

Do customer loyalty programs really help sellers make money?

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Customer loyalty programs have been around for decades and are used to help businesses, marketers and sellers build a sustainable relationship with their customers. But do they work? A recent study sought to find

out and researchers learned that yes, customer loyalty programs do work, but perhaps not in ways most may assume.

There are two basic types of customer loyalty programs, tiered and non-tiered. Airlines and hotels often use tiered customer loyalty programs that increase rewards as [program](#) members reach higher thresholds of spending over time. Retailers and service industry businesses are more likely to offer non-tiered customer loyalty programs, in which members are rewarded with frequent, but not increasing rewards, such as "buy 10, get one free."

This research investigated if those non-tiered customer loyalty programs actually do what they are designed to do.

The study to be published in the June issue of the INFORMS journal *Marketing Science*, "Can Non-tiered Customer Loyalty Programs Be Profitable?", is authored by Arun Gopalakrishnan of Rice University, Zhenling Jiang of the Wharton School of Business at the University of Pennsylvania, and Yulia Nevskaya and Raphael Thomadsen of the Olin Business School at Washington University in St. Louis.

The authors found that non-tiered customer loyalty programs increase customer value by almost 30% over a five-year time period. They discovered that the program's effectiveness is not so much through increased spending per transaction or frequency of purchasing but rather through the reduction of attrition. In other words, the chief benefit is that the customer loyalty program reduces customer fall-off and turnover.

"We found that a non-tiered customer loyalty program's reduction in attrition accounts for more than 80% of the program's total lift or success," said Thomadsen. "On the other hand, increased frequency accounts for less than 20% of the program's lift or effectiveness."

Jiang added, "One of the more interesting findings was that the impact of the loyalty program does not necessarily contribute to increased spending per transaction or increased frequency of transactions. Rather, the benefit to the business is creating more sustainable and lasting relationships with customers."

To conduct their research, the authors worked with a company to collect data of more than 5,500 new customers who first started purchasing from that company in the same three-month period. This helped to ensure that the customers were comparable in terms of the amount of time they had to become acquainted with the selling firm. For the next 30 months, the researchers collected all subsequent [transaction](#) data from those consumers. During that period, a non-tiered customer loyalty program was introduced.

In the process, some of these new customers were automatically enrolled into the loyalty program. This helped researchers better gauge pre-program visit frequency and spending and then compare it to post-enrollment visit frequency and spending. "We were able to analyze the behaviors of consumers absent a customer loyalty program, and then after the rollout of the program," said Nevskaya. "We evaluated frequency and actual spending amounts, and whether customers come back for repeat transactions."

Gopalakrishnan summarized, "In the end, the primary value of a non-tiered customer loyalty program is not a means to increase frequency or spending. It's a way to nurture a long-term and lasting relationship with the [customer](#) to reduce the defection of loyal customers over time. Non-tiered loyalty programs may provide psychological benefits that help cultivate such [loyalty](#)."

More information: Arun Gopalakrishnan et al, Can Non-tiered Customer Loyalty Programs Be Profitable?, *Marketing Science* (2021).

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