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## Loyalty program structure and consumers' perceptions of status: Feeling special in a grocery store?



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### ABSTRACT

Loyalty programs are business practices increasingly pursued by companies in order to achieve customer loyalty. Recent studies have focused on the relationship between loyalty program structures (i.e., number and size of hierarchical tiers) and status levels (i.e., exclusivity) perceived by members. The current study examines two potential moderators of this relationship between program structure and perceived status. Specifically, the aim of our research was to test whether loyalty program structure affects status perceptions in more and less exclusive industries, and among consumers with more and less positive attitudes toward loyalty programs.

An experimental design based on different scenarios was used. Two industries and three loyalty program structures were examined. In the airline industry, which is higher in perceived exclusivity, perceived status in the top tier of the loyalty program increased as the number of customers in the top tier decreased and as the number of tiers increased. Notably, however, loyalty program structure had no effect on perceived status in the supermarket industry, which is lower in perceived exclusivity. Moreover, even in the airline industry, status effects were only observed among respondents with a positive attitude toward loyalty programs. Those with neutral or negative attitudes toward loyalty programs were unaffected by the structure of the loyalty program. Thus, the effect of loyalty program structure on consumers' perceived status varied systematically across industries and across individuals.

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### 1. Introduction

Many firms offer their customers a loyalty program (or rewards program), which is a marketing tool designed to build customer loyalty through a planned reward scheme, usually based on the customer's purchase history (Bolton et al., 2000; Uncles et al., 2003). For instance, American Airlines' frequent flyer program (AAdvantage) has more than 67 million members, who earn miles by purchasing flights and other related services and are then invited to redeem those miles for free flights, service upgrades, etc. (see Drèze and Nunes, 2004). The aim of such loyalty programs is to increase retention of a company's most valuable customers by delivering differential value to those customers (Bolton et al., 2000; O'Brien and Jones, 1995; Uncles et al., 2003). According to Kim et al. (2001), loyalty programs increase operational profits by avoiding price competition, and also increase brand loyalty by creating switching costs. A broader goal, encompassing the cognitive implications, is to generate a behavioral response and to increase trust by developing an emotional bond with the customer (Butscher, 2002).

One particularly important aspect of a loyalty program is its structure (Drèze and Nunes, 2008). That is, loyalty programs vary in the number and the size of their tiers, and this program structure affects customers' perceptions of exclusivity and status. For example, Drèze and Nunes (2008) found that members of the top tier of a loyalty program enjoyed greater perceived status when the top tier was small (5% of customers) than when it was larger (e.g., 10%), and when there were two lower tiers than when there was only one lower tier.

The aim of the present research was to examine whether the influence of loyalty program structure on customers' perceived status – as originally demonstrated by Drèze and Nunes (2008) – varies systematically across industries and individuals. More specifically, we tested whether the relationship between program structure and perceived status was moderated by the exclusivity of the industry and/or the prior attitude of the customer. If so, such findings would have important implications for marketers: Loyalty programs may be effective only in certain types of industries or only among certain types of customers.

### 2. Loyalty program structures and customers' perceived status

A common distinction among the benefits offered by loyalty programs is between hard benefits (rewards) and soft benefits

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(recognition) (Gaughan and Ferguson, 2005; Uddin, 2001). Hard benefits consist of tangible rewards such as prizes, discounts or rebates, which can be won primarily by frequently purchasing the company's products and services. Soft benefits, on the other hand, include special privileges such as restricted check-in counters, priority on waiting lists, and individually tailored communication. These soft benefits are designed to make customers feel special and give them a sense of elevated status. Indeed, the customer's perception of status is the main focus of our study.

The desire for social position, or simply "status", has been widely acknowledged as a powerful behavioral driver. Prominent economists (e.g. Duesenberry 1949; Veblen, 1967) and marketing scholars (e.g. Martineau, 1957) have long recognized the desire for status as a prime influence on consumers' decisions. The need for status has its roots in ancient society, in which every person had a "place" in the social hierarchy (Young et al., 2010). In current societies, consumption provides an important signal of one's social position and status (Eastman et al., 1999; Gabriel and Lang, 2006).

Interestingly, Drèze and Nunes (2008) interpret the consumer's need for status in terms of social comparison theory (Festinger, 1954), which refers to the self-evaluation people make when comparing themselves to others (Harnish and Bridges, 2006). More precisely, Festinger's theory explains that individuals have a continuous need to evaluate themselves, which constantly drives them to both "upward" and "downward" social comparisons. In fact, in the absence of objective information, people must rely on social comparisons to elicit personal evaluations. This, in turn, becomes a driver for belonging to certain groups or dissociating from others (cf. Harnish and Bridges, 2006). Regarding loyalty program structures (see below), downward comparisons seem to be especially relevant. In fact, according to the literature, individuals enhance their subjective well-being by comparing with persons or groups who are worse off than they are (Wills, 1981; Taylor et al., 1983). For instance, a "Platinum member" might compare himself with a "Silver member".

Indeed, loyalty programs create status by establishing a hierarchy among the company's customers. Hierarchies, or status structures, can be defined as "patterned inequalities" within a group of people (Ridgeway and Walker, 1995, p. 281). Thus, by establishing well-defined classes ("tiers") with different benefits based on spending levels, loyalty programs differentiate high-end from low-end customers. Some loyalty programs divide customers into two groups only (e.g., program members and non-members), whereas other programs feature more than two tiers (e.g., "gold", "silver", and "bronze" members, and non-members). Drèze and Nunes note how this is leading to "a whole new stratification of consumer society" (Brady, 2000).

Drèze and Nunes (2008) found that when customers in the top tier of a loyalty program look down, the hierarchical structure below them (i.e. the number of tiers below them) influences their perception of exclusivity. Furthermore, the size of a tier also influences its perceived exclusivity (see also Pickett et al., 2002). Essentially, being part of an exclusive tier enhances an individual's sense of status. Although these findings are important both theoretically and practically, there are also reasons to expect that loyalty program structure may differentially influence perceptions of status in different industries and among different individuals, as explained below.

### 2.1. Status across industries

The influence of loyalty program structure on perceived status is thought to stem from the perception of exclusivity: The exclusivity of a loyalty program fosters a feeling among its members that they are special customers (Drèze and Nunes, 2008). If this explanation is correct, then the perception of status should vary

across industries that are more or less exclusive. Different brands, products, and industries signal different social status among consumers. In fact, it is widely accepted that people make inferences about others on the basis of their possessions (Young et al., 2010). Charles et al. (2007) argue that status goods surface in highly visible categories in which greater expenditures are generally associated with higher income. For instance, most prior studies of loyalty programs have examined relatively exclusive industries like airlines and premium hotels. However, we hypothesize that perceptions of status related to loyalty programs may be moderated by the industry. For example, supermarkets tend to be less exclusive than airlines, so being in a supermarket loyalty program may have a different status effect (or no effect at all; see Mauri, 2003). In support of this hypothesis, Wang and Wallendorf (2006) found that consumers' satisfaction with a purchase was predicted by different factors, depending on whether the purchase signaled status (e.g., a car) or not (e.g., athletic shoes). Similarly, we predicted that the influence of loyalty program structure on consumers' perceived status will be moderated by the exclusivity of the industry.

**H1.** Whereas smaller tiers and more tiers will increase perceived status in exclusive industries (e.g., airlines; Drèze and Nunes, 2008), these effects will be reduced or eliminated in less exclusive industries (e.g., supermarkets).

### 2.2. Status across individuals

Another factor that may moderate the impact of loyalty program structure on perceptions of status is customers' attitude toward loyalty programs per se. Customers who are in the same tier of the same loyalty program can have different attitudes toward loyalty programs. For example, some people might be skeptical about loyalty programs, perceiving them as hidden costs. Accordingly, for these people we can expect marginal (or no) status effects related to loyalty program structure. On the other hand, some people might be especially excited about loyalty programs and rewards. These consumers might be more sensitive to loyalty program structures, with greater effects on status perceptions.

Indeed, several recent studies have shown that consumers' perceptions of loyalty programs differ systematically according to individual factors such as their satisfaction with the overall service experience (Bolton et al., 2000), their satisfaction with the rewards offered (Demoulin and Zidda, 2008), and their disposition to view rewards as gains or losses (Daryantoet al., 2010). Liu (2007) similarly found that loyalty programs have different long-term effects depending on customers' initial usage levels. Specifically, for consumers who were heavy users when they joined the program, no major change in their consuming behavior was noticed. On the other hand, light and moderate users were positively affected by a loyalty program. Thus, customers' individual attitudes appear to moderate perceptions of loyalty programs. We therefore predicted that the influence of a loyalty program structure on perceived status will be moderated by the consumer's prior attitude toward loyalty programs:

**H2.** Program structure will influence status among those who have a positive attitude toward loyalty programs, but these effects will be reduced or eliminated among those who have a negative attitude.

## 3. Research study

### 3.1. Identifying the product categories: pilot study

A pilot study was conducted to select product categories for the main study. The aim was to identify two industries where loyalty programs differ in exclusivity (see H1). Respondents were therefore

queried on a set of five industries (airlines, supermarkets, banks, fitness clubs and hotels). Using the “Perceived Exclusivity” scale (adapted from Drèze and Nunes (2008)), we asked respondents the degree to which a loyalty program associated with a particular product category affected their status and made them feel special and more exclusive. The perceptions were measured using a 9-point Likert scale. 57 undergraduate and graduate students, ranging from 20 to 28 years of age, were surveyed for the pilot study. The results are reported below.

Airlines is the industry where a loyalty program impacted most positively on respondents’ perceptions of exclusivity. Loyalty programs in supermarkets, on the other hand, were rated as the least exclusive. A paired *t*-test verified a significant difference between these two industries,  $t(55)=4.28, p < .001$ , so we selected airlines and supermarkets for our main study.

3.2. Main study—methodology

We used the methodology of Drèze and Nunes (2008). Accordingly, respondents were instructed to imagine that because of their repeated purchase behavior with a particular firm, this firm considered them top customers and awarded them with a Gold Card, which was given only to a specific percentage of customers. Respondents were informed of the hierarchical structure of the program (number of tiers and relative size of each tier), and were asked to imagine themselves at the top of the hierarchy (in all the scenarios). As in the original study, all respondents were presented a pyramid which illustrated their program structure, using a visual image to strengthen their understanding of the customer segmentation (Figs. 2–4).

Different scenarios were presented referring to two firms representing our two industries: airlines and supermarkets. Presentation order was counterbalanced between participants, so that half the sample judged the airline industry first and half judged the supermarket industry first.

The experiment had a 2 (industry, within-participants) × 3 (program structure, between-participants) mixed design, with the following loyalty program structures. Respondents in the 2-small program structure were told that because of their spending history, they were in the top 5% of the firm’s customers, so the firm decided to reward them with a loyalty gold card. The remaining 95% of the firm’s customers had no status. Respondents in the 2-large program structure were given a similar scenario

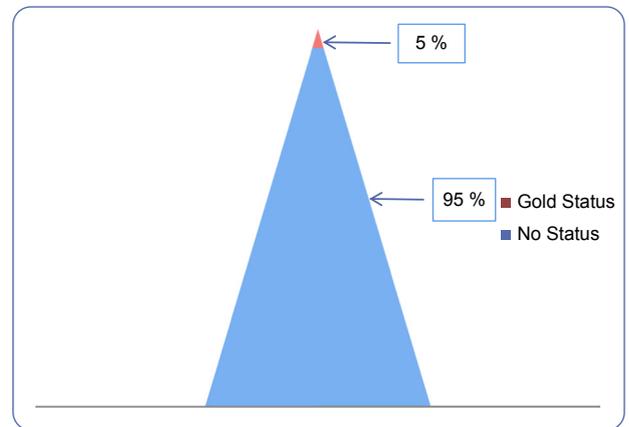


Fig. 2. 2-Small program structure: visual image.

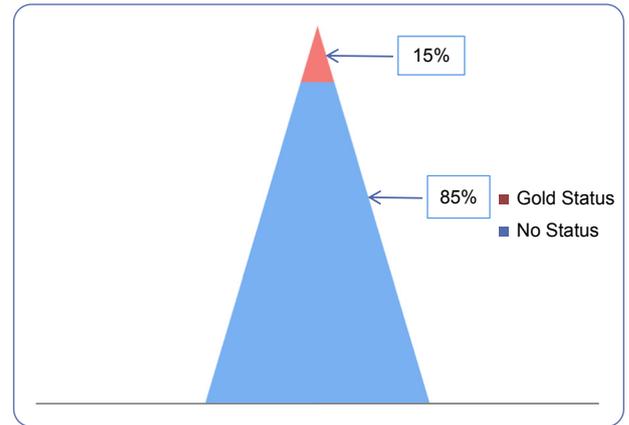


Fig. 3. 2-Large program structure: visual image.

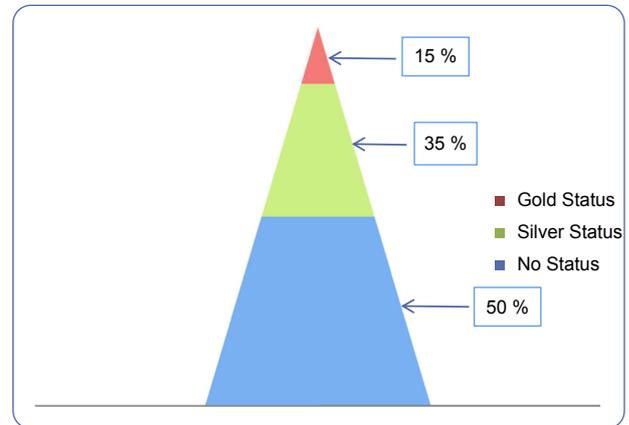


Fig. 4. 3-Large program structure: visual image.

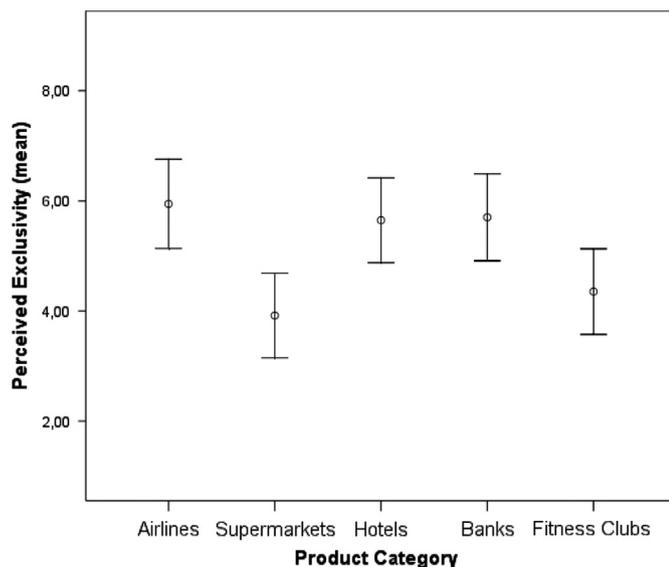


Fig. 1. Loyalty Programs’ perceived exclusivity in different product categories.

(two tiers), but instead of being in the top 5% they were in the top 15%, while the remaining 85% of customers had no status. Finally, respondents in the 3-large program structure were similarly informed that they were in the top 15% of customers, but a third tier was added to the program: A second 35% tier of customers were awarded a loyalty silver card, which offered smaller discounts than the gold card, and the remaining 50% of customers had no status.

Comparing the 2-small and 2-large program structures will test whether the size of the top tier influences customers’ perceptions of status, and comparing the 2-large and 3-large program structures will test whether the introduction of an additional tier

increases perceived status (Drèze and Nunes, 2008). The novel predictions are H1 and H2. H1 is tested by comparing the results for the two different industries across the three program structures, and H2 is tested by examining changes in status perceptions across respondents who have different attitudes toward loyalty programs in general.

### 3.3. Data collection and sample

154 respondents (mean age=37 years, ranging from 18 to 66; 77 females) were selected via quota sampling at a variety of locations in Europe over a wide range of days and times (see Erffmeyer et al., 1999). To maximize response rate and quality (e.g., De Leeuw, 1992; Yu and Cooper, 1983), data were collected via personal interviews.

After each scenario, perceptions of status were measured using a four-item scale (9-points, Likert-type), as in Drèze and Nunes (2008). Respondents were queried about: (1) how special and privileged the program made them feel, (2) the degree of status gained by participating in the program, (3) how difficult it would be for others to earn similar status, and (4) if they would expect any difference in service attention with respect to other non-status members.

Attitude towards loyalty programs was then measured via three items (9-points, Likert-type). Respondents rated: (1) how much they like loyalty programs, (2) how useful they think loyalty programs are, and (3) how sensible they think loyalty programs are.

### 3.4. Analyses and hypothesis testing

Preliminary analyses confirmed that the four items measuring perceptions of status were convergent (Cronbach  $\alpha=.82$  and  $.78$  for airlines and supermarkets, respectively), as were the three items measuring attitudes toward loyalty programs (Cronbach  $\alpha=.95$ ). We therefore created composite measures of *status* and *attitude* by averaging the items on those respective scales. Both status ( $M=5.29$ ,  $SD=1.59$ ,  $Range=1.00$  to  $9.00$ ,  $Skew=-.19$ ) and attitude ( $M=6.03$ ,  $SD=1.88$ ,  $Range=1.00$  to  $9.00$ ,  $Skew=-.67$ ) were normally distributed with good dispersion.

We tested for presentation order effects on status via 2 (industry: airline, supermarket; within-participants)  $\times$  2 (order: airline first, supermarket first; between-participants)  $\times$  3 (program structure; between-participants) ANOVA. Order had no significant effects or interactions on status (all  $p > .13$ ). We then tested for order effects on attitude via 2 (order)  $\times$  3 (program structure) ANOVA. Order had no significant effect or interaction on attitude (both  $p > .76$ ). Thus, presentation order had no effect on either status or attitude.

To test whether program structure affected perceived status, we first conducted a 2 (industry)  $\times$  3 (structure) ANOVA. A significant main effect of industry indicated that airlines were higher than supermarkets in perceived status,  $F(1, 151)=110.39$ ,  $p < .001$ . This effect essentially replicates the result of the pilot study, and further validates our manipulation of the perceived exclusivity of the two product categories. The main effect of program structure, in contrast, was nonsignificant ( $p=.18$ ). Most importantly, however, industry and structure interacted significantly,  $F(2, 151)=7.51$ ,  $p < .001$ . As illustrated in Fig. 5, the structure of the loyalty program affected the two industries differently. In fact, one-way ANOVAs conducted separately on the two industries revealed that program structure exerted a significant influence on the perceived status of the more exclusive industry of airlines,  $F(2, 151)=4.35$ ,  $p < .05$ , but exerted no influence on the status of the less exclusive industry of supermarkets,  $F(2, 151)=.64$ ,  $p=.53$ . This result supports H1.

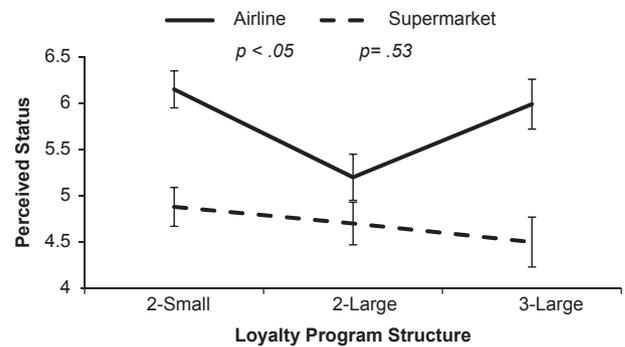


Fig. 5. Perceived status ( $M \pm SE$ ) across industries and program structures.

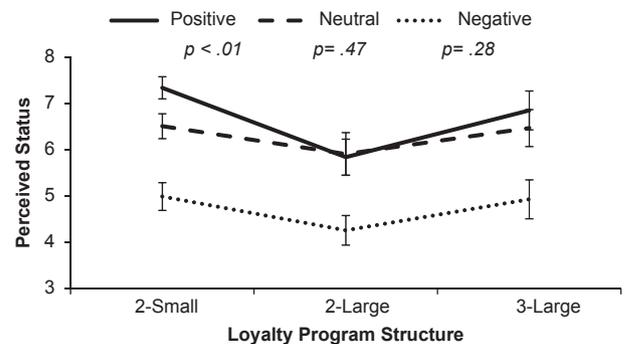


Fig. 6. Perceived status ( $M \pm SE$ ) in the airline industry among respondents with positive, neutral, and negative attitudes toward loyalty programs in general.

An independent *t*-test confirmed that in the airline category, perceived status was significantly higher in the 2-small structure than in the 2-large structure,  $t(112)=2.89$ ,  $p < .01$ . That is, a more exclusive top tier elicited higher perceived status. Perceived status in the airline category was also significantly higher in the 3-large structure than in the 2-large structure,  $t(81)=2.12$ ,  $p < .05$ . That is, being in the top of three tiers elicited higher perceived status than being in the top of two tiers, even though the size of that top tier was equivalent in the two structures. These results replicate Drèze and Nunes (2008), and thus validate the current sample and methods. Interestingly, perceived status in the airline industry was equally high in the 2-small and 3-large structures,  $p=.63$ .

Finally, we examined whether the respondent's attitude toward loyalty programs was associated with the perceived status of being in the top tier of a loyalty program. Indeed, attitude correlated positively with status in both the airline ( $r=.56$ ,  $p < .001$ ) and the supermarket industries ( $r=.51$ ,  $p < .001$ ): The more positive one's attitude toward loyalty programs in general, the higher the perceived status of being in the top tier of a loyalty program. Of course, the direction of causality is unclear from this association, but the strong positive correlation does support further analysis.

To test whether attitude toward loyalty programs moderated the influence of program structure on perceived status, we split the respondents into three groups of approximately equal size based on their attitude scores, thus creating positive, neutral, and negative attitude groups. We then conducted separate one-way ANOVAs on the perceived status in the airline industry (the supermarket industry was excluded because it showed no effect of structure in the preceding analyses) within each of the three attitude groups (see Fig. 6). Although all three groups showed similar qualitative patterns, the effect of program structure was only significant among the positive attitude group (solid line in Fig. 6),  $F(2, 44)=5.55$ ,  $p < .01$ . Program structure had no significant effect on the neutral or negative attitude groups, both  $p > .28$ . Thus, respondents' attitude toward loyalty programs did indeed

moderate the influence of program structure on perceived status. From Fig. 6 it appears that the conclusions of this and previous studies on program structures hold true especially for people who have a positive attitude toward loyalty programs, but not necessarily for those who do not. This moderation supports H2.

#### 4. Conclusions and implications

Status is commonly defined as the prestige, honor, or reputation attached to one's position in society. In this regard, companies create status by differentiating customers on the basis of their spending habits. This distinction is apparent in the increasingly common practice among companies of segregating customers according to well-defined classes (tiers). This practice helps companies identify which benefits (both tangible and intangible) to extend to customers based on their spending level and loyalty. Loyalty programs are the tool companies use to classify their customers. Companies recognize people's desire for status, and consequently design loyalty programs that play on this need. In this way, companies enable customers to exploit their status, by allowing them to enjoy particular benefits and premium service levels.

The trade-off every company faces is between how many customers are allowed in the top tier (and granted special service levels) and how special they will feel. Recent research addresses this issue, suggesting possible solutions in order to make more customers feel special without threatening the perception of status of the best customers. This study supports the finding that decreasing the size of the top tier and increasing the number of lower tiers both increase top consumers' perceived status (Drèze and Nunes, 2008); at the same time, however, our results point out the need to carefully consider the industry in which the company operates and the prior attitudes of its customers.

Indeed, the effects of number and size of tiers definitely hold true in a product category like airlines, which was pretested as an industry where having a loyalty program provides higher status signals per se. A higher status might be driven both by the relatively high price of the purchases as well as by the mental associations reflected by the product category image (e.g., travels, business, leisure, etc.) (cf. Keller, 1993). Analogous considerations, for example, would hold for the hotel industry (this is also consistent with Fig. 1). For all these cases, we confirm that perceived status, that is, the feelings of superiority that customers experience with respect to others, decreases as the number of customers in the top tier of the loyalty program increases. This means that, if companies want to enlarge the top tier by allowing more customers in, a reduction of the overall perception of status of top customers must be expected. Our study also confirms that companies can offset such a dilution in status perception, which occurs when enlarging the top tier, by adding an additional tier beneath the top one. In this way, companies can pursue their goal in expanding their top tiers, i.e. making more customers feel special, without decreasing their overall status perception. Again, this may be done by adding a new tier, which separates top customers from others (Drèze and Nunes, 2008).

However, these effects of program structure were not observed in an industry like supermarkets, where having a loyalty program provides lower status signals per se (Fig. 1). Again, a lower status for the industry might be driven both by economic considerations (affordability), as well as by the product category image, that is, by its mental associations. Where this is the case, loyalty programs can still play an important role in increasing repeat purchases and customers' share of wallet. But this can only be done through traditional incentive mechanisms, without the additional appeal of status enhancements, at least with regard to the solutions

suggested by the current literature and business practices. From this point of view, it might be interesting, in future research, to explore more creative solutions to increase status perceptions of loyalty programs in low status industries. Brand identity and self-brand connections, here, can probably play a distinctive role for status enhancements, more than loyalty program structure.

Finally, our research also examined whether the status effects tested in this and previous studies are homogeneous within the sample or if they are moderated by the overall customer attitude toward loyalty programs. In fact, we found that program structure affected perceived status particularly for customers with a positive attitude toward loyalty programs, and less so for customers with neutral or negative attitudes toward loyalty programs. For this reason, we suggest further research, using specific instruments, on customers who might be more skeptical of this marketing tool. As in the case of industries with low status associations, however, loyalty programs can still play an important role for skeptical customers, but only if these programs focus on rational incentive mechanisms (e.g., tangible rewards).

With regard to the limitations of our research, the program structures we tested represent only a small fraction of the structures which can be employed by companies. More complex loyalty programs with four, five or more tiers can be applied and the results explored. Second, as in the original study by Drèze and Nunes (2008), our research verifies the interaction between program structure and consumer perception of status, but it does not test if there is a relationship between status perception and loyalty towards the company (however defined). In addition, our research explores only two types of product categories (airlines and supermarkets), which we selected as two industries at opposite ends of the spectrum in terms of perceived status associated with loyalty program membership. However, while our results do demonstrate that previous findings are actually moderated by the industry in question, we cannot exclude that this effect may be driven by characteristics of the industry other than perceived status.

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