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THE RELATIONAL VALUE OF LOYALTY PROGRAMS IN LUXURY RETAILING

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Abstract

In the past decade, loyalty programs have gained significant popularity across different industries and settings. They are not only used to generate 'loyalty' but also to collect private information about customers as part of the 'big data' frenzy. In the last 5 years loyalty programs became popular in the luxury retailing sector. Characteristically, between 2010 and 2012 loyalty program subscriptions have increased by 70% in this sector (Colloquy, 2013). The main reasons for this growth are related to the benefits luxury retailers offer to their loyalty program subscribers. Based on a recent body of research these benefits are classified into utilitarian, hedonic and symbolic. Research shows that all three categories of benefits have a positive effect on customer retention and profitability (Evanschitzky et al., 2012). Until recently though, it was debatable if loyalty programs are appropriate in the luxury retailing (Lowenstein, 2009). Conventionally, luxury retailers approach the creation of customer loyalty through exclusive and differentiated customer experiences. Thus, if loyalty programs were to succeed in the luxury sector they have to provide the types of rewards and recognition that would be appreciated by luxury consumers. Indeed the last years luxury retailers have started to utilise loyalty programs in their marketing strategies and more interest have been shown in this sector as more and more luxury retailers start to introduce their own loyalty programs. Given the growing interest in loyalty programs and scarcity of research related to their effectiveness in the luxury retailing, this study examines the effectiveness of such programs. More specifically, this research examines how the utilitarian, hedonic and symbolic perceived benefits from loyalty programs can influence the satisfaction with the loyalty program, trust in the loyalty program and consequently customer loyalty. To identify how loyalty programs are different in luxury retailing, the effect of the above factors on customer loyalty in the luxury and ordinary retailing, respectively are examined by using a set of research hypotheses. The hypotheses were tested on survey data from a sample of 984 loyalty program subscribers in USA. A range of different retailers that offer loyalty programs were pre-selected through a rater procedure to represent the luxury and ordinary retailers. Using multiple regression analysis, repeated measures ANOVA and GLM univariate between-subject analysis, findings support that the effectiveness of loyalty programs is important in both luxury and ordinary retailing settings. However, the strength of the relationships was found to vary in the two settings. In particular, hedonic and symbolic benefits derived from loyalty programs found to be more important in the luxury rather than the ordinary retailers. In contrast, utilitarian benefits found to be much more effective in influencing customers' satisfaction with the loyalty program in the ordinary retailing. Although these differences were statistically significant, results indicate that the effectiveness of the utilitarian benefits have a significant but weak effect on loyalty in the luxury setting as well, and thus they should not be totally excluded from the luxury loyalty programs. In both settings all three benefits were found to influence significantly trust in the program, and both satisfaction and trust in the program were found to influence significantly loyalty. The results of this research address an important research gap and help to better understand customers' perceptions of loyalty program benefits obtained from luxury and ordinary retailers. Finally, the findings provide clear guidelines for managers in both luxury and ordinary retailing on how to design effectively their loyalty program rewards, by strategically allocating their resources to the benefits that are more important in their setting.

Keywords: *Luxury retailing, loyalty programs, hedonic, utilitarian, symbolic benefits*