Can loyalty schemes really build loyalty?

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Customer loyalty schemes have blossomed in the era of customer retention, and have been willingly embraced by both retailers and consumers alike. Today's loyalty schemes are modelled on the AAdvantage Programme; a frequent flier programme initiated by American Airlines in 1981, and lessons from the airline industry are briefly introduced. The primary purpose of this paper is to evaluate the extent to which loyalty schemes really can build loyalty. In order to do this, four categories of loyalty as identified in the literature are considered. Given existing criticisms of loyalty schemes it is concluded that such schemes have an important role to play in situations where no loyalty or spurious loyalty is evident. However, where sustainable loyalty is the ultimate goal, customer loyalty schemes are of importance only as part of a coherent value proposition.

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Introduction

Loyalty schemes (LSs) are now perceived to be one of the most successful marketing tools of the 1990s, and have received considerable attention in both trade and academic journals. The customer loyalty scheme is one example of the continual blurring of the boundaries between direct marketing and "mainstream" marketing, relying as it does upon a customer database and direct communications. It has been suggested that the customer loyalty scheme arena is where today's marketing battles are being fought and, indeed, the plethora of LSs available to consumers certainly suggests that this may be true. Both retailers and consumers appear to have willingly embraced customer loyalty schemes, albeit for different reasons. Given the apparent success of the customer loyalty phenomenon it seems timely to take a closer look. The purpose of this paper is therefore:

1. To review the motivation for the development of customer LSs.
2. To discuss the concepts of "loyalty" and "value".
3. To identify the most common objectives of customer LSs.
4. To evaluate critically customer LSs, particularly in terms of the extent to which loyalty can be encouraged.

Recognition of the importance of customer retention

Customer retention has always been important, although traditionally it has been viewed rather simply as an outcome of successful marketing. This is embodied in the description of marketing as "selling products that do not come back to customers that do"! Because retention was seen as a by-product of marketing, organisations focused on customer acquisition with the explicit aim of increasing market share. This, in turn, was assumed to increase both the organisation's power and profitability. As long as market share continued to grow, it was accepted that marketers had got it right. However, market share, as an aggregate measure, can cover up a host of inadequacies in marketing terms (Grönroos, 1994), not least of which is the fact that increases in market share disguise the level of customer defection. Rosenberg and Czepiel (1984, p. 46) observe that "some companies seem hooked on steady doses of fresh customers to cover up regular losses of existing ones". It was not until the early 1990s that there was widespread recognition that this represented a serious flaw in marketing. Reichheld and Sasser (1990) calculated the impact of customer retention on profitability: "As a customer's relationship with the company lengthens, profits rise. And not just a little. Companies can boost profits by almost 100 per cent by retaining just 5 per cent more of their customers" (Reichheld and Sasser, 1990, p. 105). Reduced to pounds, shillings and pence in this way the business world began to focus aggressively on customer retention. The aim was to reduce marketing's "scrap heap" (customers who defect) and, thus, enhance profitability. This renewed focus on customer retention is generally referred to as loyalty marketing, and is increasingly reliant on a customer database and direct communication.

LSs have blossomed in the era of "customer retention" though their emergence is not a recent phenomenon. They have been around in one form or another since the early 1970s. The basic idea of a loyalty programme is to reward customers' repeat purchasing and encourage loyalty by providing targets at which various benefits can be achieved. An early example of a Frequent Flier Programme (FFP), Southwest Airlines "Sweetheart Stamps" promotion in the 1970s, allowed business travellers to accumulate benefits in order to take their partners on a free flight (Gilbert, 1996). In the UK, Green Shield Stamps promotions provided similar incentives. These schemes were reasonably successful, despite their lack of sophistication. What distinguishes today's schemes is their ease of use for consumers, and the degree of sophisticated targeting made possible through continual improvements in technology.

Origins of loyalty schemes

Although perceived as a descendent of Green Shield Stamps promotions, today's LSs more closely resemble early Frequent Flier Programmes (FFPs). Indeed, the majority of customer loyalty programmes in operation today are modelled on the "AAdvantage Programme" introduced by American Airlines in 1981. In the wake of industry de-regulation in 1979, American Airlines were looking for a cost-effective marketing proposition which could fulfil the dual objectives of promoting customer loyalty and providing consistency of demand. One solution was to transform otherwise underutilised capacity into a marketing tool for rewarding loyalty (Gilbert, 1996). American Airlines trawled its Customer Reservation System (CRS) "SABRE" in order to identify the names of Frequent Fliers so that they could initiate their programme. The FFP allowed passengers to accumulate air miles in direct proportion to their use of the airline, and was particularly attractive to business travellers who were already flying a great deal, and who could accrue benefits to be used either in terms of up-grades, or as free flights in their spare time.

The "AAdvantage Programme" was quickly copied by other airlines, hotels and even credit cards in the USA (O'Brien and Jones, 1995). Similar programmes became popular in Europe by the early 1990s, and have since been developed in Asia and the Far East (Gilbert, 1996). On the one hand, the phenomenal up-take of LSs suggests that they must be effective. Alternatively, however, there is the argument that loyalty programmes are seriously over-rated, that is, despite the hyperbole surrounding them, it seems that all FFPs and guest LSs have not been successful, and have often proved too expensive to implement (Gilpin, 1996). Indeed, although FFPs appear to represent a very powerful tool for airlines, there are a number of potential problems which should be a warning for similar schemes (Gilbert, 1996). These include corporate hostility towards FFPs; government threats to tax FFPs; the potential impact of unredeemed miles; and the proliferation of "me too" schemes. The first three of these are directly related to the airline industry, while the final problem is more universal, in that the "me too" criticism is clearly problematic for all industries where loyalty programmes are in operation. That is, "the failure to consider that when everyone offers similar rewards there is no competitive advantage and the cost of retaining existing, or winning new customers, may increase" (Gilbert, 1996, p. 138).

In terms of this last problem, Gilbert outlines that the growth in use of FFPs has clearly affected airlines' profitability and effectiveness over the last ten years. However, individual airlines are reluctant to abandon their schemes, as this will result in a competitive disadvantage. As a result, "the schemes are here to stay as … once FFPs are established, it is extremely difficult, if not impossible to discontinue them" (Gilbert, 1996, p. 144).

Despite the apparent problems associated with airlines' FFPs, the retail loyalty scheme has been widely embraced here in the UK, by petrol retailers, supermarkets, bookstores and a host of other organisations. Dowling and Uncles (1997, p. 74) attribute the speed of LSs adoption to competitive factors. "Once one retailer broke ranks, all others followed within months". That said, the majority of retailers would argue that LSs are ultimately more about engendering loyalty than matching competition. As such, it is timely to explore exactly what is understood by the concept of loyalty.

What is loyalty and how is loyalty increased?

Attempting to define loyalty is far easier said than done. The problem lies in identifying whether loyalty is an attitudinal or behavioural measure. "Used loosely, as it usually is, the term "loyalty" conjures up various notions of affection, fidelity or commitment" (McGoldrick and Andre, 1997, p. 74). This has led to the use of customer satisfaction as a proxy measure of loyalty because it has been assumed that satisfaction affects buying intentions in a positive way. However, research indicates that it is overly simplistic to assume that dissatisfied customers will defect, and that satisfied customers will remain loyal. Indeed, Reichheld (1994) found that despite being "satisfied" or "very satisfied" many customers still defect. In the UK, Oglivy Loyalty Centre found that, although 85 per cent of automotive customers reported being satisfied, only 40 per cent repurchased, and 66 per cent of packaged goods customers who identified a favourite brand had bought "another brand" most recently (McKenzie, 1995). Such behaviour may be explained by the impact of other variables such as choice, convenience, price, and income. This suggests two things; first, attitudinal measures of satisfaction are poor predictors or measures of behaviour, and second, it casts some doubt on the concept of 100 per cent loyalty. Indeed, it has been suggested that few customers are 100 per cent loyal to a single brand, but rather, are likely to have a repertoire of two or three brands within any product category from which they regularly buy – i.e. polygamous loyalty (Dowling and Uncles, 1997).

In recognition of the limitations of satisfaction as a proxy measure for loyalty, behavioural measures such as recency, frequency and monetary value (typical measures utilised in direct marketing) are increasingly being used. These provide a more realistic picture of how well the brand is doing *vìs-à-vìs* competitors, and the data generated facilitate calculation of customer life-time value, enhance prediction of purchase probabilities, and assist in developing cost-effective promotions. Greater use of behavioural measures has been made possible by advances in database and tracking technologies.

However, despite the ability to generate a more accurate picture of where and how much customers are spending, it has been argued that "loyalty implies a commitment to a brand that may not be reflected by just measuring continuous behaviour" (Assael, 1992, p. 87). In particular, behavioural measures are limited in determining the factors which influence repeat purchase (Dick and Basu, 1994). "Behavioural measures are insufficient to explain how and why brand loyalty is developed and/or modified… high repeat purchase may reflect situational constraints, such as brands stocked by retailers, whereas low repeat purchase may simply indicate different usage situations, variety seeking, or lack of brand preference within a buying unit" (Dick and Basu, 1994, p. 100). Although behavioural measures do overcome some of the limitations of using satisfaction as a proxy measure for loyalty, it is clear that behaviour is also insufficient as a measure of store or brand loyalty (Dick and Basu, 1994; Knox, 1996; Knox and Walker, 1995; McGoldrick and Andre, 1977; Solomon, 1996). As a result, the extent to which behavioural measures are of benefit in developing long-term loyalty strategies is clearly questionable.

Therefore, it seems that neither attitudinal nor behavioural measures *on their own* are sufficient to explain or define loyalty. This is important for managers, as it suggests that existing measures of loyalty may be seriously flawed, and thus strategies developed on the strength of such measures may be inadequate. "The very term loyalty implies commitment rather than just repetitive behaviour, which suggests that there is a need for a cognitive as well as a behavioural view" (Assael, 1992, p. 89). A number of frameworks have been developed which combine both attitudinal and behavioural measures of loyalty in an effort to overcome such problems (Dick and Basu, 1994; Knox, 1996; McGoldrick and Andre, 1977). The framework proposed by Dick and Basu (1994) is particularly useful because not only does it offer more accurate measures of loyalty, but it also results in a number of different categories of loyalty, each of which have clear managerial implications (see Table I). They utilise two dimensions or measures of loyalty:

Relative attitude: Relative attitude not only focuses on attitude to the entity, but also incorporates attitudes to alternatives. This encapsulates not only satisfaction measures, but also preference measures. The suggestion is that the higher the relative attitude between alternatives, the more likely that attitude will influence behaviour.

Patronage behaviour: This includes traditional measures such as recency, frequency and monetary (RFM) value of purchases, share of wallet, purchase sequence, etc.

Using Dick and Basu's (1994) conceptualisation of loyalty, it is possible to determine the probable role of LSs in engendering loyalty. LSs have a particularly important role to play in situations where there is either no loyalty or spurious loyalty, but that role is diminished considerably in situations where latent or sustainable loyalty is displayed.

Petrol retailers have had to contend with the "no loyalty" situation. For example, research carried out by Shell in the early 1990s suggested that 85 per cent of petrol buyers were not loyal to any brand or location (Dignam, 1996). Competing offers are generally perceived as being undifferentiated, and petrol retailers have attempted to increase customers' switching costs in order to increase retention. One effective method of achieving this is through "point accrual programmes" as used within many existing LSs (e.g. Tiger Tokens, and Premier Points). These programmes aim to tie the customer into a particular supplier through the promise of future rewards, where the points already accrued represent switching costs. Thus, in no loyalty situations, managers can attempt to generate spurious loyalty through such means as in-store promotions, loyalty clubs and special offers (Dick and Basu, 1994).

Spurious loyalty is very similar to the concept of inertia, where despite perceptions that choices are relatively undifferentiated behavioural data suggest loyalty. In such cases, repeat purchase may be based on the availability of deals, special offers, convenience or the influence of other people. As a result, the consumer may only temporarily display such loyalty, and is likely to be very open to competing offers (i.e. promiscuous). That is "if another product comes along that is for some reason easier to buy (e.g. it is cheaper or the original product is out of stock), the consumer will not hesitate to do so" (Solomon, 1996, p. 290). As a result it is considered relatively easy to encourage switching behaviour in markets typified by spurious loyalty. In order to defend the customer base against competitive attacks managers can attempt to maintain spurious loyalty and/or develop sustainable loyalty. However, one problem associated with simply maintaining spurious loyalty is that the company may become involved in a continual spiral of promotions, because, once the incentive is taken away, customers have lost their primary reason for purchase (Dowling and Uncles, 1997).

Latent loyalty occurs when a consumer has a high relative attitude towards the company or brand, but this is not evident in terms of their purchase behaviour. This is probably as a result of situational influences – including inconvenient store locations, out-of-stock situations, and/or the influence of other people. In the case of latent loyalty, Dick and Basu (1994) outline that managerial efforts are best focused on removing the obstacles to patronage, for example by extending the branch network. The only situation where the problem of latent loyalty may be directly addressed by an LS is where a customer has defected because of the existence of a competing scheme.

Sustainable loyalty (O'Brien and Jones, 1995) exists when the customer exhibits high repeat purchase, and does so because they have a strong preference (high relative attitude). Sustainable loyalty is therefore achieved "when the company has developed and communicated a proposition that clearly has long-term benefits for the customer" (O'Brien and Jones, 1995, p. 97), and where the customer modifies his or her behaviour to remain loyal over time. Thus sustainable loyalty occurs where repeat patronage is accompanied by a favourable attitude (Aasael, 1992; Dick and Basu, 1994), that is where purchase is as a result of a conscious decision by the consumer (Solomon, 1996). As such, this is clearly the most preferred of the four categories, and may be what we intuitively mean by loyalty. Organisations must not become complacent, however, and, managerial efforts should be continually focused on reinforcing attitude and behaviour, particularly as the consumer is likely to be targeted by competitors. This may involve maintaining a price advantage, and/or providing additional services which offer value to the customer.

Loyalty schemes and the concept of value

There is an assumption that LSs provide benefits which represent "value" to customers, and it is because of this that LSs can encourage loyalty. However, the extent to which LSs offer "value" to consumers is also questionable, particularly because value will represent different things to different people, and will be different in different contexts. Nevertheless, O'Brien and Jones (1995, pp. 79-80) identify five elements which determine the value of an LS. These include cash value (how much the reward represents as a proportion of spend); choice of redemption options (the range of rewards offered); aspirational value (how much the customer wants the reward); relevance (the extent to which rewards are achievable); and convenience (ease of participation in the scheme).

Retail LSs in the UK typically offer a rebate equivalent to 1 per cent of purchases (cash value), with rewards redeemable either in the

Table I
Categories of loyalty

Category	No loyalty	Spurious loyalty	Latent loyalty	Sustainable loyalty
Relative attitude	Low	Low	High	High
Patronage behaviour	Low repeat	High repeat	Low repeat	High repeat
Manifestation	Does not patronise the company, and does not wish to	Patronises the company, but does not have a high relative attitude. This may be as a result of other factors, including location convenience, lack of alternatives	In this case, the customer wishes to patronise the organisation, but perhaps is not able to do so – store location may be inconvenient, favourite brands not stocked, etc.	The individual enjoys a high relative attitude, together with high repeat patronage behaviour
Implications	Management may attempt to generate "spurious loyalty"	"Spurious loyalty" cannot be relied on. The customer is clearly open to better offers	Managerial efforts are best focused on removing the obstacles to patronage for the customer	Loyalty must be continually reinforced, and the value offered must remain acceptable

Source: Adapted from Dick and Basu (1994) form of discounts/vouchers and/or restaurant/hotel discounts and air miles (redemption of options value). While customers are unlikely to aspire actively to a straight discount on purchases, holiday or air travel rewards are of a higher aspirational value. Furthermore schemes are more relevant when customers are capable of achieving the rewards they value. For example, having to spend over £2,000 on groceries to earn a free trip is hardly relevant to consumers when they calculate the relative costs involved. Finally, since most schemes today are card-based, they are far more convenient for customers than earlier sales promotions because they do not have to worry about retaining receipts, etc. Although it is acknowledged that few schemes today offer all five elements of value, it is clear that "companies who want to play the rewards game should be sure that their value measures up to customers' alternatives" (O'Brien and Jones, 1997, p. 79). This is particularly important where the loyalty scheme is the main point of differentiation, as may be true in the case of spurious loyalty.

Objectives of loyalty programmes

Loyalty programmes are developed for a variety of reasons including to reward loyal customers, to generate information, to manipulate consumer behaviour, and as a defensive measure to combat a competing scheme.

Reward loyal customers

Most retailers implicitly suggest that the aim of their scheme is to reward repeat purchasing. This is achieved through a combination of discounts and other "rewards". Consumers are motivated to participate in such schemes because, fundamentally, most people like to get something for nothing (Uncles, 1994). This argument is supported by recent empirical research, where participants in group discussions agreed that, if a customer already patronises a particular store, then it makes sense to join the scheme (Evans *et al*., 1997).

To generate information

"Knowing who the best customers are, what they buy, and how often provides a secret weapon" (Stone, 1994, p. 37). However, until recently, store-based retailers have not been in a position to recognise their customers, let alone identify their best customers. Unlike direct marketers, airlines, hotels or even banks, store-based retailers did not automatically collect and record individual customers' details. Indeed, most retail systems (including electronic point of sale) have been designed to capture information on products *not* customers. Improvements in database capacity provided part of the solution; however, retailers had to contend with an additional problem in terms of how to justify and organise data collection. LSs provided retailers with both the justification and mechanism to collect personal data. Because of the rewards offered, customers have willingly co-operated in terms of data provision, and are happy (it seems) for retailers to collect details of all their purchasing behaviour. As a result, retailers have been able to combine merchandise and customer profile information. The information held on individual customers can also be linked with data from a variety of other sources (geodemographics, lifestyle and credit history) in order to build up a fairly accurate picture of a customer's life. Tactically, this information can be used to improve targeting, create offers and shift merchandise. Strategically, holders of detailed customer information have a valuable springboard to diversify into areas such as financial services, as evident in Sainsbury's recent move.

Manipulate consumer behaviour

Although the stated aim of most schemes is to reward loyal customers, the fundamental aim of most schemes is to manipulate consumer behaviour within a sophisticated system, where incentives and coupons can be individually targeted, in order to encourage customers to try new products or brands; increase multi-pack purchases; pay premium prices, and/or use the brand for increasingly diverse services. In terms of the latter, some supermarkets have successfully persuaded customers to purchase pharmaceuticals, petrol, wine and more recently even banking services. Thus, one of the most successful applications of the loyalty scheme may be in terms of reducing the risk inherent in diversifying.

As a defensive measure to combat a competing scheme

In practice the "decision to launch a programme is often motivated as much by fears of competitive parity as anything else, which companies rarely state publicly" (Dowling and Uncles, 1997, p. 73). This is evident in the speed of uptake of FFPs in the early 1980s following the launch of the "AAdvantage Programme" and the number of supermarket schemes launched in the wake of Tesco's "Clubcard" in 1995. One of the problems with LSs as a defensive move is that organisations are often unclear about what exactly the scheme is intended to achieve. As a result "reward programmes are widely misunderstood and often misapplied" (O'Brien and Jones, 1995, p. 75).

This suggests that there is too much emphasis on short-term results, with strategic objectives and implications often overlooked. That is not to say that there are no successful loyalty programmes, but that loyalty programmes *per se* may not necessarily be the direct marketing panacea of the 1990s. Indeed, LSs are increasingly attracting criticism, including: that they are little more than sophisticated sales promotions; that loyalty is exhibited to the programme not the brand; that data collection is over-emphasised; and that subsequently the costs may outweigh advantages.

They are little more than sophisticated sales promotion

The origins of today's retail LSs and their continued emphasis on discounts suggest that they are not that far removed from the Green Shield stamps promotions of the 1970s. Indeed, "too many companies treat rewards as short-term promotional give-aways or specials of the month" (O'Brien and Jones, 1997, p. 75). The emphasis on discounting has been likened to the "commercial equivalent of cocaine snorting – where an illusory short-term benefit leads to long-term disaster" (Bird, 1991, p. 27). This is a worrying criticism, because clearly the potential for more effective marketing is made possible by the use of sophisticated databases. "In order for a rewards programme to be a profit centre instead of a cost centre, the payout must be inextricably linked to the desired (consumer) behaviours" (O'Brien and Jones, 1995, p. 77). This requires a thorough understanding of customers' expectations, and effective use of the information generated by the programme in order to achieve scheme objectives. So far, few organisations have utilised their LSs in this way.

Although many schemes offer more than just a straight discount on purchases, customers have become somewhat jaded by the available "rewards". For example, in the USA, where LSs have a much longer history, "customers are so inured to offers promising everything from a free vacation to Florida to a free credit card that they either yawn when they see a new one or become experts at getting something for nothing" (O'Brien and Jones, 1997, p. 77). This suggests that competitors may become involved in a constant battle for one-upmanship, simultaneously increasing customers' expectations and the costs associated with running the programme.

Loyalty to the scheme not the brand

Sales promotions have been criticised for encouraging promiscuity among customers, where customers shop for the best "deal" rather than being loyal to any one brand. It is clear that LSs may also suffer from this problem, where too much emphasis on promoting the scheme to consumers results in a shift in loyalty from the company or brand to loyalty towards the scheme (Dowling and Uncles, 1997; McKenzie, 1995). Although LSs may create an initial point of differentiation between brands, they are difficult to sustain as a prime reason for purchase, because fundamentally "... it is difficult to increase brand loyalty above the market norms with an easy-to-replicate 'add on' like a customer loyalty programme" (Dowling and Uncles, 1997, p. 94).

Schemes over-emphasise data collection

Although the ability to collect information is stressed as one of the principal benefits of card-based LSs, there are now suggestions that this may be misguided. As Mazur (1997, p. 16) states, "sitting here in 1997, …one could be forgiven for wondering whether, in their desperate struggle to figure out who their customers are and how to keep them, too many marketers have been jumping on the customer loyalty bandwagon". Although the collection of customer data is clearly an important element, too many schemes over-emphasise data gathering, to the extent that they now suffer data overload. As a result, there are often very basic uses of the information, with little evidence as yet of the potential targetability of individual offers. Furthermore, the information gathered through an LS may be insufficient as an input into strategic decision making. As Dowling and Uncles (1997, p. 73) identify, "such a self-selected group is unlikely to represent all a company's potential customers. Hence it is only one source of market research information". Indeed, it may be that too many companies have emphasised database building over loyalty building, and this may have serious implications in the future.

Costs may outweigh advantages

There is no doubt that for some sectors, and for some companies LSs represent a cost-effective approach to marketing. However, because many organisations have been forced into offering a loyalty programme as a result of competitive actions "... many customer loyalty programmes seem to have been adopted too quickly and without much thought" (Dowling and Uncles, 1997, p. 81). As with the airlines, when competitors offer the same or similar rewards, there remains little sustainable advantage. The problem is that LSs are simply too easy to copy: although "evidence that the expenditure on loyalty programmes is becoming a zero-sum game is still anecdotal, ... [it is] nonetheless indicative" (Mazur, 1997, p. 16). LSs are expensive to establish and, other than the initial gathering of data, are likely to take two to three years to generate a return (Hochman, 1992). To put this in perspective Shell is reported to have spent between £20 and £40m developing its Smart Card scheme, and Tesco's initial data gathering cost in the region of £10m (Dignam, 1996; Reed, 1995). Given these substantial costs LSs should clearly be viewed in terms of a long-term strategic investment, rather than in terms of short-term tactical manoeuvres.

Organisations have bought into LSs because they have accepted the economics of customer retention. That is, managers have accepted that loyal customers are more profitable; loyal customers cost less to serve; loyal customers are less price-sensitive and; loyal customers generate positive word of mouth. Dowling and Uncles, in a review of the behavioural and loyalty literature, cast serious doubts on these assumptions: "in short, the contention that loyal customers are always more profitable is a gross oversimplification. Every company needs to use its customer data to determine the truth of this assertion" (Dowling and Uncles, 1997, p. 78). In any case, most organisations operate loyalty programmes in addition to, not instead of, other marketing activities. As a result, there is an increase in marketing expenditure.

How well do loyalty schemes manage loyalty?

On the basis of the discussion so far it seems important that we re-evaluate the extent to which LSs can actually manage customer loyalty. There seem to be two fundamental problems which limit the extent to which long-term sustainable loyalty can be achieved. These include the measurement problems associated with loyalty, and the predominant emphasis on schemes as short-term tactical, or defensive measures.

Measurement problems

On the basis of the preceding discussion it is clear there are a number of issues which must be resolved if managers are to be in a position to manage loyalty. First and foremost there is a need to establish exactly what is meant by loyalty, and to identify how it can be measured. As Reichheld (1994, p. 15) outlines, "if you can't measure it – you can't manage it". Research suggests that a 100 per cent loyalty is difficult, if not impossible to achieve, and that polygamous loyalty is far more common. Indeed this is already evident in customers' multiple membership in loyalty schemes (Dowling and Uncles, 1997), with UK consumers holding, on average 3.5 cards in 1995 (Reed, 1995). If polygamous loyalty is all that we can hope for, then striving for 100 per cent repeat purchase is an idealistic and expensive aim. In terms of the conceptual issues, organisations need to determine what category of loyalty they wish to achieve. Although sustainable loyalty is implicitly suggested as the aim of most schemes, the characteristics of the scheme, and of many markets, inhibit its ultimate realisation (Dick and Basu, 1994). Indeed, in many low-involvement product categories developing and maintaining spurious loyalty may be the only viable strategy. In such cases LSs may be a cost-effective option, because they provide an initial point of differentiation and incorporate a "club" concept as a form of social influence. However, where LSs are used to maintain spurious loyalty, there is a continual need to ensure that they provide greater value for customers than competing schemes (O'Brien and Jones, 1995). For example, Shell have recently attempted to enhance "Redemption of Options Value" by partnering with a wider consortium of retailers, including Dixons, Curry's Victoria Wine, Vision Express, John Menzies, the RAC and Hilton Hotels. Sustainable loyalty is clearly a more strategic issue and, given the discussion so far, it seems that LSs, as they are currently implemented, are unlikely to fulfil this aim. "If they remain the only strategy, short-term incentives with little real effect on the bottom line will be the result" (Mazur, 1997, p. 16).

Tactical not strategic orientation

Although card-based LSs offer the potential for high targetability, such use of customer data is not yet widely evident. However, as organisations become more adept at using the data they have, this situation may change. Unless data are effectively utilised, maintaining a database will become too costly, and the benefits of superior targetability may never be realised. Equally, collection and use of customer data within an LS is potentially intrusive (Evans *et al*, 1997) and, unless consumers see tangible benefits of data surrender, they may become more protective of their personal data (Patterson *et al*., 1997). A second reason for an overly tactical emphasis may be that the majority of schemes have been initiated as a defensive response to competitive activity. "This lemming-like rush to loyalty cards seems to indicate that the marketing fraternity is still offering too many tactical

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promotions rather than focusing on the harder task of long-term strategic brand building" (Mazur, 1997, p. 16).

Tactical issues may also be emphasised because of the measures used to evaluate success. These tend to be fairly short-term, and motivated as much by shareholder interests as anything else. Therefore, managers have no choice but to "hit the numbers" in the short term, limiting their emphasis on long-term strategic issues.

LSs have been criticised for being ill-thought out, and badly implemented. However, despite such criticisms it seems that LSs are here to stay. Whether they represent value for customers is clearly debatable, but customers are likely to continue to buy into this "something for nothing" proposition. It is equally debatable whether LSs offer value for retailers, but as with FFPs they have now become a necessary requirement of doing business in most retail sectors. As a result, retailers need to evaluate carefully their LSs and identify how they can be more effectively utilised. One important issue here is the resolution of the measurement problems associated with the concept of loyalty.

Marketers need to clarify the objectives of their loyalty programmes. They need to determine the relative importance of data collection, rewarding loyal customers, manipulating behaviour, erecting switching costs, and shifting merchandise, etc. In particular, they must assess the extent to which their scheme(s) can, and do, influence sustainable loyalty. While behavioural measures of loyalty (as generated by customer LSs) are of obvious benefit, they tell only half the story. Therefore, reliance on behavioural measures will have "obvious dangers for strategy formulation" (McGoldrick and Andre, 1977, p. 75). Consequently, retailers should continue to use other measures of loyalty, including satisfaction and relative attitude, and should not rely solely on self-selected customer LS members.

Retailers also need to focus on the concept of "value", not just in terms of the value inherent in the scheme, but also in terms of the total value offered to customers. When the LS becomes a component of the retail offering, it will take its place alongside other elements of value such as merchandise range, price, customer service, design, location and convenience. This more holistic view of value will go much further in engendering sustainable loyalty, than could be achieved by any LS on its own. Organisations which focus their attention on developing appealing value propositions will be most successful in the long term. At the very least, retailers must remember that "loyalty has to be earned, it cannot be given away" (Mazur, 1997, p. 16).

Retailers are not currently making the best use of the information they hold. Indeed, despite emphasising the data collection benefits, too many LSs remain as simple "point accrual programmes". Retailers can learn a great deal from direct marketers in terms of sophisticated data analysis, but this must be used to develop and communicate appealing offers to individual customers. "Rewards programmes do not exist in a vacuum; they must dovetail with a company's overall strategy and capabilities" (O'Brien and Jones, 1995, p. 79). In order to make more effective use of existing LSs, retailers would do well to consider the following:

1. Re-evaluate and clarify the objectives of the programme.
2. Be realistic as to the extent to which spurious or sustainable loyalty can be achieved, and allocate budgets accordingly.
3. Identify the relative importance of data collection, customer reward, merchandise promotion, etc. within the loyalty scheme.
4. Analyse and utilise the data generated by the loyalty programme.
5. Supplement behavioural data analysis with traditional research methods, and include non-card holders within this sample.
6. Engage in direct marketing (offers and communication) which are relevant to individual customers.
7. Be responsive to individual customers, and continually re-evaluate the "value" offered by the scheme (especially in comparison with competing schemes).
8. Ensure that the loyalty scheme is a coherent element of the company's overall strategy.

Conclusion

Many organisations have clearly benefited from the implementation of a customer loyalty scheme. However, for many others they have become a necessary and costly requirement for doing business. As Dowling and Uncles (1997, p. 71) suggest, "most schemes do not fundamentally alter market structure. They might help to protect incumbents and might be regarded as a legitimate part of the marketer's armoury, but at the cost of increasing marketing expenditures". Although LSs may have a valuable role in retail marketing today, they can achieve little more than spurious loyalty when they are viewed simply as "point accrual programmes". Such an emphasis results in a continual game of one-upmanship which is increasingly costly. Equally, where schemes are viewed simply as data collection mechanisms, the purpose of the scheme tends to be obscured in a continual search for more and more detailed information. However, when schemes are considered to be just one element of a coherent value proposition, they begin to play an integral role in developing sustainable loyalty. This seems to be the only viable, long-term role for customer loyalty schemes.

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