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Review

Review of the theoretical underpinnings of loyalty programs

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Abstract

A review of the extant literature reveals that the theoretical underpinnings of the majority of loyalty program research rest on psychological mechanisms from three specific domains—status, habit, and relational. We propose that to understand how loyalty programs actually work, a broader, more holistic research perspective is needed to account for the simultaneous effects across these three theoretical domains as well as both cross-customer and temporal effects. The contribution of this approach is a fresh research agenda advanced in 15 research propositions.

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Keywords: Loyalty programs; Status; Habit; Relationship; Relationship marketing

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Loyalty programs, both in practice and as a focus of consumer research, have become popular over the past decade, but the financial impact of these efforts rarely meets expectations (Dowling & Uncles, 1997; Ferguson & Hlavinka, 2007). Marketing literature substantiates the marginal effectiveness of some loyalty programs (e.g., Leenheer, van Heerde, Bijmolt, & Smidts, 2007), with articles referring to current conceptualizations as “shams” (Shugan, 2005, p. 185); nevertheless, consumers tend to enroll in droves. In the United States, loyalty program participation has topped 1.3 billion, with the average household subscribing to 12 separate programs (Ferguson & Hlavinka, 2007). Firms spend well over \$1 billion rewarding these “polygamous” consumers (Dowling & Uncles, 1997, p. 6; Wagner, Hennig-Thurau, & Rudolph, 2009), and it is no surprise that the abysmal performance of many loyalty programs ultimately results in their abolition (Nunes & Dréze, 2006). Because many loyalty programs fail to perform as expected, a new approach may be needed. This article addresses this need by reviewing the extant literature on loyalty programs with the objective of providing researchers new perspectives for understanding the effectiveness of loyalty programs.

Loyalty programs: broadening the research perspective

Specifically, we propose that the research lens focused on loyalty programs should be broadened to account for three important features of these programs. First, most programs simultaneously engage multiple psychological mechanisms, while research often uses a one-dimensional theoretical lens. For example, Dréze and Nunes (2009) investigate the structure of loyalty programs using just a status perspective, and Rosenbaum, Ostrom, and Kuntze (2005) examine loyalty programs from only a relationship perspective. Although focusing on a single theoretical mechanism supports experimental design parsimony and the academic review process, it may not capture the “full effects” of most loyalty programs, which often concurrently tap multiple psychological processes. For example, Leenheer et al. (2007) recommend that managers implement delayed reward programs and promote the benefits of these programs to nonmember, low-volume customers. Without considering the impact on habit-based loyalty, which may not be effective in a delayed benefit scheme, or status-based loyalty, which may be undermined when benefits are also allocated to nonmember, low-volume consumers, Leenheer et al. risk delivering harmful advice.

Loyalty programs often tap into more than one mental or social process at any given time. For example, a program might confer a special sense of status, enhance customer feelings of social belonging, build gratitude, promote reciprocation, or deliver a combination of these benefits (De Wulf, Odekerken-Schröder, & Iacobucci, 2001; Morales, 2005; O'Brien & Jones, 1995). Not only can multiple loyalty-inducing mechanisms (e.g., status, habit, relational) operate concurrently in an additive manner, but different mechanisms may also interact in a multiplicative manner. Consider a consumer who now habitually orders all his or her books from an online retailer after being exposed to a sequence of targeted monthly e-mails. The

retailer then launches a status-based VIP program in which the consumer gains points for every purchase with an accompanying rewards summary each month. Providing the consumer recognition and rewards for purchases should improve loyalty, but how does this new program interact with the consumer's habit-based purchase behavior? Research has shown that habits weaken and become more vulnerable when instrumentality of behavior is made salient (Wood & Neal, 2009). By rewarding and reporting purchases, the firm increases the “instrumentality” of the purchase behavior, which in turn can undermine the positive linkage between habits and purchases. After the habit is disrupted, the consumer now “thinks” about the next book purchase and decides to shop around to make sure the online retailer provides the best benefits available. Thus, future loyalty program research should be broadened to account for the *simultaneous effects of multiple theoretical mechanisms* because many programs trigger concurrent psychological responses.

Second, although loyalty programs affect multiple consumers, they are typically studied solely on the basis of their effect on the focal or target consumer without accounting for the program's potential cross-customer effects (Darke & Dahl, 2003; Feinberg, Krishna, & Zhang, 2002). For example, Alaska Airlines' flight attendants hand out free-drink coupons to “premium” customers flying in coach without accounting for how this program might affect surrounding passengers. While the impact of this program on premium customers may be positive, the benefits could be offset by the potential negative effects due to feelings of unfairness or inferior status among surrounding passengers who observe the “premium customer” receiving a reward. For example, Barone and Roy (2010a) investigate consumers' reactions to exclusive promotions without considering the impact of these deals on excluded customers. Furthermore, research indicates that consumers enjoy shopping socially (Arnold & Reynolds, 2003) and that shopping with companions influences purchase behaviors, such as impulse buying (Luo, 2005); yet these cross-customer loyalty-enhancing relational mechanisms are relatively under-explored (Rosenbaum et al., 2005). Thus, future loyalty program research should be broadened to account for *cross-customer effects* because many programs influence non-targeted consumers.

Third, the effects of loyalty programs develop over multiple periods or are in some way time dependent, but programs are often evaluated at a single point in time without accounting for any temporal effects (Lewis, 2004; Liu, 2007). For example, providing consumers discount coupons initially offers the functional benefit of a lower price, which may lead to habit-based loyalty over time, but it can also generate feelings of gratitude and a need to reciprocate and thus lead to relational-based loyalty in the long run (Morales, 2005; Palmatier, Jarvis, Bechhoff, & Kardes, 2009). However, to determine the overall influence of a coupon-based rewards program, each of the three temporally dependent effects (i.e., functional, habit, and relational) must be considered. A short-term time horizon may be weighted toward the impact of the price discount, while the benefits of habit-based loyalty may emerge only when the

consumer receives many coupons in a compressed period; relational-based loyalty may only be detectable over longer time horizons. Because most loyalty programs are evaluated at a single point in time, the results either fail to account for any temporal effects or are biased toward the loyalty-inducing mechanism most salient at that time. Likewise, Ashworth, Darke, and Schaller (2005) examine the immediate social consequences of discount incentives, even though the effects of “feeling cheap” may diminish over time as the effect of purchase habits increases. In a different context, Howard (1992) examines, as an immediate reaction, the mood-lifting effects of complimentary services without examining how these services may help build long-term relationships. Thus, future loyalty program research should be broadened to account for *temporal effects* because the effectiveness of many programs is time dependent.

In summary, we suggest that additional work is needed to truly understand loyalty programs. That is, a broader, more holistic research perspective is needed to account for (1) simultaneous effects of multiple theoretical mechanisms, (2) cross-customer effects, and (3) temporal effects.

Theoretical underpinnings to loyalty programs

The term “loyalty program” captures a variety of marketing initiatives, including reward cards, gifts, tiered service levels, dedicated support contacts, and other methods that positively influence consumers’ attitudes and behaviors toward the brand or firm. Some of these programs provide a price discount or short-term financial incentive, which enhances the economic utility of the offering by compensating consumers for higher volume or more frequent purchases. The effect of price discounts on purchase volume is well known and even represents the core positioning of some firms (e.g., Wal-Mart); however, we exclude pure “economic utility” as a theoretical underpinning of loyalty programs herein for three major reasons. First, from a theoretical standpoint and consistent with previous research (Dick & Basu, 1994, p. 101; Oliver, 1999), “true” loyalty must move beyond special pricing “deals” and require some underlying psychological mechanism to increase the consumer’s inherent preference for or propensity toward a brand or firm. For example, even if a price discount is recast as a “customer reward or loyalty program,” which generates sales solely due to elasticities in price, it does not directly generate many of the enduring benefits attributed to “true loyalty” because consumers will readily switch when a competitor offers a better deal (Dick & Basu, 1994).

Second, from a business standpoint, generating sales by decreasing price often negatively influences a firm’s profit, can damage the brand, and can be easily matched by competitors (Raghubir, 2004). Firms are more interested in loyalty programs that tap consumers’ underlying psychological processes leading to repeat and more frequent purchases, in addition to increasing switching barriers and reducing price sensitivity (Kumar & Shah, 2004; Nunes & Dr ze, 2006).

Third, from a pragmatic standpoint, reviewing the large body of literature on pricing and promotional programs is beyond the

scope of this article (Liu & Soman, 2008). Therefore, we do not consider the short-term effects of price elasticity as a loyalty-inducing mechanism; however, we do include the longer-term benefits of habituation or relationship building resulting from discount-induced purchase behaviors as a critical component of some loyalty programs. For example, in a cell phone context, Johnson, Herrmann, and Huber (2006) show that perceived value drives consumer purchase intentions early in a relationship, but as time progresses, relational factors become more important. Consistent with this logic, we define a *loyalty program* as any institutionalized incentive system that attempts to enhance consumers’ consumption behavior over time beyond the direct effects of changes to the price or the core offering (see the Appendix for a summary of construct definitions relevant to loyalty program research).

Paralleling the logic that decouples the functional utility of price discounts from true loyalty, most extant literature ignores the impact of loyalty programs on consumer satisfaction. Consumer satisfaction, defined as a consumer’s post-consumption belief that the consumed product or service provided a pleasurable fulfillment of their preconsumption needs and benefits (Oliver 1999), generally focuses on consumers’ evaluation of the core offering or unique attributes of competing offerings (Houston, Sherman, & Baker, 1991; Oliver, 1980). Satisfied consumers do not always become loyal consumers, partly because loyalty requires more than a great core offering or specific product attributes (Oliver, 1999), thus loyalty programs often try to build binding ties from sources beyond those in the core offering. Thus, satisfaction research typically focuses on the influence of the core offering (i.e., price/product) on behavior while loyalty program research focuses on augmenting the core offering to influence behavior beyond the effects of consumer satisfaction. Consistent with this logic the few empirical papers that include satisfaction in their evaluation of loyalty program’s effectiveness model satisfaction as an independent driver of loyalty not as a mediator of its effect on performance (Magi, 2003; Verhoef, 2003).

With our loyalty program definition in mind, a review of the extant marketing literature reveals that the theoretical underpinnings of the majority of loyalty program research rest on psychological mechanisms from three specific domains: status, habit, and relational. Specifically, we argue that loyalty program–induced change to consumer behaviors typically results from (1) conferring status to consumers, which generates favorable comparisons with others; (2) building habits, which causes advantageous memory processes; and (3) developing relationships, which results in more favorable treatment by consumers.

For each domain (status, habit, relational), we review the underlying psychological theories, describe how each loyalty-inducing mechanism affects consumer behaviors, and summarize applicable research findings as they relate to loyalty programs. In addition, to advance our understanding of loyalty program effectiveness and provide direction for future research, we develop specific propositions by applying a broadened research perspective to each domain by investigating the role of both cross-customer and temporal effects. Finally, we discuss how the simultaneous effects of loyalty-inducing mechanisms

from each domain may work together to help or hurt the overall effectiveness of loyalty programs.

Status as a loyalty-inducing mechanism

Conceptualization of status

The allure of status is profound. Humans are drawn to status-based systems and charmed by opportunities to elevate their status within those systems, which makes the success of status-based marketing no surprise (Heffetz & Frank, 2011). Consumers with high status enjoy “prominence, respect, and influence” (Anderson, Srivastava, Beer, Spataro, & Chatman, 2006, p. 1094); however, their high status may also evoke envy and hostility in other lower-status consumers. Research shows that some consumers even feel *schadenfreude*, or feelings of delight, when the high status of others is compromised (Sundie, Ward, Beal, Chin, & Geiger-Oneto, 2009). Griskevicius, Tybur, and Van den Berg (2010) argue that the huge popularity gap between public transportation (low status) and the Toyota Prius (high status) is due to the role of status in signaling both the users’ altruism and their purchasing power. Thus, marketers often design loyalty programs to tap into consumers’ strong desire for status (Drèze & Nunes, 2009; Kumar & Shah, 2004).

Status receives widespread attention across many domains in academia; however, three common components emerge across all areas: the positional nature of status, the desirability of status, and the dependence of status on social context (Heffetz & Frank, 2011). First, status is positional in that it ranks individuals within a hierarchical structure, reflecting asymmetries in status conferral in which certain people are high and others are low in status. Thus, a gain in status for one is often a loss in status for another (Anderson, John, Keltner, & Kring, 2001; Heffetz & Frank, 2011). Within these hierarchies, there is an important distinction between local and global status; local status refers to an individual’s position within a group, and global status refers to the group’s position within the greater social structure. A person may trade local for global status by relinquishing a higher-status position in a lower-status group and taking a lower-status position in a higher-status group (Heffetz & Frank, 2011). For example, a traveler who frequently stays at Comfort Suites might have earned “Diamond” status in Choice Hotels’ loyalty program but could decide to give up this “high” local status to gain global status by joining the lowest tier of Hyatt’s “Gold Passport” loyalty program. Following this exchange of local for global status, the consumer’s loyalty would shift from Comfort Suites to Hyatt.

Second, elevated status is desirable because it provides access to personal benefits (Griskevicius et al., 2010). These benefits include physical resources, better reputation, higher earnings, wider selection of romantic partners, improved cooperation, and greater control over others (Anderson et al., 2006; Griskevicius et al., 2010; Heffetz & Frank, 2011). Thus, status is a “universal human motive” (Anderson et al., 2001, p. 116). Surprisingly, research shows that people seek status even if it serves no instrumental value, which may stem from the

effects of status on well-being, esteem, affect, and social cognition (Anderson et al., 2006; Drèze & Nunes, 2009). In this sense, status is both a means to an end and an end in itself, which provide marketers a “free” motivator of consumer choice.

Third, status conferral, though individually desirable, is often dependent on the social context that shapes it (Drèze & Nunes, 2009; Heffetz & Frank, 2011). Consumers perceive their status in accordance with either achievements recognized by socially accepted norms or esteem received directly from others (Tiedens, 2001; Van Prooijen, Van den Bos, & Wilke, 2002). For example, a person who privately succeeds in accomplishing a valued task (e.g., passing the bar exam) may feel a sense of elevated status without anyone knowing about the accomplishment. Conversely, a person might respond to his or her alma mater’s fundraising campaign and receive elevated status through the praise and respect from others when the school rewards the person with a plaque on the “wall of donors” (Harbaugh, 1998). Thus, status attainment depends on the combination of consumers’ internal and external perceptions (Anderson et al., 2001).

Role of status as a source of consumer loyalty

Elevated status, conferred to consumers as part of a seller’s marketing efforts, can motivate consumers to behave loyally. Socially relevant stimuli are often stronger tools for motivating behavior than purely economic- or ethical-based stimuli (Bateson, Nettle, & Roberts, 2006). Table 1 summarizes marketing literature that uses “status” as a theoretical rationale for increasing consumer loyalty. Desire for status motivates conspicuous consumption, or the purchase of particularly luxurious or altruistic goods (Griskevicius et al., 2010; Han, Nunes, & Drèze, 2010). Advertisers evoke status motives or in-group favoritism in targeted advertising to elicit better responses (Grier & Deshpandé, 2001). When consumers have low power, they are more willing to spend for status-related goods (Rucker & Galinsky, 2008). The use of coupons may signal low purchasing power and thus can hurt status in such a way that consumers are more likely to use coupons if they are privately delivered (Ashworth et al., 2005). Theories in social psychology help explain the status phenomenon with important implications for using status as a loyalty-inducing mechanism, such as social comparison theory (Festinger, 1954), social identity theory (Tajfel & Turner, 1979), and Schwartz’s value theory (Schwartz & Bilsky, 1990).

Social comparison theory indicates that humans naturally compare themselves with others (Festinger, 1954; Roccas, 2003). Relative rankings determined from social comparisons require observable actions and characteristics for formation. Therefore, labels assigned in loyalty programs can serve as observable indicators of status (Drèze & Nunes, 2009). According to signaling theory, signals that require resources (e.g., time, energy, money) can communicate a person’s status. Loyalty programs could provide such a signal. Work in evolutionary biology has shown that costly signals, which confer status, are naturally respected because of an “evolutionary social cognition” and are rewarded with better access to

Table 1
Status-based loyalty research.

Reference	Context	Key constructs	Major findings
Ashworth et al., 2005	Restaurant first date	Discount, social attraction, self-perception	Redeeming discounts in a social context creates personal feelings of cheapness and decreased ratings of attractiveness by others, with context and attribution playing important roles. Thus, participation in loyalty programs can signal status.
Barone & Roy, 2010a, 2010b	Retail invitations	Exclusivity, self-enhancement, identification	Exclusivity of a deal invitation enhanced <i>desirability</i> , mediated by self-enhancement. Need for uniqueness and group membership positively moderated this relationship. Some consumers prefer that everyone is treated equally.
Darke & Dahl, 2003	Retail discounts	Pricing, fairness, equity theory, social cues	Consumers' evaluations of the <i>fairness</i> of prices, and thus <i>satisfaction</i> , will depend on equity considerations when discounts are provided to some customers (high status regular customers vs. spurious customers) but not to others.
Drèze & Nunes, 2009	Retail, hospitality	Status, program structure, status laden colors	The number of hierarchical levels in a status program positively influences perceptions of status, as well as <i>preference for the program</i> . The majority of consumers, even those conferred low status, prefer loyalty programs containing multiple status levels.
Griskevicius et al., 2010	"Green" products	Status motives, product preference, costly signals	Status motives increase <i>desirability</i> of conspicuously consumed, expensive, "green" products. Green products signal a consumer's ability to incur costs and altruism. Altruism signal may protect consumers from envy, as humans reward prosocial behavior with status. Expensive green products were preferred over luxury products.
Han et al., 2010	Luxury fashion	Logo prominence, reference groups, need for status	Some consumers want to fit in with a high-status group, while others want to stand out from the low-status group. "Parvenus" use prominent brand displays to dissociate from "poseurs" and "proletarians." "Patricians" use subtle brands to signal to each other.
Kim et al., 2009	Retail department store	VIP membership, purchase history, commitment	Consumers' reaction to a VIP program introduction was mixed. Of consumers given VIP status, those who were previously the heaviest buyers reacted negatively (decrease in <i>purchase frequency</i>), but those who were lighter buyers reacted positively. Attitudinal commitment moderated these results.
Kivetz & Simonson, 2003	Retail loyalty programs	Loyalty program idiosyncratic fit	Consumers <i>prefer</i> loyalty programs in which they have a relative advantage in obtaining benefits compared with the average consumer. Relative advantage is more important than overall value or personal ease.
Kumar & Shah, 2004	Loyalty programs	Behavioral and attitudinal loyalty, consumer goals	Using one rewards plan for all consumers is suboptimal. Instead, loyalty programs should provide a baseline level of rewards to all, aimed to help consumers meet lower-level, short-term, tangible goals and secretly reward targeted customers with benefits that help them achieve higher-level, aspirational goals.
Lacey, Suh, & Morgan, 2007	Upscale department store chain	Loyalty program, status, relational outcomes	Consumers' perceptions of receiving preferential treatment increased with the higher status conferred through a retailer's loyalty program. Preferential treatment perceptions were positively related to <i>relational outcomes</i> (e.g. <i>commitment, revenue</i>).
Sundie et al., 2009	Luxury car failure	Status, envy, <i>schadenfreude</i> , negative outcomes	Bystander consumers may react negatively (envious and hostile) to others' conspicuous consumption of status laden products. If the product is tainted (mechanical failure), bystander consumers may feel <i>schadenfreude</i> (joy in others suffering) with costly brand consequences (poor <i>attitudes</i> and negative <i>word of mouth</i>).
Wagner et al., 2009	Airline, retail firms	Status, locus of control, affect, seller apology	Customer demotion, or loss of benefits, associated with a tiered loyalty program results in decreased <i>loyalty</i> , attenuated by meaningful apologies from the firm and perceptions of locus of control (fault).

Note. These loyalty relevant studies examined the impact of status on a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with *italics*.

potential reproduction partners (Griskevicius et al., 2010, p. 400; Wright, 1997).

Social comparisons help explain the relative nature of status, as people are motivated to perceive themselves "as not merely

good and worthy" but "as better than other groups" (Festinger, 1954; Roccas, 2003, p. 726). People make social comparisons upward, downward, and laterally to form evaluations, and from these comparisons, the perceptions of status ranking can have

important consequences (Drèze & Nunes, 2009). Upward social comparisons serve to motivate people toward greater achievement (Johnson & Stapel, 2007; Romero-Canyas, Downey, Reddy, Rodriguez, Cavanaugh, & Pelayo, 2010), lateral comparisons allow people to “fit in” with a prestigious group, and downward comparisons provide a mechanism for self-enhancement by differentiating people from less prestigious groups (Han et al., 2010). Loyalty programs that confer status on consumers (e.g., elitism, prestige, superiority) often fail to consider all the different types of comparisons consumers make, which could undermine a program’s effectiveness depending on consumer characteristics and the specific social context. For example, when status-based loyalty programs restructure to add additional tiers, consumers’ emotional reaction is positive if the tier added is of lower status but negative if the tier is of greater status, even when their objective benefits remain constant (Drèze & Nunes, 2009).

P1. Loyalty programs will increase status-based loyalty when (a) the social context makes status conferrals relevant, (b) the multiple types (upward, lateral, downwards) of social comparisons concurrently create feelings of aspiration, belonging, and superiority, across consumers, and (c) consumers’ perceive that the status conferrals are merited.

Social identity theory suggests that people’s need to bolster their self-image motivates their desire to belong to or associate with a high-status group (increase their global status) (Roccas, 2003; Tajfel & Turner, 1979). The positive illusion perspective allows people to distort status-relevant information as an attempt to bolster their self-esteem, but such inflations can actually lead to less social acceptance in some cases (Anderson et al., 2006; Barkow, 1975). Therefore, loyalty programs that help consumers avoid such problems by providing a third-party signal of consumer status should benefit (Kim, Lee, Bu, & Lee, 2009). Drèze and Nunes (2009) show that the number and size of tiers in a program’s structure influence consumers’ perceptions of status and feeling special and, consequently, their preference for the program. They find that consumers prefer status when it is more exclusive and when there are more tiers below them; in addition, status-signaling labels (e.g., “gold” tier) help support perceptions of exclusivity and status. The greater the number of tiers below their tier, and the smaller the high-status tiers, the more consumers can make social comparisons with lower tiers that allow them to enhance the self and feel special. Some people are so disposed to strive for status that they seek out or construct particular social environments in which they will enjoy higher status (Anderson et al., 2001, p. 118). Such people are likely to be highly responsive to particular consumer environments in which they will have high local status even if their global status suffers. Kivetz and Simonson (2003) show that consumers prefer a loyalty program in which they are more likely to achieve rewards than other customers.

Not every consumer prefers elevated status or special treatment all the time, and some consumers prefer firms with a status-based loyalty system even when it puts them in the lowest-status group (Barone & Roy, 2010a, 2010b; Drèze &

Nunes, 2009). Schwartz’s value theory helps provide insight into these paradoxical findings by describing a person’s desire for getting ahead (self-enhancement) versus getting along (self-transcendence) (Roccas, 2003; Schwartz & Bilsky, 1990). People with an independent construal tend to react positively to opportunities that enhance their local status, while those with an interdependent construal are more concerned with group harmony and advancing the group, and thus they may only be sensitive to global status enhancements (Barone & Roy, 2010a). A consumer’s desire for self-enhancement and status is heterogeneous—for example, people with low testosterone levels, and people with an interdependent self-construal are less likely to seek status and exclusive benefits, may feel uncomfortable when given status enhancements, and are likely to prefer shared over individual benefits (Josephs, Sellers, Newman, & Mehta, 2006; Mosquera, Parrott, & de Mendoza, 2010). Thus, consumers with an interdependent self-construal may actually avoid firms that elevate them through “red carpet treatment.”

P2. Loyalty programs will increase status-based loyalty when consumers (a) are offered both local and global status conferrals and (b) can easily opt out of local status conferrals.

Several findings suggest that consumers’ reactions to status are complex and that the simple notion that consumers’ preference for elevated status will motivate loyal behavior toward the firms that confer them high status is overly simplified. In general, consumers prefer to be given high status and receive exclusive deals; however, some consumers prefer all consumers to be treated similarly (Barone & Roy, 2010a, 2010b; Lacey et al., 2007). Moreover, the positive benefits from a conferral of status to one consumer may be offset by the envy and hostility felt by other consumers or temporally as a consumer loses status over time (Sundie et al., 2009; Wagner et al., 2009). Therefore, it is important to understand status as a source of loyalty from a broader perspective that considers both cross-customer and temporal effects.

Cross-customer effects of status-based loyalty

Status programs build on consumers’ natural propensity to make social comparisons; however, some programs may unfairly, in the minds of consumers, confer a lower status to some consumers. The very idea of status triggers concern about fairness (Van Prooijen et al., 2002). According to equity theory, people compare their ratios of inputs to outcomes with others’ ratios to make assessments about the distributive justice associated with who received what and the procedural justice associated with how it was received (Adams, 1965; Van Prooijen et al., 2002). These perceptions are important. When conferred a lower status than expected, a person may think the outcome is unfair (distributive injustice) or think the process used to confer status is unfair (procedural injustice) (Feinberg et al., 2002). In either case, a negative reaction is likely to hinder efforts by firms that use status to enhance performance. In business relationships, perceived unfairness can act as

“relationship poison” by motivating customers to try to punish the seller and by aggravating the negative effects of existing conflict (Samaha, Palmatier, & Dant, 2011).

In addition, consumers with lower status may feel envious of high-status customers. Envy seems to be a relevant, but possibly underexplored, concept in consumer emotions because it is “evoked by others’ status-linked products” (Sundie et al., 2009, p. 356). Envy can motivate consumers to want to “level-up” and achieve the same status as those they envy or hope other consumers “level-down” and lose their high status (Van de Ven, Zeelenberg, & Pieters, 2009). If a lower-status consumer aspires to level-up, the firm may benefit from the consumer’s actions; however, other consumers who already have high status could feel diminished status because having more consumers in high-status tiers reduces local status and the feelings of exclusivity and being special (Drèze & Nunes, 2009). If a lower-status consumer feels hostility toward high-status consumers and decides to level-down by finding a competitor company devoid of a status hierarchy, this would also dampen the focal company’s sales.

P3. Loyalty programs will reduce non-targeted consumers’ status-based loyalty when status conferrals (a) are perceived as being unfairly allocated, and (b) result in some perceived cost (e.g., status or service degradation) to non-targeted consumers.

Temporal effects of status-based loyalty

Status construction theory suggests that humans interacting over time have an innate tendency to relate socially visible characteristics to abilities and access to resources, thereby creating status beliefs tied to these characteristics (Ridgeway, 2006). Status beliefs are then used as heuristics that guide expectations and decisions. Status beliefs and their associated linkages to nominal characteristics spread through the population of consumers through a diffusion process, in which one person with a status belief shares that belief with another, and so on (Mark, Smith-Lovin, & Ridgeway, 2009).

A specific consumer’s status in loyalty programs is not static but can increase or decrease over time because of changes in his or her own behavior, changes in how the program status hierarchy is structured, and changes caused by the diffusion of status beliefs across other consumers. Gaining status can help motivate a consumer to increase behavioral loyalty (Kim et al., 2009; Lacey et al., 2007). However, consistent with prospect theory, research on loss aversion, and the endowment effect, which postulate that people are more sensitive to losses than gains (Kahneman, Knetsch, & Thaler, 1990; Zhang & Fishbach, 2005), the decrease in loyalty as status is lost is often larger than the loyalty gained as status increases. Research shows that the “final loyalty” is lower for consumers that gain and then lose status than for those that never obtain elevated status at all (Wagner et al., 2009). However, sellers can attenuate the damaging effect of demotion within a loyalty program hierarchy with an apology or by persuading consumers to attribute their self as the locus of control behind the loss in status.

P4. Loyalty programs’ effectiveness in building status-based loyalty increase when (a) status beliefs quickly diffuse across

consumers, and (b) structural or rule changes to programs do not withdraw or dilute status.

Habits as a loyalty-inducing mechanism

Conceptualization of habit

Intuitively, a consumer’s automated proclivity to repeatedly purchase a company’s offering is appealing to marketers. A strong habit increases a person’s propensity to perform the supported behavior over competing alternative behaviors (Tobias, 2009). Existentially, anyone struggling to kick a habit can testify to its strength. However, not all consumer habits support loyal behaviors, such as a married couple’s habit to patronize whichever restaurant the local paper reviews. Research shows that loyalty programs can cause consumers to engage in recursive purchases, which may lead to the development of habitual consumption, further increasing consumer purchases (Lewis, 2004; Wood & Neal, 2009).

What is a consumer habit? Habit captures the phenomenon of an actor’s memory-based tendency to perform a particular behavior given previous experience performing the behavior in similar contexts. Theoretical explanations of this phenomenon often draw from the dual-mode model of mental processing. This model distinguishes a deliberative type of processing that is rational, effortful, and analytic from an automatic type of processing that is experiential, effortless, and holistic (see Novak & Hoffman, 2009; Smith & DeCoster, 2000). As behavior repeats over time, people decreasingly employ deliberative processing to form intentions and increasingly rely on automatic decision making (Ajzen, 2002; Wood & Neal, 2007). Habits benefit actors by allowing them to perform well-learned behaviors efficiently with minimal awareness, facilitating the simultaneous execution of additional behaviors. Because habit selection is essentially effortless, people find it difficult to suppress habitual behaviors or engage in alternative behaviors (break a habit) because doing so requires costly deliberative processing and the cognitive resources necessary to form or recall less familiar competing intentions (Tobias, 2009; Verplanken, 2006; Verplanken & Wood, 2006).

In the habit literature, debate exists about the theoretical role of intentions in guiding habitual behaviors. According to the habituation perspective, when mature, habits fully replace intentions as the guiding force behind behavioral performance, with contextual cues directly cuing behavior without mediating cognitions (Ji & Wood, 2007; Wood & Neal, 2007, 2009). According to the reasoned action perspective, intentions never fully dissipate. They may be stored and later become spontaneously activated (i.e., not consciously reconceived), but they always mediate the relationship between contextual cues and behavior (Ajzen, 2002). Another potentially reconciling possibility, according to Tobias (2009), who draws on prospective memory research, is that all behaviors are at some level intended, but habitual behaviors are easier to remember and more likely to be performed than competing behavioral intentions, even if they are preferred. In summary, the competing perspectives differ with regard to how intentions

support habitual behavior, but they agree that habits alleviate an actor from the need to deliberately form intentions, and “the implications ... are quite similar” (Ajzen, 2002, p. 108).

In addition, habits as context-specific, slow-to-form, resistant-to-change behavioral memory advantages often work in conjunction with other frequency-based cognitive mechanisms that increase a person’s preference for the recurring behavior (Ajzen, 2002; Labroo & Nielsen, 2010; Wood & Neal, 2007). For example, when a person is repeatedly exposed to a particular stimulus, that stimulus will be preferred to novel stimuli because of an affective response—that is, a mere familiarity effect (Labroo, Dhar, & Schwarz, 2008). Cognitive lock-in is a quick-to-form consequence of learning investments that creates cognitive switching costs (Murray & Häubl, 2007). In addition, introspection about previous behavior can affect preferences for subsequent action (i.e., “I did it before; it must be what I like.”). While familiarity effects, cognitive lock-in, and introspection all involve experience with a particular behavior and could have immediate effects on loyalty, habits are slower to form and influence “the behavior selection via memory processes” (Tobias, 2009, p. 412), which have longer-term effects on consumer behaviors.

Role of habit as a source of consumer loyalty

Habit is “a new but booming topic” (Tobias, 2009, p. 415) that has been an “undervalued concept in consumer research” and “only indirectly incorporated into models of consumer behavior” (Verplanken, 2008, p. 125). Yet researchers have observed habit’s powerful inertia effects on behavior in several consumer domains (Ji & Wood, 2007; Wood & Neal, 2009). Research in consumer psychology ties habit to behavioral outcomes (e.g., loyalty [Labroo & Nielsen, 2010], purchase probability [Breivik & Thorbjørnsen, 2008]), indirectly to product preference (Murray & Häubl, 2007), and to diminished search for alternatives (Verplanken & Wood, 2006). Table 2 summarizes marketing literature that uses “habit” as the theoretical rationale for explaining consumer loyalty.

Three primary antecedents that are critical to understanding the effectiveness of habit-based loyalty programs are necessary for habit formation: intention, repetition, and context stability. First, a novel behavior has no initial advantage over other competing behaviors. Therefore, an actor must create an intention to behave before he or she will perform that behavior (Ajzen, 2002; Wood & Neal, 2007). When performed, the behavior must be repeated so that memory advantages of a habit can develop; thus, the behavior must be rewarding enough to sustain the supporting intention. Loyalty programs can promote such repetition (Wood & Neal, 2009), and “promoting ones loyalty program will ... activate a loyalty construal among current customers” which supports consistency in brand choice instead of variety seeking (Fishbach, Ratner, & Zhang, 2011, p. 10).

Second, repetition of behavior is a necessary but not sufficient driver of habit formation. While loyalty programs encourage repeat purchases using rewards or discounts in a similar manner as positive reinforcements are used in operant condition (Redish, Jensen, Johnson, & Kurth-Nelson 2007;

Skinner 1974), the linkage between a program characteristic and the underlying mechanism is often difficult to isolate. For example, Wood and Neal (2009) propose that a perceived instrumental contingency between behavior and reward inhibits habit formation. They suggest that loyalty incentives should not hinge directly on the behavior, which echoes research showing that goal priming interferes with behavioral habituation (Neal, Wood, & Pascoe, 2008). Though not directly tested, their assertion is tangentially supported by Kivetz, Urminsky, and Zheng (2006), who study goal progression. These authors find that use of a “frequent purchase-type” loyalty card that uses hole punches to signal goal progression (e.g., toward a free drink) accelerated purchase frequency when the goal was near, suggesting that the goal, and not a well-formed habit, was the basis for the repeated purchases. However, the impact of goals did not necessarily imply that habit formation was inhibited among these consumers but rather that habits did not account for the acceleration in purchases, as the program could have helped develop habits that drive a baseline level of purchases. Acceleration toward the reward positively predicted retention in the reward program and a faster reengagement in the program, which cannot be explained simply by the goal gradient because the distance to the reward was reset.

Wood and Neal (2009, p. 586) suggest that “if it is true that habits are not experienced as contingent on outcomes, then habitual consumers will be little affected by an increase in rewards for their behaviors.” Assuming that frequency of a buyer’s purchases is an appropriate indicator of habit strength, as support for this claim, Wood and Neal point to Liu’s (2007) finding that in response to a newly implemented loyalty program, consumers with low initial purchase rates increased their purchases, but consumers with high initial purchase rates did not significantly alter their behavior. However, customers with very high share of wallet may be poor targets for evaluating a reward program’s effectiveness because they may be less able to increase their purchases further (Du, Kamakura, & Mela, 2007; Kumar & Shah, 2004). Nonetheless, it is worth considering how an incentive-based loyalty program can encourage repetition without creating instrumental contingencies.

The reinforcement schedules studied in operant conditioning may shed light on this issue. Actors learn desired responses fastest if a reinforcement is provided after each desired performance (continuous schedule); however if reinforcements cease (extinction) actors continue performing the desired response longer if reinforcements were provided after every n^{th} response (fixed-ratio partial reinforcement schedule) or, to an even greater extent, after random responses (variable-ratio partial reinforcement schedule) (Redish et al., 2007; Skinner 1974). It is unclear if this greater resistance to extinction is due to actors building strong habits that support the response despite the utility from the response decreasing; or as scholars studying reinforcement based learning suggest, actors may simply adjust their expectations for reinforcements at a slower rate when reinforcements were provided less frequently and randomly (Redish et al., 2007).

Wood and Neal (2009) suggest the rewards be distributed in a way that does not create an idiomatic “carrot and stick” to

Table 2
Habit-based loyalty research.

Reference	Context	Key constructs	Major findings
Breivik & Thorbjørnsen, 2008	Online brand communities	Consumer-brand relationship, habit strength	Indicators of habit strength predicted <i>repurchase likelihood</i> beyond that of commonly used measures of relationship strength or quality. The impact of habits increases with frequently bought or consumed categories.
Fishbach et al., 2011	Sequential product choice	<i>Consistency vs. variety seeking</i> , mental construal	Nonconscious support of behavioral selection <i>consistency</i> increases when consumers are primed with concepts of loyalty, but concepts related to satiation (boredom) promote <i>variety seeking</i> . Loyalty programs may prime consistent behavior and support the development of habitual loyalty.
Ji & Wood, 2007	Restaurant, media, and commute	Habit strength, intentions	Repeated behaviors predicted <i>subsequent behavior</i> in a fast-food, TV, and transportation setting, even in light of opposing intentions. Intentions predicted behavior when behavior repetition was low—a proxy for weak habits.
Kivetz et al., 2006	Café patrons, Internet users	Goal-gradient effect, <i>persistence</i> , <i>loyalty program reengagement</i>	Consumers accelerate <i>effort</i> , <i>persistence</i> , and <i>behavior frequency</i> when approaching a loyalty reward. The acceleration cannot be explained by habit but may help build a baseline habit. After receiving a reward, consumer effort decreased, but not to the original level, and acceleration positively predicts <i>program reengagement</i> and <i>loyalty</i> . The goal-gradient effect does not directly account for this effect as the goal distance resets.
Murray & Häubl, 2007	Online Web search	Repetition, <i>product preference</i> , ease of use, goal activation	<i>Product preferences</i> are shaped by prior experience with the product. This relationship is mediated by ease of use. Goals associated with product use moderated the relationship between experience and preference, with consumers preferring experienced products only when ease of use was high. Therefore, habits can indirectly affect preferences supporting ease of use and brand loyalty.
Tobias, 2009	Recycling campaign	Accessibility, <i>behavior</i> , commitment, habit strength	Habits provide a strong memory advantage over competing behaviors. Intention accessibility decays as habits develop but is enhanced by reminders. Reminders' positive impact on accessibility is positively moderated by behavior commitment. Reminder's potency increases with proximity to behavior context, but its salience decreases with exposure.
Verplanken & Wood, 2006	Fast food and commute	<i>Habit change</i> , environmental change	<i>Habit change</i> is easiest when environmental context is altered or disrupted. Informational campaigns to help consumers break habits will be most effective when the habit performance context is tumultuous.
Wood, 2010	Retail, restaurant	Life change, familiarity, habit performance	Despite actors' predictions about others' behaviors, people in states of high life change tended to <i>choose</i> unfamiliar, novel items rather than familiar, traditional items, suggesting that life changes inhibit habit performance.
Wood & Neal, 2009	Review of multiple studies	Habit, intentions, self-control, goals, rewards, context	Habits gradually form with behavior repetition in a stable context. When formed, the context-behavior association is the strongest guide of behavior, not intentions. Time pressures, distractions, and strained self-control resources promote <i>habit use</i> . Context change supports habit change. Habits inform introspective inferences. Salience of the behavior instrumentality may disrupt habitual support.

Note. These loyalty relevant studies examined the impact of habit on a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with *italics*.

drive behavior. They propose that the bottle cap rewards some soft drink campaigns use (similar to instant scratch lottery ticket) that provide a small but random chance to win a reward is a good example of a habit-friendly program. Conversely, randomness of incentives could suppress habit formation. The memory advantage habits provide is strongest in consistent contexts, and thus context-based interruptions provide an opportunity for consumers and marketers to break habits or establish new ones (Neal et al., 2008; Verplanken & Wood, 2006). The variability and surprise of “random” rewards heighten consumers' cognitive emotional responses (e.g., gratitude) (Palmatier et al., 2009; Valenzuela, Mellers, & Strebler, 2010) and may fail to provide the contextual stability

necessary for automatic processing and habits to take over (Ji & Wood, 2007; Tobias, 2009). Overall, further work resolving the role of incentives and repetition promotion is needed. For example, when repetition generates a habit, what aspects of loyalty programs promote habit maintenance, and can programs be designed to wean consumers off the reward incentive after habituation?

Third, habit development requires context stability to ingrain a behavior in procedural memory (Verplanken, 2008). Habits are built by consistently and repeatedly performing a behavior in the context of certain stable environmental factors so that a strong association in the “slow-learning procedural memory system” can link environmental cues with the behavior (Quinn,

Pascoe, Wood, & Neal, 2010, p. 499). Contextual factors include physical location, preceding actions, time, mood, and social surrounding (Ji & Wood, 2007; Tobias, 2009). Environmental consistency is also important for sustaining habits (Neal et al., 2008; Wood & Neal, 2009). For example, Wood and Neal (2009) report that consumers with a strong habit of eating movie theater popcorn consumed as much fresh as stale popcorn in the theater setting but ate less stale popcorn in an unfamiliar setting; alternatively, consumers with a weak habit ate less stale than fresh popcorn in all settings. In summary, the linkage between consumer habits and behavior is contingent on contextual cues in which conditions that promote automatic, effortless processing support the tendency to act on habits.

P5. Loyalty programs will increase consumers' habit-based loyalty when (a) both initial purchase intentions and repeated purchases are not directly attributable to loyalty program incentives, and (b) loyalty program reminders reinforce contextual cues and not incentives.

Other factors, such as time pressure, cognitive load, and a recent drain on self-control resources, also promote the use of habits (Smith & DeCoster, 2000; Wood & Neal, 2009). For example, people facing distractions have a diminished ability to recall or form competing intentions and thus rely on habits (Quinn et al., 2010; Wood & Neal, 2009). These strains on cognitive resources, however, can be overcome. A person with a strong commitment to behavioral change may allocate cognitive resources toward intention recall and provide the perseverance to carry out competing intentions in opposition to strong habits (Gollwitzer & Sheeran, 2009; Tobias, 2009). Verplanken and Wood (2006, p. 91) provide insight into how best to target consumers with habit-based loyalty programs; they suggest that informational campaigns designed to change consumer intentions "gain power when they are applied during naturally occurring periods of change in consumers' lives." Similarly, consumers are more likely to break consumption habits when their lives are in a state of flux, insofar as they are less likely to choose comfort foods when their lives are in transition, contradicting most lay assumptions (Wood, 2010).

P6. Consumers' likelihood of adopting new or defecting from existing loyalty programs will be highest when consumers' environment is turbulent (e.g. life transitions).

Marketers who use habit advantages as a means for competitive advantage are likely to find that success will vary depending on both product category and consumer characteristics. Wood and Neal (2009) suggest that goals associated with certain product categories promote or suppress consumption repetition. For example, a consumer may repeatedly visit the same hair salon when seeking social companionship and acceptance but consistently choose different restaurants when seeking variety.

Cross-customer effects of habit-based loyalty

Consumers' social context is another factor marketers should consider. "Social shopping" refers to consumers' desire for and

common practice of shopping with others with the primary goal of developing and enjoying social relationships (Arnold & Reynolds, 2003). Luo (2005) demonstrates that the social group accompanying a consumer on shopping experience can increase the consumer's likelihood to make impulse purchases based on cross-customer influence. If consumers share a repeated consumption experience, they will become associated with the behavior in which the thought of another person can serve as a social memory aid or contextual cue, making the shared consumption experience more salient (Tobias, 2009).

Retailers may want to alter their loyalty programs to entice consumers to shop together, thus building a stable social context. Similarly, firms using buy-one-get-one-free coupons with hopes of motivating consumers to increase purchases might benefit from restructuring this promotion to become a coconsumer loyalty program that rewards customers for consuming together without the coupon. Otherwise, the coupon could become an aspect of the habit context, and removing it would weaken the habit.

The role of a stable social context in support of habit formation and remembering is well documented, though not in the context of loyalty programs; what remains to be understood, however, is the social forces associated with potential habit diffusion. Work on mirror neurons suggests that behaviors unconsciously spread from one person to another (Rizzolatti & Craighero, 2004). As habits dictate behaviors, habitual tendencies that develop from one person's repeated behaviors may spread to others without such intentions.

P7. Loyalty programs that promote interaction among consumers will enhance habit-based loyalty for (a) targeted consumers by providing social contextual cues that reinforce patterns of habitual purchasing, and (b) non-targeted consumers by means of habit diffusion, where non-targeted consumer mirror the behaviors of targeted consumers.

Temporal effects of habit-based loyalty

Implicit in this habit discussion is the important role of time. In general, scholars agree that habits' memory advantages increase or decay over time depending on the frequency the actor performs the behavior. However, actual empirical research attempting to pinpoint the necessary pattern for a behavior to become habitual is scant, and "information that could be found regarding the development of the strength of habits is very imprecise" (Tobias, 2009, p. 416). In their review of habit formation from a neurological perspective, Yin and Knowlton (2006, p. 475) conclude that "we remain ignorant of the detailed mechanisms that underlie habit formation at all levels of analysis," and "conditions that promote habit formation have yet to be characterized precisely."

However, as time progresses since the last performance of a habitual behavior, the strength of the habit's memory advantage decays, and the required potency of salient context cues as a reminder increases. In a study of consumer recycling behavior, Tobias (2009) found that a reminder's effectiveness increased the more fundamentally ingrained it was in the behavioral context.

The salience of the reminder also diminished over time as exposure increased; however, Tobias notes that the simultaneous gain in habit strength may have offset the need for a reminder. By this logic, in Liu's (2007) study, the reminder to purchase provided by the loyalty rewards may have been unnecessary for the frequent buyers, which could account for their lack of response to the firm's implementation of the program.

The role of loyalty programs in reminding consumers of contextual cues associated with habitual purchases is not completely understood. It is plausible that the loyalty program itself becomes a cue in the habit formation process. Under what circumstances are these cues or reminders important? Firms often replace or alter their loyalty program, and this could protect the program from decreases in reminder salience due to overexposure. However, changing the loyalty program could also reduce habit strength by disrupting the context. Recent studies have shown that an actor's habitual response can be impaired with the priming of goals (Neal et al., 2008), and thus marketers should be cautious when using a reminder that might make the consumption goal more salient than the context.

P8. Loyalty programs' effectiveness in building habit-based loyalty increases in situations where (a) consumers make frequent purchases, and (b) contextual cues reinforcing the habit are stable.

Relationships as a loyalty-inducing mechanism

Conceptualization of relationships

Consider the following scenario: when browsing the deli section of her local grocery store, a consumer finds a great buy: low-priced Italian sausage. With some sauce, she will have dinner made. Luckily, a friend is there to remind her that her favorite marinara is in aisle four. As the consumer finishes shopping, the friend tells her about some delicious sourdough bread to accompany dinner. The friend even helps her check out quickly so that she can get home. This friend turns out to be Albertsons, a national grocery chain, and the chain is using data collected as part of a loyalty program to offer reminders, suggestions, and efficiencies to "cement relationships" with the consumer (Hymowitz, 2004, p. 1). Ferguson and Hlavinka (2007, p. 320) suggest that such efforts work to build "relationship equity to improve retention and increase customer lifetime value."

Consumers build relationships with brands (Thomson, MacInnis, & Park, 2005), and a benefit of loyalty programs is that they help initiate, grow, and maintain these relationships (De Wulf et al., 2001). Social exchange theorists propose that three features help inform relationships (Fiske, 1992; Gerbasi, 2010): (1) the target of the relationship; (2) the relationship's governing mechanisms; and (3) the relationship's development, maintenance, and dissolution processes.

First, the target of the relationship can be an individual consumer or a group of consumers, and this distinction shapes the goals of the loyalty program. Relationship-building efforts targeted at one consumer may negatively affect relationships with other consumers (Feinberg et al., 2002); these cross-

customer effects could differ, however, when a relationship-building effort is targeted at a group of consumers (Giesler, 2006). Most extant research examines the impact of "direct" relationships between two parties, but there is a trend for businesses to use "indirect" relationships by targeting consumers' social in-group (Henderson & Palmatier, 2010). For example, Groupon offers discounts, termed "social coupons," to networked consumers who show interest in a product or service offered by another community member and rewards consumers who pass along deals to friends (Rosman, 2010). These groups then experience the promotion together.

Second, understanding the governing principles of the relationship is important because these "rules" establish how relationship partners behave toward each other. The type of exchange—reciprocal or negotiated—often determines the relevant governing principles (Fiske, 1992). Reciprocal exchanges are typically socially infused relationships between "friends" in which benefits are traded over extended periods without a formalized accounting of benefits and costs. Reciprocal exchanges are governed by relational norms (e.g., reciprocity, mutuality, solidarity, flexibility), while negotiated exchanges are governed by contracts or formal agreements that describe the exchange of benefits and payments (Cannon, Achrol, & Gundlach, 2000; Homans, 1958). In negotiated relationships, the exchange of benefit and payment usually occurs concurrently. Loyalty programs often attempt to transition customers from an economic-based negotiated relationship to a more socially based reciprocal relationship built on trust and relational norms because of the belief that stronger relationships lead to greater performance (Palmatier, Dant, Grewal, & Evans, 2006a). Evidence shows that firms want to enhance personal connection; for example, Nordstrom builds strong customer relationships by linking a specific salesperson to a customer for personal shopping assistance and customized communications to enhance customer loyalty (King, 2010).

Third, researchers offer numerous "life-cycle" theories to explain the relationship development, maintenance, and dissolution process (Dwyer, Schurr, & Oh, 1987; McGraw & Tetlock, 2005). Transaction utility theory (Thaler, 1985) suggests that a person draws utility by simply maintaining a relationship with another person, beyond any objective benefits provided by the exchange. Because these dyadic exchanges occur over time, relational cohesion theory posits that strong, structurally embedded relationships will form. These relationships result from an emotion-cohesion process in which repeated interactions between parties facilitate emotional connections, which ultimately bond the two actors (Lawler & Yoon, 1996). This type of relationship formation can occur beyond the dyad, as groups of individuals interact over time. Mackie, Devos, and Smith (2000) explain this process and offer a theory of intergroup emotions, which suggests that members can experience emotions vicariously through their connections with others in their group. This becomes important when considering concurrently consumed rewards, which suggests that rewarding one in-group member has positive carryover effects on other group members.

According to social relational theory, a relationship falls into one of four sequential categories—communal sharing, equality matching, market pricing, or authority ranking—that at one end resembles a close, familial tie and at the other resembles a cold, economic transaction (Fiske, 1992). A consumer may communally share most things with a spouse, alternate paying the bill with a lunch partner, and heavily negotiate home maintenance services with a contractor. In these examples, the levels of commitment, trust, and reciprocity in each relationship are very different. Relationships based on authority ranking pertain to Emerson's (1962) power-dependence theory, which explains the effects of asymmetries in relational dependence. Common to both theories is the general notion that one exchange partner has status or power that tips the relationship in his or her favor, enabling the partner to extract unfair value from the partnership. Perceptions of such inequity can damage a relationship (Adams, 1965).

When these relationships are not market based but rather close and communal, the consumer becomes attached to the company. Thomson, MacInnis, and Park (2005) extend Bowlby's (1979) work on attachment theory and show that people vary in their attachment to brands. Individual differences become important for understanding how some consumers respond after forming a relationship with a company. For example, firms should not form strong relationships with some consumers, because that relationship might overly sensitize them to negative experiences, resulting in extreme emotionally based responses to any perceived slight or injustice (Campbell, Simpson, Boldry, & Kashy, 2005). Thus, although building a relationship with consumers might not always be beneficial, research shows that, in general, strong consumer relationships are advantageous (Palmatier et al., 2006a).

Role of relationships as a source of consumer loyalty

Relationships afford their constituents a variety of benefits. These social blessings may stem from a basic human desire to secure “lasting, positive, and significant personal relationships” that are “temporally stable” (Baumeister & Leary, 1995, p. 497). Academics in marketing have recognized this fundamental human motivation, and researchers have attempted to understand “the impact of relationship marketing tactics on relationship quality” (De Wulf et al., 2001, p. 33). Relationship marketing research has provided important insights, tying consumer relationships to things such as increased revenue (Palmatier et al., 2006a), improved share of wallet (Palmatier et al., 2009), enhanced word of mouth (Ranaweera & Prabhu, 2003), greater likelihood to help fellow consumers (Muniz & O'Guinn, 2001), increased information sharing (White, 2004), and forgiveness for service failure (Goodwin, 1996). Table 3 illustrates these research efforts. Strong relationships are tied to an ultimate loyalty that is secured by attitudinal barriers to exit (Bansal, Irving, & Taylor, 2004), thus making the cultivation of these relationships vital to many firms' long-term success. Recognizing this necessity, companies are implementing relationship-building loyalty programs to strengthen their connections with consumers. Hyatt is a prime example; it

recently instituted gratitude-inducing rewards that help bond consumers to a relationship through reciprocity (Walker, 2009).

Research has identified many preconditions for transitioning consumers from mere economic transactors to relational partners (Goodwin, 1996; Palmatier et al., 2006a). Early experiences with a brand predicate the type of relationship formed, communal or exchange (Aaker, Fournier, & Brasel, 2004; Aggarwal, 2004). Thus, loyalty programs attempting to initiate a relationship must signal communal qualities, such as personality congruence, sociability, and information transparency, ideally in an interpersonal format (Goodwin, 1996).

In addition to signaling that a firm is interested in a communal relationship, the design of the program should generate gratitude leading to cycles of reciprocation and, ultimately, strong relational bonds (Palmatier et al., 2009). When partner actions are interpreted as helpful, reciprocity norms that are tied to an evolutionary need for cooperation develop (Schroeder, 2010). These norms compel a person to return benefits in kind because of feelings of gratitude that act “as a mediator between give-and-take” (Bonnie & de Waal, 2004, p. 227). Appraisal of loyalty program benefits likely precedes emotional response (Lazarus & Folkman, 1984), and feelings of gratitude require perceptions that a relationship partner is acting somewhat altruistically.

Thus, reciprocity and gratitude are important drivers of relationship formation, and these effects can be enhanced when loyalty program benefits appear to be benevolently motivated, given with free will, and offered when the consumer needs them the most (Palmatier et al., 2009). Morales (2005) finds that the extra effort store employees expend enhances consumer willingness to pay and store loyalty. Howard (1992) similarly demonstrates that product wrapping services elicit positive mood, which enhances consumer attitudes and likely carries over to post-consumption evaluation (Miniard, Bhatla, & Sirdeshmukh, 1992). These findings mirror the type of investments loyalty programs provide (e.g., special gifts, increased attention from store associates, enhanced services) and suggest that the manner in which these investments are delivered is important to effective relationship formation. Strong relationships form when loyalty programs seem interested in more than a one-sided economic transaction.

However, when consumers perceive the exchange partner as opportunistic, efforts to build a relationship will be threatened (Adams, 1965). Company behaviors that consumers interpret as self-interested, cunning, or unfair will cause consumers to categorize the relationship as economic, based on market norms; these relationships typically lack trust (Fiske, 1992). Impaired trust may cyclically undermine the relationship; consumers will more likely interpret behaviors associated with the relationship negatively and experience greater variability in their overall satisfaction with the relationship over time (Campbell, Simpson, Boldry, & Rubin, 2010).

Consumers may participate in loyalty programs even when they consider these programs sales tactics. The loyalty program may encourage repeat purchases over time since rewards act as operant reinforcements of repeat purchase behavior by increasing the overall utility of the exchange (Lewis, 2004;

Table 3
Relationship-based loyalty research.

Reference	Context	Key constructs	Major findings
Bansal et al., 2004	Auto-repair services	Normative, affective, and <i>continuance commitment</i>	Subjective norms are associated with normative <i>commitment</i> , while trust is tied to affective <i>commitment</i> . Continuance <i>commitment</i> results from increased switching costs. Normative and continuance <i>commitment</i> are negatively associated with switching intentions.
De Wulf et al., 2001	Food, apparel retail	Relationship investment, relationship quality, <i>loyalty</i>	Consumers' perceptions of relationship investments enhance relationship quality, a composite of trust, commitment, and satisfaction, which is positively associated with <i>behavioral loyalty</i> . Interpersonal communication has the strongest association with perceived relationship investment.
Giesler, 2006	Online peer-to-peer	Gift system, reciprocity norms	A dyadic analysis of gift exchange fails to capture <i>community development</i> function of gift systems, in which gifts exchanged among consumers aid in the <i>development of consumer relationships</i> .
Goodwin, 1996	Services	Communality, service delivery	Transitions to communal relationships are a function of service delivery, consumer traits, and situational factors. Likelihood of strong relationship formation increases with self-disclosure, time, and personality congruence in encounters.
Howard, 1992	Retail setting	Attitude strength, mood maintenance	Gift-wrapping cues positive mood because wrapping is frequently paired with joyous life events. Positive mood mediates the relationship between gift-wrapping and <i>strength of positive attitude</i> and thus can serve as a relationship investment.
Marcoux, 2009	Moving to a new home	Consumer gifts, <i>cooperation</i> , subjection	A variety of emotions are associated with accepting gifts from others, and these emotions may spur consumers toward market-based exchanges to forgo negative affect and relational obligations associated with accepting a gift.
McGraw & Tetlock, 2005	Various consumer settings	<i>Opportunism</i> , relational exchange styles	Context of relational exchange influences consumers' exchange style, with communal and equality matching conditions associated with <i>egalitarian exchange</i> and market-pricing exchange related to <i>opportunism</i> .
Morales, 2005	Retail setting	Gratitude, persuasion, <i>willingness to pay</i>	Extra effort expended by the firm enhanced customer <i>willingness to pay</i> , <i>choice of store</i> , and <i>overall evaluations</i> . Inferred persuasion motivations diminished this relationship.
Palmatier, Gopalakrishna, & Houston, 2006b	Business-to-business relationship	Social, financial structural relationship investments	The <i>return on investments</i> in relationships with customer firms is greatest if the investment is social in nature (e.g. taking a client to dinner). Financial investments (e.g. discounts) fail to deliver a positive return. Structural investments (e.g. infrastructure) only pay off if interactions are frequent.
Palmatier et al., 2009	Retail and business-to-business relationship	Gratitude, relationship investments	Gratitude mediates the effect of relationship investment on <i>performance</i> , along with trust and commitment. Relationship investments' effect on gratitude is positively moderated by customers' perceptions of seller benevolence, free will, and investment value.
Rosenbaum et al., 2005	Communal loyalty programs	Communal benefits, <i>loyalty</i>	Loyalty programs differ in terms of the extent to which they provide communal engagement and communal benefits shared among their customers. Communal loyalty programs elicit stronger <i>loyalty</i> than programs relying on financial incentives.
Thomson et al., 2005	Self-reported brands	Emotional attachment, <i>brand loyalty</i>	Brand emotional attachment is associated with three factors: brand affection, connection, and passion. These factors are ultimately associated with stronger <i>brand loyalty</i> and a higher <i>willingness to pay</i> .

Note. These loyalty relevant studies examined the impact of relationships on a number of relevant outcome variables. We emphasize these different dependent variables by formatting each outcome with *italics*.

Liu, 2007), but these repeat purchases may do little to build a relationship. Even when consumers perceive the loyalty program as fair, firms need to prevent the program from simply

being part of its value proposition; otherwise, the program loses its relational dimension and just becomes a complicated pricing discount scheme. For example, compare the response between a

consumer who reads the reward program details, collects the miles, and then trades them in for a free trip and a consumer who receives a free upgrade for being a “friend” of the airline.

P9. Loyalty programs will enhance relational-based loyalty (a) when signaling the seller’s desire to form a communal-type relationship, (b) when motives are perceived as benevolent, and (c) when rewards are discretionary; the positive impact will be undermined if the program rules are (d) made salient to consumers, and (e) perceived as procedurally unfair.

Not all loyalty programs are viewed as persuasion schemes or rewards for loyal behavior. Research suggests that consumers can interpret firms’ efforts as direct investments in their relationship (De Wulf et al., 2001). These types of investments are qualitatively different from gifts or surprises offered in typical reward programs in the sense that consumers understand that the company or brand is attempting to demonstrate its commitment to the relationship’s future. This distinction may separate the positive effects of surprise gifts or discounts (Heilman, Nakamoto, & Rao, 2002) from the emotionally laden impact of personalized or customized efforts targeted at a specific consumer (Howard, 1992). The former is a reward representing a “thank you,” and the latter is an investment showing commitment to a future relationship.

Research also suggests that if consumers have a relationship with an individual employee (vs. an overall company), the impact of that relationship on consumer loyalty will be greater (Palmatier, Scheer, & Steenkamp, 2007). Theories related to social judgment (Hamilton & Sherman, 1996) argue that the underlying characteristic that distinguishes perceptions of individuals from those of companies or large social groups is entitativity, or the degree of behavioral consistency associated with an entity. Interactions with different individuals in a large group—employees at a company—are generally inconsistent, making it difficult to form a single impression of the overall group. People therefore use recall models that heavily weight recent experiences when thinking about a group. In contrast, interactions with a single person tend to be stable over time, making unified cognitive representations (online models) of individuals easier. Slower, weaker, and less confident judgments associated with recall models can be replaced with the faster, stronger, and more confident judgments associated with online models when a group’s behavior is uniform and consistent—when a group resembles a person (Hamilton & Sherman, 1996).

Palmatier et al. (2007) demonstrate this process in a business context, showing that loyalty tied to individual salespeople has a greater effect on firm performance outcomes than loyalty tied to the firm overall. It is easier to form a strong relationship with an individual than a large organization. If, however, a firm’s employees appear and behave uniformly, the relationship formed with individuals extends to the company, thereby enhancing the bottom line. Thus, relational-based loyalty programs that focus on building consumer–employee relationships (e.g., Nordstrom’s personal shopper program) may generate better results than programs that focus on building consumer–firm relationships, assuming employee turnover is

not an issue. Moreover, if a firm’s employees behave consistently as a group, the judgment formation process becomes similar to the process used to evaluate individuals (Hamilton & Sherman, 1996), therefore enhancing the effect of consumer–firm relationships on consumer behavior.

An additional area of future inquiry involves understanding the role of knowledge investments leading to increases in consumer switching costs and dependence. Consumers who adopt new products or services and expend effort and time to learn how to use these innovations are less likely to switch companies (Johnson, Bellman, & Lohse, 2003; Zauberan, 2003). When consumers feel locked in to a company and its offering, they become dependent on the firm and may want a relationship to help manage the risk associated with the dependence (Pfeffer & Salancik, 1978). However, research on interfirm relationships suggests that the effect of dependence on relationship quality is contingent on the balance of power. If both parties are interdependent, the relationship is enhanced, but if the dependence structure is asymmetric, the relationship is damaged (Kumar, Scheer, & Steenkamp, 1995). How these findings generalize to a consumer loyalty program context is unknown.

P10. The positive impact of loyalty programs on relational-based consumer loyalty will be enhanced as (a) perceived entitativity increases, (b) feelings of interdependence increases, and (c) feelings of asymmetric dependence decreases.

Cross-customer effects of relational-based loyalty

Imagine a passenger missing a flight connection and immediately walking up to a premier ticketing counter to rebook the flight. The friendly agent finds a seat and upgrades the ticket to first class, free of charge. Surrounding the premier passenger are others who paid the same ticket price but are waiting in a long line and thus do not experience this same treatment. How does the overall effectiveness of this loyalty program change when considering effects on both premier and nonpremier passengers?

Though limited, research suggests that betrayal, jealousy, and unfairness that stem from targeted promotions can have mixed effects on overall firm profitability (Feinberg et al., 2002). For the flier being rewarded, recent work suggests that feeling envied is associated with enhanced self-confidence and increased fear of ill-will, suggesting that exclusive rewards can have both positive and negative effects, even for the person benefiting from this exclusivity (Mosquera et al., 2010). Similar to the cross-customer effects for status-based loyalty programs, both distributive and procedural justice perceptions can negatively influence the non-targeted customers (Bechwati & Morrin, 2003; Feinberg et al., 2002). For example, some consumers may believe that if two customers pay the same price for the service (e.g., ticket), they should be treated the same.

Beyond dyadic interactions that may affect relationships with on-looking consumers, it is also important to consider relationships with groups of consumers. Giesler (2006) studies gift giving in an online peer-to-peer music sharing environment and finds that gifts help build a relationship among groups of consumers. How rewards consumed by a group influence that

group's relationship with a company remains an unanswered question. However, intergroup emotions theory posits that positive experiences of one group member are shared vicariously by others in the group (Mackie et al., 2000).

P11. For individuals in groups, the positive impact of loyalty programs on relational-based loyalty will (a) strengthen when in-group members are rewarded, even if the focal consumer does not directly receive any benefits, and (b) decline when out-group members are rewarded, especially if rewards are perceived as unfair or unearned.

Temporal effects of relational-based loyalty

Time is a critical ingredient of strong, committed relationships (Gundlach & Murphy, 1993); therefore, for relationships to grow, loyalty programs need to promote interactions over time. Over time and multiple interactions, consumer relationships evolve through an exploratory, build-up, maturity, and decline stage of the relationship lifecycle with each unique stage requiring customized strategies (Jap & Ganesan, 2000). For instance, the appropriateness or fit of a relationship investment or loyalty reward may vary across different relationship stages. If a gift does not fit the norms regarding "value" and "personal content" of a relationship stage, it will fail to properly reinforce that relational stage and may derail the natural life-cycle evolution. In early stages, rewards that are too valuable or too personal in nature may make consumers question the giver's motivation, the legitimacy of the transaction, and their potential future obligations (Campbell, 1995; Marcoux, 2009). For example, receiving a free family vacation after simply evaluating a product would be questioned suspiciously, this might explain why people react with caution toward time-share real estate sales tactics (Budowski, 2010).

Alternatively, "cheap" or thoughtless gifts from a long-term communal relationship partner may be perceived as uncaring, signaling relationship dissolution, or a failure to reciprocate, which may result in the partner being labeled as a welcher, ingrate, or mooch (Palmatier et al., 2009). The penchant of the grocery industry to give long-tenured consumers discounts may be doing little to build relationships with these patrons, a notion echoed in popular press (e.g., Butler, 2010).

Consumers first establishing their relationship with a seller may be especially sensitive to the type of loyalty programs the seller uses as a signal of their intentions. If a firm "rewards" new customers with a financial-based incentive, suitable for transactional relationships but taboo in communal relationships, it could actually undermine any future relationship-building efforts (McGraw & Tetlock, 2005). Relationship marketing research in the business-to-business context (Palmatier et al., 2006b, p. 489) shows that financially based loyalty programs have a negative return on investments and suggests that "financial incentives may resemble a pricing policy more than a relationship marketing program." Firms focusing mostly on giving consumers financial rewards may be forgoing the opportunity to build long-lasting communal relationship, and this focus may also help explain the poor returns on loyalty program investments some firms report (Nunes & Dr eze, 2006; Rosenbaum et al., 2005). This distinction is nowhere more

pronounced than in the consumer credit industry, in which companies such as Citi Retail Partner Cards are shifting to unique, personalized rewards to rise above the "sea of sameness" associated with financial or commodity-based rewards that do nothing to enhance consumer relationships (Fogarty, 2010).

P12. Loyalty programs will enhance relational-based loyalty when the (a) objective value and (b) subjective content of the rewards are congruent with the norms associated with a consumer's relationship stage.

P13. Loyalty programs will undermine relational-based consumer loyalty when financial incentives are offered during early relationship stages.

Simultaneous effects of multiple loyalty-inducing mechanisms

Loyalty programs' overall effect on consumer behavior is complex, partly because the effects of status, habits, and relationships on consumers' behavior occur simultaneously and over time. Consider Kim et al., (2009) results in which a department store launched a new loyalty program that rewarded top VIP customers with discounts, gifts, and invitations to events. In that study, the retailer went from having no program to having a two-tiered program that added customers to the VIP program on the basis of past purchase history. The authors compared consumer purchase behavior for 120 days before entering the program with purchase behavior for 120 days after entering the program and found no significant change in purchase frequency and only a small impact on purchase amounts. However, when Kim et al. (2009) classified VIP members into three subgroups based on preprogram purchase history (i.e., heavy, medium, and light), they found diverging results, which were masked in the aggregate analysis. Specifically, consumers who purchased the least before the VIP program introduction significantly increased their frequency and purchase amount, but consumers who were the heaviest buyers actually decreased their purchase frequency and amounts. How can these counterintuitive results be explained? Perhaps there was a simultaneous effect of habit, status and relational loyalty-inducing mechanisms.

First, consider the impact of this VIP program on habitual behavior. The heaviest buyers were most likely to shop habitually; they made almost three times as many purchases per month as light buyers. If the VIP program's introduction significantly altered the environmental context which supported their habit and/or shifted their attention to the goal of obtaining rewards, research on habit change indicates that both the environmental shock and the increase in focus on the linkage between behavior and reward could undermine consumer habits (Wood & Neal, 2009). Thus, launch of this program could have been an impetus for some habitual frequent shoppers to reevaluate competitive retailers.

Second, how did this VIP program influence the relative status among customers? The VIP program might have been poorly constructed in only having a single high-status level; that is, it might have provided poor "idiosyncratic fit" for the heavy buyers were treated the same as light buyers (Kivetz &

Simonson, 2003). The negative impact of poor fit for heavy buyers may have been exasperated by the program's clear status element, because the "salience of the general concept of status lead people to be more attentive to procedural fairness" (Van Prooijen et al., 2002, p. 1353). Implicit in this argument is an interaction effect between status and relationship mechanisms in which programs that change relative status levels make the influence of fairness perceptions on consumer relationships stronger. Alternatively, status-based mechanisms may have had a positive impact on the light and medium buyers added to the program because they felt uplifted relative to the consumers not added to the program, which could be a contributor to this group's increase in purchase frequency and amounts.

Third, how would this VIP program be viewed from a relationship perspective? Consumers who believed they had a communal-type relationship might have felt "betrayed" when their relationship was commercialized and made available to others (Feinberg et al., 2002). Consumers prefer relationships that are personalized and customized (Kumar & Shah, 2004), and providing the same benefits to many customers may make some heavy users believe that their relationship is no longer communal or special, especially when they attend large "special events" provided to all VIP members. Low-volume buyers receiving these rewards may feel gratitude, resulting in reciprocal purchases, in which the act of reciprocation generates feelings of pleasure (Palmatier et al., 2009). This give-and-take process has been identified as a catalyst to relationship formation in which this VIP program might have strengthened the relationship with some of the low-volume consumers, with long-term positive effects reaching beyond the 120-day evaluation window.

By using supplementary analyses with a behavioral proxy of attitude, Kim et al. (2009) show that consumers who had the strongest attitudinal connection with the store responded positively to the VIP program, regardless of their preprogram purchase amounts. These results suggest that consumers with a strong relationship (attitudes) with the firm are impervious to negative attributions regarding firm motives and perceive the program rewards as just another step in the cycle of reciprocation, further cementing the relationship.

Overall, this example shows some of the complexities inherent in understanding the net effect of loyalty programs on firm performance. However, additional empirical analysis is needed to rule out other alternative explanations, which cannot be accomplished in post hoc analysis. This example highlights the need for research that includes multiple loyalty-inducing mechanisms that may amplify or attenuate each other, depending on the consumer and the order in which each mechanism is introduced into the consumer relationship. This VIP study also shows the difficulty in teasing apart the effects of these different mechanisms using only behavioral data. In the future, researchers should consider the additive effects of multiple loyalty-inducing mechanisms and the interactions between these mechanisms while recognizing that these effects will vary over time and across different consumers.

P14. Loyalty programs' effect on consumer loyalty is mediated by the combined effects (both additive and multiplicative) of (a) habit-based, (b) status-based, and (c) relational-based loyalty

inducing mechanisms, such that an increase in one can undermine or enhance another's existing effect.

P15. The effect of an increase of habit-based, status-based, and relational-based loyalty-inducing mechanisms on consumer loyalty will be differentially moderated by the stage of the consumer relationship, such that:

- (a) Effectively managing the habit-based mechanisms is important in the mature stage to insulate against relationship decline,
- (b) Effectively managing the status-based mechanisms are important in the growth stage to motivate consumers to achieve enhanced status and in the mature stage to motivate consumers to protect their enhanced status, and
- (c) Effectively managing the relational-based mechanisms efforts are important in the initiation and growth stage to initiate the path towards a communal social relationship in later stages.

Conclusion

Viewing a road from only the windshield may provide a consistent image and a clear path, but it likely leaves much of the landscape unappreciated. Similarly, trying to understand the overall impact of a loyalty program on performance through the use of a single theoretical lens may provide experimental design and explanatory parsimony but prevents the researcher from capturing the multitude of ways a program could influence consumers' behaviors and, ultimately, its effect on firm performance. Consider Starbucks's recent decision to discontinue a poorly performing premium rewards program that required a registration fee and offered special discounts to members (Allison, 2010). This loyalty program might have conferred a sense of status to customers, reinforced habitual purchasing, led to customers' relationships with the company, and allowed customers to signal their special affiliation to bystanders—all consonant with what researchers identify as successful loyalty program characteristics. Assessed individually, each characteristic or mechanism appears supportive to a successful program. Assessed jointly, however, these interacting mechanisms were ultimately deemed dysfunctional.

Status for some consumers may create feelings of inequity for others, degrading many relationships for the celebration of a few. Thus, in this article, we propose that to understand how loyalty programs actually work, a broader, more holistic research perspective is needed to account for the simultaneous effects of multiple theoretical mechanisms, cross-customer effects, and temporal effects. The frequency of loyalty program cancellations in the marketplace indicates that practitioners may not fully understand how loyalty programs operate, which reinforces the need for a new approach (Nunes & Dr ze, 2006).

This article addresses this need by reviewing the extant literature on loyalty programs and providing researchers a new perspective for understanding the effectiveness of loyalty programs. Charting a new course requires a roadmap. Our review

of the literature reveals that the theoretical underpinnings of the majority of loyalty program research rest on psychological mechanisms from three specific domains: status, habit, and relational. In summary, loyalty program-induced change to consumer behaviors typically results from (1) conferring status to consumers, which generates favorable comparisons with others; (2) building habits, which causes advantageous memory processes; and (3) developing relationships, which results in more favorable treatment by consumers.

When researchers take a multitheoretical perspective, the results are compelling. For example, Wagner et al. (2009) find that withdrawing status impairs customer loyalty and that company apologies attenuate the negative emotions associated with status withdrawal. Folding prospect theory, theories of status, theories of emotion, and relationship marketing into one research design, Wagner et al. (2009) use many perspectives to illustrate the nuances of loyalty program effects.

Overall, a broadened perspective creates many new research questions; as suggestions, we offer 15 propositions to help guide future loyalty program research. The complexities involved in understanding the effectiveness of loyalty programs suggest that many opportunities exist for researchers to help solve the many mysteries surrounding loyalty programs.

Appendix A

Summary of construct definitions relevant to loyalty program research.

Constructs	Conceptualizations	Representative Papers
<i>Consumer loyalty programs</i>		
Loyalty program	Any institutionalized incentive system that attempts to enhance consumers' consumption behavior over time beyond the direct effects of changes to the price or the core offering.	De Wulf, et al., 2001; Palmatier, Gopalakrishna, & Houston, 2006
Consumer loyalty	Repeat seller specific consumption that may result from desires to self-enhance (<i>status-based</i>), learned memory advantages (<i>habit-based</i>), or forward-looking desires to maintain a strong, committed social relationship based on trust and reciprocity with an organization (<i>relational-based</i>).	Dick & Basu, 1994; Oliver, 1999
Aggregate consumer loyalty	Total loyalty of all of a seller's consumers, accounting for temporal, simultaneous, and cross-customer effects of loyalty-inducing mechanisms.	Ferguson & Hlavinka, 2007
<i>Key constructs relevant to status-based loyalty</i>		
Status	Context-specific and generally desirable elevated	Anderson, et al., 2001; Heffetz & Frank, 2011

Appendix A (continued)

Constructs	Conceptualizations	Representative Papers
Status conferrals	ranking within a social hierarchy based on attributed characteristics. "Actions [of another or others] that provide status or legitimacy to a target."	Tiedens, 2001, p. 86
Status-enhancement	Tendencies to use "achievement, enjoyment, or power" to "satisfy the imperative for self-esteem."	Anderson, et al., 2006, p. 1095; Schwartz & Bilsky, 1990, p. 887
Status beliefs	Learned social distinctions that place someone in "one category of social difference [that is] more socially respected" and "socially valued."	Mark, Smith-Lovin, & Ridgeway, 2009; Ridgeway, 2006, p. 848
Costly signals	Signals associated with status that "demonstrate both one's willingness and one's ability to incur" the costs associated with such signals.	Griskevicius, et al., 2010, p. 394; Han, Nunes, & Drèze, 2010
Conspicuous consumption	Public consumption of status-related goods meant to signal an individual's elevated status.	Han, Nunes, & Drèze, 2010
Social comparisons	Upward, lateral, or downward comparisons based on status characteristics that allow an individual to aspire, fit in, or differentiate from other status groups.	Drèze & Nunes, 2009; Festinger, 1954; Johnson & Stapel, 2007
Exclusivity	Selective access to benefits that "influences the response of deal recipients."	Barone & Roy, 2010a, p. 121; Drèze & Nunes, 2009
Power	"Psychological state" associated with feelings of efficacy and control.	Rucker & Galinsky, 2008, p. 257
<i>Key constructs relevant to habit-based loyalty</i>		
Habit	"Slowly developing associations between situational cues and repeatedly performed behavior options."	Tobias, 2009, p. 409
Habit strength	Robustness of a habit, not "directly proportional to frequency of past behavior," over alternative behaviors.	Ajzen, 2002, p. 110; Wood & Neal, 2009
Context stability	Degree of fluctuation associated with cues tied to the habitual behavior, which include physical location, preceding actions, time, mood, and social surrounding.	Ji & Wood, 2007; Tobias, 2009; Wood & Neal, 2009
Reminders	Situational, behavioral, or event-based (e.g., social interactions) cues that "lead to the frequent performance of [a] new behavior."	Neal et al., 2008; Tobias, 2009, p. 409
Instrumentality	Experienced "contingency between a behavior and its rewarding outcomes."	Wood & Neal, 2009, p. 586

Appendix A (continued)

Constructs	Conceptualizations	Representative Papers
Intentions	Deliberate action whose likelihood increases the “more favorable the attitude and subjective norm and the greater the perceived control.”	Ajzen, 2002, p. 107; Ji & Wood, 2007; Tobias, 2009
Decay	Decrease in intention accessibility or habit strength over time.	Tobias, 2009
<i>Key constructs relevant to relationship-based loyalty</i>		
Relational inputs	Personal costs incurred in exchange, including time, effort, flexibility, and sacrifice.	Adams, 1965; Palmatier et al., 2006a
Relational outcomes	Personal benefits extracted from exchange, including physical and psychological resources.	Adams, 1965; Palmatier et al., 2006a
Fairness	Acceptable comparison of input–outcome ratios made between or across exchange partners.	Adams, 1965; Samaha, Palmatier, & Dant, 2011
Dependence	An actor’s “need to maintain a relationship with the partner to achieve its goals.”	Emerson, 1962; Kumar, Scheer, & Steenkamp, 1995 p. 349
Cohesion	“Degree to which actors perceive their relation to be a distinct, unifying social object.”	Lawler & Yoon, 1996, p. 94
Commitment	Strong, ongoing cognitive and affective desire to maintain an exchange relationship.	Campbell, et al., 2010; Verhoef, 2003
Trust	Confidence in the reliability and honesty of an exchange partner.	Campbell, et al., 2010;
Entitativity	“Perceptions of unity” associated with groups, which influence the “processes [that] are engaged as one develops conceptions of groups.” High unity reinforces “on-line [vs.] memory-based judgments,” sensitive to primacy (vs. recency) recall biases.	Hamilton & Sherman, 1996, pp. 341–344; Palmatier, Scheer, & Steenkamp, 2007
Gratitude	“The emotional appreciation for benefits received”; it is the “emotional foundation for reciprocal behaviors.”	Morales, 2005; Palmatier et al., 2009, p. 1, 2

Note. This table lists key constructs considered in this article. Representative papers relate to constructs defined.

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