

# Understanding loyalty program effectiveness: managing target and bystander effects

Lena Steinhoff · Robert W. Palmatier

Received: 25 August 2013 / Accepted: 29 July 2014 / Published online: 22 August 2014  
© Academy of Marketing Science 2014

**Abstract** Loyalty programs are a ubiquitous marketing tactic, yet many of them perform poorly and the reasons for loyalty program failure remain unclear to both marketing managers and researchers. This article presents three studies—two experiments and one survey—in support of the notion that a greater understanding of loyalty program performance demands an expanded theoretical framework. Specifically, researchers and managers must account for loyalty programs' effects on both target and bystander customers in the firm's portfolio, the simultaneous effects of three performance-relevant mediating mechanisms (gratitude, status, unfairness), and the contingent effects of program delivery (rule clarity, reward exclusivity, reward visibility) on specific mediating linkages. The results provide insights into why and when loyalty programs fail and into the complex trade-offs managers face. Loyalty programs have opposing effects on target and bystander customers' loyalty and sales. While rule clarity suppresses both negative bystander as well as positive target effects, reward visibility enhances both types of effects. Exclusive rewards offer a means to alleviate negative bystander effects without affecting targets. The article both conceptually and empirically establishes a comprehensive analysis framework that can help marketing managers and researchers evaluate and improve loyalty program effectiveness.

**Keywords** Loyalty program · Bystander effect · Reward programs · Reward elements · Relationship marketing

Loyalty programs, in business practice and as a focus of marketing research, have become vastly popular, such that U.S. companies spend more than \$1.2 billion on them each year, program participation has topped 2.6 billion, and the average U.S. household subscribes to 21.9 different programs (Berry 2013; Wagner et al. 2009). As these numbers suggest, loyalty programs “have become a key component of customer relationship management” (Kivetz and Simonson 2003, p. 454). However, their financial performance rarely meets expectations (Daryanto et al. 2010; Henderson et al. 2011), which often results in their termination (Nunes and Drèze 2006). Even Starbucks recently decided to halt its rewards program due to poor performance (Allison 2010), and Safeway ended its loyalty scheme due to its lack of effectiveness (Meyer-Waarden 2007). Although researchers substantiate the efficacy of some loyalty programs (Leenheer et al. 2007; Shugan 2005), “it is far from clear what sets a successful [loyalty program] apart from an unsuccessful one” (Kumar and Reinartz 2006, p. 172). Perhaps the lack of clarity associated with loyalty program effectiveness stems from extant research failing to account for cross-customer effects and the simultaneous interplay of multiple psychological mechanisms with program delivery. With this research, we seek to improve understanding of loyalty program effectiveness by expanding the evaluative framework to capture (1) effects on both target and bystander customers in a firm's portfolio, (2) the simultaneous effects of three performance-relevant mediating mechanisms (gratitude, status, unfairness), and (3) the contingent effects of program delivery (rule clarity, reward exclusivity, reward visibility) on specific mediating linkages. Specifically, our framework uses the entire *loyalty program customer portfolio* as the unit of analysis. The customer portfolio of

---

L. Steinhoff (✉)  
Marketing Department, University of Paderborn, Warburger Strasse  
100, 33098 Paderborn, Germany  
e-mail: lena.steinhoff@wiwi.upb.de

R. W. Palmatier  
John C. Narver Endowed Chair in Business Administration, Michael  
G. Foster School of Business, University of Washington, 418  
PACCAR Hall, Box 353226, Seattle, WA 98195-3200, USA  
e-mail: palmatrw@uw.edu

any loyalty program features two types of customers: Target customers are those loyalty program members who receive rewards. Bystander customers do not receive rewards themselves, but observe others getting rewarded. They can be either members or non-members of the company's loyalty program. When evaluating loyalty program performance, we address loyalty programs' effects on both target customers and bystanders; in contrast, researchers and managers often ignore how loyalty programs targeted at one customer simultaneously and perhaps unintentionally influence other customers. Recall the hotel scene in the movie *Up in the Air*, in which George Clooney as a premium customer provokes the resentment of waiting customers when he skips a long line to be served instantly. While we acknowledge that the aim of loyalty programs is to identify and nourish those customers exhibiting a high customer lifetime value (CLV), we promote a view that often is not captured in CLV of existing customers. For example, nearly all customers begin their relationships with the firm as bystanders, but if a firm treats them unfairly or delegates them to low status levels, they may find it hard to later develop a strong relationship. Yet with the notable exception of Feinberg et al. (2002), extant studies apply a target customer perspective only when investigating customer responses to rewards (Barone and Roy 2010). The investigation of cross-customer effects represents a noticeable gap in loyalty program literature (Henderson et al. 2011). To the best of our knowledge, this study is the first to combine and contrast the target and bystander customer perspective in loyalty programs.

In addition, we propose that target and bystander customers engage in three relevant comparisons, manifested in *three psychological mediating mechanisms* (gratitude, status, unfairness), that simultaneously explain the positive and negative effects of loyalty programs on performance among target and bystander customers. Previous studies so far have focused on establishing single mediating mechanisms for both customer types. Targeted customers' favorable comparisons can spark gratitude and reciprocation, an important positive mechanism that links rewards to performance (Palmatier et al. 2009). Experiencing preferential treatment enhances the perceived status of target customers but reduces that of bystander customers (Drèze and Nunes 2009); with its inherent relativity, status thus acts as a double-edged sword, with simultaneous positive effects on target customers and negative effects on bystanders. Bystanders also frequently perceive unfairness, due to unfavorable comparisons of the inputs provided to the outcomes received (Feinberg et al. 2002). Ultimately, gratitude and enhanced status likely build target customer loyalty; reduced status and unfairness instead undermine bystander customer loyalty.

Finally, our framework submits that the three mediating mechanisms are differentially contingent on the *loyalty program's delivery characteristics* (rule clarity, reward

exclusivity, reward visibility). Systematic research on loyalty program delivery is sparse, and the few studies focus solely on target customer effects. Yet the delivery of rewards can have differential, potentially opposing effects on the links between loyalty programs and target versus bystander customers' responses. If firms can control the extent to which target and bystander effects get enhanced or suppressed, reward program delivery characteristics would offer important means to manage program effectiveness.

We empirically test this framework in three complementary studies, applying multiple methodologies. In Studies 1 and 2, we use an experimental approach, in retail and hotel contexts, respectively, to establish the opposing, comparison-driven effects of loyalty programs on target and bystander customers, as contingent on program delivery. In Study 3, we test our conceptual model using a survey of the customers of multiple airline loyalty programs. In a post hoc analysis, we demonstrate the distinct sales impacts of various reward elements and thus provide a finer-grained view of how specific reward elements differentially affect target and bystander customers.

Through these efforts, this article makes three main contributions. First, we find empirical support for the importance of accounting simultaneously for target and bystander customers, that is, taking a portfolio perspective, when analyzing loyalty program performance. Loyalty programs can increase target customers' loyalty and sales, but they decrease these measures among bystander customers. Target and bystander customer effects often work in opposing directions, which might explain the ineffectiveness of many loyalty programs. The results can help managers recognize the potential dangers of prioritizing the few at the expense of the many.

Second, we offer and empirically test a gratitude-, status-, and unfairness-mediated model of loyalty program effectiveness, accounting for three simultaneous, interrelated comparisons that are critical to understanding the net effect of a loyalty program on firm performance. Across three studies, we find strong empirical support for using a comparison-based theoretical perspective to understand the mediation of the reward–performance link. The positive effect of loyalty programs on target customers' loyalty and sales stems from the targets' advantageous comparisons against their own expectations (e.g., reciprocity norms) and others' rewards. Loyalty programs' negative effect on bystander customers' loyalty and sales instead is mediated by disadvantageous bystander comparisons with others and of input–outcome ratios. These insights call for simultaneous considerations of the diverse psychological comparisons in a loyalty program.

Third, we identify and empirically demonstrate how loyalty program delivery characteristics differentially affect the reward–performance linkage among target and bystander customers. By showing that these effects can be enhanced or diminished, depending on the configuration of loyalty programs, we affirm the importance of reward delivery decisions.

Rule clarity, reward exclusivity, and reward visibility in a loyalty program significantly moderate the reward–performance linkage, which makes balancing target and bystander customer effects a challenging task. For example, explicitly and clearly communicating the rules of the loyalty program helps decrease bystander customer perceptions of unfairness, but it also reduces the level of target customer gratitude. Exclusive rewards offer a means to alleviate negative bystander effects without affecting targets. Alternatively, making rewards highly visible and salient in a program enhances the target customer’s status, but it reinforces bystander customers’ perceptions of unfairness. From these findings, we derive guidelines for delivering loyalty programs in ways that can enhance overall program performance. Thus, the total effect of a loyalty program on firm performance is the sum of all comparison-driven, positive and negative, mediated and moderated effects across the portfolio of target and bystander customers. This expansive framework should help both researchers and managers understand loyalty program effectiveness.

### A comparison perspective on loyalty program effectiveness

American Airlines introduced the first frequent flyer program in 1981, initiating a surge of programs across industries, including hotels (e.g., Starwood Preferred Guest), financial services (e.g., American Express Centurion), and retailers (e.g., Macy’s Star Rewards) (Brierley 2012; Berry 2013). Loyalty programs encompass various marketing activities, including reward cards, gifts, tiered service levels, dedicated support contacts, and other methods for enhancing customers’ attitudes and behaviors. In line with Henderson et al. (2011, p. 58), we define a *loyalty program* as “any institutionalized incentive system that attempts to enhance consumers’ consumption behavior over time.” Despite their proliferation and popularity, the performance of loyalty programs frequently falls short of expectations, leaving managers and researchers struggling to determine the cause (Kumar and Reinartz 2006).

We propose that understanding loyalty program effectiveness demands an expanded evaluative framework, which evolves from various kinds of comparisons within a loyalty program. In any loyalty program, the portfolio consists of two types of customers: target customers (targets) who receive rewards and bystander customers (bystanders) who observe the targets receiving rewards. Across this portfolio, a loyalty program evokes three kinds of comparisons: with reciprocity norms, with others, and of input–outcome ratios. Each of these three comparisons in turn spurs a specific psychological mechanism (gratitude, status, and unfairness). Together, the three mechanisms capture the simultaneous positive and negative effects of rewards on targets and bystanders.

Furthermore, comparisons are contingent on loyalty program delivery. Rule clarity, reward exclusivity, and reward visibility in a loyalty program can enhance or diminish comparison effects among customers. By accounting for the mediating role of loyalty program comparisons and the moderating role of loyalty program delivery in the overall reward–performance linkage, we underscore the complex trade-offs facing managers. We review extant literature pertaining to customer gratitude, status, and unfairness, as well as our comparison approach to loyalty program effectiveness, in Table 1.

#### Comparisons with reciprocity norms: target customer gratitude

According to the principle of reciprocity (Cialdini 2009), customers engage in *comparisons with reciprocity norms*, weighing what they get against what they expected from their relationship with others. When a customer receives a reward from a company, favorable comparisons with expectations about the give and get in a relationship usually result in customers feeling grateful. As suggested by the literature on the reciprocity principle, a key construct for understanding the effect of rewards and their favorable comparisons with reciprocity norms is *customer gratitude* (Emmons and McCullough 2004; Morales 2005), which represents “the emotional appreciation for benefits received, accompanied by a desire to reciprocate” (Palmatier et al. 2009, p. 1). An investment in a relationship may induce a strong affective response, featuring feelings of gratefulness, thankfulness, or appreciation for the intentionally rendered benefit (Emmons 2004). In response to their feelings of gratitude, receivers of a benefit want to behave reciprocally (Cialdini 2009; Palmatier et al. 2009), and previous research confirms an effect of rewards on gratitude (Dawson 1988; Morales 2005). Palmatier et al. (2009) also demonstrate that customer gratitude strongly links relationship investments with performance.

#### Comparisons with others: target and bystander customer status

Social comparison theory (Festinger 1954) posits that humans have a natural urge to compare themselves with others, sometimes without even being aware that they are doing so (Gilbert et al. 1995). *Comparisons with others*, or social comparisons, can focus upward, laterally, or downward, allowing people to draw inferences about their own position and rank. The favorability of these assessments strongly affects subjective well-being (Diener 1984). Having its roots in status literature, social comparison theory is concerned with status perceptions (Festinger 1954). A customer observing him or herself receiving better treatment than other customers should feel superior status; a customer being treated worse than others instead

**Table 1** Selected marketing research on customer gratitude, status, and unfairness

Construct Definition	Theoretical Foundation	Key Findings	Representative Papers	Proposed Comparison Framework of Loyalty Program Effectiveness		
				Relevant Customers	Relevant Comparisons	Contingency Factors
Customer gratitude “The emotional appreciation for benefits received, accompanied by a desire to reciprocate” (Palmatier et al. 2009, p. 1)	Principle of reciprocity, gratitude-based reciprocity	<ul style="list-style-type: none"> <li>• Being rewarded positively affects customer gratitude</li> <li>• Customer gratitude positively affects performance outcomes</li> </ul>	Dawson 1988; Morales 2005; Palmatier et al. 2009	Target customers	Comparisons with reciprocity norms	Rule clarity, reward exclusivity
Customer status Customers’ perception of holding an elevated position or rank within a firm’s customer hierarchy (Drèze and Nunes 2009; Wagner et al. 2009)	Social comparison theory, social identity theory	<ul style="list-style-type: none"> <li>• Being rewarded positively affects customer status</li> <li>• Not being rewarded negatively affects customer status</li> <li>• Customer status positively affects performance outcomes</li> </ul>	Drèze and Nunes 2009; Lacey et al. 2007; Wagner et al. 2009	Target customers and bystander customers	Comparisons with others	Reward exclusivity, reward visibility
Customer unfairness Customers’ view of the degree to which the ratio of their received outcomes relative to their inputs, compared with the corresponding input–outcome ratios of other customers, is unacceptable or inequitable (Henderson et al. 2011)	Equity theory	<ul style="list-style-type: none"> <li>• Not being rewarded increases customer unfairness</li> <li>• Customer unfairness negatively affects performance outcomes</li> </ul>	Darke and Dahl 2003; Feinberg et al. 2002; Samaha et al. 2011	Bystander customers	Comparisons of input–outcome ratios	Rule clarity, reward exclusivity, reward visibility

experiences a sense of inferior status. *Customer status* refers to the customer's perception of holding an elevated position or rank within a firm's customer hierarchy, which is an important goal (Drèze and Nunes 2009; Wagner et al. 2009). Henderson et al. (2011) even identify status as a primary loyalty-inducing mechanism. So-called hierarchical loyalty programs institutionalize status by establishing an explicit, visible hierarchy that consists of several customer tiers (e.g., silver, gold). Holding elite status in a program leads to positive outcomes (Drèze and Nunes 2011; Lacey et al. 2007). However, status structures also have downsides; customer demotion, or a loss of elevated status when a customer fails to meet the program requirements, results in decreased loyalty (Wagner et al. 2009).

#### Comparisons of input–outcome ratios: bystander customer unfairness

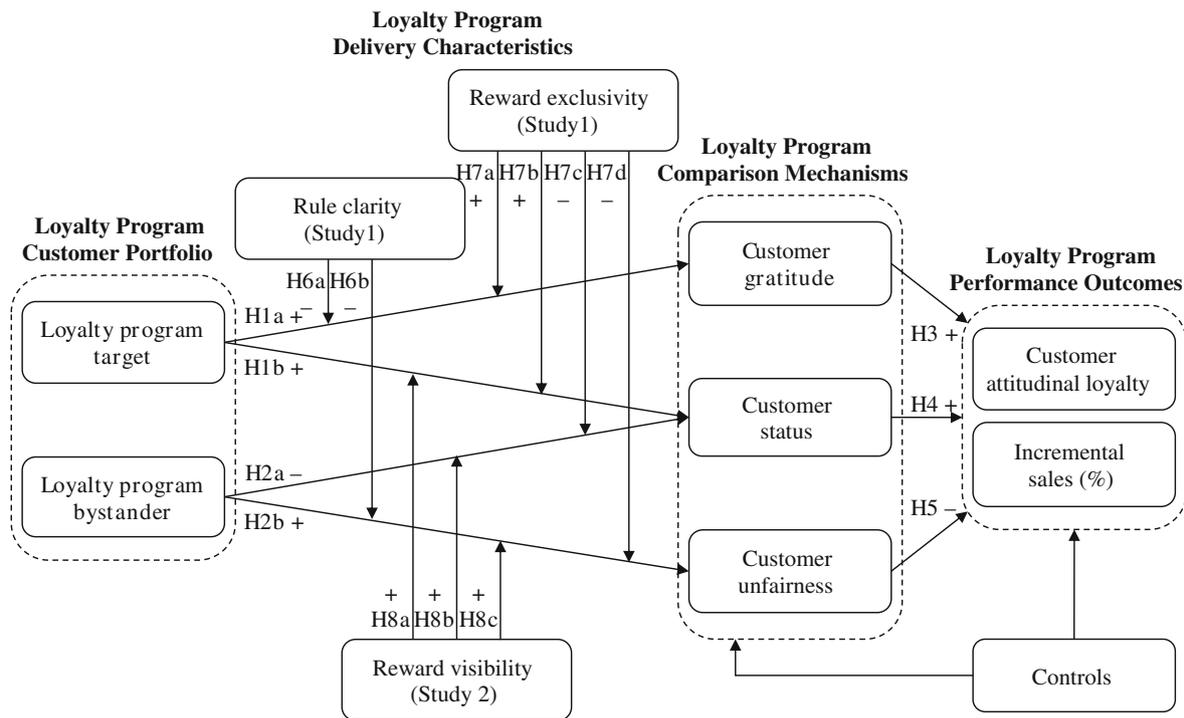
According to equity theory, people should receive benefits or outcomes proportional to the relative efforts or inputs they contribute (Adams 1965; Carrell and Dittrich 1978; Walster et al. 1978). In conducting *comparisons of input–outcome ratios*, customers assess and evaluate their relationship with a company on the basis of the appropriateness of their own ratio of efforts to benefits (internal equity), as well as the balance between their ratio and the ratios of other customers (external equity) (Butori and De Bruyn 2013). According to the literature, considerations of equity or inequity directly relate to fairness judgments (Adams 1965). Perceptions of inequity (i.e., input > outcome) often result in feelings of unfairness, which is a sort of “relationship poison” that evokes strong negative customer reactions (Samaha et al. 2011, p. 99). We define *customer unfairness* as a customer's view of the degree to which the ratio of his or her received outcomes relative to inputs, compared with the corresponding input–outcome ratios of other customers, seems unacceptable or inequitable (Henderson et al. 2011). Equity theory holds that people make inferences about two distinct categories of unfairness or injustice, namely, distributive and procedural (Adams 1965). Whereas distributive injustice pertains to who received what (unfairness of the outcome), procedural injustice reflects how it was received (unfairness of the process) (Henderson et al. 2011). When people perceive their own input–outcome ratio as inequitable (i.e., worse), compared with another's, they feel anger or tension (Butori and De Bruyn 2013) and respond by adjusting their own efforts and inputs or punishing the exchange party, to restore a more equitable state (Adams 1963; Utne and Kidd 1980). Loyalty programs likely trigger unfairness perceptions, due to cross-customer comparisons. Previous studies on targeted promotions also indicate that negative effects on bystanders arise from their unfairness concerns (Darke and Dahl 2003; Feinberg et al. 2002).

#### Loyalty program delivery as a contingency factor in loyalty program comparisons

In loyalty programs, it matters not only what rewards go to target customers but also how the program is delivered (Palmatier et al. 2009). Loyalty program delivery can affect each of these three comparisons and the associated mediating mechanisms. Companies take different approaches to delivering rewards to their targets: Ritz-Carlton rewards are not publicized, whereas Marriott sends a reward summary every month, thereby establishing very different levels of rule clarity for their target customers. While some companies maintain the top tier of their loyalty program as a highly exclusive circle (i.e., top 5% of customers only), others make their top tier accessible to a broader mass. By making a reward visible, e.g., when airlines position their lounge for premium customers in the center of the public waiting area, a firm exposes itself to not only the potentially negative bystander comparisons (e.g., status reduction, unfairness perceptions) but also the magnification of the unfavorable comparisons with others and of input–outcome ratios, due to the public settings (Butori and De Bruyn 2013). Thus, a range of delivery characteristics (e.g., clarity of rules, exclusivity of rewards, visibility of rewards) could be salient for different types of comparisons, as well as leveraging the effects of the comparisons on outcomes.

#### Conceptual model and hypotheses

Our conceptual model links loyalty program rewards with performance outcomes (customer attitudinal loyalty and incremental sales) through three mediating mechanisms (gratitude, status, and unfairness). *Customer attitudinal loyalty* reflects a “deeply held commitment to rebuy or repatronize a preferred product or service consistently in the future” (Oliver 1997, p. 392), whereas *incremental sales* capture the customer's heightened or lowered annual sales in response to the loyalty program. For a more holistic picture of loyalty program effectiveness, our conceptual model synthesizes and extends previous work by investigating multiple, simultaneous mediation effects, as well as several moderation effects, on both target and bystander customers (Fig. 1). Because the main effects of the loyalty program → mediators → performance linkages have received individual support in previous research, we only briefly review the rationales for our replication hypotheses; our main focus instead is on the contingent effects of loyalty programs on comparison-based mechanisms, according to various program delivery characteristics.



**Fig. 1** Conceptual model of loyalty program effects on performance outcomes

Effects of loyalty programs on comparison-based mediating mechanisms

Loyalty programs can positively affect target customers through two main mechanisms: gratitude and status. According to the reciprocity principle (Cialdini 2009), receiving a reward from a company elicits a target customer’s gratitude. As the customer becomes aware of getting a benefit, such as a small, surprising gift from a department store’s loyalty program, this should prompt feelings of gratitude. Gratitude represents a typical affective reaction when a person receives some benevolence (Palmatier et al. 2009). Status offers another powerful force that firms can use to influence targets’ behaviors (Henderson et al. 2011). Imagine that a frequent flier who has achieved gold status is invited by airline personnel to walk over a red carpet for priority check-in, while all other customers wait in line and watch. This special reward gives the customer a sense of superior status relative to the other, “ordinary” customers, which is accompanied by an affirmative identity (Tajfel and Turner 1986) and favorable social comparisons (Festinger 1954) that reinforce high perceived status.

H1: Loyalty program rewards positively affect target customers’ (a) gratitude and (b) status.

We propose that the same loyalty programs that positively affect targets can have a negative effect on bystanders through two mechanisms: status and unfairness. A bystander who

observes another customer receiving a reward that he or she does not get might feel inferior in terms of status, due to unfavorable social comparisons (Festinger 1954). Imagine the bystander watching the gold status airline customer bypass the long check-in line. When loyalty programs use status benefits to provide special treatment and recognition to targets, they also reduce bystanders’ status, making them feel inferior (Drèze and Nunes 2009). Perceived unfairness also can be a threat to customer relationships and performance (Darke and Dahl 2003; Feinberg et al. 2002). According to equity theory (Adams 1963; Adams 1965), people compare their own input–outcome ratios against those of others (Henderson et al. 2011). When they think their ratios are worse, they feel unfairly treated and experience tension or anger. For example, when Starbucks baristas hand out free drink coupons to selected customers in line, neighboring bystanders may feel unfairly treated. Assuming that all customers are regular patrons who contributed the same input, bystanders may deem it unfair that others get free drinks. Even if customers acknowledge the fact that there may be “better customers” who contributed more input and therefore receive more outcome, i.e., there are fair procedures underlying reward distribution, they still might be bothered about differential customer treatment. The mere fact that some customers get more than others fosters perceptions of distributive unfairness, even if this judgment might not be accurate from a rational standpoint (Finkel 2000; Mayser and von Wangenheim 2013).

H2: Loyalty program rewards (a) negatively affect bystander customers' status and (b) positively affect bystander customers' unfairness.

#### Effects of comparison-based mediating mechanisms on performance outcomes

Feelings of gratitude spur an ingrained psychological pressure to behave reciprocally toward the giver of a benefit and thereby increase the giver's own performance (Palmatier et al. 2009). Bestowing a reward on customers should enhance their desire to give something back to the firm, resulting in gratitude-based reciprocal behaviors, i.e., changing their purchase behavior in the firm's favor (Dahl et al. 2005; Morales 2005). In addition, "the allure of status is profound" (Henderson et al. 2011, p. 259). Dwyer et al. (1987) cite status and social recognition as important relational longevity forces. People are naturally drawn to status-based systems and seek opportunities to demonstrate their own superior status (Heffetz and Frank 2011). Status rewards are effective in driving positive relationship outcomes (Drèze and Nunes 2011). Customers who receive preferred status within a loyalty program, such as by being assigned to an elevated customer tier in a hierarchical program, want to maintain their superior position, so they increase their patronage to exhibit their higher status and retain their level.

Alternatively, unfairness can act as relationship poison, seriously jeopardizing both the relationship and performance (Samaha et al. 2011). Unfairness can prompt customers to withdraw from a relationship and, in the worst case, try to punish the firm for its unfair behavior (Feinberg et al. 2002). Customers experiencing unfair treatment relative to others feel motivated to search for alternatives, in the hope of receiving more acceptable, equitable treatment or as a means of punishing the firm. By reducing their input into the relationship, customers seek to restore the input–outcome ratio balance.

H3: Customer gratitude positively affects customers' (a) attitudinal loyalty and (b) incremental sales.

H4: Customer status positively affects customers' (a) attitudinal loyalty and (b) incremental sales.

H5: Customer unfairness negatively affects customers' (a) attitudinal loyalty and (b) incremental sales.

#### Moderating effects of loyalty program delivery

Three key program delivery characteristics might moderate the effects of program rewards on target and bystander customers' gratitude, status, and unfairness: rule clarity, reward exclusivity, and reward visibility. These moderating factors are managerially relevant (i.e., under managers' control), and they provide contrasting tests of our theoretical linkages,

which increases confidence in the nomological validity of our model. In addition, each factor has differential effects on targets and bystanders, thus demonstrating the importance of accounting for the complete customer portfolio in any evaluations of loyalty program effectiveness. First, we argue that rule clarity diminishes the positive effect of a reward on target customers' gratitude. That is, targets react less positively and less gratefully to a reward when the rules are clear to them. When customers consciously meet the requirements, as openly communicated by the company, they feel entitled to the reward, because they deserve it and have worked for it (Palmatier et al. 2009). In line with attribution theory (Weiner 1985), they attribute the reward to themselves (i.e., internal attribution) rather than interpreting it as a benevolent act by the firm (i.e., external attribution). In contrast, if rules are unclear, customers are unsure about why they were selected to receive the reward. The reward comes as a positive surprise, with an opportunity for more positive attributions (Butori and De Bruyn 2013; Rust and Oliver 2000). Surprise triggers emotions for customers, because events that deviate from expectations elicit strong emotional responses (Meyer et al. 1997; Niepel et al. 1994). Compared with rule-based, contractual rewards, discretionary, non-contractual rewards then should create stronger feelings of gratitude.

Yet rule clarity also can help alleviate bystanders' unfairness perceptions. By communicating and enforcing a clear set of rules, the program increases perceptions of procedural fairness (Adams 1965), whereas bystanders observing other customers receiving rewards without an evident reason might perceive the company's action as highly unfair. For them, the allocation of rewards seems random, because they are not aware of the cause. If bystanders learned, through the firm's communications, that targets only received rewards because they worked to accumulate the requisite amount of points, these feelings of unfairness likely would diminish. Because the targets worked for the reward, their input–outcome ratios appear equivalent to those of bystanders who have neither worked for nor received a reward. In a similar vein, using clear rules, the company effectively shifts bystander customers' external attribution of not being treated preferentially to internal attribution (Weiner 1985). Instead of blaming the company, bystanders learn that their own behaviors are responsible for not being rewarded, which should abate feelings of unfairness.

H6: As rule clarity increases, the positive effect of loyalty program rewards (a) on target customers' gratitude and (b) on bystander customers' unfairness gets suppressed.

Second, we expect reward exclusivity to influence target customer gratitude and status, as well as bystander customer status and unfairness. Imagine the impression Nordstrom makes on target customers with its private, invitation-only shopping events, during which the retailer closes its stores to

the general public and treats invited customers to champagne and jazz music. Target customers should react with more gratitude when they realize that they are one of very few reward recipients, because gratitude results when a customer receives benevolence from a company (Palmatier et al. 2009). The more exclusive and limited the reward granted by the company, the greater its provided benevolence appears. Being selected to receive an exclusive reward makes a target customer experience a higher level of gratitude than does a situation in which he or she receives a reward that nearly every customer receives too (Barone and Roy 2010). The exclusivity of a reward also might increase the target customer's perception of status. Social comparisons can take place upward, laterally, or downward (Festinger 1954). Being rewarded as a target customer leads to favorable downward comparisons. The resulting feelings of superiority should be even more pronounced when lateral comparisons also appear advantageous, in the sense that few fellow customers receive the same treatment. The smaller the group of target customers, the more distinctive it is (Drèze and Nunes 2009). Thus, being part of a very select group allows a target customer to sense greater self-enhancement than would being one of many other reward recipients.

Beyond enhancing positive target customer effects, reward exclusivity can help alleviate negative bystander effects. From a bystander's perspective, seeing others being rewarded causes perceptions of inferiority, due to unfavorable upward comparisons (Festinger 1954). Yet the number of other customers at their same level, such that they receive the same treatment, likely is salient in this comparison. If a bystander engages in lateral comparisons and realizes that most customers are treated the same way, with only a few target customers, his or her perceptions of inferior status should diminish. Referring again to the Nordstrom events, the bystander feels "in good company" with many other bystanders (general public) and considers the very small, select group of target customers (private shoppers) a small minority. In contrast, if a bystander were to realize that he or she were one of just a few bystanders, whereas most customers received rewards, he or she would likely feel left out and inferior to those many others. The more people are ranked above oneself, the worse one feels (Collins 1996). Thus, being in good company as a bystander should alleviate the negative impact of loyalty programs on bystander status. Finally, bystanders' sense of unfairness might diminish in situations marked by high reward exclusivity. Being the minority bystander, when seemingly everyone is receiving preferential treatment (i.e., preferential treatment is non-exclusive), should prompt these customers to see the input–outcome ratio as highly inequitable, compared with the ratios of other customers, and thus provoke high unfairness perceptions. However, when reward exclusivity is high and few fellow target customers enjoy better input–outcome ratios, unfairness perceptions wane. The bystander realizes that most other customers have similar ratios of inputs to outcomes, which lessens feelings of unfairness.

H7: As reward exclusivity increases, the positive effect of loyalty program rewards on target customers' (a) gratitude and (b) status increase, while (c) the negative effect of loyalty program rewards on bystander customers' status and (d) the positive effect of loyalty program rewards on bystander customers' unfairness decrease.

Third, reward visibility, the salience of a target customer receiving a reward to bystander customers, affects the perception of status among both targets and bystanders. Status conferral can occur in two ways (Henderson et al. 2011): achievement recognized by socially accepted norms or esteem received directly from others (Van Prooijen et al. 2002). Thus, status can be attained in private, in public, or in some combination (Anderson et al. 2001). Consider a hierarchical loyalty program that stratifies customers into several tiers. A platinum customer might carry a platinum-colored card in his or her wallet (private) but also be invited to walk down a red carpet, in front of all other customers (public). In the first case, the target customer senses his or her elevated status, because the loyalty program's rules establish that platinum is the highest tier a customer can reach. In the second case, the firm makes a publicly visible statement about the customer's importance by conspicuously distinguishing him or her from other customers. The salience of this status conferral should enhance the target customer's status feelings.

From the bystander's perspective, publicly observing the "red carpet treatment" of a target customer may aggravate perceptions of inferiority. Thus a basic tier customer, with a blue-colored card in his or her wallet, is aware of his or her low status, because the program rules emphasize tiers above the basic level for "better" customers. Being demoted in public by having to wait in line while "better" customers pass by likely aggravates these feelings of inferior status (Henderson et al. 2011). A bystander also might perceive the loyalty program as more unfair when he or she receives explicit exposure to the rewards granted to targets. A customer might know that a firm treats its customers differently (e.g., from reading the loyalty program's rules), whereas he or she is not treated preferentially. Such a general consciousness of different treatments could evoke feelings of unfairness, but when this "discrimination" becomes salient, because the customer gets explicitly and visibly neglected in favor of a target, the unfairness perceptions become reinforced. The visibility of reward delivery thus enhances both positive and negative mechanisms linking rewards to performance, by making the underlying processes more salient to both target and bystander customers (Barone and Roy 2010; Feinberg et al. 2002).

H8: As reward visibility increases, (a) the positive effect of loyalty program rewards on target customers' status, (b) the negative effect of loyalty program rewards on bystander customers' status, and (c) the positive effect of loyalty program rewards on bystander customers' unfairness increase.

## Methodology

To test our conceptual model, we conducted three complementary studies (two lab experiments and a survey). As study contexts, we chose retail, hotels, and airlines. All three sectors rank among the top five U.S. loyalty program industries, accounting for 70% of total loyalty program memberships in the United States (Berry 2013). The programs in our studies parallel actual programs in these industries, increasing realism and managerial relevance. Consistent with our expanded perspective for analyzing loyalty program performance, our studies assess the *overall loyalty program customer portfolio*. The two experimental studies account for both the three *loyalty program comparisons* (gratitude, status, and unfairness) and *loyalty program delivery* (rule clarity, reward exclusivity, and reward visibility). Our survey replicates the effects of loyalty program comparisons in a real-life loyalty program context and provides a post hoc analysis of the *efficacy of multiple reward elements*.

### Experiments: Studies 1 and 2

**Research design and participants** To investigate the effect of loyalty programs on performance for both target and bystander customers and the moderating impacts of rule clarity, reward exclusivity, and reward visibility, we conducted two experimental studies, using parallel approaches. In each study, we employed a 2×2 between-subjects factorial design with a control group. Thus, we had four loyalty program treatment groups and one control group without any loyalty program. Within the treatment groups, we manipulated the customer type (target versus bystander) and one program delivery characteristic. Specifically, in Study 1, we manipulated the program's rule clarity (low versus high), whereas in Study 2, we manipulated its reward visibility (low versus high). In Study 1, we also measured perceived reward exclusivity in the program as another delivery characteristic. To isolate the effects of programs on targets from their effects on bystanders, the control group featured no loyalty program (see Wagner et al. 2009). This approach enables us to identify whether loyalty programs have effects due to both lifts in benefits (i.e., for targets) and drops in benefits (i.e., for bystanders).

For the data collection, we used Amazon's Mechanical Turk (MTurk). Compensation for respondents completing the questionnaire was \$.40. MTurk provides access to data whose quality is equivalent to that of data generated through traditional sampling approaches (Berinsky et al. 2012). In Study 1, 231 participants took part in the experiment. Their mean age was 36.2 years, 66.4% were women, and 57.6% had attained a college degree. Overall, 232 participants took part in Study 2. Participants had an average age of 30.5 years, 42.7% were women, and 50.5% were college educated. In both

studies, respondents were randomly assigned to one of the five groups.

**Procedure** Each participant received a short scenario and a questionnaire. The scenario described the participant's past relationship with the fictitious coffee shop CrownCoffee (Study 1) or the fictitious hotel BestResidence (Study 2). Next, participants in Study 1 were told to imagine that they stopped by CrownCoffee on their way to work to buy their coffee. In the loyalty program treatment groups, the scenario indicated that while they were waiting in line, participants noticed that some customers in front of them received a free pastry with their drink. The manipulation of customer type assigned participants to either the group of customers who also received a free pastry (targets) or not (bystanders). To manipulate rule clarity, we gave participants a reason for (not) being selected to receive the free pastry. In the low clarity groups, the description offered no reason; in the high clarity groups, participants read that they were (not) selected because their past purchase history met (did not meet) the reward guidelines published on the company's website. In the control group, the coffee shop did not operate a loyalty program, so no one received any reward. Thus, the control group remained unaware of any differential treatment; the bystander group realized that other customers received a reward. We detail these scenarios in the [Appendix](#).

Study 2 participants were told to envision staying overnight at a BestResidence hotel and entering the lobby to check in to their room. The treatment groups had two check-in counters in the lobby, a normal customer check-in counter, where customers must wait in line, and a premium customer check-in counter, where customers walked over a red carpet and checked in without any wait. We manipulated customer types by informing participants that they were entitled to use either the premium customer check-in counter (targets) or the check-in counter for normal customers (bystanders). We manipulated reward visibility by varying the salience of the preferential treatment.<sup>1</sup> In the low visibility groups, targets read that the lobby was empty when they were checking in, so no other customers were waiting at the normal check-in counter. For the bystanders, as they were waiting in line, they did not see any premium customers checking in. For the high visibility groups, the scenario for targets indicated that waiting customers watched them, and the scenario for bystanders revealed that they observed several

<sup>1</sup> For our experimental manipulation, we chose a type of reward of a loyalty program that is visible to customers (i.e., premium customer check-in over a red carpet in the lobby) and then varied the degree of visibility (low versus high) within the range of visibility. An alternative approach would be a manipulation where the reward is invisible in some experimental groups (e.g., welcome gift in the hotel room) versus visible in the other experimental groups. With our manipulation, our aim is to provide a more conservative test of the effects of reward visibility on both target and bystander customers beyond testing the two extreme cases of visibility versus invisibility.

premium customers checking in. For the control group, multiple, similar check-in counters were available.

**Manipulation and realism checks** The results of the manipulation check supported the effectiveness of our treatments. To test our customer type manipulation, we asked the participants in all groups to indicate whether they were treated preferentially, relative to other customers (Study 1:  $M_{\text{target}}=4.80$ ,  $SD=1.78$ ;  $M_{\text{bystander}}=2.78$ ,  $SD=1.53$ ;  $t=7.68$ ,  $p<.01$  and  $M_{\text{target}}=4.80$ ,  $SD=1.78$ ;  $M_{\text{control}}=3.50$ ,  $SD=1.73$ ;  $t=4.57$ ,  $p<.01$ ; Study 2:  $M_{\text{target}}=5.55$ ,  $SD=1.56$ ;  $M_{\text{bystander}}=2.92$ ,  $SD=1.37$ ;  $t=11.17$ ,  $p<.01$  and  $M_{\text{target}}=5.55$ ,  $SD=1.56$ ;  $M_{\text{control}}=3.66$ ,  $SD=1.45$ ;  $t=7.76$ ,  $p<.01$ ), and whether other customers were treated preferentially relative to themselves (Study 1:  $M_{\text{bystander}}=5.00$ ,  $SD=1.78$ ;  $M_{\text{target}}=3.44$ ,  $SD=1.82$ ;  $t=5.47$ ,  $p<.01$  and  $M_{\text{bystander}}=5.00$ ,  $SD=1.78$ ;  $M_{\text{control}}=2.85$ ,  $SD=1.41$ ;  $t=8.17$ ,  $p<.01$ ; Study 2:  $M_{\text{bystander}}=5.25$ ,  $SD=1.45$ ;  $M_{\text{target}}=2.58$ ,  $SD=1.45$ ;  $t=11.50$ ,  $p<.01$  and  $M_{\text{bystander}}=5.25$ ,  $SD=1.45$ ;  $M_{\text{control}}=3.03$ ,  $SD=1.31$ ;  $t=10.05$ ,  $p<.01$ ). As a measure of the success of our manipulation of rule clarity in Study 1, participants reported whether the rules by which CrownCoffee distributed rewards to certain customers were clear to them ( $M_{\text{low clarity}}=2.90$ ,  $SD=2.21$ ;  $M_{\text{high clarity}}=4.81$ ,  $SD=2.09$ ;  $t=5.59$ ,  $p<.01$ ). In the test of the program's reward visibility manipulation in Study 2, respondents rated whether the preferential treatment at the premium customer check-in counter was visible to others (i.e., as a target) or to them (i.e., as a bystander) ( $M_{\text{low visibility}}=5.45$ ,  $SD=1.79$ ;  $M_{\text{high visibility}}=6.45$ ,  $SD=1.08$ ;  $t=4.20$ ,  $p<.01$ ). The results of the realism checks for both studies indicated that respondents could envision themselves in the situations.

**Measures** We used established multi-item scales to measure customer gratitude, status, unfairness, and attitudinal loyalty. All items used seven-point Likert-type scales. We measured incremental sales by asking respondents to indicate their expected percentage change in spending with the focal firm over the next year. Despite its limitations, measuring behavioral intentions in fictitious scenarios represents a common approach in extant research (e.g., Garnefeld et al. 2013; Palmatier et al. 2009; Wagner et al. 2009). Rather than just relying on the actual percentage values, it also provides an assessment of sales change between target and bystander customers. To account for any additional effects and minimize alternative explanations, we included several control variables in the model: respondents' personal experience with loyalty programs and with retail/hotels, as well as customer value, because many programs offer some monetary benefit or time savings (Bolton et al. 2000; Woodruff 1997). In addition, in Study 1, we measured reward exclusivity by asking respondents to estimate the percentage of customers who received the same treatment they did. Operationalizing reward exclusivity using natural variance represents an additional

methodological approach to the investigation of reward delivery moderating variables. The construct measures, scale sources, and item loadings are in Table 2.

We conducted a confirmatory factor analysis (CFA) on the combined sample from Studies 1 and 2 to evaluate the psychometric properties of our multi-item constructs. The fit indices were acceptable ( $\chi^2_{(91)}=240.10$ ,  $p<.01$ ; comparative fit index [CFI]=.98; incremental fit index [IFI]=.98; root mean square error of approximation [RMSEA]=.06). The scales showed convergent validity, according to the factor loadings ( $\geq.71$ ), Cronbach's alphas ( $\geq.83$ ), and average variance extracted ( $AVE\geq.62$ ). In support of discriminant validity, the square root of the AVE for each construct exceeded all construct correlations (see Table 3). Applying multigroup CFA, as proposed in prior literature (Steenkamp and Baumgartner 1998), we tested for the measurement invariance of our model of multi-item constructs for the five experimental groups in Studies 1 and 2. For Study 1, measurement invariance received support, but in Study 2, measurement invariance was not supported for the complete model. Checking for measurement invariance on a construct-by-construct basis, we find that all constructs were invariant, except for customer unfairness. Yet, for consistency reasons and due to robust overall results, we kept the measurement model of customer unfairness the same across all three studies.

**Analysis and results** We assessed the conceptual model using partial least squares (PLS) and thus could analyze the overall nomological framework by simultaneously examining the complex, mediated relationships between target and bystander program participation and outcomes. To disentangle the effects of loyalty programs on target and bystander customers, we compared these two customer groups against our control group. We used dummy coding to dichotomize the three independent variable categories and defined the no loyalty program control group as our reference category (Henseler and Fassott 2010). Path coefficients represented the effect of receiving the reward (target customers) or observing target customers receive the reward (bystander customers), compared with customers in a firm with no loyalty program. Therefore, we isolated target and bystander reactions to participating or observing participation in a loyalty program.

The path coefficients in Table 4 show that the path between targets and gratitude was positive and significant in Study 1 ( $\beta=.40$ ,  $p<.01$ ) and Study 2 ( $\beta=.20$ ,  $p<.01$ ), in support of H1a. Being a target had a positive impact on status in Study 1 ( $\beta=.36$ ,  $p<.01$ ) and Study 2 ( $\beta=.36$ ,  $p<.01$ ), in support of H1b. In line with H2a, the path between bystander and status was negative and significant in both studies (Study 1:  $\beta=-.12$ ,  $p=.04$ ; Study 2:  $\beta=-.34$ ,  $p<.01$ ). The results from Study 1 ( $\beta=.43$ ,  $p<.01$ ) and Study 2 ( $\beta=.42$ ,  $p<.01$ ) indicated a positive impact of being a bystander on unfairness perceptions, in support of H2b. As we hypothesized in H3a and H3b,

**Table 2** Construct measures and item loadings

Construct Items (Scale Source)	Item Loading
Customer gratitude (adapted from Palmatier et al. 2009):	
I feel grateful to [Company].	.97/.97
I feel thankful to [Company].	.96/.96
I feel appreciative to [Company].	.94/.95
Customer status (adapted from Drèze and Nunes 2009):	
[Company] makes me feel privileged.	.91/.94
[Company] gives me a feeling of high status.	.76/.65
Relative to the other customers, I experience better treatment at [Company].	.91/.94
Customer unfairness (adapted from Samaha et al. 2011):	
The way [Company] treats me is unfair.	.94/.94
The way [Company] treats me is unjustified.	.91/.90
Given my behavior as a customer, [Company] treats me unfairly.	.84/.82
Given what [Company] earns from their sales to me, it treats me unfairly.	.94/.94
Customer attitudinal loyalty (adapted from Wagner et al. 2009):	
I will continue buying at [Company].	.88/.96
The next time I go to a coffee shop/need to book a hotel/need to book a flight, I will buy at [Company].	.96/.90
In the future, I will purchase at [Company].	.82/.92
Incremental sales:	
Based on the described situation, please estimate your % change (increase or decrease) in spending at [Company] within the next year. (percentage)	N.A.
I will increase my spending at [Company] by __% within the next year. OR	
I will decrease my spending at [Company] by __% within the next year. OR	
I will not change my spending at [Company] within the next year.	
Experience loyalty programs:	
How many reward program memberships (e.g., airlines, hotels, retail, grocery stores) do you have? (absolute number)	N.A.
Experience retail/hotels/airlines:	
On average, how many times do you go to a coffee shop per month/nights do you stay at a hotel (for private and professional purposes) per year/flights do you do (for private and professional purposes) per year? (absolute number)	N.A.
Customer value (adapted from Sirdeshmukh et al. 2002):	
[Company] helps me save money.	.71/.85
[Company] is a “good deal” for me.	.85/.93
[Company] provides me value.	.80/.94
Reward exclusivity (Study 1 only):	
Please estimate the percentage of all customers in the coffee shop that receive the same treatment as you. (percentage)	N.A.
Customer share of wallet (Study 3 only):	
Considering your total spending (in US\$) at airlines per year, what portion of this amount do you spend at [Company]? (percentage)	N.A.

N.A. = not applicable. All items were measured on a seven-point Likert-type scale ranging from 1=“strongly disagree” to 7=“strongly agree,” unless otherwise noted. Item loadings are reported as combined Study 1 and 2/Study 3

gratitude exerted a positive influence on both loyalty (Study 1:  $\beta = -.03$ ,  $p = .33$ ; Study 2:  $\beta = .16$ ,  $p = .03$ ) and incremental sales (Study 1:  $\beta = .21$ ,  $p < .01$ ; Study 2:  $\beta = .23$ ,  $p < .01$ ), though the former effect was non-significant in Study 1. In Study 1, status positively affected loyalty ( $\beta = .42$ ,  $p < .01$ ) and incremental sales ( $\beta = .07$ ,  $p = .10$ ), which supported H4a and H4b (marginally). For Study 2, we cannot confirm H4a though, because the path coefficient between status and loyalty was not significant ( $\beta = -.01$ ,  $p = .45$ ). Consistent with H4b, status positively affected incremental sales ( $\beta = .15$ ,

$p = .04$ ). Finally, in both studies, unfairness harmed loyalty (Study 1:  $\beta = -.27$ ,  $p < .01$ ; Study 2:  $\beta = -.42$ ,  $p < .01$ ) and incremental sales (Study 1:  $\beta = -.19$ ,  $p < .01$ ; Study 2:  $\beta = -.16$ ,  $p < .01$ ), in support of H5a and H5b in both studies.

To evaluate mediating effects, we estimated rival models for both Studies 1 and 2, in which we included direct paths from targets and bystanders to outcomes. Thus, we tested the indirect effects while controlling for the direct effects. Following Preacher and Hayes (2008), we bootstrapped the indirect effects to test for significance. All mediations that

**Table 3** Descriptive statistics and correlations

Construct	Study 1			Study 2		Study 3			Correlations				
	M	SD	AVE	M	SD	M	SD	AVE	1	2	3	4	5
1. Customer gratitude	4.39	1.60	.92	4.50	1.51	4.35	1.52	.92	.96/.97	.59**	-.47**	.70**	.44**
2. Customer status	4.13	1.55	.76	3.98	1.67	3.35	1.44	.73	.64**	.90/.87	-.15**	.47**	.33**
3. Customer unfairness	2.54	1.67	.84	2.41	1.55	2.52	1.53	.82	-.36**	-.29**	.96/.95	-.55**	-.35**
4. Customer attitudinal loyalty	5.82	1.23	.79	5.39	1.22	4.99	1.45	.86	.47**	.46**	-.51**	.93/.95	.50**
5. Incremental sales	3.42	23.01	N.A.	5.71	24.18	-2.27	28.45	N.A.	.43**	.37**	-.33**	.34**	N.A.

\*\**p*<.01

AVE=combined Study 1 and 2 average extracted variance; combined Study 1 and 2 (Study 3) correlations are reported below (above) the diagonal; Cronbach’s alphas are reported on the diagonal (combined Study 1 and 2/Study 3). N.A. = not applicable

**Table 4** Results: effects of loyalty programs on performance outcomes

Structural Path	Hypothesis (Direction)	Study 1: Retail		Study 2: Hotels		Study 3: Airlines	
		β	<i>t</i> -Value	β	<i>t</i> -Value	β	<i>t</i> -Value
<b>Hypothesized effects</b>							
Loyalty program target→customer gratitude	H1a (+)	.40**	7.50	.20**	3.17	.36**	6.36
Loyalty program target→customer status	H1b (+)	.36**	5.76	.36**	6.39	.46**	8.43
Loyalty program bystander→customer status	H2a (-)	-.12*	-1.79	-.34**	-5.59	-.10*	-1.76
Loyalty program bystander→customer unfairness	H2b (+)	.43**	7.27	.42**	7.47	.14*	1.90
Customer gratitude→customer attitudinal loyalty	H3a (+)	-.03	-.45	.16*	1.96	.34**	5.67
Customer gratitude→incremental sales	H3b (+)	.21**	3.23	.23**	2.90	.23**	3.51
Customer status→customer attitudinal loyalty	H4a (+)	.42**	6.52	-.01	-.12	.07*	1.65
Customer status→incremental sales	H4b (+)	.07†	1.29	.15*	1.74	.11*	1.98
Customer unfairness→customer attitudinal loyalty	H5a (-)	-.27**	-4.06	-.42**	-6.25	-.19**	-4.59
Customer unfairness→incremental sales	H5b (-)	-.19**	-2.91	-.16**	-2.75	-.16*	-2.03
<b>Controls</b>							
Experience loyalty programs→customer gratitude		.05	.84	.10*	1.82	.06	.86
Experience loyalty programs→customer status		.10*	1.97	.03	.81	-.04	-.67
Experience loyalty programs→customer unfairness		-.05	-.97	-.14**	-3.65	-.06	-1.08
Experience retail/hotels/airlines→customer gratitude		.07	.86	.02	.38	-.08	-.99
Experience retail/hotels/airlines→customer status		.02	.33	.02	.49	-.03	-.47
Experience retail/hotels/airlines→customer unfairness		-.01	.10	-.01	-.12	.17*	1.89
Customer value→customer attitudinal loyalty		.14*	2.13	.33**	3.90	.33**	6.47
Customer value→incremental sales		.13*	2.03	.10	1.22	.09†	1.34
Customer share of wallet→customer attitudinal loyalty						.17**	4.02
Customer share of wallet→incremental sales						.07	1.24
R <sup>2</sup> for customer gratitude		.17		.05		.13	
R <sup>2</sup> for customer status		.19		.36		.26	
R <sup>2</sup> for customer unfairness		.19		.20		.05	
R <sup>2</sup> for customer attitudinal loyalty		.41		.56		.73	
R <sup>2</sup> for incremental sales		.22		.26		.25	

† *p*<.10, \**p*<.05, \*\**p*<.01

β represents standardized path coefficient. Across all three studies, we used control groups and coding schemes to isolate the effects of loyalty programs on target and bystander customers. Thus, the path coefficients for the effect of loyalty program target (bystander) on customer gratitude and status (status and unfairness) can be interpreted as the differential effect of receiving a reward as a target customer (observing the target customer receive a reward as a bystander customer), compared with receiving nothing as a customer of a firm with no loyalty program

fulfilled the prerequisite of two significant direct paths (antecedent-to-mediator, mediator-to-outcome) were significant. We also found that the effect of being a target on incremental sales (Study 2) and the effects of being a bystander on loyalty (Study 1, 2) and on incremental sales (Study 1, 2) were fully mediated, while the other three effects were only partially mediated.

We conducted a series of analyses of variance as well as PLS analyses to investigate the moderating effect of program delivery characteristics. In Study 1, we assessed the moderating role of the program's rule clarity and reward exclusivity. In marginal support of H6a, gratitude among targets was significantly lower (marginal) in the high compared with the low clarity condition ( $M_{\text{target, high clarity}}=5.08$ ,  $SD=1.08$ ;  $M_{\text{target, low clarity}}=5.46$ ,  $SD=1.38$ ;  $F=1.93$ ,  $p=.08$ ). In line with H6b, bystander unfairness was significantly lower in the high clarity condition compared with the low clarity condition ( $M_{\text{bystander, high clarity}}=2.96$ ,  $SD=1.64$ ;  $M_{\text{bystander, low clarity}}=4.11$ ,  $SD=1.72$ ;  $F=9.22$ ,  $p<.01$ ).

We tested for moderating effects of reward exclusivity by applying the procedure suggested by Fitzsimons (2008) for analyzing continuous moderator variables using PLS. For targets, reward exclusivity did not exert significant positive effects on gratitude ( $\beta=-.08$ ,  $p=.31$ ) and status ( $\beta=.16$ ,  $p=.12$ ). Thus, we cannot support the target customer effects hypothesized in H7a and H7b. Yet for bystanders, reward exclusivity played a key role: Bystander status was significantly positively affected by reward exclusivity ( $\beta=.27$ ,  $p<.01$ ), whereas the higher reward exclusivity, the significantly lower was bystander unfairness ( $\beta=-.46$ ,  $p<.01$ ), in support of both H7c and H7d.

In Study 2, we also examined the moderating effects of the program's reward visibility. As we proposed in H8a, target customers' status in the high visibility condition was significantly higher than in the low condition ( $M_{\text{target, high visibility}}=5.59$ ,  $SD=1.09$ ;  $M_{\text{target, low visibility}}=4.90$ ,  $SD=1.52$ ;  $F=5.08$ ,  $p=.01$ ). For bystanders, status was lower in the high visibility than the low condition ( $M_{\text{bystander, high visibility}}=2.58$ ,  $SD=1.27$ ;  $M_{\text{bystander, low visibility}}=3.00$ ,  $SD=1.39$ ;  $F=1.96$ ,  $p=.08$ ). The effect was marginally significant, in marginal support of H8b. Consistent with H8c, bystander customers' unfairness perceptions were significantly higher in the high visibility condition ( $M_{\text{bystander, high visibility}}=3.92$ ,  $SD=1.77$ ;  $M_{\text{bystander, low visibility}}=2.73$ ,  $SD=1.63$ ;  $F=9.75$ ,  $p<.01$ ).

The results of our experimental studies thus reveal two important insights about program performance. First, the intended positive effects on targets get undermined by simultaneous, unintended negative effects on bystanders, mediated by gratitude, status, and unfairness. Second, the program's rule clarity decreases both positive target and negative bystander effects; reward exclusivity does not affect target effects but decreases negative bystander effects; and reward visibility simultaneously increases positive target and negative

bystander effects. These opposing effects generate considerable challenges for loyalty program designers.

### Survey: Study 3

Study 3 investigates our conceptual model in the context of real-life airline loyalty programs. The additional contribution of this approach is threefold: First, rather than testing the moderating effect of specific delivery characteristics, we include multiple reward elements (e.g., priority check-in, lounge access) in this study, which enables us to disentangle the differential and unique effects of specific rewards on targets and bystanders in a post hoc analysis, again underscoring complex trade-offs. Second, this alternative operationalization of targets and bystanders means that each customer can be a target for some rewards and a bystander for others, which is a more realistic scenario compared with our experimental approach. Third, replicating our model for real loyalty programs increases confidence in the validity and generalizability of our framework.

*Research design and participants* To analyze the effect of the loyalty program on targets and bystanders in a real-life setting, we conducted a survey of actual airline customers. Customers reported their experiences with an airline they used on a recent flight; to minimize recall bias, we required the respondents to have flown within the previous two weeks to qualify for the study. We recruited subjects through MTurk by offering \$.50 compensation. In total, 265 participants completed the survey. Their mean age was 30.9 years, 40.5% were women, and 60.8% had a college degree. On average, respondents' flight occurred 7.8 days before data collection.

*Procedure* We first asked respondents to provide some data about their recent flight. Next, a list of airline loyalty rewards appeared, including priority check-in, free checked bag, lounge access, priority boarding, and free services (e.g., beverages, food). These rewards were identified from a review of existing airline loyalty programs. For each reward, respondents indicated if (1) they received this benefit themselves (target) or (2) they saw other customers receive this benefit while they did not receive it (bystander). Selecting neither choice meant that a specific reward element was not received or observed by the respondent.

*Measures* With this study, we allowed a customer to be a target for one or several reward elements in a program and a bystander for one or several other reward elements in the same program. Following the guidelines for index construction (Diamantopoulos and Winklhofer 2001), we operationalized loyalty program targets and bystanders as formative constructs. For each of the five reward benefits measured, respondents indicated whether they received that benefit (coded as 1) or not (coded as 0). These five dimensions jointly formed the target

customer measure. In addition, participants stated for each reward benefit whether, instead of themselves receiving the benefit, they saw other customers receive it (coded as 1) or not (coded as 0). Again, these five dimensions additively formed the bystander construct. According to this coding scheme, for each single reward, a customer can be classified as a target, a bystander, or none. After respondents had filled in our list of airline loyalty rewards, they were asked to indicate their level of gratitude, status, unfairness, and loyalty towards the airline company as well as their incremental sales based on this recent flight experience. All measures matched those in Studies 1 and 2 (see Table 2), except that we also measured customer share of wallet at the focal airline, to control for long-term relationship effects.

We assessed the psychometric properties of constructs in Study 3 by conducting a CFA. The indices indicated acceptable fit ( $\chi^2_{(91)}=199.78$ ,  $p<.01$ ; CFI=.98; IFI=.98; RMSEA=.07). The factor loadings ( $\geq.65$ ), Cronbach's alphas ( $\geq.87$ ), and AVE ( $\geq.73$ ) indicated convergent validity. In support of discriminant validity, the square root of the AVE for each construct was greater than all construct correlations. Descriptive statistics and correlations are reported in Table 3.

*Analysis and results* We used PLS to estimate our model and report the results in Table 4. Similar to our previous studies, our coding approach allowed the path coefficients to be interpreted as the effect of receiving the reward (targets) or observing target customers receiving the reward (bystanders), compared with customers who neither received nor observed a reward being received (i.e., no loyalty program effects). In support of H1a, we found a positive, significant relationship between targets and gratitude ( $\beta=.36$ ,  $p<.01$ ). Status was positively affected by being a target ( $\beta=.46$ ,  $p<.01$ ), in support of H1b. As suggested by H2a, a negative and significant path emerged between bystanders and status ( $\beta=-.10$ ,  $p=.03$ ). Being a bystander also exerted a positive influence on unfairness ( $\beta=.14$ ,  $p=.02$ ), in support of H2b. Gratitude had a positive impact on both loyalty and incremental sales ( $\beta=.34$ ,  $p<.01$ ;  $\beta=.23$ ,  $p<.01$ ), offering support for H3a and H3b. Consistent with H4a and H4b, status positively affected loyalty ( $\beta=.07$ ,  $p=.05$ ) and incremental sales ( $\beta=.11$ ,  $p=.03$ ). We also noted support for H5a and H5b, because unfairness negatively affected loyalty ( $\beta=-.19$ ,  $p<.01$ ) and incremental sales ( $\beta=-.16$ ,  $p=.02$ ).

Following the same approach used for Studies 1 and 2, we evaluated the indirect effects of targets and bystanders on both outcomes mediated by gratitude, status, and unfairness. Of the eight indirect paths tested, all but the three related to customer status were significant. As a post hoc test, we assessed these three non-significant indirect paths in a separate model with only status as a mediator, paralleling and replicating what had been done in extant research (e.g., Drèze and Nunes 2009). We found that the indirect paths were significant in these tests. Comparing the results across our three studies and our post hoc analysis suggests that in our “holistic” conceptual model integrating three

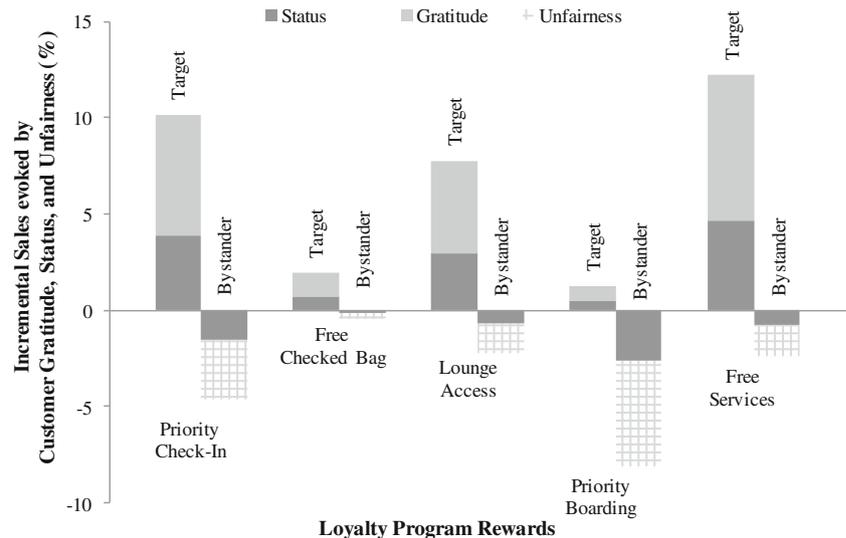
simultaneous mediators, the dominant mediating mechanism depends on the specifics of the loyalty program/context. Across the range of studies, every indirect path in our conceptual model is significant in at least one model, but the most critical path varies across loyalty programs. For example, in Study 1, the target's indirect effect on sales was mostly mediated by gratitude (88% of the total effects), whereas status (12%) was relatively less important. The results were nearly the opposite for Study 2, where gratitude (35%) was less important than status (64%). Finally, our mediation analysis showed that though the effect of targets on incremental sales was partially mediated, all the other effects were fully mediated.

In line with suggestions of Podsakoff et al. (2003), we tested for common method bias in our sample. We account for the amount of common method variance in our indicator variables by adding a common method factor to our model. Following the procedure proposed by Liang et al. (2007), we compared the variances of each observed indicator explained by its substantive construct and the method factor, respectively. While we find the average substantively explained variance to be 59.5%, the average method-based variance only accounts for 2.7%. Thus, the results demonstrate a ratio of substantive variance to method variance of about 22:1, which leads us to conclude that common method bias represents no substantial concern for our sample.

Study 3 reveals multiple insights about loyalty program performance. First, the consistent results from this survey, linking target and bystander participation to performance outcomes through gratitude, status, and unfairness, increase confidence in our conceptual framework. Second, Study 3 shows that the framework holds even when customers receive and watch others receive multiple reward elements contemporaneously, which suggests net program effectiveness is the sum of the effects of multiple reward elements in a program, operating through parallel mechanisms (target gratitude, target and bystander status, bystander unfairness).

*Reward element analysis* According to Study 3, in a typical airline program with five reward elements, overall program performance equaled the sum of 20 individual effects. Given this complexity, managers may want to evaluate programs at the reward element level, to avoid aggregation bias and decompose potentially opposing effects. To provide some insights into the impact of specific rewards, we conducted a reward element analysis to isolate the total effect of each reward on incremental sales and identify the contributions of target and bystander customers and the three simultaneous comparison mechanisms. Specifically, to reveal a reward's total effect on sales performance for each loyalty-influencing mechanism, we multiplied the reward's formative indicator weight by the respective structural path coefficients for customer gratitude, status, or unfairness, as well as by the structural path coefficients for that mediator's impact on incremental sales. Thus, the resulting total effect of receiving or watching others receive a reward on incremental

**Fig. 2** Reward element analysis: incremental sales for different program rewards (Study 3). Notes: For each of the five reward elements in Study 3, the left (right) stacked bar shows the total effect of that reward on the target (bystander) customer's incremental sales. The different shading identifies the contribution to the total effect from customer gratitude (light gray), status (dark gray), and unfairness (crosshatched)



sales represented the sum of the effects through the three mechanisms. The reward element analysis of the five rewards in Study 3 produced the graph we depict in Fig. 2.

Comparing the total effects of multiple airline loyalty program rewards on target and bystander customers' incremental sales, through gratitude, status, and unfairness, we found an interesting pattern of results that managers could use to design or improve their loyalty programs. For example, consider the two stacked bars for the "priority boarding" reward. It slightly enhanced a target's incremental sales by fostering gratitude (light gray bar) and status (dark gray bar) (.75%+.46%=1.21%). But observing target customers receiving priority boarding upset bystanders, by lowering their status (dark gray bar) and raising unfairness (crosshatched bar), reducing incremental sales (-2.61%+-5.47%=-8.08%). To combine target and bystander effects into a net total effect, linking a reward to incremental sales for the overall customer portfolio, we need the average number of bystanders and targets for that reward, as well as base sales levels for both types of customers. Assuming a 4:1 ratio of bystanders to targets (Brierley 2012) and an average target sales level of 16 times the level provided by bystanders (Koch 2005),<sup>2</sup> we calculate that the reward element's net effect is to reduce next year's sales by nearly 1% (1.21%-8.08%×4 bystanders×1/16 of average target sales=-.81%). Managers thus should investigate ways

to suppress the negative effects on bystanders, especially those involving unfairness (e.g., increase rule clarity, "100,000 milers board now"). In contrast, the "free services" reward element strongly enhances targets' gratitude and status and thereby increases incremental sales (7.54%+4.65%=12.19%; controlling for value), with only a relatively small effect on bystanders' incremental sales through status and unfairness (-.76%+-1.59%=-2.35%). As a net effect, next year's sales would increase by about 12% (12.19%-2.35%×4 bystanders×1/16 of average target sales=11.60%). In this case, we find bystander effects to be negligible.

The overall results, across the five reward elements, suggest that providing visible rewards to target customers at the expense of bystanders (making them wait while others get services) might be a dangerous strategy. The strong negative effects generated among bystanders overwhelm the relatively smaller positive effects from targets, resulting in an overall negative net effect for this widely used reward element (e.g., priority check-in, priority boarding) on portfolio sales. It is not visibility driving these effects; "free services" also are visible and offer an effective program. Rather, offering benefits *at the expense of other customers* or using zero sum rewards is the problem. The large variations in Fig. 2 provide managers with actionable insights regarding the most effective rewards and the underlying composition of the net effects. Across the three mechanisms, our results suggest that for target customers, gratitude accounts for 62% of the incremental sales effects, and status makes up 38%. For bystanders, status constitutes 32%, and unfairness accounts for 68% of the incremental sales effect. Thus, it appears as if *gratitude and unfairness represent the twin pillars of loyalty program effectiveness*.

We acknowledge several limitations of this analysis (use of survey data on reward elements aggregated over several different airline loyalty programs and assumptions instead of relying on a specific firm's CRM data) and suggest caution

<sup>2</sup> Our assumptions are based on the 80/20 rule discussed in the literature (Brierley 2012; Koch 2005). The 80/20 rule, also referred to as the Pareto Principle (Drèze and Nunes 2009), suggests that 80% of a company's sales are produced by 20% of customers, whereas 80% of customers produce 20% of sales. First, we assume a company rewards its top 20% of customers, resulting in a 4:1 ratio of bystanders to targets. Second, we use the rule to establish a factor of the average sales difference between target and bystander customers as follows:  $\frac{80\%}{20\%} / \frac{20\%}{80\%} = 16$ . Thus, we assume that a typical target makes 16 times the sales of a typical bystander. With these two assumptions, we explicitly account for the fact that target customers are more valuable than bystander customers (i.e., higher customer lifetime value).

when generalizing these specific empirical results. Rather than focusing on specific numbers, our aim is to offer an overall framework for evaluating loyalty program effectiveness. Managers should use their own data and adapt this approach based on their specific context. A reward element analysis provides insights into the effects of specific reward elements on both targets and bystanders, which allow managers to make effective reward design decisions, such as eliminating poorly performing rewards (e.g., due to small positive target or large negative bystander effects), changing the delivery of an existing reward (e.g., to suppress a negative bystander effect), or adding a reward to leverage an unexploited loyalty mechanism (e.g., adding a gift to generate gratitude-based reciprocity). From a theoretical viewpoint, our reward element analysis provides extended insights on the moderating role of loyalty program delivery characteristics above and beyond Studies 1 and 2.

## Conclusion and implications

Loyalty programs continue to spread, despite their poor, and poorly understood, performance. We have sought to enhance understanding of loyalty program effectiveness by expanding the evaluative framework and accounting for the effects on both target and bystander customers, the simultaneous effects of three different performance-relevant mediating mechanisms (gratitude, status, unfairness), and the contingent effects of program delivery (rule clarity, reward exclusivity, reward visibility) on specific linkages. We review our results by offering implications for theory and practice.

### Implications for theory and practice

This study has several theoretical implications. First, the negative effects of rewards on bystanders in some situations suggest the need for more theoretical and empirical work focused on understanding the “dark side” of loyalty programs. The systematic study of unintended and potentially negative effects of customer relationship management initiatives in general and loyalty programs in particular represents a major imperative for advancing relationship marketing. More effort is needed to understand how this model can be adapted to include dynamic or lifecycle effects. Homburg et al. (2008) find no negative effects of customer prioritization on relationships with bottom-tier customers, which contrast with our findings and suggest the need for research to disentangle these mixed results. While bottom-tier customers in the study of Homburg et al. (2008) are not explicitly aware of their bottom-tier status, i.e., do not necessarily observe other customers being treated better, our study reveals that “bystanding” (i.e., explicitly observing) others’ preferential treatment does indeed damage customer relationships with these bystanders.

Second, we obtained strong support, across three studies, for our prediction that targets and bystanders engage in three relevant comparisons, which manifests in three psychological mediating mechanisms (gratitude, status, and unfairness) that simultaneously explain the positive and negative effects of programs on performance among target and bystander customers. Loyalty research that focuses on a single theoretical mechanism may be misspecifying the reward–performance linkage. Our findings suggest that multiple psychological mechanisms coexist in customers’ minds. Comparisons represent the unifying theoretical underpinning for customer responses to loyalty programs, yet our research indicates that comparisons take multiple forms (i.e., with reciprocity norms, with others, and of input–outcome ratios) and spur differential psychological processes. We find that gratitude and unfairness exert stronger performance effects than status. Research should also look at moderating factors in the “back end” of our conceptual model to determine the relative power of the three mechanisms.

Third, our research underscores that what matters is not only *what* a company does but *how* it does it. Loyalty programs are typically subject to multiple contingencies. We theoretically and empirically delineate how program delivery moderates the effect of loyalty rewards on each comparison mechanism differentially. Studies neglecting the contingency of the reward–performance link on companies’ delivery decisions may thus derive misleading conclusions.

Managers can benefit from our insights in multiple ways. First, our more expansive portfolio perspective highlights firms’ need to account for bystander effects rather than just evaluating the benefits to targets, as is typical (Barone and Roy 2010). Incorporating bystanders into loyalty program analyses should help managers better identify their programs’ current weaknesses, which might severely hinder performance.

Second, considering the need to evaluate the entire target and bystander customer portfolio, managers must be aware of the multiple processes that loyalty programs are likely to spur in customers’ minds. Simultaneously, gratitude, status, and unfairness serve as rich sources of customer insights and deserve greater attention in customer relationship evaluations. These psychological concepts go far beyond mere rational value considerations by customers. Managers should understand the psychology of loyalty programs, evaluating their programs on the basis of their ability to stimulate gratitude and status among targets while still preventing status demotion or unfairness perceptions among bystanders.

Third, a main vehicle for managers to influence loyalty programs’ effectiveness is reward delivery. Table 5 delineates the interplay of our three studied reward delivery characteristics. The analysis yields complex, often opposing, effects of different delivery profiles on target and bystander customers. We can see that while target customer gratitude and status are only influenced by rule clarity and reward visibility, respectively, bystander customer status is

**Table 5** Combined effects of different loyalty program delivery configurations

Customer Type	Comparison Mechanism	Rule Clarity (Study 1)		Reward Exclusivity (Study 1)		Reward Visibility (Study 2)		Ideal Delivery Profile
		High	Low	High	Low	High	Low	
Target	Customer gratitude	↓	↑	○	○	○	○	Low rule clarity
	Customer status	○	○	○	○	↑	↓	High reward visibility
Bystander	Customer status	○	○	↑	↓	↓	↑	High reward exclusivity and low reward visibility
	Customer unfairness	↓	↑	↓	↑	↑	↓	High rule clarity, high reward exclusivity, and low reward visibility

↑ increase, ↓ decrease, ○ no impact

affected by both reward exclusivity and visibility. All delivery characteristics affect bystander unfairness. A key insight arising from the investigation of the interplay of rule clarity, reward exclusivity, and reward visibility is that there is no perfect design of a loyalty program reward. All combinations of reward delivery options have conflicting effects, featuring at least one beneficial effect for one customer group while at the same time being detrimental for the other customer group. An ideal delivery profile for target customers is a reward featuring low rule clarity and high visibility (increases targets' gratitude and status), but this profile performs worse when it comes to negative bystander effects (decreases bystanders' status and increases bystanders' unfairness). In turn, a delivery profile effectively conciliating bystanders, i.e. raising their status and reducing their unfairness perceptions, would be a target customer reward being based on clear rules, highly exclusive, and low in visibility. Managers can consult this matrix to assign and assess their current program rewards and to design new ones.

Many program characteristics have complex effects, confronting managers with difficult trade-off decisions. For example, unclear program rules (e.g., when ACCOR hotels' desk managers offer surprising, discretionary privileges to selected guests) raise both the effects on targets' gratitude and bystanders' unfairness. Thus, managers should make sure to explicitly communicate the rules for differential customer treatment to bystanders while offering surprising program elements for targets. Highly visible rewards (e.g., KLM uses large glass doors for its Crown Lounges, making the facility's appealing interior and the superior target customer treatment inside very salient) increase loyalty programs' effect on targets' status but also on bystanders' status and unfairness. The visibility of rewards and its effects on customers have been a topic of high relevance in recent research (e.g., Butori and De Bruyn 2013; Jiang et al. 2013). Managers might try to use visibility as a temporary tool, letting target customers enjoy high visibility on selected occasions while not continuously exposing bystanders to their non-preferential treatment.

Insights from the reward element analysis suggest that companies should conduct audits of the individual reward elements that constitute their programs to isolate the benefits and costs of each element.

#### Limitations and further research

We found support for our overall conceptual model across two research formats and three industry contexts, but further research should determine if these results differ in other industries. While not without limitations (i.e., measuring incremental sales for fictitious companies, potential overlap between reward delivery manipulations), the use of scenarios with fictitious companies enabled us to establish results of high internal validity, whereas surveying customers about their airline loyalty programs added first evidence of external validity. Future research should further examine our conceptual model using firm's CRM data and accounting for customers' ongoing relationship stage. Investigating the model in different cultures also might yield interesting insights, because perceptions of gratitude, status, and unfairness vary with cultural norms.

An additional potential bystander response to loyalty programs that requires deeper understanding is customer goal motivation. Extant research by Van de Ven et al. (2009) suggests a motivational effect of observing targets for bystanders. Thus, there might be a positive effect on bystanders, in that they confront what is possible for them to attain in their customer relationships, which could stimulate their behavioral loyalty.<sup>3</sup>

<sup>3</sup> We included customer goal motivation as an additional mediator in our conceptual model. Yet we found the effect of loyalty program bystander on customer goal motivation to be non-significant. Hence, bystander customers do not seem to be motivated by seeing others being rewarded in a single interaction with the other mediating mechanisms in the model (in our contexts). Due to this non-significant result, we omit the goal motivation mechanism from our model. We are aware that other studies focusing only on goal motivation have found effects (Foster 1972; Frank 1999), so future research needs to investigate when goal motivation may need to be included as an additional mediation path.

Other design characteristics of loyalty program delivery deserve attention. For example, customer characteristics, such as the customer's relationship strength, lifecycle stage, or perceived importance to the firm, might emphasize or diminish target and bystander effects and thereby facilitate managers' targeting decisions when designing loyalty programs (Meyer-Waarden and Benavent 2009).

**Acknowledgment** The authors thank the Marketing Science Institute (MSI) for their support of this research.

## Appendix

### Scenario descriptions

#### Scenario 1: Retail

---

##### Target Customer/Low Rule Clarity

You are a customer of the international coffee shop chain CrownCoffee.

You have regularly patronized CrownCoffee in the past and have always been satisfied. Today, on your way to work, you go to CrownCoffee to buy your coffee.

While you wait in line, you notice that some customers in front of you receive a free pastry with their drink. When you walk up to the counter to order your drink, you are also offered a free pastry. You have no idea of why you were selected. You buy your favorite coffee and choose a free pastry. As usual, other customers are able to buy pastries with their drinks for an additional charge.

After you paid, you get back in your car to go to work.

##### Target Customer/High Rule Clarity

You are a customer of the international coffee shop chain CrownCoffee.

You have regularly patronized CrownCoffee in the past and have always been satisfied. Today, on your way to work, you go to CrownCoffee to buy your coffee.

While you wait in line, you notice that some customers in front of you receive a free pastry with their drink. When you walk up to the counter to order your drink, you are also offered a free pastry. You know you were selected because your past purchase history meets CrownCoffee's reward guidelines, which are published on the company's website. You buy your favorite coffee and choose a free pastry. As usual, other customers are able to buy pastries with their drinks for an additional charge.

After you paid, you get back in your car to go to work.

##### Bystander Customer/Low Rule Clarity

You are a customer of the international coffee shop chain CrownCoffee.

You have regularly patronized CrownCoffee in the past and have always been satisfied. Today, on your way to work, you go to CrownCoffee to buy your coffee.

While you wait in line, you notice that some customers in front of you receive a free pastry with their drink. However, when you walk up to the counter to order your drink, you are not offered a free pastry. You have no idea of why you were not selected. You buy your favorite coffee. As usual, you are able to buy pastries with your drink for an additional charge.

After you paid, you get back in your car to go to work.

##### Bystander Customer/High Rule Clarity

You are a customer of the international coffee shop chain CrownCoffee.

You have regularly patronized CrownCoffee in the past and have

(continued)

always been satisfied. Today, on your way to work, you go to CrownCoffee to buy your coffee.

While you wait in line, you notice that some customers in front of you receive a free pastry with their drink. However, when you walk up to the counter to order your drink, you are not offered a free pastry. You know you were not selected because your past purchase history does not meet CrownCoffee's reward guidelines, which are published on the company's website. You buy your favorite coffee. As usual, you are able to buy pastries with your drink for an additional charge.

After you paid, you get back in your car to go to work.

##### No Loyalty Program (Control Group)

You are a customer of the international coffee shop chain CrownCoffee.

You have regularly patronized CrownCoffee in the past and have always been satisfied. Today, on your way to work, you go to CrownCoffee to buy your coffee.

While you wait in line, you do not notice any special promotional discounts or reward program offerings. You walk up to the counter to order your drink. You buy your favorite coffee. As usual, you are able to buy pastries with your drink for an additional charge.

After you paid, you get back in your car to go to work.

---

#### Scenario 2: Hotels

---

##### Target Customer/Low Reward Visibility

You are a customer of the international hotel chain BestResidence. You have regularly patronized BestResidence in the past and have always been satisfied. Today, you arrive at a BestResidence hotel for another overnight stay.

When you enter the lobby, there are two check-in counters: a normal customer check-in counter where customers need to wait in line and a premium customer check-in counter where customers walk over a red carpet and check in without any waiting time. You check in at the premium customer check-in counter. While you walk over the red carpet and check in quickly, the lobby is empty; no customers are waiting at the normal customer check-in counter.

You receive your key from the friendly receptionist and go to your room, which meets your expectations.

You are a customer of the international hotel chain BestResidence. You have regularly patronized BestResidence in the past and have always been satisfied. Today, you arrive at a BestResidence hotel for another overnight stay.

When you enter the lobby, there are two check-in counters: a normal customer check-in counter where customers need to wait in line and a premium customer check-in counter where customers walk over a red carpet and check in without any waiting time. You check in at the premium customer check-in counter. While you walk over the red carpet and check in quickly, the lobby is crowded; a lot of customers are waiting at the normal customer check-in counter, watching as you check in.

You receive your key from the friendly receptionist and go to your room, which meets your expectations.

##### Bystander Customer/Low Reward Visibility

You are a customer of the international hotel chain BestResidence. You have regularly patronized BestResidence in the past and have always been satisfied. Today, you arrive at a BestResidence hotel for another overnight stay.

When you enter the lobby, there are two check-in counters: a normal customer check-in counter where customers need to wait in line and a premium customer check-in counter where customers walk over a red carpet and check in without any waiting time. You check in at the

#### Target Customer/Low Reward Visibility

normal customer check-in counter. As usual, you wait in line. While you wait, you do not see a premium customer walk over the red carpet and check in quickly.

You receive your key from the friendly receptionist and go to your room, which meets your expectations.

#### Bystander Customer/High Reward Visibility

You are a customer of the international hotel chain BestResidence. You have regularly patronized BestResidence in the past and have always been satisfied. Today, you arrive at a BestResidence hotel for another overnight stay.

When you enter the lobby, there are two check-in counters: a normal customer check-in counter where customers need to wait in line and a premium customer check-in counter where customers walk over a red carpet and check in without any waiting time. You check in at the normal customer check-in counter. As usual, you wait in line. While you wait, you see several premium customers walk over the red carpet and check in quickly.

You receive your key from the friendly receptionist and go to your room, which meets your expectations.

#### No Loyalty Program (Control Group)

You are a customer of the international hotel chain BestResidence. You have regularly patronized BestResidence in the past and have always been satisfied. Today, you arrive at a BestResidence hotel for another overnight stay.

When you enter the lobby, there are several check-in counters. You go over to one of the check-in counters. As usual, you wait in line.

You receive your key from the friendly receptionist and go to your room, which meets your expectations.

## References

- Adams, J. S. (1963). Toward an understanding of inequity. *Journal of Abnormal and Social Psychology*, 67(5), 422–436.
- Adams, J. S. (1965). Inequity in social exchange. In L. Berkowitz (Ed.), *Advances in experimental social psychology* (Vol. 2, pp. 267–299). New York: Academic.
- Allison, M. (2010). Starbucks discontinues duetto visa card, another blow for some loyalists. *The Seattle Times*, (February 11). Retrieved January 21, 2013 from [http://seattletimes.nwsourc.com/html/coffeecity/2011050289\\_starbucks\\_discontinues\\_duetto.html](http://seattletimes.nwsourc.com/html/coffeecity/2011050289_starbucks_discontinues_duetto.html).
- Anderson, C., John, O., Keltner, D., & Kring, A. (2001). Who attains social status? Effects of personality and physical attractiveness in social groups. *Journal of Personality and Social Psychology*, 81(1), 116–132.
- Barone, M. J., & Roy, T. (2010). Does exclusivity always pay off? Exclusive price promotions and consumer response. *Journal of Marketing*, 74(2), 121–132.
- Berinsky, A. J., Huber, G. A., & Lenz, G. S. (2012). Evaluating online labor markets for experimental research: Amazon.com's Mechanical Turk. *Political Analysis*, 20(3), 351–368.
- Berry, J. (2013). *Bulking up: The 2013 COLLOQUY loyalty census – Growth and trends in U.S. loyalty program activity. COLLOQUYtalk* (Vol. June, pp. 1–13). Cincinnati: LoyaltyOne/COLLOQUY.
- Bolton, R. N., Kannan, R. K., & Bramlett, M. D. (2000). Implications of loyalty program membership and service experiences for customer retention and value. *Journal of the Academy of Marketing Science*, 28(1), 95–108.
- Brierley, H. (2012). Why loyalty programs alienate great customers. *Harvard Business Review*, (July–August). Retrieved January 21, 2013 from <http://hbr.org/2012/07/why-loyalty-programs-alienate-great-customers>.
- Butori, R., & De Bruyn, A. (2013). So you want to delight your customers: The perils of ignoring heterogeneity in customer evaluations of discretionary preferential treatments. *International Journal of Research in Marketing*, 30(4), 358–367.
- Carrell, M. R., & Dittrich, J. E. (1978). Equity theory: The recent literature, methodological considerations, and new directions. *The Academy of Management Review*, 3(2), 202–210.
- Cialdini, R. B. (2009). *Influence: Science and practice* (5th ed.). Boston: Pearson.
- Collins, R. L. (1996). For better or worse: The impact of upward social comparison on self-evaluations. *Psychological Bulletin*, 119(1), 51–69.
- Dahl, D. W., Honea, H., & Manchanda, R. V. (2005). Three Rs of interpersonal consumer guilt: Relationship, reciprocity, reparation. *Journal of Consumer Psychology*, 15(4), 307–315.
- Darke, P. R., & Dahl, D. W. (2003). Fairness and discounts: The subjective value of a bargain. *Journal of Consumer Psychology*, 13(3), 328–338.
- Daryanto, A., de Ruyter, K., Wetzels, M., & Patterson, P. G. (2010). Service firms and customer loyalty programs: a regulatory fit perspective of reward preferences in a health club setting. *Journal of the Academy of Marketing Science*, 38(5), 604–616.
- Dawson, S. (1988). Four motivations for charitable giving: Implications for marketing strategy to attract monetary donations for medical research. *Journal of Health Care Marketing*, 8(June), 31–37.
- Diamantopoulos, A., & Winklhofer, H. M. (2001). Index construction with formative indicators: An alternative to scale development. *Journal of Marketing Research*, 38(May), 269–277.
- Diener, E. (1984). Subjective well-being. *Psychological Bulletin*, 95(3), 542–575.
- Drèze, X., & Nunes, J. C. (2009). Feeling superior: The impact of loyalty program structure on consumers' perceptions of status. *Journal of Consumer Research*, 35(6), 890–905.
- Drèze, X., & Nunes, J. C. (2011). Recurring goals and learning: The impact of successful reward attainment on purchase behavior. *Journal of Marketing Research*, 48(2), 268–281.
- Dwyer, F. R., Schurr, P. H., & Oh, S. (1987). Developing buyer-seller relationships. *Journal of Marketing*, 51(2), 11–27.
- Emmons, R. A. (2004). The psychology of gratitude: An introduction. In R. A. Emmons & M. E. McCullough (Eds.), *The psychology of gratitude* (pp. 3–16). Oxford: Oxford University Press.
- Emmons, R. A., & McCullough, M. E. (2004). *The psychology of gratitude*. Oxford: Oxford University Press.
- Feinberg, F. M., Krishna, A., & Zhang, Z. J. (2002). Do we care what others get? A behaviorist approach to targeted promotions. *Journal of Marketing Research*, 39(3), 277–291.
- Festinger, L. (1954). A theory of social comparison processes. *Human Relations*, 7(2), 117–140.
- Finkel, N. J. (2000). But it's not fair! Commonsense notions of unfairness. *Psychology, Public Policy, and Law*, 6(4), 898–952.
- Fitzsimons, G. J. (2008). Death to dichotomizing. *Journal of Consumer Research*, 35(1), 5–8.
- Foster, G. M. (1972). The anatomy of envy: A study in symbolic behavior. *Current Anthropology*, 13, 165–202.
- Frank, R. H. (1999). *Luxury fever: Why money fails to satisfy in an era of excess*. New York: Free Press.
- Garnefeld, I., Eggert, A., Helm, S. V., & Tax, S. S. (2013). Growing existing customers' revenue streams through customer referral programs. *Journal of Marketing*, 77(4), 17–32.

- Gilbert, D. T., Giesler, R. B., & Morris, K. A. (1995). When comparisons arise. *Journal of Personality and Social Psychology*, 69(2), 227–236.
- Heffetz, O., & Frank, R. H. (2011). Preferences for status: Evidence and economic implications. In J. Benhabib, A. Bisin, & M. O. Jackson (Eds.), *Handbook of social economics* (Vol. 1A, pp. 69–91). San Diego: Elsevier.
- Henderson, C. M., Beck, J. T., & Palmatier, R. W. (2011). Review of the theoretical underpinnings of loyalty programs. *Journal of Consumer Psychology*, 21(3), 256–276.
- Henseler, J., & Fassott, G. (2010). Testing moderating effects in PLS path models: An illustration of available procedures. In V. Esposito Vinzi, W. W. Chin, J. Henseler, & H. Wang (Eds.), *Handbook of partial least squares – Concepts, methods and applications* (pp. 713–735). Berlin: Springer.
- Homburg, C., Droll, M., & Totzek, D. (2008). Customer prioritization: Does it pay off, and how should it be implemented? *Journal of Marketing*, 72(5), 110–130.
- Jiang, L., Hoegg, J., & Dahl, D. W. (2013). Consumer reaction to unearned preferential treatment. *Journal of Consumer Research*, 40(3), 412–427.
- Kivetz, R., & Simonson, I. (2003). The idiosyncratic fit heuristic: Effort advantage as a determinant of consumer response to loyalty programs. *Journal of Marketing Research*, 40(4), 454–467.
- Koch, R. (2005). *The breakthrough principle of 16x: Real simple innovation for 16 times better results*. Dallas: Pritchett, LP.
- Kumar, V., & Reinartz, W. J. (2006). *Customer relationship management: A databased approach*. Hoboken: Wiley.
- Lacey, R., Suh, J., & Morgan, R. M. (2007). Differential effects of preferential treatment levels on relational outcomes. *Journal of Service Research*, 9(3), 241–256.
- Leenheer, J., van Heerde, H. J., Bijmolt, T. H. A., & Smidts, A. (2007). Do loyalty programs really enhance behavioral loyalty? An empirical analysis accounting for self-selecting members. *International Journal of Research in Marketing*, 24(1), 31–47.
- Liang, H., Saraf, N., Hu, Q., & Xue, Y. (2007). Assimilation of enterprise systems: The effect of institutional pressures and the mediating role of top management. *MIS Quarterly*, 31(1), 58–87.
- Mayser, S., & von Wangenheim, F. (2013). Perceived fairness of differential customer treatment: Consumers' understanding of distributive justice really matters. *Journal of Service Research*, 16(1), 99–113.
- Meyer, W.-U., Reizenzein, R., & Schützwohl, A. (1997). Toward a process analysis of emotions: The case of surprise. *Motivation and Emotion*, 21(3), 251–274.
- Meyer-Waarden, L. (2007). The effects of loyalty programs on customer lifetime duration and share of wallet. *Journal of Retailing*, 83(2), 223–236.
- Meyer-Waarden, L., & Benavent, C. (2009). Grocery retail loyalty program effects: self-selection or purchase behavior change? *Journal of the Academy of Marketing Science*, 37(3), 345–358.
- Morales, A. C. (2005). Giving firms an “E” for effort: Consumer responses to high-effort firms. *Journal of Consumer Research*, 31(4), 806–812.
- Niepel, M., Rudolph, U., Schützwohl, A., & Meyer, W.-U. (1994). Temporal characteristics of the surprise reaction induced by schema-discrepant visual and auditory events. *Cognition and Emotion*, 8(5), 433–52.
- Nunes, J. C., & Drèze, X. (2006). Your loyalty program is betraying you. *Harvard Business Review*, 84(4), 124–131.
- Oliver, R. L. (1997). *Satisfaction: A behavioral perspective on the consumer*. New York: McGraw-Hill.
- Palmatier, R. W., Jarvis, C. B., Bechko, J. R., & Kardes, F. R. (2009). The role of customer gratitude in relationship marketing. *Journal of Marketing*, 73(5), 1–18.
- Podsakoff, P. M., MacKenzie, S. B., Lee, J.-Y., & Podsakoff, N. P. (2003). Common method biases in behavioral research: A critical review of the literature and recommended remedies. *Journal of Applied Psychology*, 88(5), 879–903.
- Preacher, K. J., & Hayes, A. F. (2008). Asymptotic and resampling strategies for assessing and comparing indirect effects in multiple mediator models. *Behavior Research Methods*, 40(3), 879–891.
- Rust, R. T., & Oliver, R. L. (2000). Should we delight the customer? *Journal of the Academy of Marketing Science*, 28(1), 86–94.
- Samaha, S. A., Palmatier, R. W., & Dant, R. P. (2011). Poisoning relationships: Perceived unfairness in channels of distribution. *Journal of Marketing*, 75(3), 99–117.
- Shugan, S. M. (2005). Brand loyalty programs: Are they shams? *Marketing Science*, 24(2), 185–193.
- Sirdeshmukh, D., Singh, J., & Sabol, B. (2002). Consumer trust, value, and loyalty in relational exchanges. *Journal of Marketing*, 66(1), 15–37.
- Steenkamp, J.-B. E. M., & Baumgartner, H. (1998). Assessing measurement invariance in cross-national consumer research. *Journal of Consumer Research*, 25(1), 78–107.
- Tajfel, H., & Turner, J. C. (1986). The social identity theory of intergroup behavior. In S. Worchel & W. G. Austin (Eds.), *Psychology of intergroup relations* (pp. 7–24). Chicago: Nelson-Hall.
- Utne, M. K., & Kidd, R. F. (1980). Equity and attribution. In G. Mikula (Ed.), *Justice and social interaction* (pp. 63–93). New York: Springer.
- Van de Ven, N., Zeelenberg, M., & Pieters, R. (2009). Leveling up and down: The experiences of benign and malicious envy. *Emotion*, 9(3), 419–429.
- Van Prooijen, J., Van den Bos, K., & Wilke, H. (2002). Procedural justice and status: Status salience as antecedent of procedural fairness effects. *Journal of Personality and Social Psychology*, 83(6), 1353–1361.
- Wagner, T., Hennig-Thurau, T., & Rudolph, T. (2009). Does customer demotion jeopardize loyalty? *Journal of Marketing*, 73(3), 69–85.
- Walster, E., Walster, G. W., & Berscheid, E. (1978). *Equity: Theory and research*. Boston: Allyn & Bacon, Inc.
- Weiner, B. (1985). An attributional theory of achievement motivation and emotion. *Psychological Review*, 92(4), 548–573.
- Woodruff, R. B. (1997). Customer value: The next source for competitive advantage. *Journal of the Academy of Marketing Science*, 25(2), 139–153.