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# Shifting loyalty: How customer behavior changes when retail rewards programs go mobile

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Customer loyalty programs have been around since the late 18th century, when some U.S. merchants began giving their customers copper tokens that could be redeemed for future purchases. Today, similar rewards schemes are nearly ubiquitous, ranging from airline frequent flier programs to grocery store discount cards. Research has shown that these programs build brand loyalty and increase sales. They're undeniably popular: In 2016, American consumers held $195.4 billion in loyalty program points.

But just as copper tokens were replaced by plastic rewards cards, those cards are increasingly being supplemented or replaced by smartphone apps. As more and more rewards programs go mobile, what are the effects on consumer behavior? That's the question University of Notre Dame researcher Yoonseock Son sought to answer in a recent paper published in the journal *Information Systems Research*.

"Mobile platforms have become a key driver of omnichannel retailing," said Son, an assistant professor of information technology, analytics and operations at Notre Dame's Mendoza College of Business. "Although the conventional plastic card-based schemes allow retailers to electronically store and access consumer information, they do not lend themselves to interactive communication with patrons or provide customized marketing in real time."

To study the performance of smartphone-based rewards programs, Son and researchers Wonseok Oh of the Korea Advanced Institute of Science and Technology, Sang Pil Han of Arizona State University and Sungho Park of Seoul National University looked at a multinational restaurant company that operates 18,000 brick-and-mortar stores worldwide under 15 different brands. The company offers a rewards program that gives customers 5 percent of their spending back as rewards points, which are redeemable as cash discounts at any of the company's other stores.

When customers first enroll, they can either receive a plastic card or directly register on the company's rewards app, which allows customers to check their point balance, learn about promotions and download coupons. The company gave the researchers access to the anonymized purchasing history of 7,712 of its randomly sampled South Korean rewards club members over a seven-month span. Half of these members used plastic cards to collect and redeem their points, while the other half used the app.

The researchers found that consumers who used the app spent more money at the company's stores, and redeemed more points, than those who relied on the plastic card. The researchers are careful to note that, because they weren't able to randomly assign consumers to either the app or the card, it's impossible to conclude that adopting the app leads to higher spending—other factors might also be involved. But the correlation is striking. The researchers conclude that mobile reward apps "enhance the portability, interactivity and accessibility of loyalty points," while offering consumers "personalized promotions and instant access to their accounts for an improved service experience."

Mobile apps may encourage more spending, but there's a trade-off: Son and his co-authors found that app users were more likely to engage in "deal-susceptible" behavior like only purchasing products when they went on sale. "Because consumers are typically in constant engagement with their mobile devices, they can easily access information and strategically forage for inexpensive goods or products on promotion," they write.

That's a problem for retailers, because sale items have a lower profit margin than full-price products. The app, in other words, may end up "fostering an environment that encourages membership from unprofitable customers." And while app users spent more overall at the company, they tended to spread that spending around to the company's different brands—an indication that the app wasn't fostering brand loyalty as intended.

Given that one of the primary purposes of rewards programs is to foster customer loyalty, it's not surprising that companies prefer to maintain their own programs. Recently, though, a number of so-called multi-vendor loyalty programs (MVLPs), such as Rakuten, have emerged. MVLPs allow people to earn and redeem rewards at any store enrolled in the program, which makes them more attractive to consumers than single-store programs. For retailers, membership in an MVLP may attract new customers and increase sales.

But Son's research suggests that such programs have their limitations. When using an app to earn and spend reward points, the paper suggests that consumers tend to migrate toward whatever brand is offering the biggest discount. Instead of encouraging loyalty, MVLPs may actually discourage it. "The thrust of loyalty programs should be directed towards fostering a strong connection with a brand, going beyond the promise of deals and promotions," Son said. "Yet loyalty apps can mold customers into increasingly price-responsive individuals, as those apps function as channels for promotions and deals."

Loyalty programs aren't going away, and it seems clear that most of them will eventually go fully mobile. Son's research shows both the promise and the pitfalls of that transition. "The digitalization of loyalty may yield many benefits," he said, but "retailers should be alerted to potential threats."

"When Loyalty Goes Mobile: Effects of Mobile Loyalty Apps on Purchase, Redemption, and Competition" appears in *Information Systems Research*.

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