

# **Loyalty Programs Do Not Increase Purchase: A Critically Appraised Topic**

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### **Abstract**

Businesses with repeat customers often offer rewards programs to foster customer loyalty and engagement. Loyalty programs are designed to acquire and retain customers' loyalty and, depending on their complexity, can require a substantial investment of resources. Utilizing the Critically Appraised Topic (CAT) approach, this article aims to investigate the impact of loyalty programs on overall customer consumption. Despite their prevalence, the study suggests limited evidence supporting the efficacy of loyalty programs. The findings indicate that loyalty programs may not consistently yield positive changes in purchase behavior or lead to increased demand directly.

### **Keywords**

loyalty program, reward program, consumer behavior, customer loyalty,  
critically appraised topic

### **Research Question and PICOC**

Do loyalty programs increase purchases by existing customers?

***Table 1: PICOC***

P – Problem	Sophisticated loyalty programs require a significant investment, but the return is not guaranteed.
I – Intervention	Deployment of a loyalty program
C – Comparison	Consumer’s consumption before and after joining a loyalty program
O – Outcome	Product sales quantity
C – Context	Consumer behavior for B2C products and services

### **Background**

Businesses that have repeat customers often offer rewards to incentivize customer loyalty. The concept of modern loyalty programs was first recorded in 1793 when a merchant in Sudbury, New Hampshire, started rewarding customers with copper tokens (Kim, Steinhoff, & Palmatier, 2021; Nagle, 1971). However, the first full-scale loyalty program of the modern era is credited to American Airlines’ Frequent Flier program launched in 1981. This program offers loyal customers benefits such as exclusive fares, free upgrades, and other service discounts. Since then, many other airlines have followed suit, and now frequent “flyer” programs can be found across various industries (Kim et al., 2021).

Loyalty programs are designed to acquire and retain customers’ loyalty. The goals are to bond customers to a brand or its products and encourage them to return by providing various rewards, discounts, and special incentives. These rewards can include cashback, coupons, full

rebates, free shipping, free returns, and more. Once customers become loyal to a brand, it can be challenging for them to switch to a competitor due to the powerful force of brand loyalty.

Using the Critically Appraised Topic (CAT) approach, this topic article aims to explore the impact of loyalty programs on overall customer consumption. Specifically, it seeks to determine whether these programs deter customers from purchasing from competitors and encourage them to increase their overall consumption within a particular product category. For instance, does a casino's point system incentivize customers to play for extended periods or increase their frequency of visits? Similarly, does joining a bakery's reward club increase customer bread consumption?

The findings of this research will help marketers design more effective marketing strategies.

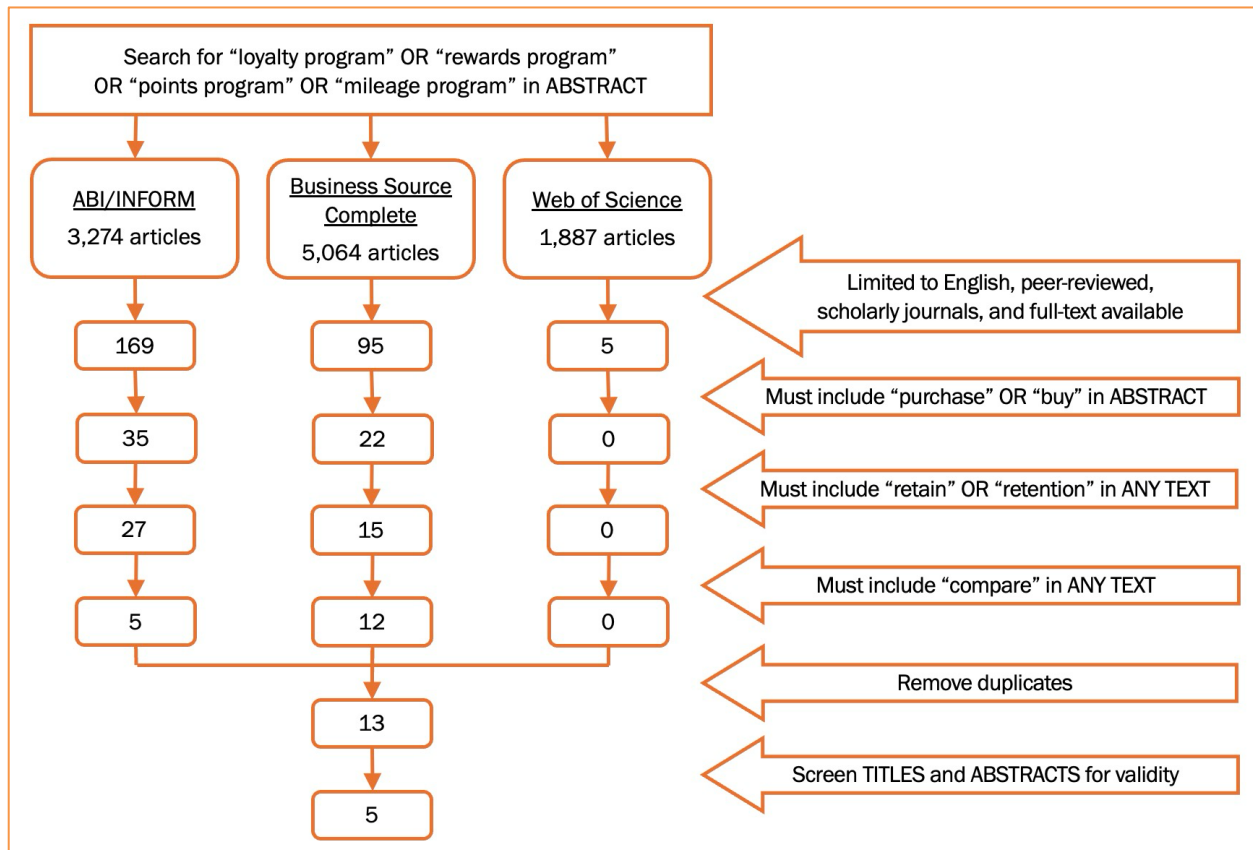
### **Search Strategy**

A systematic review was conducted on May 28, 2024, using three databases, ABI/INFORM Collection, Business Source Complete, and Web of Science, to find relevant studies in the literature. The initial search string used for the review was ("loyalty program" OR "rewards program" OR "points program" OR "mileage program") in the abstracts, which resulted in over 10,000 articles. After limiting articles to full-text available peer-reviewed scholarly journals written in English, the results were reduced to 269. The search was then limited to articles with "purchase" or "buy" in the abstracts, which led to 57 results. Further restricting the search to articles that included "retain" or "retention" in the any text resulted in 42 articles. Adding "compare" in any text to the search criteria yielded 17 results.

After removing four duplicates and manually screening the titles and abstracts for relevance, only five articles were deemed suitable. Figure 1 illustrates the search strategy and

outcomes, while Table 2 provides details of the chosen articles. Furthermore, Table 3 depicts the critical assessment of the overall validity of these five articles.

**Figure 1: Flow of Discovery**



**Table 2: Search Result**

1	Aoki, M. (2015). Consumer Loyalty Towards Locally Certified Low-Input Farm Products. <i>British Food Journal</i> , 117(9), 2300-2312.
2	Dowling, G. R., & Uncles, M. (1997). Do Customer Loyalty Programs Really Work? <i>Sloan Management Review</i> , 38, 71-82.
3	García Gómez, B., Gutiérrez Arranz, A., & Gutiérrez Cillán, J. (2006). The Role of Loyalty Programs in Behavioral and Affective Loyalty. <i>Journal of Consumer Marketing</i> , 23(7), 387-396.

4	Liu, Y. (2007). The Long-Term Impact of Loyalty Programs on Consumer Purchase Behavior and Loyalty. <i>Journal of Marketing</i> , 71(4), 19-35.
5	Meyer-Waarden, L., & Benavent, C. (2009). Grocery Retail Loyalty Program Effects: Self-Selection or Purchase Behavior Change? <i>Journal of the Academy of Marketing Science</i> , 37, 345-358.

**Table 3: Critical Evaluation of Overall Validity**

Study	Research Approach	Empirical Basis	Analysis Method	Overall Validity
(1) Aoki, 2015	Quantitative	Actual purchase data obtained from a practical study in Higashiosaka City, Japan, along with a questionnaire survey (n=1054)	Cluster analysis was conducted to segment respondent behavior, followed by utilizing the Tobit model for regression analysis to elucidate the characteristics and purchase behavior of repeat consumers	<b>High.</b> Sample size and methodology are robust. Research design is supported by multiple studies. Analysis is comprehensive and detailed.
(2) Dowling & Uncles, 1997	Research brief	Conceptual argument	Theoretical inference, including deductive, inductive and abductive reasoning	<b>Medium-high.</b> Arguments are supported by theories and cases. But it is not a systematic review.

Study	Research Approach	Empirical Basis	Analysis Method	Overall Validity
(3) García Gómez et al., 2006	Quantitative	Survey of 720 customers of a Spanish supermarket chain	Statistical inference and comparison between participants and non-participants of the chain's frequent shopper program	<b>High.</b> Questionnaire was designed after various research. Using reflective indicators, data is multidimensional.
(4) Liu, 2007	Quantitative, formal modeling	Longitudinal data from an American convenience store franchise's loyalty program	Statistical inference with three-level hierarchical linear modeling	<b>High.</b> Interpurchase time and transaction size is used to measure brand-switching behavior, with month as time unit.
(5) Meyer-Waarden & Benavent, 2009	Quantitative	451K purchase acts by 2,150 consumers in Angers, France over a 156-week period extracted from BehaviorScan panel of data	Various modeling approaches to access different areas: the hazard model, MANOVA, general linear model, and multivariate persistence modeling	<b>High.</b> Comprehensive data and rigorous methodology are major advantages. The analyses are in-depth and detailed.

## **Results & Analysis**

Despite their widespread usage, all five articles indicate little evidence to support the effectiveness of loyalty programs. In Study 2, Dowling and Uncles (1997) argue that loyalty programs do not necessarily lead to a positive change in purchase behavior or an increase in demand. They explain that loyalty to a brand is not the sole reason customers spend more on a particular product. Instead, it is the perceived value of the brand that drives loyalty.

Furthermore, the golden 80/20 rule suggests that 80% of a brand's revenue comes from the top 20% of customers. While retaining these high-spending customers is essential, the authors contend implementing a loyalty program does not guarantee their loyalty. They state that encouraging existing customers to make more purchases doesn't necessarily increase demand or market share. They also recommend brands consider expanding their distribution to other segments, locations, or channels, in which loyalty programs may be helpful.

The other four selected studies are empirical research to investigate the effectiveness of different loyalty programs. Study 1 examined the response of Japanese customers to a loyalty program introduced by the government to promote locally produced, low-input fresh food. The research found that customers were attracted to the food due to its safety and quality and their desire to support local farmers. The reward program did not influence the existing customers' behavioral or affective loyalty. However, it helped to reduce the cost of the products, which motivated lower-income households to buy, expanding the market and demand for locally produced low-input fresh food.

The findings of Study 3 also indicate that loyalty programs do not have the power to influence customers' purchasing behavior. The study conducted a survey of customers in seven stores of a supermarket chain in Spain and a comparison between the participants and non-



participants of their frequent shopper program. The results show that while loyalty programs help to strengthen the emotional connection between the participants and the brand, it does not necessarily increase their loyalty.

Based on longitudinal data obtained from a convenience store franchise in the U.S., Study 4 reveals that customers who were frequent buyers at the beginning of a loyalty program were more likely to redeem their qualified rewards. However, the program did not significantly influence their purchasing behavior. On the other hand, customers who initially had lower patronage levels gradually increased their purchases and became more loyal to the store. Additionally, the loyalty program encouraged customers to diversify their purchases and explore other service areas, increasing the profitability of participants through cross-selling.

Almost all participants in grocery retailers' loyalty programs are self-selected. Study 5 looks into its impact by analyzing the exhaustive recording of the purchase behavior of the households on the BehaviorScan panel in a small town in France. The study found that customers who tend to buy more or visit the store more often, enroll in the loyalty program earlier. They also usually live closer to the store, which enables them to earn benefits faster. These customers perceive greater value in the loyalty program, but there is no significant change in their purchase behavior, and their loyalty only changes slightly after joining the loyalty program for 6-9 months. The authors argue that heavy purchasers value a brand's loyalty program and its offers before joining the program. These customers are equally incentivized to purchase as members and to continue purchasing. Nevertheless, infrequent buyers seldom buy enough to qualify for rewards. Consequently, loyalty programs are unsuccessful in drawing in the most desirable customers, specifically heavy grocery purchasers at competing stores. This could be because loyal customers

who make larger purchases are more interested in rewards that accumulate over a more extended period.

Table 4 summarizes the findings and translations of the five selected research articles.

**Table 4: Key Findings and Translations**

Study	Finding 1: Loyalty Change	Finding 2: Existing Customers	Finding 3: New Customers
(1) Aoki, 2015	The loyalty program had no impact on customer loyalty. Regulars buy for quality and supporting farmers, regardless of loyalty program.	It is unlikely that consumers will make purchases or buy more just because of the loyalty program rewards.	The economic rewards motivated lower-income households to purchase the products, expanding overall demand.
(2) Dowling & Uncles, 1997	Loyalty programs are unlikely to significantly increase the proportion of loyal customers for a brand. Adding loyalty programs alone cannot increase brand loyalty.	Customers do not necessarily spend more based on loyalty, but rather on the better value a brand offers.	To increase a brand's market share, it is more effective to acquire new customers rather than encourage current customers to make more purchases, which is the purpose of loyalty programs.

Study	Finding 1: Loyalty Change	Finding 2: Existing Customers	Finding 3: New Customers
(3) García Gómez et al., 2006	The loyalty program was ineffective in increasing customer loyalty, but it reinforced the emotional connection between customers and the brand.	The loyalty program could not influence consumer purchasing behavior, but it retained loyal customers.	
(4) Liu, 2007	Loyalty programs can offer significant insights into customer behavior, which can be used to enhance relationship marketing strategies and foster greater loyalty.	The loyalty program failed to sway heavy buyers, but it broadened the brand's relationship with light buyers to other business areas.	The loyalty program encouraged customers to diversify their purchases and expand into other service areas.
(5) Meyer- Waarden & Benavent, 2009	The loyalty program did not make participants more loyal to the brand in the short run. Heavy users only slightly changed 6-9 months after joining loyalty program.	The loyalty program had only a weak effect on the repeat purchases of participants.	The loyalty program failed to attract the most desirable customers, the heavy purchasers of the competitors.

Study	Finding 1: Loyalty Change	Finding 2: Existing Customers	Finding 3: New Customers
Translation	Loyalty programs can retain customers who already show loyalty to a brand, but it is ineffective to increase their loyalty or change the affective behavior of non-loyal customers.	Loyalty programs cannot influence customers to purchase more, but it may encourage cross-selling, ultimately increasing profitability from participants.	Loyalty programs cannot attract heavy buyers from competitors, but the rewards may entice non-customers to try. Therefore, it can be an effective way to attract new buyers and enter a new market.

### **Conclusion**

Loyalty programs are so popular that it is surprising that all five selected studies do not support their effectiveness in increasing businesses. However, they all agree loyalty programs can retain customer loyalty. Some companies may have the program as a defense tool when their competitors have it, creating more loyalty programs and continuing the cycle.

The mixed impression of loyalty programs' benefits may be because all loyalty programs are not created equal. The design of the program ultimately affects its impact on customers' affective and behavioral loyalty. Even the same design would produce different results for target customers, brand recognition, product industries, and business setups.

### **Comments**

Despite analyzing only five articles, all of them have concluded that loyalty programs are ineffective in increasing sales. The purpose of conducting a CAT is to arrive at a straightforward

yes or no answer without requiring an extensive literature review. Therefore, the outcome of this CAT is satisfactory, and it is very likely to reflect the overall findings of the literature. Furthermore, the four empirical studies included in the analysis were conducted in different countries, namely the United States, France, Spain, and Japan. This enables the CAT to cover different cultures and their response to loyalty programs.

However, it's important to note that the data used in the four empirical studies are from supermarkets, food markets, and convenience stores, which primarily sell grocery and household items. This means that the samples are likely to be heavily skewed toward homemakers and women. Future studies should expand the scope to include a wider range of audiences, products, and stores, such as liquor, sports, toys, electronics, fashion, and department stores.

### **Recommendations**

Loyalty programs may not have a direct impact on business growth or customer loyalty. However, if implemented effectively, they can provide valuable data to personalize marketing efforts and build stronger customer relationships, which can lead to increased profits in the long run. It's important to note that loyalty programs can be expensive due to costs associated with program development, marketing, and administration. Therefore, before introducing a loyalty program, brands should thoroughly evaluate the program's costs and assess the short- and long-term benefits it can bring to the business.

According to the studies, loyalty program participants react differently to the program based on various factors such as their level of loyalty and attractiveness toward the program before joining, their motivation to join, the nature of the product, the value of the offer, their perception of the reward benefits, and its difficulty to attain. Therefore, brands should identify the goals of their loyalty programs and develop the program accordingly. It's crucial to involve the marketing,

customer service, and front-end employees in the design process, in addition to the technology. Continuous monitoring and adjustments to the program are necessary to achieve the best results.

Loyalty programs are not for all brands. There are some considerations:

- Does business accrue repeated purchases?
- Is the product a common commodity or specialized for a limited group of users?
- What is the brand's current market share and goal?
- What is the competition environment?
- Is the brand well-recognized and attractive?
- How loyal are the existing customers?
- How can a loyalty program enhance the overall value proposition?
- Will there be enough resources to develop, maintain and put the loyalty programs to best use?
- What is the potential impact a proper loyalty program can bring to the brand?

Lastly, while customer loyalty is essential, it is ultimately the value that a brand delivers that will keep customers returning for more. Therefore, brands should focus on improving the value of their products or services. By prioritizing quality, innovation, and customer satisfaction, brands can establish a strong reputation and build a loyal following.

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