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Bijmolt, Tammo H. A.; Krafft, Manfred; Sese, F. Javier; Viswanathan, Vijay

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CHAPTER 6

Multi-tier Loyalty Programs to Stimulate Customer Engagement

Tammo H.A. Bijmolt, Manfred Krafft, F. Javier Sese, and Vijay Viswanathan

Stimulating Customer Engagement

As firms have moved from a product-driven management approach to a customer-centric, service-oriented approach, their focus has shifted from stimulating transactions to building and maintaining relationships with customers (Kumar and Reinartz 2016; Sheth and Parvatiyar 1995). In managing customer relationships, customer engagement has become a central theme, where customer engagement is defined as the customers' behavioral manifestation toward a brand or firm, beyond purchase, resulting from attitudinal drivers (Brodie et al. 2011; Van Doorn et al. 2010). Firms can affect customer engagement behaviors by providing rewards and other incentives

T.H.A. Bijmolt (✉)
University of Groningen, Groningen, Netherlands

M. Krafft
University of Münster, Münster, Germany

F.J. Sese
University of Zaragoza, Zaragoza, Spain

V. Viswanathan
Northwestern University, Chicago, IL, USA

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to their customers for purchase behaviors. In addition, they can provide incentives for non-purchase behaviors that are beneficial for the firm, such as online product reviews, referrals, and other types of word of mouth, using specific channels for transacting and communicating with the firm and so on. When making decisions on the nature and extent of these rewards, firms often distinguish between (segments of) customers.

Parallel to the general developments in marketing management, loyalty programs (LPs) are changing from being purely transaction-oriented toward integrated systems that truly support building and maintaining customer relationships (see also Bijmolt and Verhoef 2017). Modern LPs are oftentimes based on digital and mobile technology which facilitates better targeted communication with individual customers. Such technological advances allow for highly individualized elements in the LP design and communication, throughout the individual-specific customer journey. New LPs are designed along these developments, and existing LPs are being redesigned to include these modern features. One of the important developments in the area of LPs is the rise of multi-tier loyalty programs (MTLPs). A MTLP allows for an explicit way to accommodate prioritization of customer groups by means of a hierarchical tier structure (e.g. Silver, Gold, Platinum). Customers in different tiers of the MTLP are provided increasing levels of tangible rewards and intangible benefits based on their past purchase behavior. As such, MTLPs are potentially powerful instruments to stimulate customer engagement in terms of a range of purchase and non-purchase customer behaviors. Is this chapter, we will discuss whether, why, and how MTLPs are effective (or not) in influencing customer behavior, thereby enhancing customer engagement and financial performance.

Multi-tier Loyalty Programs: Definition and Examples

Definition of Multi-tier Loyalty Programs

A loyalty program is an integrated system of structured and customized marketing actions designed to build customer loyalty among profitable customers (Bijmolt et al. 2010). Among these programs, the type of design that we focus on in this chapter, the MTLP, has become very popular in recent years as a means to enhance loyalty among the best customers and to promote engagement behaviors (Berry 2015; Boston Retail Partners 2015). A MTLP can be defined by the following dimensions (Bijmolt et al. 2010; Viswanathan et al. 2017a, b):

- The main purpose of a MTLP is to *manage and foster behavioral and attitudinal loyalty of customers and thereby improve the financial performance of the firm*. The behavioral loyalty includes traditional purchase-related behavior, measured by metrics like sales, customer retention and share of wallet (SOW), and *customer engagement* behavior, measured by metrics like word-of-mouth intention.
- A MTLP has a predefined *structure, rules, and procedures.* A key element of a MTLP is the *hierarchical structure of customer tiers.* Customers are categorized into these tiers based on their past purchase behavior. The rules used by the MTLP to assign customers to different tiers are predetermined and often publicly available. Typically, the tier to which a customer currently belongs is communicated to him, and this tier membership is reevaluated periodically, often per year.
- A MTLP *rewards* customers on the basis of their past, current, or future value to the firm. MTLP provides customers with material or tangible rewards. For example, customers are rewarded for their purchase behavior with points that can be redeemed for certain aspirational goods and services. MTLPs also provide customers with symbolic rewards including preferential treatment and special privileges. These benefits include rights and privileges such as lower waiting times, access to VIP areas or special events, or personal assistance by courteous personnel. In a MTLP, the rewards and benefits for the customers increase for customers in higher tiers. Customers are frequently made aware of the benefits in various tiers.
- A customer must become a member of the MTLP to collect points, acquire status, redeem rewards, and obtain other benefits. In addition, the firm *can identify each individual MTLP member* and use this to manage the customer relationship.
- A MTLP is a *long-term investment* and should not be abandoned as firms may suffer more from dispossessing customers of privileges than from not offering an MTLP at all. In other words, firms planning to introduce MTLPs have to anticipate the long-term costs and benefits before making this decision.

Examples of Multi-tier Loyalty Programs

MTLPs are omnipresent in many countries and industries. Our overview of selected programs in Table 6.1 shows that MTLPs are used in services such as aviation, banking, car rentals, and hospitality. Interestingly, loyalty

Table 6.1 Examples and characteristics of multi-tier loyalty programs

Firm (country), name of program	*Industry*	*No. of tiers*	*Tier labels*	*Thresholds*	*Currency*	*Change of status*	*Selection of special rewards and benefits*
Breuninger (Germany), *Breuninger Card*	Retailer	Two	Breuninger Card; Breuninger Platinum Card	No requirements; ≥ € 7500 within 2 consecutive years	Spending level	Biannually	Birthday voucher, special offers and events for members, no shipping costs, fashion news, paying without cash. For Platinum members: 10% discount on all purchases on 1 day each year, luxury gift wrapping, special parking areas, own service hotline
Starbucks (USA), *My Starbucks Rewards*	Coffee shop	Two	Green; Gold	Five Stars; 30 Stars	One Star per purchase	Annually	For the first star: free beverage on birthday. Green level: one espresso shot for free, refill of coffee and tea, drink for free when buying coffee beans; Gold level: free drink every 15 stars, special offers
Lufthansa (Germany), *Miles and More*	Airline	Four	Participant; frequent traveler (FTV); Senator; Hon Circle	One mile; 35,000 miles or 30 flights; 100,000 miles; 600,000 miles in 2 years	Miles or number of flights	Biannually	Additional miles; FTV, Senator, and Hon Circle: upgrade vouchers, advance miles, booking guarantee, lounge access, waiting list priority, priority check-in, free luggage, service hotline. Priority luggage treatment; Hon Circle: transfer service, personal assistance
Best Western (USA), *Best Western Rewards*	Hotels	Five	Blue; Gold; Platinum; Diamond; Diamond Select	Nil; 10 nights/7 stays/10,000 points; 15/10/15,000;30/20/30,000;50/40/50,000	Number of nights, number of stays, or points	Annually	Special offers, worldwide free nights from 8000 points, bonus points [−, 10%, 15%, 30, 50%], exclusive reservation hotline; Platinum and higher: room upgrades, welcome present

Caesars Entertainment Corp. (USA), *Total Rewards*	Casino	Four	Gold; Platinum; Diamond; Seven Stars	Nil; 5000;15,000; 150,000	Points	Annually	Discounts, special offers, turn reward credits into free plays, presale access to shows, priority check-in; Diamond and Seven Stars: access to Diamond lounges, VIP reservations hotline, guaranteed room, 15% off on rooms and suites, no resort fees, discounts at golf courses, celebration dinner. Seven Stars: complimentary room, upgrade to best available room, complimentary early check-in/late check-out, companion card, invitation to signature events
Hertz (USA), *Hertz Gold Plus Rewards*	Car rentals	Three	Gold Plus Rewards; Five Star; President's Circle	No requirement; > 6 rentals; > 19 rentals	Number of rentals	Annually	Special offers, free additional driver, discounts on children's seats; Five Star or President's Circle: Upgrade to next car category, 10% bonus points, 900 bonus points after every tenth rental, events; President's Circle: Guarantee of car availability or free upgrade, 25% bonus points
Bank of America (USA), *Platinum Privileges*	Banking	Three	Gold; Platinum; Platinum Honors	$ 20,000; $ 50,000; $ 100,000	Investment accounts	Annually	Interest rate booster [5%; 10%; 20%], rewards bonus [25%; 50%; 75%], preferred rewards mortgage benefits [$ 200; $ 400; $ 600], interest rate discount [0.25%, 0.35%, 0.50%], priority service, select free banking services, free non-Bank of America ATM transactions [–, up to 12/year, unlimited]
Bayer (Germany), *Premeo*	Agriculture (B2B)	Four	Standard; Silver; Gold; Platinum	0–30%; >30–45%; >45–65%; >65%	Share of wallet	Annually	Receive bonus points [0%, 10%, 25%, 50%] at the end of the year; Gold and Platinum: access to VIP areas at events and agricultural trade fairs

programs with multiple tiers are increasingly used in B2B as well, as the example of Bayer clarifies. The overview also shows that MTLPs are characterized by financial rewards and preferential treatments with more pronounced benefits for higher status levels. As the example of the MTLP of Hertz clarifies, most hierarchical programs use the total volume as a key metric to assign program members to tiers. Limited benefits such as a free additional driver or special offers serve as an incentive for members in base levels, while premium customers receive free upgrades, bonus points, or benefits with higher certainty than lower-tier members.

Mechanisms to Stimulate Customer Engagement

As emphasized in the previous sections, multi-tier loyalty programs are introduced by firms with the aim to enhance customer engagement and thereby improve financial performance. In this section, we focus our discussion on identifying the ways through which a MTLP promotes and sustains desired customer behaviors. We distinguish between the static effects of a MTLP, that is, the effect of a customer having a certain tier in the MTLP, and the dynamic effects of a MTLP, that is, the effect of changes in the tier level of a customer (promotion, no change, or demotion) and/or the effect of a customer aiming to reach a higher tier. In addition, we identify the following routes by which a MTLP may stimulate customer engagement:

1) Monetary and non-monetary rewards (instrumental benefits)
2) Status (symbolic benefits)
3) Customer-company identification (emotional benefits)
4) Consumer learning (cognitive benefits)

Figure 6.1 offers a graphical representation of the four routes by which MTLPs lead to customer engagement. In the next subsections, we discuss each of these routes in turn, and identify the psychological mechanisms that underlie the impact on customer behavior.

Monetary and Non-monetary Rewards (Instrumental Benefits)

Multi-tier loyalty programs are designed to provide rewards to their members, and these rewards are worth more in higher tiers. The rewards can be monetary (e.g. presents or price discounts) or non-monetary (e.g. additional service or a customer magazine), but each reward represents a rather

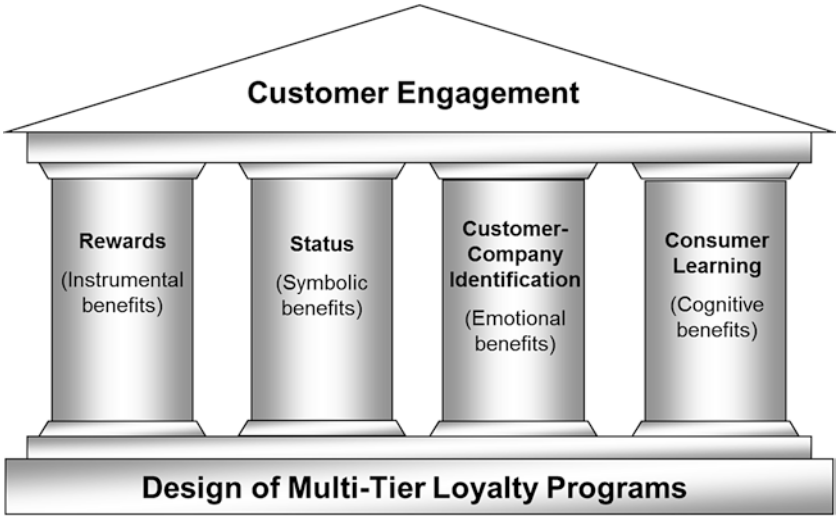

Fig. 6.1 Routes to customer engagement in multi-tier loyalty programs

direct, instrumental benefit. Hence, obtaining these rewards enhances the *economic utility* of the offering (Henderson et al. 2011) under the economic principle of utility maximization (Kumar and Reinartz 2016). However, rewards operate in additional ways to influence behavior, above and beyond the economic utility argument. As has been shown, "customers possess voracious appetites for rewards" (Drèze and Nunes 2011, p. 268). When presented with an opportunity to earn a reward, customers often alter their purchase behavior to gain access to these benefits (Taylor and Neslin 2005; Liu 2007). Taylor and Neslin (2005) theoretically propose and empirically demonstrate that customers experience a "*points pressure*" *effect*, that is, a motivational impulse to increase purchases in anticipation of the reward. Kivetz et al. (2006) demonstrate that the "goal-gradient hypothesis" is present in the human psychology of rewards, particularly in the context of loyalty programs: the closer the customer gets to the reward, the stronger the effort exerted toward achieving it.

Rewards can also impact behavior once the customer has received the reward, through the "*rewarded behavior*" *effect* (Taylor and Neslin 2005). This could occur through the positive reinforcement to the performed behavior that a reward produces, as demonstrated by work in "operant conditioning" (Skinner 1974). Thus, the rewarded behavior is more likely to persist and be repeated in the future. Another way is through the positive

emotions that obtaining the reward produces for the customer, such as excitement, joy, and gratitude. Customers in the top tier who received a higher reward perceive the MTLP to be more fair, while second-tier customers are not negatively affected when explicitly exposed to the fact that they have been denied these rewards (Colliander et al. 2016). Another mechanism stems from the *reciprocity norm* of the social exchange theory, that is, a customer who receives a (high) reward feels the need to repay the company for the benefits received through gratitude-driven changes in purchase behavior (Palmatier et al. 2009; Wetzel et al. 2014). This may lead to a variety of desired outcomes, such as higher purchase volume, positive word of mouth, and willingness to co-create. Thus, the rewards offered by a MTLP stimulate customer engagement behaviors both before the reward is received due to a point pressure to earn the reward, and after it has been received due to the economic value of the rewards and due to positive emotions and a reinforcement of the performed behavior. Instrumental benefits are present in all examples provided in Table 6.1.

Status (Symbolic Benefits)

As noted before, MTLPs are accessible to all customers and provide increasing levels of symbolic benefits such as recognition, preferential treatment, and special privileges (Drèze and Nunes 2009) to customers in higher tiers. Receiving such symbolic benefits enhances the *perception of status* among customers in higher tiers (Brashear-Alejandro et al. 2016). MTLPs frequently label customer tiers using status-laden precious metals (e.g. bronze, silver, gold, platinum) in order to reinforce the notion of a hierarchy among customers and provide observable indicators of status (Berger et al. 1972; Chaabane and Pez Perard 2014; Drèze and Nunes 2009; Melnyk and Van Osselaer 2012). Thus, by including this stratification, MTLPs aim to leverage the power of status, widely recognized as a strong motivator of human behavior (Anderson et al. 2001; Frank 1985; McFerran and Argo 2014). This happens because individuals are socially sensitive, and they have an intrinsic motivation to evaluate their situation by engaging in comparisons with others (social comparison theory; Festinger 1954). In particular, customers in the top tiers perform downward comparisons that favor self-enhancement and feelings of exclusivity, by differentiating them from less prestigious groups (Drèze and Nunes 2009).

The effectiveness of the top of the tier hierarchy (e.g. Gold or Platinum) on customer behavior may depend on the size of this group. Research on customer perceptions of exclusivity suggests that the desirability of a position in society increases with its scarcity (e.g. Gierl and Huettl 2010). Henderson et al. (2011) suggest that consumers prefer being conferred high status when the elite group is small. Consistent with this, Drèze and Nunes (2009) demonstrate that the attractiveness of an elite-status group decreases with an increasing number of individuals who are granted elite status. Arbore and Estes (2013) also find that perceived status in the top tier increases as the number of customers in the top tier decreases, and as the number of tiers increases. A recent study conducted in a B2B setting finds that elite-status members can also influence new enrollments. However, an increase in the number or fraction of elite-status members can have a detrimental effect on the speed of adoption (Viswanathan et al. 2017b). This effect is most likely to be observed in an industry with high perceived exclusivity (airlines), and not in an industry with low perceived exclusivity (supermarkets). With regard to intermediate tiers, it has been shown that customers in these tiers are more concerned about their status and more susceptible to social contagion (Hu and Van den Bulte 2014). Finally, even low-tier members, while receiving limited preferential treatment and fewer special privileges, often favor programs with elite tiers despite not qualifying to becoming members of these top categories (Drèze and Nunes 2009), although they may resent members in higher status categories (see Section The Dark Side of MTLPs). Consistent with social comparison theory (Festinger 1954), an individual's level of aspiration is often greater than their level of performance and, thus, customers in the MTLP will perform upward social comparisons that will motivate them to improve their status in the program. Therefore, symbolic benefits such as status are a powerful force to promote favorable behaviors among program members. In Table 6.1, all programs offer some degree of status, though symbolic benefits are almost non-existent in the MTLP offered by Starbucks, and less pronounced in Bank of America's Platinum Privileges.

Customer-Company Identification (Emotional Benefits)

Multi-tier loyalty programs, by stratifying the membership base into different customer groups, provide a sociological context which enhances customer-company bonding in two ways and may therefore stimulate

customer engagement. First, social identity theory proposes that the groups to which an individual belongs, or aspires to be part of, are a central element to the self-concept as they provide the basis to form a *social identity* (Tajfel and Turner 1979). Similarly, literature on group connectedness indicates that consumers tend to use brands whose images match the groups to which they belong, which enhances the association with those groups (Escalas and Bettman 2005; Winterich et al. 2009). Individuals strive to achieve a positive social identity and to bolster their self-image, which promotes aspirations to belong to elevated-status groups (Henderson et al. 2011). If the rewards and benefits of the MTLP are visible to other customers, for example, in the form of exclusive lounge access for high-tier members, the MTLP becomes more salient to customers and enables members to identify each other as part of the in-group (Esmark et al. 2016). Thus, by creating an in-group context ("the Gold members of firm X") in which its members share a number of experiences and benefits, a MTLP helps individual customers to define who they are and enhance their self-image and self-esteem (Brashear-Alejandro et al. 2016).

Second, a MTLP may enhance *connectedness to the firm* itself (Tanford 2013). For example, Brashear-Alejandro et al. (2016) demonstrate that the symbolic benefits (e.g. recognition, preferential treatment) provided by an LP promote a strong and deep identification with the company, which may be particularly strong for the high-tier groups of a MTLP. Drèze and Nunes (2009) further demonstrate that these programs impact a customer's perceived feelings of superiority, which are central to help individuals fulfill their self-definitional needs, including the need for self-enhancement and self-distinctiveness (Tajfel and Turner 1979). Satisfying these self-definitional needs motivates the development of identification with the company, which becomes "the primary psychological substrate for the kind of deep, committed, and meaningful relationships" with the firm (Bhattacharya and Sen 2003, p. 76). Clearly, firms need to utilize these findings and enable consumers to identify themselves with their brands. Digital technologies such as mobile applications can be extremely useful in this regard since there is increasing empirical evidence that such digital initiatives have a long-term effect on customers' purchase and reward redemption behaviors and vice versa (Viswanathan et al. 2017a, b). Thus, multi-tier loyalty programs offer customers an important source of value through the formation of a social identity, which enhances the importance of the customer-firm relationship and promotes the development of positive attitudes such as trust, commitment, involvement, or loyalty, that ultimately result in customer engagement (Brodie et al. 2011).

As an example of very pronounced emotional benefits, consider Breuninger's Platinum-tier customers. Interestingly, many Platinum members do not value the Platinum card the most, but the special bag that only Platinum customers receive for their purchased goods at the check-out. It is clearly visible to others, and within midsize cities in Southern Germany, most women exactly know what this bag implies. It also serves to define members of the in-group, and the out-group.

Consumer Learning (Cognitive Benefits)

Over time, individual customers derive valuable information from a MTLP which becomes the basis for acquiring, modifying and reinforcing their knowledge, preferences, and behaviors (Kopalle et al. 2012). This dynamic learning process is important, because it can have a profound impact on customer behaviors, including customer engagement (Brodie et al. 2011). Drèze and Nunes (2011) identify three different types of learning that can have different implications for the understanding of how customer behavior in a loyalty program evolves over time: procedural learning, learning from experience, and self-learning. *Procedural learning* refers to the process by which individuals gain knowledge about how they should proceed in order to derive benefits from the loyalty program (e.g. spend $ 1,000 in company products during a calendar year to become Gold member). *Learning from experience* occurs when individuals gain knowledge about something after experiencing it. For example, when a customer has been upgraded to a higher tier, he learns about the rewards and symbolic benefits that members of that tier receive (e.g. privileges such as lower waiting times, access to VIP areas or special events, or personal assistance by courteous personnel). *Self-learning* refers to the process by which individuals gain knowledge about their abilities to perform specific activities or actions. Individual customers invest resources and direct action to yield the rewards and symbolic benefits provided by the MTLP (Wang et al. 2016). In principle, customers feel a drive to look up (upward comparison), which motivates them toward greater achievements in the future and being promoted to a higher tier (Henderson et al. 2011). When a customer achieves or fails to achieve those goals or when a customer is successful at moving up one tier, he reassess the perceptions of his ability to execute these actions and determines the motivation and effort needed to invest in subsequent attempts (Drèze and Nunes 2011; Taylor and Neslin 2005). In contrast, when a customer fails to achieve the

reward-contingent goals, motivation to invest to achieve the rewards may decrease (Wang et al. 2016).

Another type of learning that occurs in the context of MTLPs is *associative learning* (Sheth and Parvatiyar 1995), a process by which individuals learn an association between a stimulus (e.g. a reward) and a behavior (e.g. purchases). Importantly, this type of learning in an MTLP promotes the development of recursive customer purchases and other customer engagement behaviors (Shah et al. 2014) and thus may lead to the development of habits (Liu and Tam 2013; Henderson et al. 2011). Hence, by repeatedly offering increasing levels of rewards and symbolic benefits to customers, MTLPs induce different customer learning processes that condition and determine future engagement behaviors. An effective way of reinforcing such learning happens by explicitly reporting points acquired or money saved on check-out receipts or booking summaries, or providing MTLP members the choice of an immediate rebate instead of collecting points.

The Dark Side of MTLPs

As discussed in the previous section, a MTLP stimulates customer engagement in a variety of ways. This may suggest that such programs are efficacious by definition, and all firms should seriously consider to introduce a MTLP. However, this is not always the case. Depending on the type of firm, customers, and market conditions, a MTLP may have negative (side) effects. In this section, we identify a number of potential ways through which MTLP can negatively impact the development of customer engagement behaviors and their ultimate impact on financial performance.

Expectations and Entitlement In the general framework of expectation-confirmation theory, customer satisfaction will depend critically on the pre-experience expectations. If a firm explicitly acknowledges to some of its customers that they are the "best" customer by classifying them as Gold member of the MTLP, this may cause an upward shift in their expectations: "I'm a Gold member so I'm entitled to receive excellent service". A potential discrepancy between perceived performance and expectations may have a strong negative effect on customer satisfaction; the "satisfaction trap". Consistent with this line of reasoning, Von Wangenheim and Bayón (2007) show that a negative incident has a substantial detrimental impact on customer satisfaction of high-tier customers, whereas it hardly affects customers in the lower tiers. Returning to our Breuninger example,

demoting Platinum customers to a standard status means they lose many benefits they have got used to, such as the "platinum bag" or parking in select, reserved spots. Even worse, losing these visible benefits will probably be recognized by others as well. Conversely, the effect of a positive critical incident is stronger for low-tier customers than for high-tier customers. Wetzel et al. (2014) also reflect on the perils of customer prioritization strategies by noting that customers with a high standing in the company's hierarchy will feel entitled to demand efforts and services from the supplier commensurate with their standing. In practice, it may be hard or even impossible to circumvent such increased expectations of high-tier customers. Hence, a MTLP should be carefully managed and the products, service, rewards, and so on should be of high quality and meet the expectations of the customers in different tiers.

Customer Heterogeneity A MTLP distinguishes between customers of a firm where customers in the higher tiers receive discretionary preferential treatment in an attempt to stimulate desired engagement behaviors (see previous section). A customer may observe these differential treatments and compare the way he is treated with reciprocity norms, with how other customers are treated, and with norms based on input-outcome ratios (Steinhoff and Palmatier 2015). In addition, some customers do not like to be treated differently. Butori and De Bruyn (2013) show that preferential treatment may delight one customer but enrage or embarrass another. The effect depends on the degree of justification, imposition, visibility, and surprise. In general, customers prefer preferential treatments that are justified, imposed by the firm, visible to other customers, and a surprise to the recipients. However, a substantial proportion of customers may feel embarrassed if the preferential treatment is visible and if the imposed treatment creates a disadvantage for other customers. Customers' preference for preferential treatment depends among others on their gender and age (Butori and De Bruyn 2013; Melnyk and Van Osselaer 2012). For example, Melnyk and Van Osselaer (2012) find that male customers value MTLP-induced status more positively than female customers, especially if the high-tier level and symbolic benefits are highly visible to other customers. In addition, Steinhoff and Palmatier (2015) find significant "bystander" effects: the relationships with low-tier customers who observe others' preferential treatment are harmed considerably. Accommodating such customer heterogeneities is a major challenge in the design and management of a MTLP. Although visibility is valued by many customers, firms

should not overdo this. Furthermore, to increase the perception of fairness and justification, the MTLP could be open and explicit in the rules and procedures to become a member of the high-tier groups. The MTLPs mentioned in Table 6.1 typically communicate the tier thresholds and other regulations explicitly on their websites.

Customer Promotions and Demotions Over time, customers may also change their tier membership. In other words, customers may get promoted to a higher tier or demoted to a lower tier. These dynamics may cause specific effects due to an increase or decrease of the MTLP rewards and benefits for the customer, as discussed in the previous section. Prospect theory (Kahneman and Tversky 1979) predicts that customers are more sensitive to losses than to gains of similar magnitude. Consequently, a drop in MTLP rewards can be more damaging to the customer-firm relationship than a corresponding increase. Wagner et al. (2009) demonstrate that individuals are more sensitive to tier losses (demotions) than to tier gains (promotions) of an equivalent magnitude, leading to lower customer engagement among customers who experience an upgrade followed by a downgrade (or the other way around) than among customers who never experience a change in tier level in the first place. A similar asymmetric pattern of demotion versus promotion is found for the effect on trust, commitment, and loyalty (Van Berlo et al. 2014). Interestingly, the negative effect of a demotion is particularly strong with an external locus of causality, rather than with an internal or situation locus. In the former case, the customer may blame the firm for the demotion and consider the demotion as unfair or due to opportunistic behavior of the firm (Van Berlo et al. 2014). Not only demotions can produce negative effects. The study by Eggert et al. (2015) shows that the practice of endowing customers who do not meet the requirements with upgrades in the hierarchy of status can produce negative behavioral responses. In contrast to achieved status, endowed status may be interpreted as a persuasion attempt by the firm and prompt an external attribution, which can lead to potential negative emotional reactions in the form of skepticism ultimately affecting loyal behaviors. However, this negative effect can largely be circumvented by targeting customers who are already close to the threshold requirement of the promotion and allowing the customer to choose whether he wants to be promoted or not. Thus, firms should be careful with demoting and promoting customers and weigh the benefits and costs of changing the tier membership of customers. In some cases, the outcomes are more beneficial if the

firm does not change tier membership of a customer although he no longer meets the requirements. Keeping MTLP status levels for 2 or more years is a policy going in this direction. In Table 6.1, Breuninger and Lufthansa represent such examples.

MTLP Design A firm running a MTLP will need explicit criteria to classify its customers into the hierarchical structure of tiers. It is a priori not obvious which criteria should be used for this purpose. Metrics based on absolute purchase levels will favor customers with high category expenditures, whereas metrics based on relative purchase levels, for example, share of wallet, may favor customers with low category expenditures. Which customer should be treated as a "better" customer, as member of a higher tier: customer A, who spends 60 out of 100 euro at our firm, or customer B, who spends 40 out of 50 euro at our firm? Some customers may have a very high attitudinal loyalty and high share of wallet, but do not meet profitability requirements for a high tier as set by the firm, simply because their category expenditures are low, for example, grocery expenditures by a single-person household. This may lead to frustration and reactance against the MTLP (Wendlandt and Schrader 2007). The decision as to which criteria should be used to grant status needs to be consistent with the strategic objectives of the organization as well as the nature and characteristics of the market in which it operates. One of the companies in Table 6.1, Bayer (Premeo program), assigns status based on relative purchase levels (i.e. share of wallet). This company operates in a B2B context, where purchases from multiple vendors are common "to ensure supply and competition among vendors to keep prices in check" (Bowman and Narayandas 2004, p. 436) and, thus, gaining customer loyalty is a particularly difficult task (Wathne et al. 2001). Using share of wallet to grant status helps the firm promote loyalty among their customers, and, if share of customer can be increased for many customers, a firm's market share will be increased as well. Altering the thresholds for different tiers after the program has been rolled out can also result in frustration and disappointment. The perceived legitimacy of preferential treatment and thereby the effects of the MTLP on satisfaction, customer engagement, and so on may depend heavily on the customer's perception of his tier level, rather than actual tier level granted by the firm (Pez et al. 2015). To prevent negative consequences, the firm running a MTLP should aim to match the structure of granting tier levels to the perceived status or customer value to the firm.

Conclusion

To summarize, a MTLP is a long-term marketing investment designed to strengthen the relationship between the firm and its customers. Numerous firms providing a range of service and product offerings have introduced MTLPs for their customers. A key success factor for a MTLP is to communicate the benefits associated with different tiers of a loyalty program and thus clearly differentiate themselves from competition. Some firms even brand their MTLPs to achieve this objective. Consequently, some customers have learnt over time to evaluate the costs and benefits associated with different loyalty programs and then enroll in one that offers the maximum value. In the event that customers are unable to evaluate the differences between different programs, they might enroll in multiple MTLPs, which lowers the effectiveness of each program.

MTLPs can differentiate themselves by clearly stating how customers would be rewarded with tangible benefits or rewards and intangible benefits such as status for purchasing the firms' products over time. As customers gain rewards and achieve higher status, they gradually develop a stronger sense of belonging with the firm. Eventually, these customers become invaluable not just because of their purchases but also because of their goodwill for the firm. For instance, this goodwill is often translated into positive word of mouth or referrals and helps the firms acquire new customers. Due to the principle of homophily, it is quite likely that these new customers are also potentially of high value to the firm (Viswanathan et al. 2017a, b). Another exemplification of this goodwill is co-creation. High-value customers have immense knowledge and experience of the firm's products and can therefore provide rich insights on how firms can improve their market offerings. These insights could enable firms to enhance the value of their services and thus sustain their advantage over competition in the marketplace.

The marketing landscape is changing, and this holds true also for the area of loyalty programs (see also, Bijmolt and Verhoef 2017). At least two major developments are particularly relevant for MTLPs. First, digitalization and the proliferation of using mobile technology allows faster and more targeted (in terms of message, location, timing, and personalization) communication within the MTLP. Instead of sending a weekly direct mail to a selection of its customers, a firm can contact any number of specifically selected LP members at any point in time, even depending on the location of the customer. When being in close proximity to the store, a

program member could receive a personal message on her or his mobile with a discount or other interesting offer, which would result in a higher status, for example, becoming a Gold member. This communication approach could be very effective, but could also be perceived as obtrusive. Research is needed on the message, customer, and context factors that strengthen or harm the effectiveness of MTLPs. Second, while MTLPs originally have been managed and studied fairly independent of other marketing mix decisions of the firm, integration is taking place in practice. Customers perceive the MTLP as strongly connected to other components of the firm, and decisions made within the MTLP management affect and will be affected by general decisions on communication, pricing, assortment, and so on. For example, the degree to which Gold status in the MTLP is valued by customers will depend on the image of the firm and on its products, customer service, price level, and location. Hence, future research should examine MTLP within the context of other marketing instruments.

While firms can benefit immensely from MTLPs, they should not lose sight of the costs associated. Moreover, they have to be cognizant of the fact that these benefits accrue over a period of time. Hence, short-term measures of success and even metrics such as ROI may be difficult to not only attain but also measure. The latter may be particularly true in cases when a firm has multiple touchpoints with a customer, a MTLP being one of them. MTLPs can raise expectations and evoke negative emotions such as anger and frustration among certain customers and stretch the resources of the firm. Nevertheless, as explained in this chapter, when designed and executed properly, a MTLP can help identify the most valuable customers for a firm and subsequently help the firm increase both customer engagement and firm profitability in the long term.

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