research shows that if the incentive is too attractive, attitude change will not happen, since, then, cognitive dissonance will not occur! The consumer will say to herself that I'm engaging in this behavior since I am getting these benefits and they are attractive enough to justify the attitude discrepancy. She then does not have to convince herself that the original attitude was wrong but rather she tells herself that there is a special consideration over-riding that attitude temporarily.

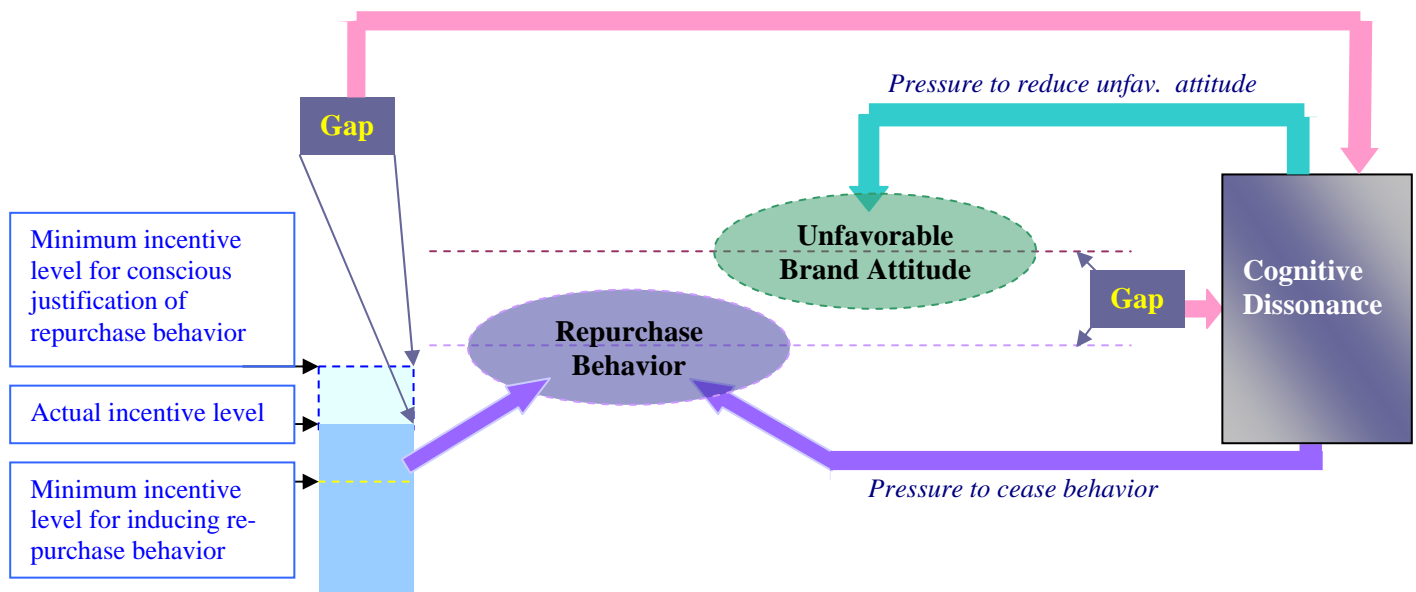


Fig. 4: Incentive Level, Cognitive Dissonance, Attitude and Behavior

In general psychology it is found that attitudes change to match behavior rather than the other way round only when the subject has no tangible or rigorous explanation for why she is behaving differently than what her attitude would dictate. For example, in smokers, attitudes have been observed to change from “cigarettes are injurious” to “who gives a damn!” to fit their behavior.

The incentives in a loyalty program, therefore, should be good enough for the customer to not cease re-purchase behavior, but at the same time, should not be ostensibly lucrative. This is why incentive management becomes an art. Where loyal customers are being incentivised by hard and soft rewards, a larger portion should be soft and to a certain extent intangible or non-quantifiable by the consumer. Rewards need to be designed to be attractive to customers with involvement in the product / service. E.g. a bank giving private investment advice to high net worth customers, or giving customers free subscription to investment newsletters (as against providing a variety of redemption options or virtual currencies.)

The fine balance between 'inconsequent rewarding' and 'over-incentivizing' is, if one believes in the psychology of dissonance, the most important part of managing a loyalty scheme.

It would pay to note the impact of cognitive dissonance on opinion formation in case of incentivised sale as mentioned by Robert D. Winsor and Lucretia Hesperich in their paper on 'The Application of Cognitive Dissonance in Marketing' [12]: "... dissonance usually exists after a person acts in response to rewards or threatened punishment. If the desired behavior is elicited in the individual, his opinions become dissonant with his knowledge concerning this behavior. The dissonance produced in this situation of "forced compliance" may be reduced by changing or intensifying opinion so that it becomes more congruent with the chosen behavior or non-behavior."

Thus, once a behavior is elicited from a consumer contrary to his prevalent attitudes, the brand owner's efforts in 'changing or intensifying opinion' (through advertising, etc.) has more chances of success in changing the consumer's attitude due to the consumer's own internal motivation to reduce dissonance. This is what might have led James L Ginter's subjects to exhibit their behavior in his study published in 1974. Ginter writes that "consumers tended to re-rate a product as more similar to their ideal brand *after* they had purchased it".

To summarize, for a loyalty program to have a long term effect on brand perception:

1. *the product / service has to provide satisfaction,*
2. *the incentive level and type has to be such as to allow cognitive dissonance, (the incentive type has to be such as to appeal to 'involved' consumers intangibly), and*
3. *re-assuring brand communication has to be designed to target program members*

The benefits of a loyalty program fulfilling the above requirements are:

1. *consumers displaying behavioral loyalty,*
2. *consumers receptive to (and in fact, secretly 'willing to believe') the business' brand communication. [due to cognitive dissonance reduction], and*
3. *consumers unreceptive to competing brand communication [due to blocking].*

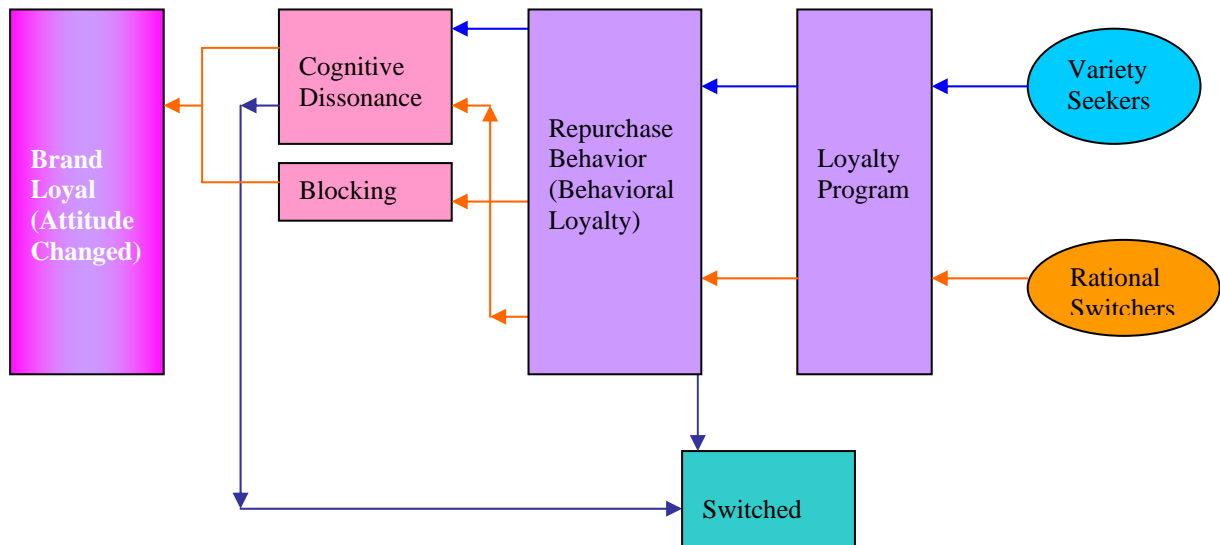


Fig 5: The suggested process to attitude change via a loyalty program.

Note: In the absence of comprehensive research aimed at the psychology of loyalty program members, the above remains a deduction / extrapolation from existing research in the fields of consumer behavior and general psychology, and from observed consumer behavior in my personal and professional experience. A practitioner can use simple surveys among his loyalty program members to test if the truth of the phenomena discussed above applies to him and can judge the likely roots of the same from referenced research in this paper.

There is scope for further research to identify various facets specific to loyalty programs and how they should be controlled to increase the probability of favorable change in members' attitudinal loyalty towards the brand.

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About the author

Subhashis Nath has 10 years of experience in marketing, customer relationship and consulting. He has provided consulting services to European and U.S. retailers in the areas of CRM, demand planning, merchandising and analytics. He participated in the design of what is today Europe's largest coalition loyalty program. Subhashis is currently a Principal with the Retail and Consumer Goods practice of Infosys Technologies Ltd. (subhashis_nath@infosys.com)

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