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Perceived Value: How changes to frequent flyer rules and benefits can influence customer preferences

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ABSTRACT

The purpose of this study is to examine the impact of changes made to rules and benefits with frequent flyer programs. A secondary objective of the study is to determine how rewards influence repeat purchase intentions and the role of frequent flyer programs in customer initiation and retention. Data will be collected using a mixed methodological perspective, consisting of focus groups and questionnaire. Conclusions will be drawn about the effectiveness of a frequent flyer program as a marketing tool for airlines.

Keywords: *loyalty marketing, loyalty programs, frequent flyer programs, reward programs*

INTRODUCTION

Loyalty marketing has become a key factor for success in the service industry. In such a highly competitive market, service providers in many industries have discovered the importance of customer retention (Shoemaker & Lewis, 1999). In the airline industry, loyalty is defined as the likelihood of a customer becoming a repeat customer and that customer's willingness to behave as a partner to the airline (Kivetz & Simonson, 2003). Petrick (2004) explained that while repeat visitation or repeat purchase infer loyalty, it is well perceived that true loyalty is a two-dimensional concept that encompasses both a psychological attachment and emotional commitment. Other researchers describe loyalty as the extent to which a customer patronizes the service provider and desires to continue an ongoing relationship with that service provider (McAlexander, Kim, & Roberts, 2003).

Frequent flyer programs were originally intended to enhance and maintain customer loyalty; nevertheless, their effectiveness has been questioned by academics and industry practitioners (Dowling & Uncles, 1997). Customer loyalty schemes have to provide customers with additional value for repeat purchases on the same business. However, many hospitality organizations implement loyalty programs that are not much different from reward programs, which pay accumulated points/miles to customers in financial incentives, such as a free airplane tickets (Kivetz & Simonson 2002). Despite their popularity, reward programs do not often contribute to development of the customer's affective commitment and return intention that are built upon customer trust (Kim, Kim, & Leong, 2003). Furthermore, changes to rules and benefits reduce the perceived value of the program and threaten repeat purchase.

Purpose of the study

The purpose of this research is to improve the understanding of customer preferences towards airlines based on its frequent flyer program. Knowing that most frequent flyers are enrolled in multiple programs (Whyte 2003), it should not be difficult for customers to switch airlines when one airline changes the rules and benefits of its frequent flyer program. Therefore, the decision making process for a consumer in choosing an airline can be based on many choices such as: strong marketing tactics (frequent flyer programs), someone else (company travel policy), or something else (price, technology, service level, schedules, no other choice, etc.).

By gathering data about frequent flyers and their preferences, including their perception of a frequent flyer program and how rewards and benefits impact their preference of air carrier, conclusions will be made about the importance of a frequent flyer program as an effective marketing tool for airlines.

Literature review

In the airline industry, frequent flyer programs have become one of the most commonly used marketing tools for retaining customers and stimulating product or service usage. Despite their growing popularity, little is known about the factors that influence customer's perceptions and responses to such programs (Kivetz & Simonson, 2002). Instead, they raise many questions related to the characteristics of the required efforts, the rewards offered and the factors influencing the likelihood of reaching the reward (O'Malley, 1998). To understand if changes to frequent flyer rules and benefits affect customer preferences towards the airline, it is important to examine the relationship between the magnitude and type of effort invested by the member in complying with frequent flyer program requirements and the type of rewards they receive.

Attaining rewards typically requires customers to invest effort. In frequent flyer programs, such efforts are extended over time, and rewards are provided only after completion of the required effort stream. According to Kivetz and Simonson, (2002) perceived effort is defined as an inconvenience inherent in complying with the program requirements, such as when customers make a special effort to buy at a particular store or purchase more than they would have bought otherwise. Perceived effort also includes any substitution costs, that is, the disutility consumers incur by purchasing a particular brand that they would not have purchase otherwise.

Although there is not enough research on consumer preference toward streams of efforts for future rewards, literature in psychology has examined the effect of various efforts (means) and rewards (goals) on motivation and behavior (Mischel, Cantor & Feldman, 1996). Perhaps the most robust and straightforward finding is that rewards and goals can be highly motivating (Latham & Locke, 1991). Research on human behavior has demonstrated that people possess a strong drive to engage in efforts directed at achieving future rewards (Nicholls, 1989). Marketers have been taking advantage of this tendency by using a wide range of promotional devices that offers benefits (points, miles, rebates, coupons) in return for the expenditure of effort (flying

more, paying higher fares). Furthermore, marketers have also been benefiting from the principle of consumer behavior called the “idiosyncratic fit heuristic” (Kivetz & Simonson, 2003, p. 455) where people are enticed by offers for which they enjoy a relative advantage by perceiving their own effort in complying with the program requirements as lower than the effort of typical other consumers. Therefore, changing the benefits of a frequent flyer program by increasing redemption requirements can impact frequent flyers’ perception of value (O’Malley, 1998).

Frequent flyer programs provide value to their members in two stages (Kivetz & Simonson, 2002). In the first stage, program points are issued to members after paying the airline for an airplane ticket and receiving the service. In the second stage, members redeemed their points for free travel. According to Liu (2007) points have no practical value until they are redeemed, but do have an important psychological meaning to frequent flyer members. Point accumulation creates an anticipation of positive future events, which increases members’ likelihood of staying in the relationship. Therefore, frequent flyer programs are often considered value-sharing instruments and the ability to provide superior value is instrumental to customer relationship initiation and retention (Dowling & Uncles, 1997).

Proposed methodology

The mixed methods approach was deemed appropriate for this study because it helps enhance construct validity of the data by mixing research strategies (Creswell, 2008). By using a mixed methodological perspective that can combine the collection and analysis of quantitative and qualitative data, better results can be produced to explain how changes to frequent flyer rules and benefits can influence customer preferences. Two to four focus groups will be held during a frequent flyer conference with ten to fifteen participants each who are members of at least one frequent flyer program. In the first stage, one researcher will try to induce answers from all participants while two other researchers take notes. Using grounded theory approach, data will be collected from participants by understanding their main concerns about changes to frequent flyer rules and benefits (Glaser & Strauss, 2009). The data collected will be cross examined by the three researchers, grouped into similar concepts and divided into categories trying to explain behavioral patterns.

In the second stage, a quantitative questionnaire will be presented to all participants attending the conference. The questionnaire will consist of two parts; the first section collects information on consumer response to changes in rules and benefits, type of membership, tier level, airline preference, miles flown, value of miles, purpose of travel and type of awards redeemed, followed by a section collecting demographic data. Data from the questionnaires will be organized and entered into SPSS (Statistical Package for Social Sciences) software.

A concurrent triangulation approach will be used to determine if there is convergence, differences, or some combination in the data collected in both stages (Creswell, 2008). This will help increase the validity of the results and reduce any biases. Behavioral patterns will be

compared to identify if changes to rules and benefits of frequent flyer programs threaten repeat purchase in the future.

Implications

Conclusions will be drawn from this collection of data that will help understand reactions of frequent flyers to future changes to awards. Depending on the magnitude of future changes to frequent flyer programs, frequent flyers might react differently. Nevertheless, a pattern should be found in this study that will give airline managers an idea of what frequent flyers will do if new changes are implemented in the future. It will also contribute to airline best practices in marketing, sales, pricing and revenue management. Future researchers will also benefit from this study by getting a better understanding of the topics that need further investigation and the variables needed for their studies.

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