

Current Trends and Future Research Implications and Directions of Customer Loyalty Programs

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Customer loyalty programs have influenced a huge impact on firms' customer relationship management strategies. Therefore, it is important for marketing managers to understand how loyalty programs increase customer loyalty and affect firms' profitability. In contrast to the importance of loyalty programs to firms and consumers, there is a lack of understanding and academic research on the effectiveness of loyalty programs. In addition, the research results about the effectiveness and profitability of the programs have suggested conflicting outcomes. To contribute to the resolution of these issues, this paper examines the concepts and related implications of loyalty programs, reviews and analyzes the previous studies to find areas related to future research, and proposes future research implications and directions for loyalty programs. Proposed future research directions are categorized in two main areas: achieving the reliability and validity of the research and expanding the research areas of loyalty programs.

| Key Words | customer loyalty, effectiveness of customer loyalty program, future research of loyalty program

I. Introduction

After American Airlines introduced 'AAdvantage' in 1981, customer loyalty programs have been widely implemented by various industries and companies, including airlines, retailers, banks, telecommunications, hotels, and so on. In the United States, there are more than 2,000 loyalty programs (Berman 2006), and, according to 'The 2009 Colloquy Loyalty Marketing Census', in 2009 Americans enrolled in 6.2 loyalty programs on average, amounting to approximately 1.8 billion memberships nationwide (Ferguson and Hlavinka 2009). In

Korea, various reward programs have been adopted and the number of loyalty programs is also continuously increasing. For example, OK Cashbag, a major mileage service in Korea, has a membership of 30 million which is approximately 64% of Korean's total population (<http://www.skmmc.co.kr>, SK Marketing & Company homepage).

Customer loyalty programs have firms' strategic importance because the programs require not only huge financial investment but also long-term commitment. Accordingly, it is important for marketing managers to understand how loyalty programs increase customer loyalty and affect a firm's profitability. However, there are

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mixed research results on the effectiveness of the programs and many areas that need to be investigated (Daams, Gelderman, and Schijns 2008; Kim, Lee, Bu, and Lee 2009).

Loyalty programs have more impact on the companies implementing them and their customers than any other marketing activity. Companies invest an enormous amount of their budget and long-term commitment to introduce and implement loyalty programs. The increase of loyalty programs reflects the growth of competition among firms, the expansion of consumer knowledge, the proliferation of customer relationship management, and the advance of information technology, enabling marketing activities at an individual customer level and accelerating diffusion of the programs in various industries (Lewis 2004). Accordingly, loyalty programs have become one of the most important components of customer relationship management strategies (Liu and Yang 2009), and companies can not only increase customer loyalty by compensating their loyal customers but also obtain abundant consumer data that can be used to acquire future customers.

In contrast to the importance of loyalty programs to firms and consumers, there is a lack of understanding and academic research on the effectiveness of loyalty programs. Though the number of research on loyalty programs has increased gradually in the 2000s, the amount of research published is limited and the research results about the effectiveness and profitability of the programs have suggested conflicting outcomes (Dreze and Nunes 2011; Liu and Yang 2009; Singh, Jain, and Krishnan 2008). Some researchers present the positive effects of the programs on profitability, but others doubt the value of the programs. For instance, Lewis (2004), Verhoef (2003) find a positive impact on consumer revisit and purchase decision making, but Dowling (2002)'s study proposes that loyalty programs do not increase customer loyalty and are not cost-efficient. Consequentially, there are continuous debates on the effectiveness of loyalty programs.

The purpose of this paper is to contribute to the resolution of the conflicting research results on the effectiveness of the programs and to enhance a better understanding of marketing managers who develop and implement loyalty programs practically. This paper is

composed of three parts. First, the concept and related implications of customer loyalty programs are presented to help in deepening understanding of loyalty programs. Second, previous studies are reviewed and analyzed to find areas related to future research. Third, future research implications and directions are proposed.

II. Understanding of Customer Loyalty Programs

2.1. Definition and Implications of Customer Loyalty Programs

Oliver (1999) defines consumer loyalty as a deeply held commitment to repurchase or repatronize a preferred product/service consistently in the future, and proposes that consumer loyalty can occur at four levels: cognitive, affective, conative, and behavioral. Loyal consumers buy the same brands even when situational factors or marketing efforts by competitors induce brand switching. There are two kinds of consumer loyalty: behavioral and attitudinal. Behavioral loyalty refers to repurchase patterns of a brand or product. Attitudinal loyalty creates emotions of product/service preference and affects attitude.

Loyalty programs are structured marketing efforts that compensate and accelerate loyal customer behaviors. Liu and Yang (2009) define loyalty programs as long-term oriented programs that allow consumers to accumulate some forms of program currency, which can be redeemed later for free rewards. Therefore, consumers can accumulate free rewards when they purchase certain companies' products or services repeatedly (Liu 2007). Yi and Jeon (2003) define loyalty programs as marketing programs that are designed to construct customer loyalty by providing profitable customers with incentives. Accordingly, loyalty programs are firms' marketing activities that promote and reward loyal behaviors, creating customer satisfaction and value (Bolton, Kannan, and Bramlett 2000), maintaining existing customers by imposing a high switching cost, and making customers accept premium prices (O'Brien and Jones 1995).

Loyalty programs generate values in the following two phases. The first phase is when program points are provided for customers at the time of purchase. Point accumulation raises customer expectations of positive future benefits, increasing exchange utility and the probability of maintaining relationships (Lemon, White, and Winer 2002). At the phase of point redemption, consumers gain psychological and economic benefits from loyalty programs, interpreting them as attractive value (Liu 2007). Loyalty programs make consumers move from myopic or single-period decision making to multiple-period decision making (Lewis 2004), and develop long-term relationships between firms and customers (Liu 2007). Therefore, loyalty programs are distinguished from short-term promotional programs that provide one-time immediate benefits aiming at a temporary change of sales volume, and firms can create long-term switching costs (Kim, Shi, and Srinivasan 2001; Lewis 2004; Zhang, Krishna, and Dhar 2000). Short-term promotional programs generate immediate costs and revenues, but long-term loyalty programs create long-term obligation and value (Leenheer and Bijmolt 2008; Yi and Jeon 2003; Zhang et al. 2000).

2.2. Categories and Considerations of Customer Loyalty Programs

A number of scholars suggest categories for loyalty programs. Suggesting how to develop effective loyalty programs, Berman (2006) classifies loyalty programs into four categories: Receiving an additional discount at the register, receiving one free unit for purchasing n units, receiving rebates or points based on cumulative purchases, and receiving targeted offers and mailings. He also proposes ten steps in developing, implementing, and controlling an effective loyalty program. When developing and implementing loyalty programs, marketing managers need to consider loyalty program categories, market saturation, consumer commitment, monetary benefits, and privacy issues. In order to develop effective loyalty programs, marketing managers also need to deliberate program characteristics, firm size, managerial commitment, firm resources, and product type (Berman 2006). Dowling

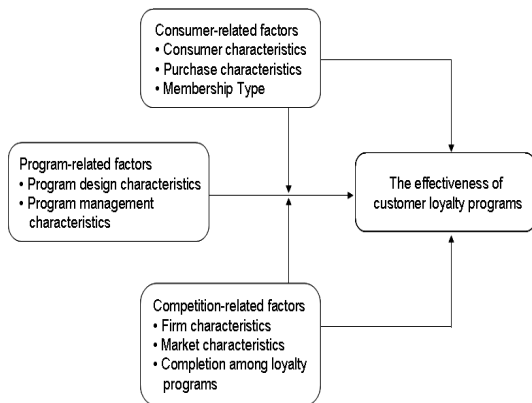
and Uncles (1997) categorize four loyalty programs according to the type of reward (direct/indirect) and the timing of reward (immediate/delayed): retailer/brand manufacturer promotions (price promotions), airline frequent-flyer clubs/coupons/tokens, competitions and lotteries (instant scratches), and multiproduct frequent-buyer clubs. They suggest that loyalty programs which directly support the products' value proposition fit more with the programs' objectives, having a high possibility of building loyalty.

Loyalty programs that have been implemented successfully provide such various benefits as high loyalty, low price sensitivity, and strong brand attitude (Bolton et al. 2000; Verhoef 2003), and the database of loyalty programs provides important information about customers and customer trends (Berman 2006). However, not every loyalty program is successful and many firms implement similar programs to those of competitors. Accordingly, firms should evaluate the appropriateness of their programs and continuously improve them. O'Brien and Jones (1995) suggest the necessary conditions of successful loyalty programs. First, value created from loyalty programs should exceed the cost of value delivered. Second, long-term perspective is important and loyalty programs should be developed to offer customers' long-term benefits. Third, the programs should target attractive customers. Well-designed programs capture valuable customer segments. Fourth, loyalty programs should fit with a firm's overall strategy and capabilities. Fifth, customers should feel the value of loyalty programs. From the viewpoint of customers, firms need to understand consumers' needs and determine a program's design. Lastly, firms should consider partnerships. The effects of alliances with partners should be evaluated to increase the value of loyalty programs.

III. Review of Previous Research on Customer Loyalty Programs

3.1. Factors Influencing the Effectiveness of Customer Loyalty Programs

The effectiveness of customer loyalty programs is affected by various factors, and Liu and Yang (2009) suggest three categories of factors: program-related, consumer-related, and competition-related factors. Based on their research and other previous studies, the factors influencing the effectiveness of customer loyalty program are presented in Figure 1. Program-related factors are related to the implementation strategies of the program providers and consumer-related and competition-related factors are concerned with the external environment of loyalty programs. These three factors affect the effectiveness of loyalty programs together. In addition, each of the factors has a direct impact on the effectiveness, and consumer-related and competition-related factors affect the effectiveness by creating moderating or interaction effects.



[Figure 1] Factors of Loyalty Program Effectiveness¹⁾

3.2. Research on Program-related Factors

Previous research on program-related factors is divided into that of program design and program management characteristics (Liu and Yang 2009), relating to effective program development and implementation. Research on

program design characteristics includes that of membership requirements, point structure, reward structure, contractual relationship, and customer type (B2C, B2B).

Membership requirements refer to a member's qualification and cost. Customers enroll in programs voluntary or automatically, for free or fee-based. O'Brien and Jones (1995) suggest that a member's convenience of enrollment affects the success of loyalty programs. Point structure refers to point issuance and ratio, point thresholds, point requirements, and point tiers (Liu and Yang 2009). O'Brien and Jones (1995) propose that if point thresholds are too high, consumers consider loyalty programs not relevant to them. Dreze and Nunes (2004) suggest mathematical evidence that explains conditions where combined-currency prices are superior to single-currency prices by lowering perceived cost. Van Osselaer, Alba, and Manchanda (2004) find that the methods of point accumulation provided with differential information (e.g., price) affect a consumer's program choice. Dreze and Nunes (2009) conclude that the number and size of a loyalty program's tiers affects consumer's status perception. In their research on hierarchical loyalty programs that provide exclusive benefits when exceeding specific expenditure levels, Wagner, Hennig-Thurau, and Rudolph (2009) find that the loyalty intent of demoted customer is lower than that of customers not having preferred status.

Reward structure relate to reward value, reward ratio, and rewards provided (Liu and Yang 2009). O'Brien and Jones (1995) propose that the variety of reward options, reward ratio, and a reward's aspirational value are related to the success of programs. Kivetz and Simonson (2002, 2003) find that program value and reward selection are affected by the effort levels required to receive rewards. Kivetz (2005), Roehm, Pullins, and Roehm (2002), and Yi and Jeon (2003) propose that brand-congruent rewards are more effective than brand-incongruent rewards, moderated by consumer involvement. Kivetz, Urminsky, and Zheng (2006) empirically demonstrate the goal-gradient hypothesis that a consumer makes more effort when approach ing reward goals. Dreze and Nunes (2011) find that the

1) Referred and modified from the study of Liu and Yang (2009).

successful achievement of reward goals increases the effort to achieve future reward goals in the same program.

The relationships between customers and the firms providing loyalty programs are divided into contractual or non-contractual (Reinartz and Kumar 2005). In contractual relationships, customers are locked into a firm for a specific period, imposing high switching costs. In non-contractual relationships, customers have the freedom to choose firms of their own will, with low or no switching costs. There is, however, limited research on the loyalty program effectiveness on the contractual relationship types. Most research on loyalty programs is conducted in the context of B2C, and there is limited research on the effectiveness of loyalty programs in the context of B2B (Daams et al. 2008). Considering the nature of B2B transactions and the characteristics of industrial buying which is more rational and less emotional, the potential effectiveness of B2B loyalty programs is different from that of consumers. Perceived risk and the lack of choice are the antecedents of B2B loyalty (Rauyruen and Miller 2007), and relationship quality, trust, involvement, satisfaction, and switching costs are related to the constructs of B2B loyalty (Bennett, Hartel, and McColl-Kennedy 2005; Gounaris 2005). Daams et al. (2008) find that loyalty programs significantly affect participants' behavioral and attitudinal loyalty in a B2B context as well.

Research on the effectiveness of program management is related to consumer information usage and organizational support (Liu and Yang 2009). Leenheer and Bijmolt (2008) find that the success of loyalty programs is affected by the firms' effort to acquire and analyze consumer information drawn by implementing loyalty programs. There is, however, insufficient research on this topic and additional research needs to be done.

3.3. Research on Consumer-related Factors

The success of loyalty programs depends on the consumer response to the programs as well (Liu and Yang 2009). Especially, the personal characteristics and the fit between consumers and loyalty programs affect consumers' enrollment and loyalty behaviors (Liu 2007). Therefore, the

appeal of loyalty programs varies according to consumer-related factors such as personal fit, purchase levels, and perceived effort advantage (Kim et al. 2001; Kivetz and Simonson 2003; Lal and Bell 2003; Lewis 2004; Taylor and Neslin 2005). Research on consumer-related factors is divided into that of consumer, purchase (Liu and Yang 2009), and membership characteristics.

Research on consumer characteristics groups consumers according to sociodemographics, variety seeking, future orientation, shopping orientation, and price sensitivity (Kim et al. 2001; Kopalle and Neslin 2003; Leenheer, van Heerde, Bijmolt, and Smidts 2007; Liu and Yang 2009; Magi 2003; Zhang et al. 2000). For instance, Zhang et al. (2000) find that rear-load incentives, providing incentives for future purchases, are more profitable in highly variety-seeking markets, and front-load incentives, benefiting from immediate purchase, are successful in high inertia markets. Kopalle and Neslin (2003) suggest that loyalty programs appeal to consumers who do not discount future benefits, and Kim et al. (2001) propose that, in the segments of heavy and light users, inefficient rewards, like cash, are effective when there are a few price-sensitive heavy users and efficient rewards, like free products, are effective when the segment of heavy users is large and has low price sensitivity.

Research on the consumer purchase characteristics is related to usage level and perceived effort advantage (Liu and Yang 2009). According to the research of Lal and Bell (2003) and Liu (2007), loyalty programs are profitable because loyalty programs remove the cherry-picking of ordinal purchasers and cross-selling occurs. Kivetz and Simonson (2003) find that the perception of effort advantage and the required effort levels of loyalty programs affect the value of the programs. In her research on the long-term impact of loyalty programs on consumer purchase behavior and loyalty, Liu (2007) shows that consumers who are heavy users at the beginning of a loyalty program claim their qualified rewards but the programs do not change their purchase behaviors, and that consumers whose initial usages were low or moderate gradually became more loyal through loyalty programs. Kim et al. (2009) find that, if consumers have high attitudinal loyalty, loyalty programs can create positive outcomes even if their behavioral loyalty

and expenditure levels are low, and that, if their attitudinal loyalty is not sufficiently high, a high level of expenditure does not create significant results in loyalty programs.

Consumers who perceive a high fit between loyalty programs and their personal circumstances have a tendency to enroll in a program (Kivetz and Simonson 2003). There is, however, limited research on the effect of the programs on the profitability contributed by the groups of members and non-members. Bolton et al. (2000) find that program members consider negative experiences less in their repatronization decision compared with non-members because loyalty programs construct competitive barriers. Van Heerde and Bijmolt (2005) conclude that non-membership buyers respond more to price discounts compared with membership buyers, moderating promotion profitability by price discount rate and communication types (direct mail, door-to door flyers).

3.4. Research on Competition-related Factors

Up to now, most studies on loyalty programs are related to program-related or consumer-related factors of loyalty programs within identical industries and markets in a noncompetitive setting, and research results are mixed as well. Liu and Yang (2009) propose that one of the reasons that existing research results are mixed is that most studies do not consider the market and competitive environments of loyalty programs and conduct research in isolated conditions concerning the programs and consumers. For instance, many studies consider only a single program, not multiple competitive programs offered by competitive firms. The success of loyalty programs depends, however, not only on the loyalty programs themselves but also on the environmental factors that promote or impede the performance of the programs.

Loyalty programs confront many competitive programs because most loyalty programs provide similar consumer benefits and it is common for consumers to enroll in multiple programs. Research concerned with competition-related factors has investigated the effectiveness of loyalty programs by comparing loyalty

programs among various firms, and key variables of the research are market share and the share of wallet. For instance, in the case of retail, consumers hold three loyalty program cards on average (Meyer-Waarden 2007), and therefore card holders and card portfolios should be considered simultaneously in evaluating the effectiveness of loyalty programs (Magi 2003). Even though a few studies consider the outcomes of multiple loyalty programs in competitive situations at the same time (Leenheer et al. 2007; Meyer-Waarden and Benavent 2006), these studies did not look into interaction effects among the programs (Liu and Yang 2009).

Nako (1992) suggests the effect of firms' market positions on the success of loyalty programs by finding that the value of frequent-flier programs increases by the airline share of major airports. Kopalle and Neslin (2003) propose that free rewards provided by firms which model loyalty competition and set high prices are more valuable for consumers. In his study on the differential effect on relationship perceptions and relationship marketing instruments, Verhoef (2003) concludes that affective commitment and loyalty programs providing economic incentives positively affect both consumer retention and customer share development. Le enheer et al. (2007) find an increase of wallet share in only four of seven programs. Magi (2003) and Meyer-Waarden (2007) suggest that consumers' possession of loyalty program cards of competitive retailers reduces wallet share and consumer lifetime of distribution chains. In the study of asymmetric equilibrium with competition between a firm that provides loyalty programs to maximize long-term profits and a firm that offers lower prices to maximize short-term profits, Singh, Ehrenberg, and Goodhardt (2008) find that both symmetric and asymmetric equilibriums can be maintained in terms of consumer switch by consumer heterogeneity. In the research of competitive positioning and market saturation on the effectiveness of loyalty programs of airlines, Liu and Yang (2009) conclude that multiple programs can coexist effectively at a high level of market saturation by gaining competitive advantages against substitute programs of outside industries.

IV. Future Research Implications and Directions of Customer Loyalty Programs

One of the main issues related to the research on customer loyalty programs is that the research results of the effectiveness of loyalty programs are mixed. Studies on loyalty programs until now do not clearly identify how loyalty programs are effective and what factors significantly affect the effectiveness of loyalty programs. According to Dreze and Nunes (2011), some studies support positive associations between loyalty programs and customer retention (Lewis 2004; Nunes and Dreze 2006a, 2006b; Taylor and Neslin 2005), and other studies find that loyalty programs have no or little effectiveness (DeWulf, Odekerken-Schroder, and Iacobucci 2001; Magi 2003; Shugan 2005). Therefore, seeking resolutions that identify and remove the causes of different research results is one of the main issues of the research on loyalty programs. Although some researchers suggest fragmental opinion about the discrepancy of research results, no researcher proposes generally acceptable reasons for the disagreement.

By analyzing previous studies and considering the opinions of some researchers, one of the reasons for the disagreement among research outcomes is that the studies on loyalty programs up to date not only include a limited number of variables in the studies but also do not sufficiently verify the reliability and validity of the studies. As future research directions that resolve the discrepancy of the loyalty program studies, this paper proposes two main areas of importance: achieving the reliability and validity of the research and expanding the research areas of customer loyalty programs.

4.1. Achieving the Reliability and Validity of Loyalty Program Research

First, future research on loyalty programs needs to provide obvious evidence that the researchers remove threats to the internal validity of the studies. Cook and Campbell (1979) propose four validities: statistical conclusion validity, internal validity, construct validity, and external validity. They also suggest the priority of the validities according to the type of research conducted. In the case of theoretical research, the order of importance is internal validity, construct validity, statistical conclusion validity, and external validity. In the case of applied research, the order is internal validity, external validity, construct validity of effect, statistical conclusion validity, and construct validity of cause (Calder, Philips, and Tybout 1982; Cook and Campbell 1979). Therefore, it is important whether researchers consider their loyalty program research applied or theoretical. With the acceptance of the priorities suggested by Cook and Campbell (1979), internal validity is the most important regardless of research type. Most loyalty program studies did not provide, however, the evidence that they achieved internal validity. Future research also needs to present the possibility of generalizability of the research after obtaining internal validity. Because of the variety of loyalty programs, realistically generalizable research is not easy to conduct. Until now, most loyalty program studies were conducted for a specific business such as airlines and retail chains, lacking of generalizability of business types, conditions, and time.

Second, future research also needs to provide the evidence of the reliability and validity of measurements by demonstrating the stability of measurements through such methods as test-retest or by obtaining convergent and discriminant validity via Multitrait-Multimethod Matrix suggested by Campbell and Fiske (1959). The studies of loyalty programs are conducted by survey, panel data, corporate data, field experimentation, laboratory experimentation, and the Dirichlet model (Daams et al. 2008). Most studies propose research results based on the data gathered after program launch and applying a single method. Sharp and Sharp (1997) and Wright, Sharp, and Sharp (2002) suggest repeated research and replication on the same subjects. Therefore, future research needs to apply multiple methods and suggest the evidence of the reliability and validity of measurements.

Most studies are cross-sectional, and longitudinal research using such data as consumer panels is rare. Considering the characteristics of loyalty programs aiming at increasing long-term loyalty rather than short-term sales, the presentation of longitudinal research results will increase the validity of research. In addition, the problem of self-selection bias will be resolved by studying the same consumers in the long-term (Liu and Yang 2009; Verhoef 2003). The behavioral differences between members and nonmembers of loyalty programs may exist before launching the programs, and self-selection bias makes it difficult to find causal directions of variables (Daams et al. 2008; Leenheer et al. 2007). By studying behavioral change for a long time, researchers can figure out the following two effects (Taylor and Neslin 2005). First is the effect of short-term point pressure which refers to temporary increase of purchase levels to receive rewards, similar to the artificial increase of sales during promotional periods. Second is the effect of long-term rewarded behavior which refers to long lasting purchase increase. There is a lack of empirical research on the effectiveness of continuous loyalty programs (Liu 2007). Because obtaining longitudinal data is difficult and panel data has its problems, one of the ways of future research is to mix primary and secondary data, considering longitudinal and cross-sectional effects simultaneously.

Lastly, the research results are controversial depending on how to identify and operationally define the effectiveness of loyalty programs. Loyalty programs may be implemented to increase customer retention and sales volume or to obtain customer insight (Nunes and Dreze 2006). Therefore, each loyalty program has its own measures of success according to its program goal. As measures of the effectiveness, previous studies applied consumer-level effectiveness including purchase frequency, transaction size, and share of wallet as well as firm-level factors such as sales volume and customer inflow rate. In measuring the effectiveness of loyalty programs, however, there are conceptual and practical difficulties. Therefore, the evaluation of the effectiveness needs a holistic approach and the use of a single index is problematic (Barnes 1994).

Future research on the effectiveness of loyalty programs needs to measure attitudinal and behavioral loyalties simultaneously. The construct of effectiveness of loyalty

programs can be measured in a variety of ways. One of the ways is to use multiple measures mixing attitudinal loyalty, behavioral loyalty, and financial data. Most studies have measured only one of these three measurements (Daams et al. 2008). Kim et al. (2009) find moderating roles of attitudinal and behavioral loyalty. Attitudinal loyalty emphasizes the role of mental processes and is related to committed feeling, the possibility of referring others, and positive belief and emotion toward a brand. Behavioral loyalty refers to repeated purchase of the same company brand and increase in the scope of relationships. Attitudinal loyalty focuses on personal emotion and personality and behavioral loyalty relates to observational indexes such as repeated purchase and brand share (Moore and Sekhon 2005).

More objective and valid holistic evaluations can be obtained by asking marketing managers about the effectiveness of the programs. The goals of loyalty programs differ from each company. For instance, a measure of customer retention is a more appropriate for a company that emphasizes defensive aspects. In contrast, the measure of customer acquisition and market share is more useful for a company that implements loyalty programs to offensive markets. Future research needs to reflect the opinion of marketing managers in addition to attitudinal and behavioral loyalty and financial data to evaluate the effectiveness of loyalty programs.

4.2. Expanding the Research Areas of Customer Loyalty Programs

One of the reasons that there are controversial outcomes concerning the effectiveness of loyalty programs is that the key variables having an impact on the effectiveness and the comprehensive research framework explaining the relationships among the variables are still sufficiently unidentified. There is still a limited number of studies on loyalty programs although research on the programs has increased since the 2000s. Especially, most studies have focused on program-related and consumer-related factors, lacking in research on competition-related and firm-specific factors. Therefore, future studies with the currently identified variables and the additional significantly

important variables included are required. By reviewing and analyzing previous research, this paper suggest several research areas for future research on the effectiveness of loyalty programs.

First, in regard to the extension of previous research, research on the effects of consumer expectations of specific benefits according to program status (Dreze and Nunes 2009), competitive factors such as switching barriers and the similarity of program design (Liu and Yang 2009), the introduction of new programs and the order of program entry, and organizational support and resources for the success of the programs is needed.

Second, future research needs to study more various effects of the factors influencing the effectiveness of loyalty programs, accelerating the construction of loyalty program models and theories. Therefore, in addition to the study of the main effects of the factors, the research on the moderating or mediating effects of program-related, consumer-related, and competition-related factors will increase the validity and generalizability of the study.

Third, loyalty program types and variables related to program development and implementation also affect the effectiveness of the programs. For instance, program-related, consumer-related, and competition-related factors will have different effect according to program contract type (contractual, non-contractual), offering method (online, offline), customer type (B2C, B2B) and business style (multiple store, single store). In addition, it is worth conducting studies that analyze the impact on the consumer decision making process and include relational variables (e.g., trust, commitment, quality of relation).

Fourth, research on the value of customer information gathered through loyalty programs is also needed. The analyses of data from loyalty programs provide valuable information about the trends of subscribers and customers, utilizing for marketing activities such as promotion plans, pricing, and inventory management. Compared with data from traditional surveys having limitations of small sample size and self-reporting, the data from loyalty programs has the advantages of large sample size and transactional and demographic information. In addition, the database of loyalty programs is longitudinal in nature and can be used

for time-serial analyses, though having not provided information regarding customer motivation.

Lastly, the effectiveness of loyalty programs is affected by the characteristics of the company providing the programs such as firm size, CRM(customer relationship management) techniques, and marketing activities. The effectiveness of program partnerships also needs to be researched. The partnerships of loyalty programs among heterogeneous industries are spreading broadly, and not only have positive effects, such as an increase in the attractiveness of the programs, but also have long-term negative effects, such as the possible decline of brand images.

V. Conclusion

Since American Airlines introduced its customer loyalty program in 1981 for the first time, various loyalty programs have been introduced and implemented worldwide by diverse industries and companies, and most consumers enroll in at least several loyalty programs. Therefore, customer loyalty programs have become an important part of firm's relationship management strategies (Liu and Yang 2009), and the programs require firms' huge financial investment and long-term commitment. Accordingly, it is important for marketing managers to understand how loyalty programs increase customer loyalty and influence firms' profitability. Despite the vitalization of the programs, there is a limited amount of research on the effectiveness of the loyalty programs. In addition, existing research outcomes are mixed without consistency. Some studies validate the positive effects of loyalty programs but others suggest negative research results.

To contribute to the resolution of the conflicting research results on the effectiveness of the programs and to enhance a better understanding of marketing managers who develop and implement loyalty programs, this paper examines the concepts and related implications of loyalty programs, reviews and analyzes the previous studies to find areas related to future research, and proposes future research implications and directions for loyalty programs. Previous

research on customer loyalty programs is divided into three categories of factors: program-related, consumer-related, and competition-related factors (Liu and Yang 2009). By analyzing previous studies and considering the opinions of some researchers, we find that one of the main reasons for the conflicting research outcomes is that previous studies on loyalty programs not only include a limited number of variables related to the effectiveness of the programs but also do not sufficiently verify the reliability and validity of the studies. Accordingly, this paper proposes two areas of important for future research directions: achieving the reliability and validity of the research and expanding the research areas of loyalty programs.

The present is the early stage of forming loyalty program theory, identifying meaningful variables, conceptual and operational definitions, and a nomological network of the constructs of the programs. Though discovering significant variables related to the effectiveness of loyalty programs and developing comprehensive conceptual models of the programs are important, presenting evidence of reliability and validity of the loyalty program study is a prerequisite for building theories and increasing the generalizability of the studies. Therefore, researchers of loyalty programs need to pay more close attention to the methodological aspects of loyalty program research in addition to identifying significant variables and expanding research scopes. Based on the reliability and validity of research, comprehensive studies including main, moderating or mediating effects among program-related, consumer-related, and competition-related factors will contribute to the development of loyalty program theory and practically help marketing managers. Lastly, we expect this review paper to make a small contribution to the advance and proliferation of the research on customer loyalty programs.

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