

Master's Programme in Industrial Engineering and Management

Loyalty Programs as a tool to further customer retention and engagement in B2C businesses

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Abstract

Loyalty programs have long served as an essential tool in business strategies, particularly in B2C businesses, to enhance customer retention, satisfaction, and profitability. This thesis examines the transformation of loyalty programs within the context of digitalization, shedding light on how the role and primary goals of loyalty programs have evolved.

Through qualitative interviews with loyalty managers and directors from large B2C businesses based in Finland covering multiple industries, this study investigates not only how data collection has been changing loyalty programs but also explores the new objectives and metrics that define success in the digitalized era.

The main findings reveal a significant shift in loyalty programs. While traditional goals such as increasing customer frequency and purchases through discounts remain important, digitalization has expanded the focus towards personalized, data-driven value creation. Loyalty programs now aim not only to drive revenue and profitability but also to cultivate broader organizational loyalty and assist various departments with an enhanced customer understanding. Alongside traditional financial indicators like loyalty program member count and share of revenue, metrics like customer lifetime value and share of wallet have risen in importance.

This thesis contributes to the existing research of loyalty programs by providing practical implications for B2C businesses to harness the full potential of their loyalty programs in today's digitalized marketplace, emphasizing the multifaceted roles that these programs now play in enhancing customer relationships and overall business success.

Keywords Loyalty Program, Digitalization, Data, B2C

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Tiivistelmä

Kanta-asiakasohjelmat ovat pitkään toimineet olennaisena työkaluna liiketoimintastrategioissa, erityisesti B2C-yrityksissä, asiakaspysyvyyden, tyytyväisyyden ja kannattavuuden parantamiseksi. Tämä diplomityö tutkii kanta-asiakasohjelmien muutosta digitalisaation kontekstissa, valaisten, miten kanta-asiakasohjelmien rooli ja ensisijaiset tavoitteet ovat kehittyneet.

Tutkimuksessa haastateltiin suurten, Suomessa toimivien B2C-yritysten kanta-asiakasohjelmien päälliköitä ja johtajia. Tämä tutkimus tutkii paitsi sitä, miten tietojen keruu on muuttanut kanta-asiakasohjelmia, myös niiden uusia tavoitteita ja mittareita, mitkä määrittelevät menestyksen digitalisoituneella aikakaudella.

Tärkeimmät tulokset paljastavat merkittävän muutoksen kanta-asiakasohjelmissä. Vaikka perinteiset tavoitteet, kuten asiakaskäyntien ja ostosten lisääminen alennusten avulla säilyvät tärkeinä, digitalisaatio on laajentanut tavoitteita kohti henkilökohtaista, datavetoista arvonluontia. Kanta-asiakasohjelmat pyrkivät nyt paitsi lisäämään liikevaihtoa ja kannattavuutta, myös ylläpitämään laajempaa organisaation uskollisuutta ja tukemaan eri osastoja parantuneella asiakasymmärryksellä. Perinteisten taloudellisten mittarien, kuten kanta-asiakasohjelman jäsenmäärän ja liikevaihdon osuuden, rinnalla mittarit, kuten asiakkaan elinkaariarvo ja osuus lompakosta, ovat nousseet tärkeydessä.

Tämä diplomityö täydentää olemassa olevaa kanta-asiakasohjelmien tutkimusta tarjoamalla käytännön sovelluksia B2C-yrityksille, jotta ne voivat hyödyntää täysin kanta-asiakasohjelmien potentiaalin tämän päivän digitalisoituneilla markkinoilla. Nämä käytännön sovellukset korostavat kanta-asiakasohjelman monitahoisia rooleja asiakassuhteiden ja koko liiketoiminnan menestyksen parantamisessa.

Avainsanat Kanta-asiakasohjelma, Digitalisaatio, Data, B2C

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Preface

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Kuopio, 31st of July 2023
Otto Bergius

Abbreviations

B2C	Business to Consumer
ROI	Return on Investment
CLV	Customer Lifetime Value
CRM	Customer Relationship Management

1 Introduction

Loyalty programs are strategic initiatives employed by businesses to cultivate customer retention and engagement. The long history of loyalty programs has seen many variations of the programs, and technological improvements, like digitalization, are accelerating their popularity among B2C businesses. The primary objective of loyalty programs has always been to build and maintain customer loyalty. However, these programs also aim to enhance customer satisfaction, improve service quality, and ultimately increase profitability. In the context of customer loyalty, these programs can be seen as strategic tools aimed at improving the strength of the customer-business relationship and fostering repeat purchases.

The research around loyalty programs offers a comprehensive look into their concept, effectiveness, and impact on customer satisfaction, loyalty, and business profitability. Loyalty programs have been explored through customer satisfaction and loyalty, investigated with practical implications, and evaluated through the effectiveness and profitability to businesses. As a whole, this provides a solid foundation for understanding the complexities of loyalty programs and their role in business and marketing strategies. The research acknowledges the importance of loyalty programs in reinforcing customer behaviours and attitudes, with a common acknowledgement that loyalty is not solely towards products, businesses, brands or even loyalty programs themselves.

For example, loyalty programs have been found effective and important for businesses to cultivate retention and engagement in previous research. They stimulate repeat purchases and engagement (Berman, 2006), build and maintain customer loyalty towards businesses (Hallowell, 1996) and reinforce desired customer behaviours and attitudes (Liu, 2007; Meyer-Waarden, 2008). In addition, loyalty programs can enhance customer satisfaction, improve service quality, and increase profitability (Zeithaml et al., 1996).

However, while the impact of technology on loyalty programs have been the focus of numerous research studies (Reichheld & Schefter, 2000; Lemon & Verhoef, 2016; Ngai et al., 2009; Berman, 2006), the evolving role of loyalty programs in the digitalized era has not been studied extensively. Digitalization have brought customers closer to businesses (Lemon & Verhoef, 2016) and customer loyalty is more important than ever (Reichheld and Schefter 2000), which entails that loyalty programs have bigger responsibility in areas such as customer retention, engagement, and satisfaction. Businesses need to incorporate customer loyalty and loyalty programs to multiple dimensions of their operations and align the company's overall and marketing strategy with their loyalty program.

This thesis aims to shed light on how the role and main goals of loyalty programs have evolved due to digitalization and provide practical implications for B2C businesses to harness the full potential of their loyalty programs. As stated in the beginning, the primary objective of loyalty programs has always been to build and maintain customer loyalty, and consequently increase profitability of the business. This objective still remains, but next to it and even above it, has risen a second objective to collect data and thereby understand customers better. Understanding the customers and having the ability to personalize for individuals benefits not only the loyalty program and customer loyalty, but the business as a whole, marketing efforts, product and service offerings and profitability through increased customer lifetime value and share of wallet.

The main research question of this thesis is: How is digitalization evolving the role of loyalty programs? This question is supported with other questions like: How is data collection changing loyalty programs and what are the new goals of loyalty programs? Finally, the aim is to also answer the question of: What are the metrics used to measure the new goals of loyalty programs?

The primary method used for data collection in this thesis was qualitative interviews. It involved interviewing key individuals from prominent Finnish B2C companies. A total of four interviews were conducted with loyalty program managers and directors representing multiple different industries. The qualitative data gathered from the interviews was analysed with the Gioia Methodology (Gioia, et al., 2012). This methodology offers a rigorous and systematic approach to analysing qualitative data, ensuring the reliability and validity of the findings.

The scope of this thesis is loyalty programs within larger B2C businesses that are based in Finland. Therefore, the conclusions may not be applicable for other types of businesses or other geographical locations. While the study discusses digitalization and technology within the loyalty programs, it does not specify any technological solutions or platforms for businesses to leverage. As the study is based on interview data, it might not bring up patterns or relationships that quantitative methods could uncover.

2 Literature review

2.1 Overview of previous research

The research around loyalty programs offers a comprehensive look into the concept of loyalty programs, their effectiveness, and their impact on customer satisfaction, loyalty, and business profitability. Various aspects of loyalty programs have been explored in previous research, from their concepts to their practical applications. The research offers a diverse range of perspectives on the subject and provides a solid foundation for understanding the complexities of loyalty programs and their role in business and marketing.

The primary objective of loyalty programs is to build and maintain customer loyalty. However, loyalty programs also aim to enhance customer satisfaction, improve service quality, and ultimately increase profitability (Zeithaml et al., 1996; Hallowell, 1996).

2.1.1 Various Definitions of Loyalty Programs

Loyalty programs are widely recognized as strategic initiatives employed by businesses to stimulate continued patronage from customers (Berman, 2006). In the literature, researchers have proposed diverse definitions of both customer loyalty and loyalty programs, with variations based on the research context and focus. Notably, Dick and Basu (1994) define customer loyalty as "the strength of the relationship between an individual's relative attitude and repeat patronage". Accordingly, loyalty programs can be perceived as strategic mechanisms aimed at enhancing the strength of this relationship and fostering repeat patronage. Similar emphasis on the role of loyalty programs in reinforcing customer behaviours and attitudes can be found in the works of Liu (2007) and Meyer-Waarden (2008). Despite the nuances in these definitions, they all share a common underlying theme, highlighting the significance of loyalty programs in cultivating strong relationships between businesses and their customers.

Oliver (1999) proposes that loyalty is not solely a product of satisfaction but rather a complex construct influenced by factors such as personal determinism ("fortitude") and social bonding at both the institutional and personal levels. This understanding can be applied to loyalty programs, as they are structured marketing strategies designed to nurture such consumer loyalty (Dick and Basu, 1994). A similar comprehension of customer loyalty can be derived from the works of Anderson and Sullivan (1993) and Rust and Zahorik (1993), wherein the focus on customer satisfaction contributes to the understanding of loyalty programs. These programs can be seen as strategic

initiatives employed by businesses to maximize customer satisfaction, thereby encouraging repeat patronage, and fostering customer loyalty.

Reichheld and Schefter (2000) assert that loyalty programs in the digital realm serve as strategic initiatives aimed at attracting and retaining customers, employing diverse strategies such as exclusive benefits, personalized experiences, and rewards to increase customer loyalty. Verhoef (2003), also, characterizes loyalty programs as customer relationship management instruments that offer economic incentives as part of their marketing strategy to heighten customer loyalty, often through discounts and rewards. These findings collectively highlight the significance of loyalty programs as powerful tools for fostering customer loyalty in the digital era, leveraging a range of incentives and personalized approaches to create and maintain lasting relationships with customers.

2.1.2 Background of Loyalty Programs

Historically, loyalty programs can be traced back to retail cooperatives, where members were granted "allowances based on their annual purchases" (Berman, 2006). However, the modern era of loyalty programs began with the introduction of Raleigh cigarette coupons and stamp-based programs, marking a more systematic and strategic approach to fostering customer loyalty (Berman, 2006). The continuous evolution and diversification of loyalty programs have been further fuelled by technological advancements and the digital revolution (Chen et al., 2021), leading to the rise of e-loyalty, which underscores the increasing importance of online platforms in maintaining customer loyalty (Reichheld & Schefter, 2000).

Understanding the foundations of consumer loyalty is crucial to comprehend loyalty programs. Dick and Basu (1994) emphasize the significance of loyalty in various contexts, including brand loyalty, vendor loyalty, and service loyalty, aligning with the objectives of loyalty programs in cultivating customer loyalty toward a company as a whole.

Various studies emphasize the significance of customer satisfaction and loyalty in influencing business profitability (Rust and Zahorik, 1993; Hallowell, 1996). These two elements are, customer satisfaction and loyalty, are the backbone of why loyalty programs exist. Reichheld (1993) further supports this notion by emphasizing the economic benefits of high customer loyalty, aligning with the core objective of loyalty programs to increase customer loyalty and thereby improve the economic performance of the business.

Moreover, loyalty programs are often discussed in the broader context of customer relationship management efforts (Verhoef, 2003). These programs are strategically designed to foster customer loyalty, positively impacting customer retention and share of wallet development. Bolton et al. (2000) also

highlight the role of loyalty programs in customer retention and value creation, by increasing customer exposure to a company's services and potentially enhancing customer retention through this.

2.1.3 Roles and Objectives

Loyalty programs play diverse roles and serve various objectives in the business landscape, with a central focus on enhancing customer loyalty and influencing customer behaviour. Several studies have demonstrated the effectiveness of loyalty programs in influencing customer behaviour, increasing repeat purchases, and contributing to a company's market share (Meyer-Waarden, 2007; Liu, 2007). Moreover, these programs are integral to relationship marketing strategies, aiming to deliver positive customer experiences and build strong customer relationships (Berry, 1983; Lemon & Verhoef, 2016). Both behavioural and affective aspects of customer loyalty are influenced by loyalty programs (García Gómez et al., 2006.; Yi & Jeon, 2003), emphasizing their role in not only increasing repeat purchases but also fostering emotional connections with customers.

Lemon and Verhoef (2016) highlight the importance of understanding the customer experience and journey in today's business environment. Consequently, the objectives of loyalty programs should focus on enhancing the customer experience and guiding customer journeys to create and maintain loyalty and encourage repeat business. Furthermore, Reichheld (1993) underscores the importance of customer loyalty in driving business profits and suggests that loyalty programs can intelligently reinvest cash flows to retain high-quality customers.

Fostering customer loyalty is increasingly crucial due to the unique economics of e-business (Reichheld & Schefter, 2000). Loyalty programs in this realm play a pivotal role in enhancing customer retention, leading to increased profitability. Bolton et al. (2000) further support this notion by inferring that the primary objective of loyalty programs is to positively influence customer evaluations and behaviour in the long run. By providing rewards that increase customer engagement with the company's services, these programs effectively enhance customer retention and create value for the business. The combination of personalized experiences and rewards offered by loyalty programs contributes to establishing stronger emotional connections with customers, ultimately leading to increased loyalty and long-term profitability (Bolton et al. 2000).

2.1.4 Various types of loyalty programs

Customer loyalty programs, as strategic tools for customer retention and relationship enhancement, have been extensively studied across academic

literature (Kumar and Shah, 2004; Berman, 2006; Yi and Jeon, 2003; Chen et al., 2021). They encompass a range of strategies, each with unique features and objectives, tailored to the specific business context and customer base. Understanding the nuances and effectiveness of different loyalty program types is highly important.

Traditional loyalty programs, such as stamp-based systems, provide rewards based on cumulative purchases over time (Berman, 2006). Their simplicity and straightforwardness make them accessible and popular among broad customer bases. Despite their lower engagement level compared to more interactive program types, their longevity proves their effectiveness (Berman, 2006).

Point-based loyalty programs, arguably the most prevalent nowadays, entail the accumulation of points as customers make purchases or repeat other actions tied to the brand, which can later be redeemed for various rewards (Berman, 2006; Chen et al., 2021). Yi and Jeon (2003) offer empirical evidence that in high-involvement situations, such loyalty programs' direct rewards are more potent in enhancing customer loyalty than indirect rewards. They further state that the perceived value of the loyalty program largely depends on the tangible benefits the customer receives from the loyalty program. In this regard, the strategic allocation of points becomes a crucial consideration in maximizing the perceived value (Yi & Jeon, 2003).

Tiered loyalty programs represent another common approach, where customers are segmented based on their purchase behaviour, with the intention to incentivize increased spending (Berman, 2006.; Chen et al., 2021). As customers progress through the tiers, they get increasingly appealing rewards, which is a strategy designed to encourage repeat purchases and customer engagement (Kumar & Shah, 2004). The crux of these programs lies in the delicate balance of making upper tiers aspirational, yet attainable, ensuring customers remain motivated to climb the tiers (Kumar & Shah, 2004).

Partnership loyalty programs, a collaborative venture between businesses, offer customers collective rewards that broaden the range of benefits available (Chen et al., 2021). The perceived value of the loyalty program is thus enhanced, potentially driving increased customer loyalty. However, the effectiveness of such programs depends on the compatibility of the partners in terms of customer bases and brand images (Chen et al., 2021). The relationship between the partners must align with the customers' interests and expectations.

Paid loyalty programs require an upfront fee from customers, which grants them access to exclusive discounts, early product access, and other unique services (Berman, 2006). The fee acts as a form of commitment, fostering increased customer engagement and loyalty. However, their

success depends on the perceived value of the benefits and them outweighing the membership cost (Berman, 2006). This means that there needs to be a careful evaluation of the pricing strategy and the benefits offered.

With the increased use of social media, loyalty programs have evolved to incorporate social media platforms to provide rewards for activities such as content sharing and reviews (Chen et al., 2021). Social media-based loyalty programs aim to create a sense of community among customers, enhancing brand visibility and engagement through user-generated content. As Chen et al. (2021) notes, the success of these programs is closely tied to the active management of online community and the encouragement of positive customer interactions.

Gamification-based loyalty programs, which are a relatively recent development, include elements of game playing into the loyalty programs (Chen et al., 2021). Incorporating aspects like competition and scoring, these loyalty programs aim to increase customer engagement and encourage repeat purchases. However, the effectiveness of such strategies largely depends on the compatibility between the game elements and the brand's image and customer base. As Chen et al. (2021) notes, careful consideration should be given to the design of these programs to ensure they are not perceived as manipulative or irrelevant to the customer experience.

Loyalty programs, in their various forms, continue to command substantial attention in both the academic and corporate landscapes due to their potential to foster customer retention and engagement. The choice of program type should be compatible with the brand's objectives, customer base, and provide a perceived value that encourages customer participation (Kumar & Shah, 2004; Berman, 2006.; Yi & Jeon, 2003.; Chen et al., 2021).

2.2 Loyalty, satisfaction, and engagement

2.2.1 Customer Loyalty

Dick and Basu (1994) present an integrated conceptual framework of customer loyalty, viewing it as "the strength of the relationship between an individual's relative attitude and repeat patronage". Their discussion includes both affective loyalty, based on emotions and feelings towards a brand, and behavioural loyalty, based on customers' repeat purchase behaviour. Their framework states that "cognitive, effective, and conative antecedents of relative attitude are identified as contributing to loyalty, along with motivational, perceptual, and behavioral consequences".

Numerous studies underscore the pivotal role of customer feelings and emotions in influencing loyalty, with affective loyalty representing the emotional attachment and affinity that customers develop towards a brand or business, ultimately strengthening their loyalty and retention. Meyer-

Waarden (2007) highlight that loyalty programs can exert influence over affective loyalty aspects. In line with this, Lemon et al. (2002) stresses the necessity of considering future-focused factors beyond mere satisfaction when managing customer relationships. Their research emphasizes the enduring impact of emotional connections in fostering loyalty. Furthermore, García Gómez et al. (2009) advocate for recognizing the significance of affective loyalty and state that comprehending the behavioural outcomes of loyalty is critical for designing effective loyalty programs. These studies show that customer feelings and emotions are integral in shaping loyalty, affirming the need for businesses to foster emotional connections and personalized experiences to create and maintain lasting customer loyalty and retention.

Behavioural loyalty is a crucial aspect emphasized by various authors in the realm of customer loyalty. Meyer-Waarden (2007) underscores that loyalty programs can effectively drive behavioural loyalty among customers. This means that these programs not only foster emotional connections and attachment but also lead to repeat purchases and continued patronage. García Gómez et al. (2009) further stress the significance of understanding the behavioural outcomes of loyalty, as it plays a pivotal role in designing effective loyalty programs. By comprehending how customers' actions and behaviours are influenced by loyalty initiatives, businesses can tailor their strategies to encourage desired behaviour. Empirical evidence of the long-term impact of loyalty programs on consumer purchase behaviour and loyalty is provided by Liu (2007), reinforcing the importance of behavioural loyalty as a measurable indicator of loyalty program's success.

2.2.2 Customer Satisfaction & Retention

Customer satisfaction is a critical concept often linked to customer loyalty, reflecting the extent to which customers are content with their interactions and experiences with a company's products or services. Anderson and Sullivan (1993) present a comprehensive analysis of the antecedents and consequences of customer satisfaction, emphasizing its role as a key driver of customer loyalty. The study highlights that when customers are satisfied with their purchase experiences, they are more likely to develop a positive attitude towards the brand, leading to increased repeat purchases and loyalty.

Furthermore, Hallowell (1996) delves into the relationships between customer satisfaction, customer loyalty, and business profitability, affirming the significant impact of customer satisfaction on various business outcomes. The research showcases how high levels of customer satisfaction foster strong emotional connections and trust, which in turn contribute to increased customer retention and loyalty. Similarly, Oliver (1999) explores the link between consumer loyalty and satisfaction, emphasizing that contentment is an essential phase in creating loyalty, but it diminishes in

importance as loyalty strengthens through various other methods. Satisfied customers are more prone to repurchase from the same company, leading to enhanced customer loyalty and higher profitability for the business.

Customer retention is another critical aspect within loyalty programs, encompassing the ability of businesses to maintain and keep customers over an extended period. Reichheld (1996) emphasizes the substantial impact of customer retention on the size and profitability of businesses, underlining its importance in achieving long-term success. In support of this notion, Zeithaml et al. (1996) present a model that underscores the role of service quality as a key driver for customer retention. The quality of service provided by a company directly influences the likelihood of customers remaining loyal and continuing their patronage.

2.2.3 Customer Experience

Customer experience, its evolution throughout the customer journey, and its profound influence on fostering customer loyalty form the crux of the research conducted by both Lemon and Verhoef (2016) and Berry (1983). These interconnected themes emerge as pivotal in the understanding of contemporary business strategies.

Lemon and Verhoef's (2016) work emphasize the necessity for businesses to adapt and evolve, echoing Berry's (1983) focus on the maturation of services marketing. Both studies highlight the shift in customer interactions, which now occur across multiple touchpoints, channels, and media. This necessitates businesses to combine different functions and possibly even external partners to establish and provide favourable experiences for customers. Furthermore, Lemon and Verhoef (2016) note that customer experiences are increasingly social in nature nowadays.

2.3 Loyalty programs in B2C businesses

Loyalty programs have been recognized as a significant tool for B2C businesses aiming to enhance customer retention and increase customer lifetime value (Reichheld, 1996; Kumar & Shah, 2004). The effectiveness of loyalty programs can be measured in various ways, including their impact on repeat-purchase loyalty patterns (Sharp & Sharp, 1997), customer purchase behaviour (Liu, 2007; Meyer-Waarden, 2008), and customer lifetime duration and share of wallet (Meyer-Waarden, 2007).

Several factors contribute to the success of loyalty programs. A crucial factor is the design of loyalty program, particularly the structure and value of rewards offered (Yi & Jeon, 2003; Berman, 2006). Companies that offer well-designed loyalty programs can influence customer evaluations and behaviour positively, leading to increased relationship durations and usage levels

(Bolton, Kannan, & Bramlett, 2000). Moreover, the role of loyalty programs in creating both behavioural and affective loyalty has been emphasized (García Gómez et al., 2006), suggesting that effective loyalty programs should aim to influence not only customer behaviour but also their emotional connection with the brand.

Furthermore, it has been suggested that loyalty program partnerships can reinforce the core service usage (Lemon & Wangenheim, 2009), indicating that strategic alliances in loyalty programs can be beneficial. However, it is also important to consider the cultural context when designing and implementing loyalty programs, as cultural factors can significantly influence consumer motivation for reward pursuit (Yang et al., 2019).

However, it should be noted that loyalty programs are not always successful. The failure of loyalty programs can result from a variety of factors. For example, if the perceived value of the program is low, it might not effectively influence customer loyalty (Yi & Jeon, 2003). Additionally, if the loyalty program does not adequately meet the unique needs and preferences of different customer segments, it may not achieve its intended results (Kimura, 2022). To improve the effectiveness of loyalty programs, it is important to understand and predict customer segment transitions through the loyalty program (Kimura, 2022). This highlights the need for a dynamic and flexible approach to loyalty program management.

2.3.1 Consumer Perspective

Consumers perceive value by considering the quality and benefits a brand offers against the price they pay, and the outcome of it heavily influences their loyalty to a brand (Zeithaml, 1988). Zeithaml (1988) presents a “conceptual model that defines and relates price, perceived quality, and perceived value”. It advances the understanding of these concepts and their relationships, providing a comprehensive view of the consumer perspective. Understanding consumer perspectives is crucial in the dynamic business environment, where firms need to continuously adapt their strategies based on consumer perceptions, attitudes, and behaviours (Zeithaml, 1988.; Lemon & Verhoef, 2016.; Verhoef, 2003). As exemplified, specific website attributes can increase online impulse purchases, underlining the importance understanding the customer perspective (Liu et al., 2013).

Emotional responses towards a brand, or affective elements, also shape consumers' loyalty. How a brand makes a consumer feel can strengthen their allegiance and stimulate repeat patronage. Alongside this, the commitment or motivation to a brand, or conative elements, also plays a role. A consumer who feels motivated by a brand's values or committed to its mission is more likely to remain loyal. (Dick & Basu, 1994)

2.3.2 Consumer Attitudes & Behaviours

Consumers' attitudes are shaped by their experiences with a firm across various touchpoints and channels, necessitating an integrated approach to managing customer experiences (Lemon & Verhoef, 2016). Emotions, such as regret, also play a pivotal role in shaping consumer attitudes and behaviours (Tsiros & Mittal, 2000). Tsiros & Mittal (2000) argue that understanding the antecedents and consequences of these emotional responses can provide firms with insights into consumer perceptions of their choices' drawbacks and help tailor their offerings accordingly. Furthermore, consumers' beliefs and knowledge about a brand, which form the cognitive aspects of their attitude, significantly affect their loyalty (Dick & Basu, 1994).

Customer behaviour is also influenced by the effectiveness of customer relationship management (CRM) efforts, which can impact customer retention and share of wallet development (Verhoef, 2003). Effective CRM strategies not only foster positive consumer attitudes but also influence their behaviours towards repeated purchases and brand loyalty. In the digital age, e-loyalty has become a significant factor influencing consumer behaviours (Reichheld & Schefter, 2000). Firms need to focus not only on attracting customers but also on retaining them, emphasizing the importance of understanding and catering to consumer needs and preferences throughout their journey with the firm (Lemon & Verhoef, 2016; Reichheld & Schefter, 2000).

2.3.3 Perceived Value, Motivation & Benefits

Loyalty programs significantly impact consumers' attitudes and behaviours by increasing their perceived value of not just the program but also the associated brand (Yi & Jeon, 2003). As consumers perceive an increase in value, their loyalty towards the brand is likely to grow, creating a beneficial cycle of positive consumer behaviour and brand loyalty (Reichheld & Schefter, 2000).

The appeal of a loyalty program's reward scheme can vary greatly among consumers, and a crucial determinant of this appeal is the level of customer involvement (Yi & Jeon, 2003). Highly involved consumers may prefer direct rewards that offer immediate and tangible value, while less involved consumers may appreciate more subtle, indirect rewards. The recognition of this variable consumer response to reward structures can enable the creation of more tailored and effective loyalty programs.

Furthermore, consumers' motivation to pursue rewards is a significant factor that can drive or hinder the effectiveness of loyalty programs. This motivation can be moulded by various elements, including cultural context and the perception of progress towards rewards (Yang et al., 2019). Yang et

al. (2019) argues that in cultures that value achievement and progress, consumers may be more motivated to participate in loyalty programs that clearly depict their progress towards attaining a reward. On the other hand, in cultures that place less emphasis on individual achievement, other aspects of the loyalty program may be more appealing.

Zeithaml (1988) model outlines how consumers perceive benefits and drawbacks. The perceived benefits are associated with the perceived quality, while the drawbacks are related to the perceived price. Understanding the balance between these two can help in shaping effective loyalty programs. Another way to look at it is Zeithaml et al. (1996) model that suggests that consumers perceive benefits and drawbacks based on the quality of service provided. High-quality service is seen as beneficial and can motivate consumers to stay, while low-quality service is viewed as a drawback and can lead to lower customer retention.

2.3.4 Impact of technology

The impact of technology on customer relationship management (CRM) and on customer loyalty programs have been the focus of numerous research studies (Reichheld & Schefter, 2000; Lemon & Verhoef, 2016; Ngai, Xiu, & Chau, 2009; Berman, 2006; Chen, Mandler, & Meyer-Waarden, 2021). Reichheld and Schefter (2000) also argued that the unique economics of online businesses make customer loyalty more important than ever.

One of the major technological advancements that have significantly impacted loyalty programs is data analytics. Ngai et al. (2009) discussed the application of data mining techniques in CRM. They proposed that these techniques could be utilized to predict customer behaviour, segment customers, and evaluate the effectiveness of marketing strategies. Similarly, Bradlow et al. (2017) underscored the importance of better data quality, derived from new data sources and intelligent application of statistical tools, in driving improved outcomes. This indicates that superior data quality could enhance the effectiveness of loyalty programs by improving the prediction accuracy of customer behaviour and segmentation.

The emergence of mobile applications has further facilitated interactions between businesses and customers, providing businesses with unprecedented access to valuable customer data (Lemon & Verhoef, 2016). Kimura (2022) discussed the application of a model-based approach for loyalty program forecasting using smartphone applications in the retail industry's digital strategy. Social media platforms have also been increasingly integrated into loyalty programs. These platforms offer companies an opportunity to engage with customers, gather customer feedback, and enhance customer loyalty (Lemon & Verhoef, 2016).

2.3.5 Ethical and privacy concerns

The rise and evolution of loyalty programs have introduced numerous opportunities as well as challenges in loyalty programs. The accumulation and utilization of customer data through loyalty programs lead to ethical considerations and privacy risks (Chen et al., 2021). Notably, the large increase of data derived from loyalty programs has raised concerns around data security, the loss of control over personal information, and the potential threats posed by malicious cyber activities. These concerns may dampen the adoption and continued use of loyalty programs due to the stress and decrease in well-being of the customers (Chen et al., 2021).

According to Norberg et al. (2007), there exists a paradox in personal information disclosure intentions versus behaviours. People often exhibit a 'privacy paradox' where their expressed concerns about privacy do not align with their actual behaviours. Norberg et al. (2007) suggest that people's inability to accurately assess privacy risks contributes to this paradox, adding another layer of complexity to managing privacy in loyalty programs.

Advancements in technologies related to loyalty programs, including various devices and applications, offer the potential to transform customer experiences and elevate the efficiency of these programs. However, these developments also introduce new challenges, particularly in the domain of data privacy and big data management (Chen et al., 2021). In their study, Jai & King (2016) observed that consumers' willingness to share personal information varied depending on their attitudes towards privacy. They found that increasing consumer commitment could be more effective in persuading 'Privacy Unconcerned' consumers to share their information, while loyalty programs could work better for the 'Privacy Pragmatist' group. For the 'Privacy Fundamentalist' group, both commitment and loyalty programs had no significant impact, highlighting the importance of respecting different attitudes towards privacy among consumers.

Awad & Krishnan (2006) introduce a "privacy-personalization paradox", where the perceived benefits of personalized experiences can outweigh the perceived risk of privacy loss, leading to higher levels of trust. This paradox underlines the importance of personalization-privacy issues in loyalty programs. Considering the relevance of this privacy-personalization paradox and the Norberg et al.'s (2007) privacy paradox, there appears to be a limited number of studies that delve into the privacy aspects of loyalty programs.

2.4 Key Metrics of Success

Rust and Zahorik (1993) introduced the concept of customer satisfaction as an essential driver of customer retention and market share, and argued it to be a success metric for loyalty programs. Similarly, Hallowell (1996)

highlighted the strong empirical relationship between customer satisfaction, loyalty, and profitability, reinforcing the importance of customer satisfaction in assessing the success of loyalty programs. Reichheld (1993) further emphasized the crucial role of customer retention in determining company's profitability and growth, asserting that loyalty-based management could lead to higher customer retention rates. Loyal customers are more profitable because it costs less to keep customers than to acquire new ones.

In the era of digitization, the success of loyalty programs is increasingly tied to the customer's online experience. Berman (2006) emphasized the importance of developing effective customer loyalty programs in the digital age, suggesting that a well-structured online loyalty program could enhance customer satisfaction, increase retention rates, and improve profitability. Chen et al. (2021) echoed this sentiment, emphasizing the importance of comprehending the efficiency of loyalty programs in the rapidly changing landscape of digital business models.

2.4.1 Customer Lifetime Value

Customer lifetime value (CLV) is a critical measure for businesses, representing the total net profit a company can make from any given customer (Venkatesan & Kumar, 2004). Venkatesan and Kumar (2004) presented a comprehensive framework for customer selection and resource allocation based on CLV. This emphasizes the importance of understanding and predicting individual purchase frequencies and contribution margins. Venkatesan and Kumar (2004) argued that companies could use CLV to guide strategic decisions, such as customer acquisition and retention, and underscored the value of maintaining long-term customer relationships. Similarly, Gupta and Lehmann (2003) highlighted the importance of treating customers as assets. They argued that by understanding the lifetime value of a customer, companies can make more informed decisions about marketing resources, customer acquisition, and customer retention strategies, like loyalty programs.

2.4.2 Share of Wallet

The concept of share of wallet is defined as the percentage of a customer's total spending that a business captures, and it is a key objective for many loyalty programs (Meyer-Waarden 2007). Meyer-Waarden (2007) showed a positive relationship between share of wallet and lifetime duration, suggesting that customers who spend more proportionally with a retailer are more likely to stay with that retailer for a longer time. Furthermore, Bolton et al. (2000) found that loyalty program membership could have a positive impact on a customer's share of wallet. They suggested that customers who

were members in loyalty programs were less affected by declines in quality and issues with billing when contrasting the company with its rivals Bolton et al. (2000) argued that loyalty program members were more likely to perceive that they were receiving better value for their money, which in turn could increase a company's share of wallet.

3 Research material and methods

This section provides an overview of the research material and methods utilized in this study, aimed at attaining a comprehensive understanding of loyalty programs in Finnish B2C companies. The main method of this study was qualitative analysis that relied on interview data. The selection of interviewees and the subsequent data collection methods, coupled with rigorous data analysis techniques, have been employed to enhance the reliability, validity, and depth of the findings.

The study involved interviewing key individuals from four prominent Finnish B2C companies. These companies were carefully chosen based on specific criteria to ensure the representation of significant companies in their respective sectors, both domestically and internationally. Moreover, all four companies have their headquarters located in Finland, providing a focused perspective on loyalty program practices within the country.

The chosen companies are recognized as leaders within their respective industries and possess a strong market presence. Their long-standing history of operation over several decades showcases their adaptability and sustainability in a dynamic business environment. Furthermore, these companies are renowned and firmly established brands within their industries, lending credibility and industry-specific insights to the study.

To gather insights from experienced professionals well-versed in loyalty program management, the interviewees selected for this study were either loyalty program managers or directors in their respective companies. These individuals were chosen based on their extensive backgrounds and expertise in working with loyalty programs, ensuring the collection of valuable and informed perspectives.

3.1 Data collection methods (interviews)

The primary method used for data collection in this thesis was qualitative interviews. A total of four interviews were conducted with loyalty program managers and directors representing four Finnish B2C companies across multiple different industries. The interviews were strategically designed to progressively refine the questions and capture diverse perspectives on loyalty program management.

The initial interview served as the foundation for understanding the landscape of loyalty programs and the challenges faced by managers in loyalty program implementation and execution. This initial interview provided valuable insights that informed the subsequent interviews. Throughout the interview process, the questions were carefully modified and

adapted to delve deeper into specific areas of interest and to explore emerging themes in more detail.

To ensure flexibility and inclusivity, all interviews were conducted over video calls, allowing for remote participation, and enabling the inclusion of participants from geographically dispersed companies. With the participants' consent, the interviews were recorded using video conferencing software. This recording method ensured the accurate capturing of the discussions, minimizing the risk of missing valuable information.

In addition to the recorded interviews, detailed notes were taken during each interview. These notes captured important points, participant responses, and contextual information. To augment the immediate post-interview notes, additional reflections and observations were documented right after each interview. This comprehensive note-taking process ensured that no valuable insights or nuances were overlooked during the data collection phase.

3.2 Data analysis methods

The Gioia Methodology (Gioia, et al., 2012) was employed for the analysis of the qualitative data obtained from the interviews. This methodology offers a rigorous and systematic approach to analysing qualitative data, ensuring the reliability and validity of the findings.

The analysis process began with the transcription of the recorded interviews, resulting in a rich dataset of 127 raw data points. These raw data points included the verbatim responses, discussions, and narratives shared by the loyalty program managers and directors during the interviews. Each raw data point was carefully examined and analysed using a systematic coding process.

Through this coding process, the raw data points were grouped into 92 first-order concepts. These first-order concepts represented the fundamental themes, ideas, and perspectives expressed by the loyalty program managers and directors. The grouping process allowed for a comprehensive exploration of the dataset and ensured that no relevant insights were overlooked.

Next, the first-order concepts were subjected to further analysis and synthesis. Through an iterative and inductive approach, 10 second-order themes emerged from the data. These second-order themes represented higher-level patterns and recurring concepts that encapsulated the key aspects of loyalty programs in Finnish B2C companies. The iterative nature of this process ensured the comprehensiveness and depth of the analysis.

Building upon the second-order themes, the analysis culminated in the identification of four aggregate dimensions. These dimensions provided an overarching framework that helped organize and categorize the findings.

They served as a lens through which the complex and multifaceted aspects of loyalty programs could be understood and interpreted.

To ensure the rigor and validity of the analysis, the data structure underwent an iterative process of going back and forth. After the first versions of first-order concepts, second-order themes and aggregate dimension were developed, the analysis proceeded by revisiting the second-order themes to further refine them. Following this revision, the first-order concepts were reassessed and honed accordingly. Lastly, the analysis looped back to the aggregate dimensions for a final round of refinement.

To enhance the reliability of the findings, the recorded interviews were subjected to multiple rounds of review. This comprehensive review process involved meticulous examination of the videos, transcriptions, and notes to ensure the accuracy and consistency of interpretations. The purpose was to cross-validate the interpretations, refine the identified themes, and maintain coherence throughout the analysis.

By employing the Gioia Methodology and conducting a thorough analysis of the qualitative data, this thesis aims to present a comprehensive and robust understanding of loyalty programs in Finnish B2C companies. The insights provided are derived from the perspectives and experiences of the interviewed loyalty program managers and directors, thus offering valuable insights into the practical implementation and management of loyalty programs.

4 Results

The evolution of loyalty programs in the digital era has brought about significant changes in their role and goals. This study aimed to answer how digitalization is transforming loyalty programs, how data collection is influencing their operation, what the new goals of loyalty programs are, and what metrics are used to measure these goals. By employing the Gioia methodology, four key dimensions emerged: Evolution and Adaption, Customer Value and Experience, Company Strategy and Loyalty, and Measurement and Effectiveness. The key findings of the study are summarized in the figure 1 below.

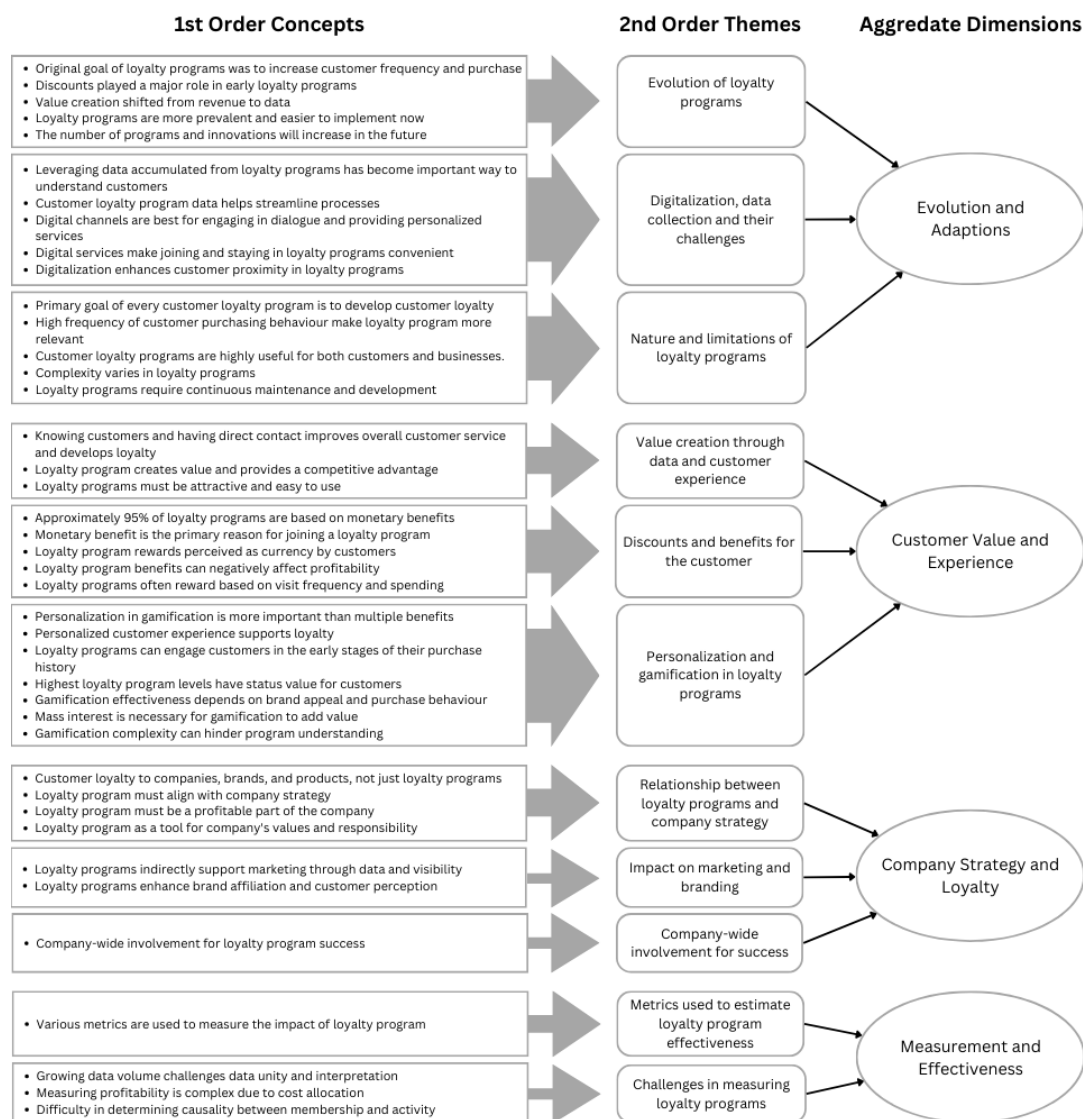


Figure 1: Data structure with Gioia methodology.

The findings of this research shed light on the evolving landscape of loyalty programs and their implications. Loyalty programs have shifted from a primary focus on increasing customer frequency and purchases to leveraging data for value creation. As a result, loyalty programs have transformed from transactional systems to data-driven value creation tools. It has become easier to implement a loyalty program, and the expectation is that this will continue in the future. Digitalization and data collection have become integral components, enhancing customer proximity and personalization. These changes have brought benefits to both customers and businesses, but they also present challenges that must be addressed to ensure long-term success.

Customer value and experience emerged as fundamental aspects of loyalty programs. Understanding customers, providing direct contact, and delivering exceptional customer service were identified as key contributors to loyalty and value creation. Monetary benefits, such as discounts, played a significant role in attracting customers to loyalty programs. Additionally, personalization and gamification strategies were found to enhance customer experiences and support loyalty.

The relationship between loyalty programs and company strategy was found to be essential for the effectiveness and success of loyalty programs. Loyalty programs should align with the overall strategy of the company and contribute to its profitability. Loyalty programs serve as a tool to express the company's values and responsibilities, and indirectly support marketing and branding efforts through valuable data and enhanced brand affiliation. It is crucial for the entire company to be involved and committed to the success of a loyalty program.

Measuring the effectiveness of loyalty programs requires the use of various metrics to estimate their impact. However, challenges arise in managing the growing volume of data, determining profitability, and understanding the causality between membership and customer activity. Overcoming these challenges necessitates careful data consolidation, cost allocation, and thorough analysis to gain meaningful insights into the effectiveness of loyalty programs.

4.1 Evolution and Adaption

Loyalty programs have undergone significant evolution and adaptation over time to meet changing goals and market dynamics. Initially, the primary objective of loyalty programs was to increase customer frequency and purchases. Discounts played a major role in the early stages of loyalty programs, incentivizing customers to remain loyal to a particular brand or business. As one interviewee stated:

“The original goal [of loyalty programs] was to get customers to come more frequently and purchase more”.

However, the focus of value creation within loyalty programs has shifted from only creating revenue to gathering data and utilizing it throughout the business. Instead of solely relying on increased purchases, businesses now recognize the importance of collecting customer data. This highlights the significance of data as a valuable asset within loyalty programs. As two interviewees explained:

“Before, value was created when a customer came shopping and brought revenue. Now, the data a customer leaves from their trail is the value”.

“Alongside loyalty, it has become equally important to leverage the data accumulated from the customer loyalty program”.

By analysing customer data, businesses can gain insights into their preferences, behaviours, and needs, allowing for more personalized marketing strategies, product development, and overall customer experience enhancement. The integration of data-driven approaches in loyalty programs enables businesses to make informed decisions, improve operational efficiency, and drive growth by effectively meeting customer demands and expectations. One interviewee described it as:

“Value is realized only when data can be utilized in different areas of the business”.

Furthermore, the ease of implementation of loyalty programs have increased over time. Advancements in technology and digitalization have made it simpler for businesses to establish and manage loyalty programs, allowing for wider adoption across different industries. One interviewee highlighted that:

“There are more customer loyalty programs now, and they are easier to implement than before”.

Looking towards the future, it is expected that the number of customer loyalty programs and innovations in them will continue to grow. Businesses are likely to explore new approaches and models to enhance customer loyalty and engagement, and new industries that have been reluctant to adopt loyalty programs are starting to create their own variations. An interviewee expressed it like:

“The number of customer loyalty programs and innovations in different models will increase in the future”.

Digitalization and data collection have played a pivotal role in shaping loyalty programs. Loyalty programs now serve as a means to collect valuable

customer data for businesses. This data helps streamline processes and gain insights into customer behaviour. As mentioned by one interviewee:

"Loyalty programs are a way to collect data and better understand customers".

Digital channels have become the preferred medium for engaging in dialogue with customers and providing personalized services. The convenience of joining and participating in loyalty programs through digital platforms has also improved, strengthening customer engagement. One of the interviewees stated:

"Digitalization brings loyalty programs closer to the customer".

While the primary goal of every loyalty program remains to be the development of customer loyalty, the frequency of customer purchasing behaviour influences the relevance of loyalty programs in the business. As two interviewees explained:

"The more frequent the visits, the better a customer loyalty program suits the business".

"There must be a certain frequency in the customer's purchasing behaviour for a loyalty program to make sense".

However, loyalty programs as a tool are highly beneficial for both customers and businesses, fostering a mutually beneficial relationship, which is also why more businesses with infrequent customer contact points are launching loyalty programs. This was also backed up with one interviewee stating that:

"Maintaining brand loyalty between visits, no matter how long they are, is beneficial for the business, which can be achieved with a well-implemented customer loyalty program".

Nevertheless, loyalty programs are not without limitations. Their complexity can vary, and when loyalty programs become more established in the business their complexity tends to increase, as new features are introduced. Simplicity is crucial when targeting customers who may not invest time in understanding the loyalty program and systems around it. As expressed by an interviewee:

"Loyalty programs are usually not very simple. Simplicity has value when targeting ordinary people who don't spend much time understanding the loyalty program".

Additionally, loyalty programs require continuous maintenance and development to ensure their effectiveness and alignment with evolving customer preferences and market dynamics, which creates a trap of complicating the programs evermore.

Initially centred on increasing customer frequency and purchases through discounts, the focus of loyalty programs has significantly shifted towards data-driven value creation. This transition emphasizes the importance of collecting and utilizing customer data to gain insights into preferences and behaviours, fostering personalized marketing and improved customer experiences. The ease of implementation has also grown with technological advancements, enabling wider adoption across various industries. The future of loyalty programs is expected to continue to evolve, with a focus on innovations and the potential for growth in new industries. The need for simplicity and development are identified as key considerations in ensuring the effectiveness of loyalty programs, reflecting the intricate balance required to navigate evolving customer preferences and market dynamics.

4.2 Customer Value and Experience

Value creation through data and customer experience are crucial aspects of loyalty programs. By knowing customers and establishing direct contact with them, businesses can improve overall customer service and foster loyalty. As two interviewees suggested:

"When you know your customers and have direct contact [with them], it improves overall customer service and develops customer loyalty through that".

"Managing and utilizing customer data to enhance customer experience has become as important a goal as customer loyalty".

Loyalty programs play a significant role in creating value and providing a competitive advantage for businesses. They not only aim to develop customer loyalty but also "...must create value for the customer", as another interviewee highlighted. An interviewee explained:

"A loyalty program creates a bond between the company and customers".

This allows a deeper connection and fosters a sense of loyalty and commitment. But to achieve success, loyalty programs must be attractive and easy to use, ensuring a seamless and enjoyable customer experience.

Discounts and benefits are key factors that attract customers to loyalty programs. As one interviewee noted, approximately 95% of loyalty programs are based on monetary benefits. They explained that:

"Monetary benefits are an appealing factor for everyone, but there is no one-size-fits-all model for everything else".

Monetary benefits, such as discounts and rewards, serve as the primary motivation for customers to join loyalty programs. Customers can also

perceive loyalty program rewards as currency, adding further value to their experience and to the rewards.

However, it is essential to note that loyalty program benefits can negatively affect profitability. Progressive benefits, which are popular in many loyalty programs, can pose challenges in maintaining profitability. As customers make more purchases and receive increasing discounts and rewards, those can erode the profitability of the most valuable customers. One interviewee raised a valid question:

"If a customer buys anyway, is it worth giving them discounts or other benefits?"

Striking the right balance between benefits and profitability is not easy, when trying to make the loyalty program as enticing as possible, but it is crucial for the success and profitability of loyalty programs.

As discussed previously, loyalty programs often structure rewards based on visit frequency and spending. Customers are incentivized to increase their engagement with the business to earn more rewards. This is why businesses need to “considering how to develop customer experience in every point of contact”, as one interviewee stated. Personalization and gamification are two key strategies employed in loyalty programs to enhance customer experience and foster loyalty. Personalization plays a significant role in creating a tailored customer experience. As emphasized by an interviewee:

"In gamification, personalization is more important than receiving multiple benefits"

Customer loyalty and retention are reinforced by providing an enhanced and tailored customer experience, as highlighted by another interviewee:

"The ability to deliver a better and more personalized customer experience supports customer loyalty"

Although, it is crucial to acknowledge that not every benefit or gamification element will appeal to every customer or even within larger demographics. As one interviewee put it:

"Gamification and benefits need to be personalized. Everything is not a fit for everyone or even within larger demographics"

By recognizing the importance of personalization, businesses can better align their loyalty programs with the specific needs and desires of individual customers and increase customer value and fostering loyalty.

Loyalty programs can and try to also engage customers in the early stages of their purchase history. This way the loyalty creation might not have immediate benefits, but it becomes valuable for the company in the long run. This is a valuable method for businesses to secure especially new and young

customers. It is also beneficial for the customers to commit to one loyalty program, as one interviewee mentioned:

“By focusing on a chosen loyalty program, the customer receives the best benefits and advantages”.

The highest levels of loyalty programs often carry status value for customers, which further enhances their experience. This is boosted with businesses giving out visible badges or items, such as loyalty cards, for customers to showcase their achievements and loyalty. However, gamification and personalization are not effective strategies in all loyalty programs, as the effectiveness of gamification in loyalty programs depends on the appeal of the brand and customer purchase behaviour. As one interviewee put it:

“Gamification is not a saving point if the brand is not interesting or purchases are small”.

In order for gamification to add value to loyalty programs, it is crucial to generate a significant and engaged customer base. Furthermore, it is important to note that gamification creates complexity, as described by one interviewee:

“Gamification can create complexity around the loyalty program, making it harder to understand”.

It has become obvious that value creation through data and a direct customer relationship can elevate overall customer service and loyalty. Discounts and monetary benefits serve as significant attractions in loyalty programs, yet they are not without challenges, particularly in balancing benefits with profitability. The personalized tailoring of benefits and gamification enhances the customer experience, although it necessitates careful alignment with individual preferences, acknowledging that not every element will appeal to all customers. Furthermore, the application of gamification must be handled with caution, considering the brand's appeal and potential complexity of the loyalty program. There is a need for strategic implementation of loyalty programs that caters to diverse customer needs while maintaining the underlying profitability and attractiveness.

4.3 Company Strategy and Loyalty

A tight relationship between loyalty programs and company strategy is vital for loyalty programs success. Loyalty programs should aim to foster customer loyalty not just to the program itself but also to the company, its brands, and its products. As one interviewee phrased it:

"Customers are loyal to companies, brands and products, not loyalty programs".

Alignment between the loyalty program and the overall company strategy is crucial to ensure that the program's objectives are in line with the company's goals, vision, and values. Additionally, loyalty program can serve as a tool for expressing the company's values and responsibility towards its customers. It can be used to reinforce the company's brand image and create a positive association with its values and mission. One interviewee expressed it as, "Simply put, a loyalty program is a tool" that supports the company's broader strategies and objectives.

Moreover, for a loyalty program to be effective, it must be a profitable part of the company on its own. It should contribute to the company's financial success and be sustainable in the long term. The loyalty program should generate value and revenue, as highlighted by an interviewee:

"The loyalty program must be a profitable part of the company itself".

By incorporating certain business principles, such as analysing sales, market share, the bottom line, and leveraging digital services, as suggested by an interviewee, companies can ensure that their loyalty program not only fosters customer loyalty but also contributes to the company's overall financial health.

Loyalty programs have a significant impact on marketing and branding efforts. They indirectly support marketing by providing valuable customer data and increasing brand visibility. Through the collection of customer data, businesses gain insights that can inform their marketing strategies and enable targeted and personalized campaigns. As one interviewee emphasized:

"A loyalty program is part of marketing and should therefore be aligned with the marketing strategy".

Furthermore, loyalty programs enhance brand affiliation and customer perception, making the brand appear closer and more interesting to customers. One interviewee's interpretation was that:

"Loyalty programs indirectly support marketing through data and brand visibility".

For a loyalty program to succeed and fully reap its benefits, the involvement of the entire company is crucial. It requires company-wide engagement and commitment from top to bottom. Loyalty program's goals should align with goals of all other departments and actively contribute to fostering loyalty and making customer experience better throughout the whole company. Emphasized by one interviewee:

"A loyalty program cannot maximize its benefits if it is not implemented throughout the organization".

The alignment between the loyalty program and company strategy is vital to ensure coherence with the company's goals, vision, and values. This alignment allows the loyalty program to serve as a tool that supports the company's broader objectives. An essential aspect of a successful loyalty program is its ability to contribute to the company's financial success, underlined by the need for the program to be profitable in itself. Loyalty programs have a significant impact on marketing and branding efforts, facilitating targeted strategies through data collection, and enhancing brand visibility. A company-wide commitment to ensure that the loyalty program aligns with all departments' goals and contributes holistically to enhancing customer experience and loyalty across the entire organization.

4.4 Measurement and Effectiveness

Measuring the effectiveness of loyalty programs is essential to evaluate its impact. Various metrics are used to estimate the effectiveness of loyalty programs, including revenue, percentage of total revenue, active members, new members, usage of the application, emotional value index, and the use of digital services. As two interviewees mentioned:

"Active member count, new member count, and the share of purchases made by loyalty program members are universal metrics for loyalty programs".

"Share of wallet and customer lifetime value are common metrics in loyalty programs."

However, one interviewee noted that CLV is not a "tactical metric, but a more strategic one", and therefore it's only useful in long-term planning of the loyalty program. These metrics provide insights into loyalty program engagement, growth, and the extent to which loyalty program members contribute to overall sales.

However, measuring loyalty programs comes with its own set of challenges. The growing volume of data generated by loyalty programs can present difficulties in achieving data unity and interpretations. As an interviewee explained:

"The number of data sources and resulting inconsistency make measurement and data utilization challenging".

Consolidating and analysing data from different sources becomes crucial to gain a comprehensive understanding of loyalty program performance and the customer behaviours.

Measuring the profitability of loyalty programs can be complex due to the allocation of costs. As discussed previously, loyalty programs often span to multiple departments providing benefits to the members. Determining the specific costs associated and department the cost is allocated with these benefits can be challenging. Accurately attributing costs and evaluating the return on investment (ROI) of loyalty programs requires careful cost allocation and analysis. As highlighted by one interviewee:

"Measuring profitability is complex. The costs of benefits may fall into multiple areas in accounting terms".

Another challenge in measuring loyalty programs lies in determining the causality between membership and activity. It can be difficult to measure the gains of a loyalty program when considering whether customers are members because they are active, or if they are active because they are members. This dilemma creates what is often referred to as the "chicken and egg problem," as mentioned by one interviewee. Untangling the relationship between membership and customer activity requires careful analysis and consideration of various factors.

There is a clear need to evaluate the impact of loyalty programs, using metrics like revenue, active members, and customer lifetime value. However, the measurement process presents challenges, including handling large volumes of inconsistent data, complex allocation of costs across different departments, and the difficulty of determining the causal relationship between membership and activity within the loyalty program. Analysing these factors is essential to understand engagement and profitability of the customers while navigating the inherent complexities of data and customer behaviour.

5 Discussion

The findings in this thesis on loyalty programs in Finnish B2C businesses have practical implications and provide valuable insights into the changing role of loyalty programs. Businesses should consider these when implementing and managing their loyalty programs. Understanding and implementing these implications can help businesses create value, improve customer service, foster loyalty, and ensure the success of their loyalty programs.

5.1 Summary of the results

The main research question of this thesis was: How is digitalization evolving the role of loyalty programs? Subsequently, this leads to questions of: How is data collection changing loyalty programs, what are the new goals of loyalty programs and what are the metrics used to measure the new goals of loyalty programs?

The results answer comprehensively all of these questions. Loyalty programs were centred on increasing customer frequency and purchases through discounts, but with digitalization and advancements in technology the focus of loyalty programs has significantly shifted towards data-driven value creation. Loyalty programs are becoming more personalized and targeted towards individual customers, with the ability to understand customer behaviour better. The goal of loyalty program is not only to create revenue and be profitable part of the business, but to cultivate customer loyalty to the whole organization and help various departments in their own goals with the enhanced understanding of customers. Although, loyalty program member count and their share of revenue are still important metrics, customer lifetime value and share of wallet have risen as equally important financial metrics to measure the success of loyalty programs.

5.2 Practical implications for B2C businesses

The shift in the focus of loyalty programs from simply increasing customer frequency and purchases to data collection highlights the significance of data as a valuable asset within loyalty programs. Businesses need to recognize the strategic importance of data and invest in data analytics capabilities. These capabilities are increasingly crucial due to the volume and diversity of data generated from loyalty programs. By analyzing customer data, businesses can gain insights into customer preferences, behaviors, and needs. This enables businesses to develop personalized marketing strategies, enhance product development efforts, and improve overall customer experiences.

Furthermore, businesses should strive to establish direct contact with customers. The direct contact improves overall customer service and strengthens customer loyalty. To leverage the full potential of data, businesses should ensure seamless integration of data-driven approaches across multiple areas of the organization.

Personalization and gamification are strategies that can significantly enhance the customer experience and foster loyalty within loyalty programs. Personalization, tailored to individual customer needs and desires, plays a crucial role in creating a unique customer experience. Businesses should strive to provide personalized rewards, interactions, and communication to strengthen customer loyalty and retention. Businesses need to evaluate the suitability of gamification for their specific program and customer base and decide if gamification elements will benefit the loyalty program and the customers.

Businesses should embrace digitalization and technology to enhance the effectiveness of their loyalty programs. Advancements in technology and digital channels have made it easier for businesses to implement and manage loyalty programs, and for customers to engage and participate in them. To maximize customer engagement, businesses should leverage digital platforms for program enrollment, communication, and reward redemption. By providing customers with a user-friendly interface, businesses can create a seamless and convenient experience that encourages participation in loyalty programs.

Additionally, simplicity and ease of use should be priorities when designing loyalty programs. Businesses should strive to create straightforward program structures and rules that are easy for customers to understand. Complex program features and elaborate reward systems can deter customers from joining and participating in the loyalty program. By prioritizing simplicity, businesses can ensure that a wide range of customers, including those who may not invest much time in understanding loyalty programs, can easily engage and benefit from the loyalty program.

In addition, loyalty programs can be beneficial for businesses across various customer segments. While loyalty programs are traditionally associated with frequent customer interactions, businesses with infrequent customer contact points can also find value from loyalty programs. By designing loyalty programs that focus on maintaining brand loyalty between visits, businesses can effectively engage customers even if their purchasing frequency is low. This approach is particularly relevant for industries where customers have longer gaps between purchases, such as high-ticket items or subscription-based services.

To extend the reach of loyalty programs to new customer segments, collaborations and partnerships can be added to loyalty programs. Businesses can explore collaborations with complementary businesses or

service providers to offer a wider range of rewards and benefits to their customers. By forging a strategic partnership, businesses can increase the attractiveness and perceived value of their loyalty programs. A broader ecosystem of offerings serves both the existing customer segments and appeals to new ones.

Establishing a tight relationship between loyalty programs and company strategy is crucial. Loyalty programs should aim to foster customer loyalty not just to the program itself, but also to the company, its brands, and its products and services. The alignment between the loyalty program and the overall company strategy ensures that objectives are in line with the company's goals, vision, and values. This can enhance the program's effectiveness and ensure that it supports the company's long-term success.

Correspondingly, loyalty programs should be aligned with the marketing and brand strategy to maximize the marketing benefits. Loyalty programs indirectly support marketing by providing valuable customer data and increase brand visibility. The collection and analysis of customer data within loyalty programs can inform marketing strategies to create targeted and personalized campaigns. Additionally, loyalty programs enhance brand affiliation and customer perception, making the brand more appealing and interesting to customers.

Lastly, the successful implementation and integration of a loyalty program requires the involvement and commitment of the entire company. The loyalty program should actively contribute to fostering loyalty and enhancing the customer experience throughout the entire organization. By ensuring company-wide engagement and commitment, businesses can maximize the benefits and effectiveness of loyalty programs.

5.3 Theoretical implications

5.3.1 Data collection and analysis

Anderson and Sullivan (1993) developed a utility-oriented framework which interprets customer satisfaction as a reaction to the fulfilment of customer expectations. Aligning with this, the practical implications suggest that businesses can utilize customer data acquired through loyalty programs to better understand customer preferences, behaviours, and needs, and therefore meet or even exceed the expectations of the customers. Data collection is further supported by Ngai et al. (2009), who demonstrated the potential of data mining techniques in customer relationship management (CRM) for unveiling patterns in customer behaviour, and Dorotic et al. (2012), who emphasized the importance of data collection to understand customer behaviour and preferences.

Additionally, the results align with Berman's (2006) emphasis on the power of a comprehensive database in tracking member's purchases and points, which serves as the foundation for targeted marketing strategies. This strategic importance of data collection and data mining in loyalty programs is a theme recurrently echoed in the literature (Kumar & Reinartz, 2012; Lemon & Verhoef, 2016).

5.3.2 Personalization

Berry (1995) emphasized the quality of customer relationships, suggesting personalized experiences are key to fostering loyalty. This is supported by Yi and Jeon's (2004) study, which proposed that personalized rewards in loyalty programs enhance customers' perception of value, thereby boosting program and brand loyalty. Kumar and Shah (2004) further discussed the shift towards personalization in loyalty programs, highlighting an industry-wide evolution towards individual customer-level personalization.

The importance of delivering superior service, which often includes personalized experiences, was highlighted by Zeithaml et al. (1996). This aligns with the practical implications, which emphasize that personalization within loyalty programs can amplify the customer experience, leading to increased loyalty. The findings of Bolton et al. (2000) and Sharp and Sharp (1997) further support this by underlining the importance of positive service experiences and customer involvement for customer retention and value. This trend towards personalization is echoed in the work of Ngai, Xiu, and Chau (2009). They identified personalization as a key facet of CRM, with personalized marketing campaigns supported by the analysis of changes in customer behaviour.

The use of data in enabling personalization is a common theme in the literature. Dorotic et al. (2012) highlighted how loyalty program data can be used to personalize the customer experience, with personalized rewards or product recommendations based on a customer's purchase history. Similarly, Yang et al. (2019) argued for understanding and catering to the specific needs and desires of customers for the success of loyalty programs.

5.3.3 Digitalization and technology

Reichheld and Schefter (2000) articulated the concept of "e-loyalty", highlighting the benefits of leveraging digital platforms to engage and retain customers. This supports the practical implications regarding the importance of embracing digitalization and technology to enhance the effectiveness of loyalty programs. Similarly, Berry (1995) stressed the significance of information technology, by detailing how advances in technology have rendered relationship marketing programs more affordable

and powerful. Furthermore, Kumar and Shah (2004) recognized the critical role of technology in enabling sophisticated tracking of customers, envisaging future loyalty programs utilizing advanced technology, such as smart cards and RFID, to improve the speed and accuracy of customer data.

5.3.4 Simplicity and ease of use

The importance of simplicity and ease of use in loyalty programs is supported by Yi and Jeon (2004), who highlighted that a loyalty program's simplicity can influence its perceived value, thereby affecting positively customer loyalty. This is similar to the findings of Liu et al. (2013), who pointed out the significant role of user-friendly digital interfaces in online impulse purchases. Berry et al. (2010) stated that simplicity in loyalty programs is a key driver of customer satisfaction and continued patronage. This notion is supported by Kimura (2019), who highlighted the significance of user-friendly digital interfaces and simple program structures in enhancing customer experiences and fostering loyalty.

5.3.5 Customer segments

Reichheld and Scheffer (2000) stressed the importance of understanding and targeting different customer segments. They stated the importance of a nuanced, customer-centric approach to loyalty program design and implementation, underlining the potential of such an approach to enhance customer loyalty and drive business growth. This reinforces the practical implication of understanding and catering to the unique needs of different customer segments to enhance loyalty program effectiveness.

5.3.6 Collaborations and partnerships

The practical implications underscore the strategic significance of partnerships in enhancing loyalty programs. Berry (1995) discussed the increased necessity for cooperation in the context of relationship marketing, noting the emergence of strategic network competition. This is further corroborated by the works of Berman (2006), Meyer-Waarden (2008), and Dorotic et al. (2012), who collectively highlighted the benefits of multi-partner or coalition loyalty programs. They underscored cost reduction and the potential for complementing each organization's strengths and weaknesses and suggested that such partnerships can enhance loyalty programs by offering a wider range of rewards and benefits.

Moreover, Lemon and Wangenheim (2009) added to this by exploring the impact of loyalty program partnerships on customer behaviour. They identified increased customer retention and cross-buying as key outcomes of

partnerships between loyalty programs, which resonates with the research findings that collaborations and partnerships can enhance customer retention and broaden customer segments.

5.3.7 Alignment with company strategy

The importance of aligning loyalty programs with company and marketing strategies is supported by Bloemer and de Ruyter (1998). They argued for the positive relationship between store image, store satisfaction, and store loyalty, a concept that can be extended to include the alignment of loyalty programs with the overall company strategy. This alignment ensures that the program's objectives are in line with the company's goals, enhancing the program's effectiveness and supporting the company's long-term success.

Furthermore, Yang et al. (2019) research on consumer motivation for reward pursuit emphasizes the role of cultural and progress-based factors in determining loyalty program effectiveness. Moreover, Reichheld (1993) posits that loyalty programs should not only cultivate customer loyalty but also contribute to profitability. Similarly, Venkatesan and Kumar's (2004) customer lifetime value framework suggests that a company should consider both current and potential future purchases when assessing customer value.

Liu's (2007) research on the enduring impact of loyalty programs found that loyalty programs not only encourage repeat purchases but also strengthen customers' emotional attachment to the brand. Moreover, the impact of loyalty programs on attitudinal loyalty, not just purchasing behaviour, is highlighted by Uncles et al. (2003). They argue that loyalty programs can augment customers' emotional attachment to the brand, leading to increased brand loyalty. This assertion aligns well with the research findings, which also emphasise the role of loyalty programs in fostering emotional attachment and brand loyalty. Similarly, Yi and Jeon (2004) propose and test causal relationships between loyalty program loyalty and brand loyalty, reinforcing the practical implications that the loyalty program should foster loyalty to the company and its brands.

5.4 Limitations of the study and suggestions for future research

Overall, the practical implications and results align with and extends upon previous studies and theoretical models in the field of loyalty programs. They emphasize the importance of data analytics capabilities, personalization, technology, digitalization, simplicity and ease of use, partnerships, and alignment with company strategies in loyalty program design and implementation. The suggested practical implications are consistent with the

findings of previous research and provide insights for businesses aiming to enhance the effectiveness of their loyalty programs.

Despite the insights provided by this study, it is essential to recognize its limitations and the opportunities they present for future research.

While the research highlights the potential of gamification in bolstering the effectiveness of loyalty programs, it does not provide an in-depth exploration to gamification elements. With gamification becoming an increasingly popular tool in marketing strategies, there is room for future research to delve deeper into how it can be optimally integrated into loyalty programs and its subsequent impact on customer engagement and loyalty.

Similarly, although the importance of company-wide commitment of loyalty programs is acknowledged in this study, a comprehensive exploration of this subject is lacking. Subsequent research could focus on explaining the influence of such involvement on the success of loyalty programs, along with the identification of best practices for cultivating this involvement.

The results are primarily based on the analysis of loyalty programs within B2C businesses and interviews were conducted with larger companies. Therefore, the conclusions may not be applicable to other types of businesses such as B2B companies or smaller start-ups. Future research could expand the scope of this study by exploring the effectiveness of loyalty programs in different types of businesses or industries.

The study does not explicitly consider the geographical context of the loyalty programs being studied. Interviewed companies are all based in Finland and their business is conducted solely or mostly in Finland. Cultural, economic, and regulatory differences across different regions can significantly impact the design and effectiveness of loyalty programs. Future research could investigate the influence of regional factors on the success of loyalty programs.

While the study acknowledges the role of digitalization and technology in enhancing the effectiveness of loyalty programs, it does not delve into the specific technological solutions or platforms that can be leveraged for this purpose. As technology continues to evolve rapidly, future research could examine the potential of emerging technologies such as artificial intelligence, machine learning, and blockchain in enhancing loyalty programs.

The study uses a qualitative approach to analyse the effectiveness of loyalty programs. Future research could complement this approach with quantitative methods, such as statistical analysis or machine learning algorithms, to identify patterns and relationships in loyalty programs that might not be evident from a qualitative analysis.

Understanding the customer's perspective is crucial for designing loyalty programs that effectively meet their needs and preferences. The study focuses on the practical implications of loyalty programs for businesses, with less emphasis on the perspective of customers. Future research could focus

on exploring the customer's perspective, for instance, by conducting customer surveys or focus group interviews.

In conclusion, the study has opened up several avenues for future research, thereby contributing to the ongoing scholarly dialogue on loyalty programs. By addressing these limitations, future research can provide a more comprehensive understanding of loyalty programs and their role in enhancing customer loyalty and business performance.

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