Loyalty programs and a sense of community

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Abstract

Purpose – Previous research has explored the impact of customer participation in organizational-sponsored loyalty programs on customer loyalty; however, the findings are mixed. Other research, outside the loyalty program literature, reveals that customers who socially interact with other customers, via participation in brand communities, often exhibit an intense loyalty to the sponsoring brands. Proposes to investigate the following questions: "Can loyalty programs be differentiated based on whether or not members perceive a sense of community?"; and "Does a perception of a sense of community impact member loyalty to sponsoring organizations?"

Design/methodology/approach – Q-technique factor analysis is utilized analyzing statements from loyalty program participants. Principal component factor and cluster analyses confirm a two-tiered classification schema distinguishing loyalty programs based on perceptions of communal benefits. Differences between the two factors are explored. A survey developed from the Q-sort analysis was then administered to 153 loyalty program participants, providing evidence that consumers are more loyal to communal programs.

Findings – Loyalty programs can be distinguished based on the sense of community which members perceive. Furthermore, consumers are more loyal to communal programs than to programs that simply use financial incentives. Communal programs elicit stronger emotional connections and participants are significantly less predisposed to competitor switching.

Originality/value – This study integrates the theory of sense of community into the marketing literature, also offering researchers a nine-item, unidimensional scale to measure the construct within the context of loyalty programs. Confusion in the literature regarding the efficacy of loyalty programs is diminished by showing a positive relationship between loyalty and a member's perceptions of community.

Keywords Loyalty schemes, Brand management, Communities, Brand loyalty, Customer satisfaction

Paper type Research paper

An executive summary for managers and executive readers can be found at the end of this article.

Introduction: loyalty programs

Since the early 1990s, organizations have been encouraging customer participation in a proliferation of loyalty programs in which consumers are offered incentives in exchange for repeat business (Roehm *et al.*, 2002). Also known as "frequency programs" (Kivetz and Simonson, 2002), loyalty programs are designed as a tool for organizations to develop and enhance customer loyalty. By enrolling in organizational-sponsored loyalty programs, customers receive benefits such as monetary discounts, the ability to join customer clubs, organizational newsletters, or prizes. Based on the assumption that loyalty programs result in increased customer loyalty (Dowling and Uncles, 1997; Palmer *et al.*, 2000), organizations have encouraged customers to enroll in

sponsored programs. As a result, 70 percent of today's consumers participate in an organization-sponsored loyalty program (Merriman, 2001). However, even though organizations have placed a great deal of importance on improving customer loyalty via loyalty program membership, defection rates among satisfied customers, who are presumed to be a firm's most loyal customers, remain as high as 90 percent (Oliver, 1999).

Loyalty programs = customer loyalty?

Does loyalty program membership actually enhance customer loyalty? Answering this question is complicated by the confusion regarding the efficacy of loyalty program membership. Some researchers have found a positive relationship between loyalty program membership and customer loyalty (Bolton *et al.*, 2000). Others, however, have found that the relationship is mixed (Smith *et al.*, 2003; Yi and Jeon, 2003; Kivetz and Simonson, 2002), or non-existent (Liebermann, 1999; Divett *et al.*, 2003 McIlroy and Barnett, 2000; O'Brien and Jones, 1995; Sharp and Sharp, 1997; Smith *et al.*, 2003).

Researchers have posited a variety of different reasons to explain the success, and failure, of loyalty programs. Studies suggest that the efficacy of loyalty programs is impacted by the following: the timing of rewards (Dowling and Uncles, 1997; Yi and Jeon, 2003), the ease of use (Cigliano *et al.*, 2000), the ability of the sponsoring organization to process effectively program data (Palmer *et al.*, 2000), the amount of effort required for program reward redemption (Kivetz and

Simonson, 2002), the compatibility of the reward with the brand image (Roehm *et al.*, 2002), or the ability of members to perceive value in the program's rewards (O'Brien and Jones, 1995).

Conceptualization of loyalty programs

While all of these aforementioned reasons are plausible, research findings outside of the loyalty program literature suggest that organizations that promote social interaction among customers realize enhanced customer loyalty (Arnould and Price, 2000; Aubert-Gamet and Cova, 1999; Cova, 1997; McAlexander *et al.*, 2002; Muniz and O'Guinn, 2001; Oliver, 1999; Schouten and McAlexander, 1995). Research indicates that by encouraging customers to participate in brand communities (structured social relationships among users of a brand), also defined as "specialized, non-geographically bound communities", is a particularly successful brand strategy (Muniz and O'Guinn, 2001, p. 412). For example, customers who participate in these brand communities, such as Camp Jeep, HOG (Harley-Davidson) rally's, Saturn homecomings, or Winnebago clubs, often exhibit extreme loyalty, or "iron bonds" (McAlexander *et al.*, 2002), to sponsoring organizations.

To date, marketing researchers have not considered organizational-sponsored brand communities as loyalty programs. However, in this study, the concept of loyalty programs is extended to include any organizational sponsored program that attempts to build customer loyalty by transferring support from the organization to program members.

Communal loyalty programs are defined as organizational sponsored loyalty programs that transfer support from organizations to members by providing them with a sense of community. McMillian and Chavis (1986) define a sense of community as a feeling of belonging, a belief that members matter to one another and to the overall group, and a shared faith that members' needs will be met through their commitment to be together. Communal loyalty programs are often offered by luxury and higher involvement brands such as automobiles and specialty retailers. It is worth noting that customers often voluntarily form social clubs (Muniz and O'Guinn, 2001) or host internet sites centered on a product or brand, on their own volition. These member-created programs, however, are not examples of loyalty programs because they lack sanction from a sponsoring organization.

Non-communal loyalty programs are defined as loyalty programs that transfer support from organizations to members by providing them with financial benefits, such as monetary discounts on present, or future, purchases. These programs are more universal than communal loyalty programs and are often sponsored by organizations such as grocery stores and airlines.

Study purpose and plan

The purpose of this study is to investigate whether members of communal loyalty programs exhibit a stronger loyalty to sponsoring organizations compared to members of non-communal loyalty programs. In doing so, this study bridges the brand community and loyalty program literatures by drawing on McMillian and Chavis' (1986) (also McMillian, 1996) theory of sense of community. Thus far, researchers have applied the theory of a sense of community to explore an individual's sense of being part of a geographically-based community. This study represents a first attempt to apply the theory to an individual's sense of being part of a non-geographic, relational community (Muniz and O'Guinn 2001). The study also investigates loyalty programs sponsored by both manufacturers and service establishments; heeding the call of service experts to further explore loyalty within the context of both services and manufacturers (Grove *et al.*, 2003; Cooley, 2002). These objectives are achieved by addressing two research questions. First, can loyalty programs be differentiated based on whether or not members perceive a sense of community? Second, does this perception of a sense of community impact member loyalty to sponsoring organizations?

Q-factor analysis

To answer the first question, this study utilizes Q-technique factor analysis (Brown, 1980; Thompson, 2000). Although the Q-technique method is relatively absent from the marketing literature (see Kleine *et al.*, 1995 for an exception), it is the correct methodology when attempting to identify types, or clusters, of people with similar views. This study focuses on identifying members of various loyalty programs who share similar views regarding whether or not they perceive a sense of community. The second research question, which addresses the impact of a sense of community on customer loyalty, is addressed via regression analysis of data collected by surveying over 150 loyalty program members.

Study plan

The plan for this study is the following. First, the theory of a sense of community, along with its related communal benefits, is discussed. Second, the results of the Q-technique factor analysis and regression analysis are presented. The study concludes with managerial implications and future directives.

Literature review – sense of community

Many consumer researchers have generated rich, descriptive data that reveal some customers desire to participate in brand communities, represented by communal loyalty programs (McAlexander *et al.*, 2002; Muniz and O'Guinn, 2001; Oliver, 1999; Schouten and McAlexander, 1995). In addition, McAlexander *et al.* (2002) recently developed a community integration scale that assesses a customer's perceived integration of being within a brand community. Although this research stream is insightful, it does not specifically address the benefits that customers may receive by participating in communal loyalty programs. Thus, a customer's motivation to participate in a communal loyalty program remains unclear.

McMillian and Chavis (1986) contend that individuals achieve a sense of community when they obtain four benefits from joining a specific group. These benefits are:
1 membership, a feeling of belonging;
2 influence, a sense of mattering;
3 integration and fulfillment of needs, a feeling that members needs will be met through group membership; and
4 shared emotional connections, the commitment and belief that members have shared and will share history, common places, time together, and similar experiences.

These four benefits are now discussed in-depth.

Communal benefits

Membership
Membership refers to each group member perceiving that he/she has invested part of him/herself to become a member in a specific group and is therefore entitled to belong to that group. By striving for membership, individuals obtain a sensation of securing a position in the group and membership becomes valuable. For instance, individuals must purchase a BMW in order to participate in an organizational-sponsored club. Given the hefty price of a BMW, owners may perceive that their club membership is valuable because only an élite group of individuals are offered the opportunity to participate in the club. Consequently, loyalty programs that permit customers to join without incurring fees or minimum purchase requirements may be unable to generate feelings of membership among members.

Influence
Influence refers to members feeling empowered to influence the group, as well as sensing that the group has some influence over them. Loyalty programs can promote influence by offering members the ability to communicate to senior managers or to a design team. For instance, Harley-Davidson's and Jeep's program members provide valuable consumer feedback to senior management and corporate engineers at members-only events (Muniz and O'Guinn, 2001; Schouten and McAlexander, 1995; McAlexander *et al.*, 2002).

Integration and fulfillment of needs
This concept refers to members feeling rewarded for group participation. McMillian and Chavis (1986) suggest that the two rewards that members covet are status and self-competency (i.e. members receiving skills or knowledge from other members). Thus, Neiman-Marcus' loyalty program members, or In-Circle members, may desire the status associated with the program and the opportunity to mingle with other affluent members, as well as to learn about contemporary trends at the store's invitation-only, In-Circle events.

Shared emotional connection
This concept refers to members desiring to fashion the organization's identity, or history, into their own self-identity. For example, Harley-Davidson HOG members may perceive the sponsoring organization's products, or brand image, as an extension of their self-identity (Belk, 1988; Oliver, 1999; Schouten and McAlexander, 1995). In a similar fashion, In-Circle members may display their monthly fashion catalog, the *Book*, in their households for others to view and to acknowledge.

This discussion suggests that communal loyalty program members may receive all, or some, of the four benefits associated with a sense of community. If so, then it would be possible to identify, and to cluster, communal and non-communal loyalty program members based on the similarity of their perspectives regarding the communal benefits associated with their loyalty program membership.

Study 1: methodology

Q-technique factor analysis is the appropriate methodology for attempting to identify types, or clusters, of people with similar views on a set of statements (McKeown and Thomas, 1988). In this study, "people" represent communal and non-communal loyalty program members. The Q-technique is based on a set of procedures whereby participants rank order statements. Typically, a participant orders each statement, from "most agree" to "most disagree", into a predetermined number of categories and items within each category, representing a normal distribution (Thompson, 2000). The items so arrayed comprise what is termed the Q-sort.

Some researchers have criticized the technique due to the forcing procedure. Their point of contention is that participants would not sort the statements into a normally distributed pattern without being prompted to do so (Brown, 1971). To overcome this objection, the participants of this study were permitted to freely sort the statements based on Brown's (1980) recommendations. As a purely statistical matter, Q-sort results tend to be the same regardless of whether or not subjects freely distribute statements according to a forced distribution (Brown, 1971).

Q-sort stimuli
The Q-sample stimuli consisted of 24 statements developed for this study based on the sense of community literature. Researchers using the Q-technique often create statements based upon their knowledge of the dimensions being assessed. The focus of the technique lies in uncovering differences in the sorting patterns of the statements between factors; not on testing hypothesized relationships (Aaker *et al.*, 1998; Brown, 1980). Accordingly, statements were developed from McMillian and Chavis' (1986) conceptualization of a sense of community and its related communal benefits. Although previous researchers have developed a sense of community scale, this scale assesses membership in a residential community, as opposed to being a member of a relational community (Davidson and Cotter, 1986). Therefore, adjustments were necessary. Other statements were developed from Oliver's (1999) conceptualization of resistance to competition (i.e. referred to as individual fortitude by Oliver, 1999) and loyalty. To date, Oliver (1999) has not established an individual fortitude/loyalty scale.

Sample
Kerlinger (1986, p. 521) states that in Q, "one tests theories on small sets of individuals carefully chosen for their 'known' or presumed possession of some significant characteristic or characteristics". Given the sampling nature of Q-technique, the number of participants sampled in a Q-study should not exceed the number of statements employed (Brown, 1980; Stephenson, 1953; Thompson, 2000). Thus, 20 participants were purposively selected based on the type of loyalty program that they belonged to, as illustrated in Table I. The loyalty programs were selected because they represent a continuum of programs based on communal benefits. For example, some of the sampled loyalty programs appear to offer members all the benefits associated with a sense of community, while others offer some of the benefits, and some programs do not appear to offer any of the benefits. Participants were selected through loyalty program internet sites, as well as from a pool of graduate level students and staff who either attend or work at a major Southwestern university.

Table I Factor matrix for Q-sort loyalty program loadings

Organizational-sponsored loyalty program	Factor 1	Factor 2	Cluster	Type of retailer
American Express	0.86		1	Financial services
Bellagio	0.69	0.49	1	Casino/hotel
BMW (Motorcycle)	0.84		1	Motorcycle, automobile
Harley-Davidson	0.85		1	Motorcycles
Jaguar	0.90		1	Automobiles
Mastercraft	0.66		1	Boats
Neiman-Marcus	0.58		1	Specialty retailer
Oneworld Alliance	0.90		1	Airport lounge access
Petco	−0.66		2	Pet supplies
America West		0.60	2	Airline
Barnes and Noble		0.54	2	Bookstore
Bashas		0.87	2	Grocery
Chico's		0.63	2	Women's clothing
General Motors Mastercard		0.55	2	Financial services
General Nutrition Center		0.71	2	Health food
Marriott		0.86	2	Lodging
Northwest Airlines		0.71	2	Airline
Safeway		0.78	2	Grocery
Ulta		0.76	2	Cosmetics, beauty supply
Winnebago	0.85		1	Recreation vehicles

Note: Principal components analysis with varimax rotation

Q-sort administration

Each participant was given 24 cards with one statement imprinted on it. Next, the participant was shown a board that was divided into three areas: agree, neutral, and disagree. Each of the "agree" and "disagree" sections was split into four additional segments that were marked +1 to +4 on the agree side and −1 to −4 on the disagree side. The neutral segment (marked with a zero) separated the agree side from the disagree side.

Based on Brown's (1980) directives for a free sort, each participant was asked to first divide the statements into three categories, agree, neutral, and disagree. Then, the participant was instructed to follow a normal distribution sorting pattern based on the number of statements that he/she had placed on each side. For example, if the participant placed 14 statements on the agree side, then he/she was asked to sort in a 5 (+1), 4, 3, 2 (+4) pattern. After the participant signaled completion of the initial sort, he/she was asked to review the board and to make any changes regardless of whether the resultant pattern was normally distributed.

Study 1: data results

Data from the completed Q sorts were entered into PQMethod 2.11 software (Schmolck and Atkinson, 2002). Following typical Q-sort procedures (Brown, 1980; McKeown and Thomas, 1988), principal components factor analysis was performed, with varimax rotation, to extract factors and to calculate factor loadings. These loadings represent correlation coefficients that express the amount of similarity between an individual Q sort and an extracted factor. In order to consider a rotated factor loading to be statistically significant ($p < 0.01$), it had to exceed 0.52. This number was obtained from the formula described in Brown (1980, pp. 283-4): $(1/2.58(1\sqrt{N})$, where $N =$ number of

statements in the Q sort. Two factors, accounting for 61 percent of the total variance, emerged. The factors, and their loadings, are illustrated in Table I.

Communal vs non-communal factors

Communal loyalty program members define Factor 1 (e.g. Winnebago, American Express, and Harley-Davidson). The programs these members belong to often require hefty financial investments, enhance member status, or promote member interaction. Non-communal loyalty program members define Factor 2 (e.g. Ulta, Barnes and Noble, and Marriott). The programs that these members belong to are typically free of charge and available to all customers.

Although the majority of loyalty program members loaded on one factor, one program member cross-loaded and another program member negatively loaded. Bellagio loaded on both factors, probably because it is both a hotel and one of the most luxurious casinos in Las Vegas. Thus, Bellagio loyalty program members receive status, along with financial benefits. Petco negatively loaded on Factor 1, indicating an opposite perception to communal programs, as opposed to a good fit with non-communal programs.

Cluster analysis

A K-means cluster analysis was performed to confirm that the sampled loyalty programs can be classified into one of two types. The K-means procedure was chosen because the Q-factor analysis provided an a priori number of clusters that the data should specify (Hair and Black, 2000). In the cluster analysis, the statements were considered as variables and each loyalty program member was considered as a participant. The cluster analysis solution mirrored the Q solution. Communal loyalty programs were classified into one cluster and non-communal programs were classified into another cluster (see Table I).

Bellagio was classified in the communal cluster and Petco was classified in the non-communal cluster.

Factor attributes

The attributes characterizing the factors were analyzed by interpreting each statement's factor score. Factor scores are weighted z-scores for each statement that have been reconverted into an array of scores corresponding to the $+4$ (strongly agree) to -4 (strongly disagree) values used in the Q-sort continuum (McKeown and Thomas, 1988). A large positive score ($+4$, $+3$, $+2$) represents a highly indicative statement of the factor and a large negative score (-4, -3, -2) shows the opposite of the statement being indicative of the factor. Low absolute value scores, -1 and $+1$, represent unimportant statements and a zero score indicates that the statement is not significant to the factor.

Statements that received large positive and negative factor scores are presented first. This analysis permits one to consider participants as rational individuals whose statement scores tell a story about their attitudes and behaviors towards their loyalty programs. Factor 2 scores, which represent members of the more widespread, non-communal loyalty programs, are presented first. Factor 1 scores, which represent members of communal loyalty programs, are presented second. Next, factor statement scores are presented in tandem. The analysis shown in Table II is expressed by displaying the statement's weighted z-score, the statement number, and the actual statement.

In the positive statements, Factor 2 results indicate that purchasing behavior is significantly impacted by their loyalty program membership (5); however, this does not prevent these members from looking over the fence to see if the grass is greener elsewhere (24, 14, 16). Not surprisingly, non-communal loyalty program members do not indicate a strong sense of community (13), but rather, a capacity to easily switch brand alliances often due to lower competitor prices. Although non-communal members do not desire to terminate their relationship with sponsoring organizations (21), their demonstrated loyalty pales to that of communal loyalty program members (discussed later). These speculations are reinforced by the strong negative factor scores (see Table III). Non-communal loyalty program members indicate satisfaction with the sponsoring organizations (11), consider

Table II Strong positive indicators: non-communal programs (Factor 2)

+4	5	The loyalty program has the ability to influence my purchase behaviors
+4	24	I would be willing to try products or services from a competitor of (the organization)
+3	14	I tend to notice information from other companies that offer similar products, or services, compared with those offered by (the organization)
+3	16	Competitive information has the ability to encourage me to try other products or services similar to the kinds offered by (the organization)
+2	6	I don't feel that I am influential as a participant in the loyalty program
+2	13	I do not perceive a strong "sense of community" among the participants of the loyalty program
+2	21	I can't see ending my relationship with the company

Table III Strong negative indicators: non-communal programs (Factor 2)

−4	11	I usually do not have positive experiences interacting with (the organization)
−4	20	I speak unfavorably about the company to others
−3	17	The company is not an important part of my life
−3	23	I would pay more for products or services in order to buy them from the organization compared with prices at other organizations
−2	8	I am not satisfied with the financial rewards that I receive as a participant in the loyalty program
−2	15	I enjoy life more now as a participant in the loyalty program
−2	18	I am drawn to the social activities that the organization provides for the participants of its loyalty program

the organization an important part of their life (17), and would not speak unfavorably of the organization (20). Yet, these members do not consider themselves to be a part of a brand community (18, 15). Thus, the ties that members maintain with sponsoring organizations are purely economic, as they are not willing to pay higher prices due to some semblance of loyalty (23).

The sorting pattern for communal loyalty program members (Factor 1) is quite different from that of non-communal (factor 2) loyalty program members (see Table IV). Perhaps the motivating power of community is inducing a relationship between members and the sponsoring organization (21), or maybe members are impressed with the exclusive benefits which they are receiving (7, 9). For whatever reason, key non-price attributes such as status (7), non-financial rewards (9), and exclusivity (1) rise to the forefront of importance with the communal programs. These findings are a stark contrast from non-communal program members who are far more influenced by price and by a willingness to patronize competing organizations.

The strong negative indicators underscore that attitudes regarding loyalty program membership differ between communal and non-communal members (see Table V). Communal loyalty program members have extremely positive experiences interacting with their sponsoring organizations (11) and they view their membership as being meaningful (4). Hence, communal members consider themselves to be loyal to their sponsoring organizations (22), perhaps, because they

Table IV Strong positive indicators: communal loyalty programs (Factor 1)

+4	7	I enjoy the status of being a participant in the loyalty program
+4	9	I receive many rewards, other than financial, as a participant in the loyalty program
+3	1	The loyalty program has a sense of exclusivity associated with it
+3	21	I can't see ending my relationship with the company
+2	5	The loyalty program has the ability to influence my purchase behaviors
+2	10	I have positive experiences interacting with other participants in the loyalty program
+2	12	I believe that I am part of a community made up of participants of the loyalty program

Table V Strong negative indicators: communal programs (Factor 1)

−4	11	I usually do not have positive experiences interacting with (the organization)
−4	22	I do not consider myself loyal to the company
−3	4	My participation in the loyalty program is not meaningful to me
−3	13	I do not perceive a strong "sense of community" among the participants of the loyalty program
−2	2	I don't feel as though I am a member of the loyalty program
−2	8	I am not satisfied with the financial rewards that I receive as a participant in the loyalty program
−2	20	I speak unfavorably about the company to others

perceive themselves as being part of a specialized, non-geographically bound community (13).

Factor comparisons

Each statement's weighted z-score is presented in order to analyze differences between communal and non-communal loyalty program members. This analysis permits a researcher to analyze low and neutral scores (+1, 0, −1) that, in a comparison to another factor, may reveal important information that distinguishes the factors.

Communal loyalty program members, Factor 1, display a stronger sense of exclusivity (1) and a perception of program meaningfulness (4) compared to non-communal loyalty program members, Factor 2 (see Table VI). In addition, communal loyalty program members are somewhat more likely than non-communal members to perceive themselves as members of a loyalty program (3).

Interestingly, non-communal loyalty program members perceive that their membership influences their purchase behaviors to a larger extent than communal members (5) (see Table VII). Given the financial discounts associated with non-communal loyalty programs, it is not surprising that statement 5 was one of the most significant statements for Factor 2. After all, the tie that non-communal loyalty program

Table VI Membership

		F1	F2
1	The loyalty program has a sense of exclusivity associated with it	+3	0
2	I don't feel as though I am a member of the loyalty program	−2	−1
3	I am similar to other participants in the loyalty program	+1	+1
4	My participation in the loyalty program is not meaningful to me	−3	0

Table VII Influence

		F1	F2
5	The loyalty program has the ability to influence my purchase behaviors	+2	+4
6	I don't feel that I am influential as a participant in the loyalty program	−1	+2

members maintain with their organizations is an economic one.

Given the two +4 factor scores for statements 7 and 9, this group of statements indicates an important benefit for communal loyalty program members (see Table VIII). Both factors indicate equal satisfaction with the financial benefits associated with members (8). However, communal loyalty program members enjoy the status (7) and non-financial rewards (9) associated with their programs more so than non-communal loyalty program members.

Communal loyalty program members have more shared emotional connections with other members, as compared to non-communal members (10) (see Table IX). However, both factors have positive experiences interacting with sponsoring organizations (11). Thus, communal loyalty program members may be more likely than non-communal members to develop effective bonds with their sponsoring organizations.

Table X reveals that communal loyalty program members perceive a stronger sense of community compared to non-communal program members (12, 13). Hence, communal loyalty program members are more likely than non-communal members to perceive that they are part of a non-geographic, relationally-bound community.

Table XI reveals that non-communal loyalty program members remain very acceptant of competitor overtures (14, 16). Comparable scores on these two statements for community loyalty program members were either low or neutral. Thus, there is no evidence that communal members would be easily lured by competitors. Yet, the lack of relationship between non-communal loyalty programs and loyalty does not mean that non-communal members will

Table VIII Integration/fulfillment of needs

		F1	F2
7	I enjoy the status of being a participant in the loyalty program	+4	0
8	I am not satisfied with the financial rewards that I receive as a participant in the loyalty program	−2	−2
9	I receive many rewards, other than financial, as a participant in the loyalty program	+4	+1

Table IX Shared emotional connections

		F1	F2
10	I have positive experiences interacting with other participants in the loyalty program	+2	−1
11	I usually do not have positive experiences interacting with (the organization)	−4	−4

Table X Sense of community

		F1	F2
12	I believe that I am part of a community made up of participants of the loyalty program	+2	0
13	I do not perceive a strong "sense of community" among the participants of the loyalty program	−3	+2

Table XI Resistance to competitor overtures

		F1	F2
14	I tend to notice information from other companies that offer similar products, or services, compared with those offered by (the organization)	0	+3
15	I enjoy life more now as a participant in the loyalty program	0	−2
16	Competitive information has the ability to encourage me to try other products or services similar to the kinds offered by (the organization)	−1	+3
17	The organization that sponsors the loyalty program is not an important part of my life	0	−3
18	I am drawn to the social activities that the organization provides for the participants of its loyalty program	+1	−2
19	There is a perfect match between (the organization) and myself	0	+1

simply cease patronizing sponsoring organizations. Non-communal loyalty program members indicate that the sponsoring organization is an important part of their life; ironically, more so than communal loyalty program members (17, 19). Perhaps, these members patronize their sponsoring organizations due to factors such as location, price, assortment, and operating hours, rather than the opportunity to participate in organizational-sponsored social activities (18).

The group of statements in Table XII best clarifies the loyalty outcomes between communal and non-communal loyalty program members. Non-communal loyalty program members display a strong willingness to try products or services from competitors of their sponsoring organizations, in contrast to communal loyalty program members who exhibit some resilience from doing so (24). The extreme −4 score on statement 22, among communal loyalty program members, compared to the −1 score among non-communal members, indicates that the former perceive themselves as being more loyal to their sponsoring organizations compared to the latter. Lastly, while non-communal loyalty program members refute the concept of paying more for products and services in order to buy them from their sponsoring organizations, communal loyalty programs express some willingness to do so (23).

Classification schema

The results of Study 1 demonstrate that loyalty programs can be classified in a two-tiered schema based on members' perceptions regarding whether or not they obtain a sense of

Table XII Loyalty

		F1	F2
20	I speak unfavorably about the company to others	−2	−4
21	I can't see ending my relationship with the organization	+3	+2
22	I do not consider myself loyal to the organization	−4	−1
23	I would pay more for products or services in order to buy them from the organization compared with prices at other organizations	+1	−3
24	I would be willing to try products or services from a competitor	−1	+4

community, and its related benefits, from membership. As a result, this study extends the loyalty program literature by offering a theoretically-based classification schema that separates loyalty programs into communal and non-communal programs. Although the sorting patterns reveal that communal loyalty program members are more loyal to their sponsoring organizations compared to the non-communal loyalty program members, the amount of variance in customer loyalty that can be attributed to a sense of community needs to be further investigated. The next study addresses this issue by empirically examining the relationship between loyalty program members' sense of community and customer loyalty.

Study 2 – survey

The Q-sort results from Study 1 were used to develop items for a questionnaire (Aaker *et al.*, 1998). Of the 24 statements that were used in the Q-sort, the results indicated that six statements (3, 8, 11, 15, 19, 20) were consensus statements that did not distinguish between the two factors. The six statements were disqualified. The 18 remaining statements were converted into questionnaire items, which were assessed on a six-point Likert scale anchored by 1 for "strongly disagree" and by 6 for "strongly agree". Ten of the items represented statements that assess a "sense of community" construct and eight of the items represent statements that assess resistance to competition and loyalty (Table XIII).

Respondents/validity check

Data for Study 2 were obtained from questionnaires administered by marketing students at a major Northeastern University enrolled in an upper-division retailing course. Students were asked to voluntarily participate in an extra-credit task of administering five questionnaires to adults, 18 years of age and older, who belonged to a loyalty program. Most students tapped into their established social networks for responses, particularly work and family associations. To ensure the validity of the responses, each respondent was asked to print his or her name on the questionnaire and to provide an e-mail address or telephone number. Of the 175 questionnaires received, 22 were excluded due to a lack of an e-mail or telephone reference. A total of 25 randomly selected respondents were contacted to assure further that the questionnaire had been completed in good faith and that answers were not falsified.

Each respondent was asked to consider a specific loyalty program to which they currently belong and to indicate the type of organization that sponsored the program. Although respondents were able to focus on any loyalty program, a list of ten communal and non-communal loyalty programs (e.g. Neiman-Marcus, Macy's, American Airlines, and Safeway) were provided to encourage variance in selected loyalty programs.

Programs sampled

Of the 153 respondents, 50 focused on a grocery store program, 37 on airlines, 20 on discount stores, ten on department stores, nine on automobile/motorcycle manufacturers, eight on restaurants, seven on specialty stores, and 12 other types of loyalty programs. A total of 45 percent of the respondents were male and 55 percent were female. The average age of the respondents was in the 31-40

Table XIII Items, loadings, means, standard deviations, coefficient alphas

	Sense of community	Loyalty
Membership		
The loyalty program has a sense of exclusivity associated with it	0.64	
I don't feel as though I am a member of the loyalty program[a]	0.65	
My participation in the loyalty program is not meaningful to me[a]	0.70	
Influence		
I don't feel that I am influential as a participant in the loyalty program[a]	0.52	
Integration/fulfillment of needs		
I enjoy the status of being a participant in the loyalty program	0.71	
I receive many rewards, other than financial, as a participant in the loyalty program	0.58	
Shared emotional connections		
I have positive experiences interacting with other participants in the loyalty program	0.48	
Sense of community		
I believe that I am part of a community made up of loyalty program members	0.66	
I do not perceive a strong "sense of community" among the participants of the loyalty program[a]	0.61	
Mean = 30.01, Standard deviation = 11.83, Coefficient alpha = 0.93		
Dependent measures: resistance to competitor overtures and loyalty		
I tend to notice information from other companies that offer similar products, or services, compared with those offered by the organization[a]		0.70
Competitive information has the ability to encourage me to try other products or services similar to the kinds offered by the organization[a]		0.65
The organization that sponsors the loyalty program is not an important part of my life[a]		0.72
I am drawn to the social activities that the organization provides for the participants of its loyalty program		0.59
I can't see ending my relationship with the organization		0.76
I do not consider myself loyal to the organization[a]		0.85
I would pay more for products or services in order to buy them from the organization compared with prices at other organizations		0.77
I would be willing to try products or services from a competitor[a]		0.82
Mean = 24.89, Standard deviation = 9.86, Coefficient alpha = 0.90		
Initial eigenvalue	5.91	4.78
Percentage of variance	66	60
Items that do not distinguish between factors and were excluded from the questionnaire		
I am similar to other participants in the loyalty program (3)		
I am not satisfied with the financial rewards that I receive as a participant in the loyalty program (8)		
I usually do not have positive experiences interacting with the organization (11)		
I enjoy life more now as a participant in the loyalty program (15)		
There is a perfect match between (the organization) and myself (19)		
I speak unfavorably about the company to others (20)		
Excluded item due to poor factor loading		
The loyalty program has the ability to influence my purchase behaviors (5)		

Notes: [a] Denotes recoded items; All questions measured on a six-point scale (1 = Strongly disagree; 6 = Strongly agree)

age category, 50 percent of the respondents indicated that they were single, 37 percent were married, 10 percent were divorced, and 3 percent were domestic partnerships. Most of the respondents indicated that they were Caucasian (80 percent), 5 percent were Hispanic, 10 percent were Asian, and 5 percent were African-American.

Measures

Sense of community measurement model

To determine the underlying factor structure of the ten "sense of community" items, statements were subjected to exploratory factor analysis (principal axis, promax rotation). For an item to be retained, one of its factor loadings had to be above 0.50, while all other factor loadings had to be equal to or below 0.30. One item, statement 5, was removed due to a low loading. The analysis retained nine items, in one factor, accounting for 66 percent of the variance. The Cattell's scree-test also supported a one-factor solution.

The nine items were then subjected to conformity factor analysis, using Mplus (Mutchen and Mutchen, 2003). Based on t-statistics that ranged from 9.38 to 11.79, the standardized factor loadings for the nine indicator variables were significant ($p < 0.001$). The chi-square statistic was 69.77 (df = 27, $p < 0.01$). The root mean square error of approximation (RMSEA) was 0.10, the standardized root mean square residual (SRMR) was 0.04, the comparative fit index was 0.96, and the Tucker-Lewis Index (TLI) was 0.94. Overall, the results indicate that there is relatively good fit

between the model and the observed data (Hu and Bentler, 1999). A sense of community index was created by summing the nine items. Cronbach's alpha coefficient on the index was 0.93, indicating good reliability (Nunnally, 1978).

Resistance to competition/loyalty measures
To determine the underlying factor structure of the eight resistance/loyalty items, the items were subjected to exploratory factor analysis (principal axis, promax rotation). The analysis of the pattern matrix retained the eight items in one factor; accounting for 60 percent of the variance. The results of a Cattell's scree-test supported a one-factor solution. A loyalty index was then created by summing the eight items. Cronbach's alpha coefficient and item-to-total correlation was used to refine the measure and to eliminate items whose inclusion resulted in a lower coefficient. The index coefficient was 0.90, indicating good reliability (Nunnally, 1978). All items are included in Table XIII.

Relationship between sense of community and loyalty
Linear regression analysis was conducted to evaluate the prediction of organization loyalty from the sense of community index. The results reveal that the extent to which a respondent perceives a sense of community, regarding his or her loyalty program membership, is a significant predictor of loyalty to the sponsoring organization ($\beta = 0.89$, $p < 0.001$).

Approximately 80 percent of the variance of the loyalty index was accounted for by its linear relationship with the sense of community index.

Conclusion

The purpose of this study was to investigate whether members of communal loyalty programs exhibit a stronger loyalty to sponsoring organizations compared to members of non-communal loyalty programs. This goal was achieved in two manners. First, the results of a Q-technique factor analysis demonstrated that members of 20 different loyalty programs, ranging from automobile and motorcycle programs to grocery stores and lodging, could be classified into two types, members of communal and non-communal loyalty programs. This classification schema was based on the extent to which loyalty program members obtain a sense of community from their membership (McMillian and Chavis, 1986). Second, the results of a regression analysis demonstrated that as respondents obtain a sense of community, via their loyalty program membership, they exhibit a stronger loyalty to sponsoring organizations.

Managerial and theoretical implications
The results of this study indicate that members of communal loyalty programs exhibit a stronger loyalty to sponsoring organizations compared to members of non-communal loyalty programs. This pronounced loyalty stems from communal members receiving non-monetary benefits such as a sense of exclusive membership and enhanced status. Hence, these findings substantiate Kopalle and Neslin's (2003) research that suggests the importance of consumer benefits in loyalty programs that are not tied to financial incentives (Lee and Cunningham, 2001).

The findings also reveal that members of communal loyalty programs have stronger emotional connections with sponsoring organizations, and are significantly less

predisposed to switch to competitor products/services than members of non-communal loyalty programs. Thus, the secret to customer relationship management, particularly in loyalty programs is, indeed, as Barnes (2001) claims, "all about how you make them feel", as opposed to the too often used strategy of discounts and pricing schemes (Fournier, 2002).

However, these findings should not be interpreted as a request for every organization to begin offering members communal benefits. The Q-sort results indicate that communal loyalty program members savor intangible benefits, such as enhanced status and self-competency. Therefore, many organizations, especially those that offer "low-involvement" products and services that are habitually purchased (e.g. groceries, gasoline, dry cleaning) may be unable to offer program members status, and hence, an overall sense of community. Accordingly, given the very nature of many product and service offerings, the majority of organizations that sponsor price reduction loyalty programs will most likely not realize the level of enhanced customer loyalty found in communal programs. This contention is a particularly important finding for retailers, such as grocery stores, that have been at the forefront of the loyalty program expansion in the 1990s.

Non-communal programs still valuable
Managers should also not interpret these results as a call for organizations to abolish non-communal loyalty programs. The results demonstrate that although non-communal loyalty program members do not display passionate loyalty to sponsoring organizations, they do demonstrate satisfaction by refraining from spreading negative word-of-mouth and by considering the sponsoring organization an important part of their life. Whether or not non-communal loyalty members would exhibit the same level of satisfaction without program membership is unknown at this time. However, because non-communal loyalty program benefits enhance an organization's value proposition (O'Brien and Jones, 1995), revoking these programs may be financially deleterious to airlines, hotels, retail stores, and to car rental firms who typically sponsor these programs. Perhaps, non-communal loyalty program membership aids in helping customers retain some type of permanent bond, albeit financial, to sponsoring organizations. Researchers should explore these questions more in depth.

In terms of implications for organizations that sponsor communal programs, results reveal that program members relish intangible rewards, such as feelings of membership and status, more so than tangible rewards, such as social activities with program members and expensive gifts/prizes. As a result, organizations that sell status-oriented products or services may not necessarily need to offer their loyalty program members costly discounts and premiums in order to realize enhanced customer loyalty. Rather, organizations may be able to reap loyalty benefits by simply offering customers the opportunity to participate in programs that members perceive as being exclusive to them.

Future directions
It is worth noting that researchers have suggested that customers' desire to participate in product or brand communities represents a desire to return to the *gemeinschaft* (Muniz and O'Guinn, 2001; Tonnies, 1957) or a time in society when relationships between people were perceived as

more strong and genuine. Yet, membership in loyalty programs that espouse exclusivity and status are not characteristic of the *Gemeinschaft,* but rather, are characteristic of the *Gesellschaft*, or the state of contemporary society, in which relationships between individuals remain transitory and superficial. Researchers may wish to further explore whether consumers' desire to participate in brand communities stems from a need for togetherness or a need for segregation.

The theoretical contributions of this study include the integration of the theory of sense of community (McMillian and Chavis, 1986) into the marketing literature and offering researchers a nine-item, unidimensional sense of community scale (see Table XIII). Although community researchers have developed a sense of community scale based on individuals' perceptions regarding their residential community, this study represents the first attempt to apply the theory to a non-geographically-bound community (Muniz and O'Guinn, 2001). Future research can utilize the scale to further explore the antecedents and consequences of a sense of community. For example, research could examine the possibility that a sense of community is an antecedent of McAlexander *et al.*'s (2002) community integration construct.

Overall, this study clarifies some of the confusion in the literature regarding the efficacy of loyalty programs by positing that a positive relationship exists between a member's sense of community and loyalty. Future research may wish to further dissect the rational elements of cost benefits from the more emotional benefits of status and exclusivity in loyalty programs. Further research is also necessary to discover if these findings are limited to the USA, or can be extrapolated to the global marketplace (Duffy, 1998). Finally, due to the nature of the data, service loyalty programs were not analyzed separately from product-based loyalty programs. As a result, service/retail organizations may wish to further explore the impact of a sense of community on customer loyalty. In any case, the results of this study help to clarify our understanding regarding the efficacy of loyalty programs and bridges the brand community and loyalty program literature.

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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto *to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefits of the material present.*

Loyalty programs offer consumers incentives in return for repeat business. The benefits include, for example, monetary discounts, the ability to join customer clubs, organizational newsletters or prizes. Some 70 percent of consumers take part in organization-sponsored loyalty programs. However, even though organizations have placed much importance on improving customer loyalty via loyalty program membership, defection rates among satisfied customers, who are presumed to be a firm's most loyal customers, remain as high as 90 percent.

Research findings outside the loyalty program literature suggest, however, that organizations that promote social interaction among customers realize enhanced customer loyalty. For example, customers who take part in brand communities such as Camp Jeep, HOG (Harley-Davidson) rallies, Saturn homecomings or Winnebago clubs often exhibit extremely loyalty to the sponsoring organizations.

Marketing researchers have not, to date, considered organization-sponsored brand communities as loyalty programs. But Rosenbaum *et al.* extend the concept of loyalty programs to include any organization-sponsored program that attempts to build customer loyalty by transferring support from the organization to program members.

Communal and non-communal loyalty programs

The authors define communal loyalty programs as organization-sponsored loyalty programs that transfer support from organizations to members by providing them with a sense of community. (These differ from membership-created social clubs or internet sites that are not sanctioned by the sponsoring organization.) Non-communal loyalty programs, in contrast, transfer support from organizations to members by providing them with financial benefits, such as monetary discounts on present or future purchases.

Non-communal loyalty programs are more common than common than communal loyalty programs and are often sponsored by organizations such as grocery stores and airlines. Communal loyalty programs, in contrast, are more likely to be offered by luxury and higher involvement brands such as car manufacturers and speciality retailers. Communal loyalty programs often require hefty financial investments of the consumer, enhance member status or promote member interaction. Non-communal loyalty programs, in contrast, are typically free of charge and available to all customers.

Research by Rosenbaum *et al.* confirms that members of communal loyalty programs show a stronger loyalty to sponsoring organizations than do members of non-communal loyalty programs. This pronounced loyalty stems from communal members receiving non-monetary benefits such as a sense of exclusive membership and enhanced status. The research also reveals that members of communal loyalty

programs have stronger emotional connections with sponsoring organizations and are significantly less predisposed to switch to competitor products or services than are members of non-communal loyalty programs.

Different programs suit different circumstances

Rosenbaum *et al.* warn, however, that it would be unwise for all types of organization to begin offering members communal benefits. Communal loyalty program members savor intangible benefits, such as enhanced status. These benefits do not translate to "low involvement" products and services that are habitually purchased, such as groceries and petrol. Accordingly, given the very nature of many product and service offerings, the majority of organizations that sponsor price-reduction loyalty programs will most likely not realize the level of enhanced customer loyalty found in communal programs.

Nor should managers interpret the results as a call for organizations to abolish non-communal loyalty programs. Although non-communal loyalty program members do not display passionate loyalty to sponsoring organizations, they do demonstrate satisfaction by refraining from spreading negative word-of-mouth and by considering the sponsoring organization an important part of their life. Whether or not non-communal loyalty members would show the same level of satisfaction without program membership is currently unknown. Non-communal loyalty program benefits enhance an organization's value proposition, so revoking these programs may be harmful. Non-communal loyalty program membership may help customers to retain some type of permanent bond, albeit financial, to sponsoring organizations.

Members of communal loyalty programs relish intangible rewards, such as feelings of membership and status, more than tangible rewards, such as social activities with program members and expensive gifts or prizes. As a result, organizations that sell status-orientated products or services may not need to offer their loyalty program members costly discounts and premiums in order to realize enhanced customer loyalty. Rather, organizations may be able to reap loyalty benefits simply by offering customers the chance to take part in programs that members perceive as being exclusive to them.

(A précis of the article "Loyalty programs and a sense of community". Supplied by Marketing Consultants for Emerald.)