

## Editorial

# Brand Loyalty Programs: Are They Shams?

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Brand loyalty and the more modern topics of computing customer lifetime value and structuring loyalty programs remain the focal point for a remarkable number of research articles. At first, this research appears consistent with firm practices. However, close scrutiny reveals disaffirming evidence. Many current so-called loyalty programs appear unrelated to the cultivation of customer brand loyalty and the creation of customer assets. True investments are up-front expenditures that produce much greater future returns. In contrast, many so-called loyalty programs are shams because they produce liabilities (e.g., promises of future rewards or deferred rebates) rather than assets. These programs produce short-term revenue from customers while producing substantial future obligations to those customers. Rather than showing trust by committing to the customer, the firm asks the customer to trust the firm—that is, trust that future rewards are indeed forthcoming. The entire idea is antithetical to the concept of a customer asset. Many modern loyalty programs resemble old-fashioned trading stamps or deferred rebates that promise future benefits for current patronage. A true loyalty program invests in the customer (e.g., provides free up-front training, allows familiarization or customization) with the expectation of greater future revenue. Alternative motives for extant programs are discussed.

*Key words:* so-called loyalty programs; reward programs; customer assets; customer liabilities; deferred rebates; customer lifetime value

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### The Impact of the Literature on Brand Loyalty and Relationships

Although standard citation counts can easily fail to accurately capture the full impact of scholarly research, when an academic journal article accumulates more citations than any other article in all social sciences, including finance, accounting, economics, and strategy, that impressive feat deserves recognition. Well, an article in a marketing journal has achieved that admirable status.

The website of the *Institute for Scientific Information* (ISI), as of March 2005, reported that the “Top Highly Cited Paper in Economics and Business” in the last 10 years (plus 4 months) is “The Commitment-Trust Theory of Relationship Marketing,” written by Morgan and Hunt and published in the *Journal of Marketing*. The appendix provides citations for this article, as well as for other highly cited marketing articles.

Morgan and Hunt (1994) explore and promote the concept of relationship marketing (e.g., as seen in Dwyer et al. 1987), which involves the creation of long-term relationships with customers. The article argues that commitment and trust are necessary requisites for a productive relationship. Morgan and Hunt’s article is intimately related to a wider literature on brand loyalty (e.g., see Danaher et al. 2003), the concept of a customer’s lifetime value (CLV), and relationship marketing. Prior to this article, relationship marketing was part of the general literature on marketing segmentation and targeting specific customers. For example, Sonnenberg (1988, p. 60) argues that “in relationship management, the idea is to focus efforts and resources on the few existing or potential customers that provide the best business opportunities.”

### Relationship Management and Brand Loyalty

Relationship management promises the newest passageway to the “holy grail” of marketing—customer loyalty. Indeed, customer loyalty ranks as one of the most valuable assets of a firm—the flip side of brand equity (Aaker 1991). Hence, as expected, topics such as brand loyalty and newer concepts such as relationship management and CLV, continue to either inspire

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or become the focal point of a remarkable number of research articles. For example, see Elsner et al. (2004) for an interesting and innovative approach for maximizing CLV. See Kivetz (2003) for an analysis of the compromise between the certainty and magnitude of a reward in a loyalty program. Moreover, advancing technology has facilitated the development of more sophisticated so-called loyalty or reward programs (Shugan 2004). Of course, dating back to at least trading stamps, loyalty programs themselves are far from new.

One essential and prevalent idea in the literature related to relationships, CLV and brand loyalty is the idea of a customer as an asset (e.g., Rust et al. 2004). The customer as an asset is an essential concept in modern marketing. It interprets marketing expenditures as investments that spawn key future benefits for the firm. The core underlying idea is that firms must commit to their customers and establish a satisfied customer base. The customer base, in turn, becomes a valuable asset that provides substantial benefits in future periods. As Ambler (1994, p. 77) argues, “the life-time value of a well treated customer and his/her good opinion, far exceeds any single transactional benefit.”

Hence, the balance sheet of a firm might include a firm’s customer base, along with cash, buildings, other tangible assets and, probably, employee resources. We might consider marketing activities as far more extensive than creating short-term sales. Instead, marketing activities create enduring, if not permanent, assets. This viewpoint is consistent with the idea of long-term advertising carryover effects, continuous service improvements, ceaseless new product development, and building permanent customer databases.

Recall that assets, unlike expenses, are enduring. Hence, unlike awareness advertising that often only temporarily maintains customer brand awareness, an actual asset lasts far longer than the period of the initial expenditure. Assets are, of course, very different from liabilities. Liabilities create future obligations in return for short-term revenues.

### Customers as Liabilities

At first glance, research on creating customer assets appears consistent with many markets where firms extol their so-called loyalty programs. These firms often tout their programs under the rubric of building customer relationships, rewarding brand loyalty, and committing to the faithful customer. However, as will be argued later, these so-called loyalty programs might have objectives unrelated to producing customer assets cast in customer loyalty.

The past literature demonstrates that firm practices do warrant scrutiny and skepticism. For example,

although past customer satisfaction research properly advocated metrics and information gathering for improving product and service delivery (e.g., Rust et al. 1999), firm practices (masked under the rubric of promoting customer satisfaction) often focused on employee evaluation rather than good market research. These practices can create better long-term employee incentives (Hauser et al. 1994). Although certainly beneficial for setting compensation, these practices remain distant from collecting information for the purpose of designing better service delivery systems.

Remember that loyal customers should be enduring assets, rather than looming liabilities. Structuring loyalty programs to bear assets requires, almost by definition, making up-front investments whose expected returns occur only in the future. True loyalty programs invest now for the future, commit now to the customer, and trust rather than demand trust. For example, free samples (a common up-front investment) provide future benefits such as accelerating future repeat purchases and yielding future category expansion (Bawa and Shoemaker 2004).

In vivid contrast, many extant loyalty programs appear distant, if not diametric, to the cultivation of customer brand loyalty to create customer assets. These so-called loyalty programs are shams in the sense that they produce liabilities rather than assets. These programs produce short-term revenue from customers while producing substantial future obligations to those customers. Rather than demonstrating trust by committing to the customer, the firm asks the customer to trust that, in return for current revenue, the firm will provide future customer rewards. Rather than investing in the customer, the program requires customers to commit their resources to the firm in exchange for the promise of future rewards or deferred rebates.

In 1958, approximately two-thirds of all families in the United States were in the classic loyalty program—collecting trading stamps. Trading stamp programs promised future deferred rebates or rewards in return for current purchases. The classic trading stamp programs (e.g., gold stamp and green seal) created liabilities by promising future rewards or deferred rebates for current purchases (Piper 1980). In fact, many firms never delivered those future rewards or deferred rebates (Hollander et al. 1999).

More recently, firms promise customers future free sandwiches, future discounted hotel stays, upgraded seats on future flights, and many other future rewards in return for current revenue. Despite the hype and claims about promoting loyalty and creating customer assets, almost by definition, the promises become real liabilities. The firm now owes future benefits, future rewards, or future services to current customers.

Worse, rather than creating trust and commitment for the firm, the firm asks the customer to trust that the firm will provide future benefits, which risks a catastrophic backlash when rewards are less than expected.

It is certainly possible that promises of future rewards could, in some indirect and complex manner, create true brand loyalty. The question is whether that loyalty (from habit, familiarity, switching costs, etc.) would survive the elimination of the promised future reward. Moreover, we must wonder whether customers perceive the firm as owing them (i.e., a liability) or that they owe the firm (i.e., an asset).

### Customers as Assets

Credit card companies have used the basic concept of a consumer's lifetime value from at least the 1960s. For example, Cyert and Thompson (1968, p. 45) developed a method that "allows the firm to treat its credit customers as assets" so that the firm can "select credit customers on the basis of expected discounted contribution to profit rather than ... credit worthiness." Later, Sonnenberg (1988, p. 60) summarizes: "The seller makes a commitment to the buyer, knowing it is likely that the buyer will reciprocate. Both buyer and seller benefit from an ongoing relationship."

However, until recently, most other companies, beyond credit card companies, lacked the necessary individual-level data and ability to target specific customers. Now, however, as Gupta and Lehmann (2003, p. 23) state, "given the increased availability of data at the individual customer level, customer lifetime value seems destined to play a major role in marketing and corporate strategy." Hughes (1992, p. 16) finds that ongoing customer statistics are "essential to building up a full view of customer profitability and lifetime value." Still, these data are often limited to service firms. Bolton et al. (2004, p. 285), for example, after providing a method for evaluating and influencing customer assets, emphasize that "many service organizations ... have better data describing individual customers than non-service organizations." Service organizations also often find it easier to target individual customers. See Jain and Singh (2002) for a review of the recent literature on customer lifetime value.

For a customer to be a true asset, the customer should be brand loyal. Of course, the concept of brand loyalty is one of the oldest concepts in marketing whose definition remains elusive. Years ago, Jacoby and Chestnut (1978) identified 55 different definitions of brand loyalty in the marketing literature.

In a classical, perhaps underappreciated research study, Brown (1952) identified two distinct market segments, a segment loyal to the brand and a brand-switching segment. The latter segment has a propensity to switch brands, given a deal or similar offer. Most subsequent studies defined loyalty by observed behavior such as the proportion of purchases going to

a particular brand or the sequence of purchases (e.g., Cunningham 1956, Maffei 1960, Frank 1962, Tucker 1964). Later research suggested that brand loyalty should extend beyond repeat purchase behavior (e.g., Day 1969, Jacoby 1971) to include attitude toward the brand and, later, the consideration set (e.g., Mehta et al. 2003).

Purchase behavior is certainly intimately related to brand loyalty, and there are various ways of translating behavior into a loyalty measure (e.g., see Seetharaman 2004). However, when it comes to programs for creating loyalty, the basic goal must involve more than merely the conditional probability of repurchase. Years ago, for example, Smith and Bythell (1936) found that brand loyalty causes many car buyers to consider a dealer, but the dealer's lower price might ultimately cause the purchase.

Obviously, merely lowering prices can readily produce the appearance of loyalty. Some customers might continue to purchase from the same low-price seller. A similar argument is possible for only increasing short-term quality or satisfaction, causing customers to buy a brand simply because it is currently their favorite brand. Certainly, having the favorite brand is especially admirable, but the brand is the asset, rather than the consumer. The advantage might lie in manufacturing rather than fortifying customer preferences. So-called loyalty might quickly evaporate, for example, after a new brand introduction.

True investments are up-front expenditures that produce much greater future returns. Hence, true brand loyalty must extend beyond behavior and attitude. True brand loyalty must cause the relative utility for the brand to increase overtime because of factors such as increased switching costs, consumers learning how to extract more utility from the brand (Wernerfelt 1991), network effects (e.g., Sun et al. 2004), or just minimizing the cost of effort (Shugan 1980). A loyalty program might, for example, grow barriers to future entry or increasingly inoculate the firm to future competition.

Hence, if true brand loyalty creates an asset, the customer must become more attached to the brand over time. That attachment might come from factors such as consumer learning (Akcura et al. 2004), increased switching costs, habit, or customization. There are several articles that adopt this more precise definition of brand loyalty (e.g., see Villas-Boas 2004). Wernerfelt (1991), for example, shows that two different types of evolutionary brand loyalty (changing awareness and increasing experience) lead to different market outcomes (competitors with different prices and competitors with the same price).

Consider these examples. Users of software products might derive more utility from the products as

they learn how to better exploit more of the product's features. It becomes more difficult to switch to a new telephone number as time progresses and more callers become aware of the telephone number. A consumer might, by habit, take a particular brand of vitamins each morning, and that habit might become more ingrained over time. A consulting firm might, over time, become more familiar with their customer's preferences and gradually customize its services to meet specific customer needs (e.g., presentation formats, types of reports, types of meetings, database compatibilities, travel schedules, etc.).

Consistent with Morgan and Hunt (1994), the concept of customer or brand loyalty should extend well beyond the mere casual observation of approximately successive purchases. Although current purchases certainly create current revenue, firms can easily defer the full cost of creating current revenue, for example, by disappointing the customer, promising the customer future rewards, and invoking future competitive response. An unexpected short-term quality reduction can produce current revenue at the cost of future revenue. Similarly, promising the customer a future reward for a current purchase can merely shift costs into the future.

A real loyalty program should aim to create an asset rather than a liability. A real loyalty program should create current customer benefits by committing to the customer. A real loyalty program should trust the customer rather than asking trust from the customer.

For example, software companies that offer free training or trial discounts for the customers' employees have an element of a real loyalty program. The program creates assets when the program causes customers to become committed to the software. That commitment might be a consequence of increased switching costs, better knowledge of the company's services, development of personal relationships with the software company's employees, and so on. After establishing the relationship, the software company (rather than the customer) trusts that future revenues will exceed the up-front expenditures. Moreover, everyone benefits when the cooperative relationship yields more profits for both partners than would a noncooperative, purely transaction-based interaction.

In sum, an asset reflects future revenue rather than current revenue. A customer fails to be a true asset when generating future sales requires greater effort than current sales. The customer is an asset when, without loss in sales, the firm can raise future prices, cut future marketing expenditures, cut quality, fail to match competitive price decreases, constrain customer behavior, and so on. It is probably inadvisable for firms to take any of these actions, but true loyalty should partially shield the firm from the adverse effects of these actions.

## Other Objectives for "So-Called" Loyalty Programs

There is a wide range of alternative motives for so-called loyalty programs beyond the creation of building customer assets. Some motives are traditional segmentation strategies while others are financial tricks. We need more research that scrutinizes the specific details of distinct programs in particular industries to determine the most frequent objective or objectives of extant loyalty programs. Here is a brief list of some possible objectives worthy of additional investigation.

### De Facto Price Discrimination on Redemption Effort

It is well known that more price-sensitive buyers tend to engage in more extensive search, clip coupons, and redeem more rebates. The original so-called loyalty program was the "gold stamp" program where buyers collected stamps for future rewards or deferred rebates. Of course, it seems that more price-sensitive buyers would be more likely to exert the sometimes-substantial effort required to redeem those rewards. Therefore, more price-sensitive buyers either pay less or get more services. The program, therefore, sells to more buyers (i.e., price-sensitive buyers), without significantly lowering the price to the less price-sensitive buyers.

Similarly, loyalty programs with complex rules associated with rewards might discourage redemption of rewards by more price-insensitive buyers. The program, therefore, tends to provide rewards to those that require the reward for a purchase and tends to avoid the cost of the reward for those who would tend to buy without the reward.

It is, of course, possible that a loyalty program can both price discriminate and encourage repeat purchase. For example, Davis (1959) analyzes the market for trading stamps and found that trading stamps can do both. However, as argued earlier, higher repeat purchase rates alone are not necessary an asset.

### Shifting Revenue and Deterring Costs

Inappropriate incentive systems at many firms encourage existing management to focus on short-term profits. That focus can create an incentive to accelerate revenues to the current period and defer costs to future periods when, perhaps, future costs are someone else's future problem. Promises of future services, future upgrades, future gifts, deferred rebates, and other future rewards in return for immediate business will create future obligations that may or may not appear on the balance sheet.

At the end of 2003, United Airlines estimated that its loyalty program (i.e., outstanding program awards) represented a liability of \$717 million (Yama-

nouchi 2005). The entire upshot is antithetical to the concept of a customer asset and much closer to the concept of a liability.

### **Rewarding the Decision Maker:**

#### **An Agency Problem**

Payments by third parties are becoming prevalent in many industries from travel to entertainment to health care. An employer, for example, might pay for hotel rooms booked by employees. Insurance companies might pay for pharmaceuticals prescribed for patients by physicians. An organization might pay for supplies purchased by an office manager. Taxes might pay for services purchased by government employees.

These situations can induce potential agency problems when so-called loyalty programs target the decision maker rather than the payer. These programs might provide direct *de facto* side payments (akin to the original concept of “kickbacks”) to decision makers. For example, after choosing a particular hotel for reimbursed business trips, the hotel might reward the business traveler with a free leisure stay. Programs bestowing *de facto* side payments could be very popular among decision makers. Of course, these loyalty programs often tend to exploit peculiarities in either the income tax code (i.e., creating nontaxable benefits) or internal organizational budgeting systems in contrast to building long-term relationships or assets.

For example, examining the loyalty programs in the travel industry, Toh et al. (1993, p. 5) find that “conflict between principal and agent is clear in the case of business travel ... the principal’s goal is to transport the agent to a destination as efficiently and cheaply as possible ... the agent wants to travel in comfort, preferably business class or first class, ... spend weekends with family or friends ... gather as many frequent-flier miles as possible ... use mileage awards for upgrades rather than future business travel.”

#### **Simply a Different Service**

Some industries have different classes of customers where some customers buy long-term contracts and others purchase short-term contracts. For example, many amusement parks have one-day, two-day, and one-year tickets. Many cellular telephone service providers offer metered service, annual contracts, and biannual contracts.

Buyers who purchase longer-term contracts sometimes get special treatment, enhanced services, and special services. For example, Universal Studios theme park gives its annual pass holders special privileges and sometimes offers special events for them. One could interpret these actions as fostering loyalty. Alternatively, they could merely represent the less glamorous idea of market segmentation.

Although one could interpret these long-term contracts as loyalty, the buyer pays a high up-front fee.

Hence, the prevalence of a “relationship” is diminished, and the relationship seems to lack any psychological or other noneconomic commitment by the buyer. In contrast to fostering complex relationships, the seller simply sells (to some buyers) a better package of services in exchange for a higher price, a greater commitment, or both.

Buyers simply purchase their preferred level of service. Hence, buyers will be, in some sense, loyal to their most preferred alternative. We would, of course, expect the modern concept of loyalty to be richer than the classic and less exciting concept of first preference.

Of course, improving a seller’s product or service is admirable. We certainly have a large literature on how to develop new products and services (e.g., Hauser and Urban 1977). That literature should be the foundation for any research on the design and testing of new or ancillary services.

#### **Customization**

Customization is a worthy topic for research and many aspects of customization remain unexplored. Many industries from Internet retailing to high-end personal services have the capability to customize their service to individual customers. An Internet retailer can customize a Web page to present past information, remember key ordering information, and forward targeted information to the buyer (Montgomery et al. 2004). Customizing services to meet the needs of individual customers is probably closer to the concept of loyalty and a relationship. However, a complete understanding of customization strategies requires an understanding of the cost of different types of customization. Understanding when customization is possible requires a more thorough understanding of operations than that reflected in many marketing articles. For example, although customers might value customized baggage handling, operational difficulties might be overwhelming. Customization can also lead to price discrimination (Zhang and Krishnamurthi 2004).

#### **Quantity Discounts—A Form of Old-Fashioned Price Discrimination**

A very popular form of loyalty program is the quantity discount (QD) or, more generally, volume rewards. A simple form of QD occurs when a customer purchases at least  $X$  number of units. Then, the customer receives the next unit free or at some designated discount. For example, a sandwich shop might give away every tenth sandwich free. In a more complex form, when a customer purchases  $X$  number of units, the customer receives some benefits that usually have some monetary equivalent. For example, United Airlines might offer a free ticket to passengers who take a minimum number of flights or fly a minimum number

of miles. United Airlines might also offer discounts on other United services (e.g., airport club memberships), premier reservations, or priority check-in.

The key to volume rewards programs is that rewards are linked to volume. Note that, unlike the usual time dimension associated with loyalty (e.g., a long-relationship), volume is not necessarily directly linked to time. For example, a sandwich shop might offer exactly the same reward for buying 9 sandwiches on the same day as for buying 9 sandwiches over 9 consecutive days. Similarly, airlines offer the same reward for flying X number of miles in one day as for flying X number of miles over one year. Hence, volume rewards programs do unacceptably stretch the analogy to long-term relationships. The volume level purchased during a time period may or may not correlate with the frequency of purchase.

Rather than being loyalty mechanisms, it is more likely that volume reward programs are merely mechanisms of imposing different prices and services on different customer segments based on observed purchasing volume. Volume discounts offer different prices (and services) to different segments and, consequently, by definition, are a form of price discrimination taking the form of nonlinear pricing (e.g., see Spulber 1984).

#### **Overt Price Discrimination Against Nonloyals**

Consider loyalty programs that claim to give preferential treatment to frequent customers, where “frequent” could assume different meanings. On face value, these programs claim to give rewards to frequent customers. Consequently, these programs discriminate against infrequent customers. For example, an airline might give certain services (e.g., special services, preferential treatment, discounts, free upgrades, etc.) to frequent customers but deny those services to infrequent customers. Hence, these programs exercise *de facto* discrimination against infrequent customers. Of course, if a so-called loyalty program is a *de facto* procedure for charging more to some customers than others or giving only some customers the opportunity to receive additional services, then the loyalty program is a *de facto* discrimination scheme that may or may not cultivate loyalty but will certainly cause nonloyals to consider competitors.

#### **Providing the Benefit of Recognition**

Long ago, industrial psychologist Maslow (1954) extensively researched human motivation and found the basic need for self-actualization. Indeed, a clear customer benefit is the provision of recognition. Loyalty programs can provide that conspicuous recognition to selected customers by giving them prestige, distinction, partial celebrity standing, an elevated status, or the ability to “feel special.” VIP lines, favored seats, and elite designations (e.g., special luggage tags) are

all possible examples. Hopefully, these privileged or elite customers should be willing to pay for that benefit. Of course, there may be a fine line of distinction between recognition as a “thank you” and the incentive to buy that recognition.

#### **Some New Ideas**

Biyalogorsky et al. (2001) provide an extensive analysis of using loyalty programs to encourage referrals. Loyalty programs can also encourage positive word-of-mouth communications (Godes and Mayzlin 2004, Van den Bulte and Stremersch 2004, Magrath 2000). Lewis (2004) suggests that some loyalty programs encourage consumers to shift from myopic or single-period decision making to dynamic or multiple-period decision making. Drèze and Nunes (2004) suggest that charging prices in multiple currencies (such as stamps, miles, cash, reward points) can have perceptual advantages. Kim et al. (2001) identify conditions when loyalty programs weaken competition. It might also cost less to serve an experienced veteran customer who needs no initiation (e.g., saves standard check-in costs) and needs less support services.

### **Why Competition Will Destroy Many Loyalty Programs**

It might be the case that the loyalty allows loyalty programs while competition destroys these programs. Competition will often diminish or eliminate simple price discrimination and related forms of discrimination. The reason is simple. The segment that faces discrimination is both attractive to competitive entry and easily captured by competitors. In the case of so-called loyalty programs, which discriminate against nonloyal customers (e.g., against buyers who find it costly to pursue deferred rewards or rebates), competitors will target nonloyal customers and leave the firm with only loyal customers (as defined by the loyalty program). Consequently, discrimination gradually diminishes until the original firm is left only with customers who get the so-called reward. At that point, the reward becomes a standard part of the service delivery.

For example, if an airline gives volume discounts to high-volume travelers, low-volume travelers will defect to competitive firms until the airline is left with primarily high-volume travelers. In the case where low-volume travelers vastly outnumber high-volume travelers, competitors without volume-based rewards might be more profitable.

Consider the example when Lucky Stores replaced Goodman’s stores. Trading stamps were eliminated, and prices declined precipitously (Loehwing 1964). The history of trading stamps provides similar stories (e.g., see Piper 1980). A survey showed that most consumers prefer lower prices to trading stamps (Gabor and Sowter 1979) and, hence, competition offering

lower prices became a fatal threat to trading stamp loyalty programs.

The notable exception is cost-based discrimination. When the customers who face discrimination actually cost more to serve, competition might fail to diminish that type of discrimination and could exacerbate it.

## Conclusion

Given that the most-cited article in the last 10 years advocates marketing relationships as a key component for the foundation of modern marketing, it is surprising that many actual loyalty programs seem antithetical to the idea of marketing relationships and the kindred concept of customer assets.

A loyal customer should be an enduring asset rather than a looming liability. True loyalty programs invest now for the future, commit now to the customer, and trust rather than demand trust. In contrast, many extant loyalty programs appear to produce liabilities rather than assets. These programs produce short-term revenue from customers while producing substantial future obligations to those customers. Rather than showing trust by committing to the customer, the firm asks the customer to trust that, in return for current revenue, the firm will provide future customer rewards. Promising the customer a future reward for a current purchase can merely shift costs into the future.

A real loyalty program should aim to create an asset rather than a liability. A real loyalty program should create current customer benefits by committing to the customer. A true brand loyalty program creates an asset by making the customer more attached to the brand over time. That attachment can come from learning, experience, familiarity, increased switching costs, habit, or customization.

Sadly, most loyalty programs have other objectives. These objectives include:

- de facto price or service discrimination on effort (some buyers find the effort to claim some rewards to be prohibitive);
- shifting revenue and deterring costs (the cost of granting future rewards is a hidden liability);
- rewarding the decision maker: an agency problem (the reward goes to the decision maker rather than to the payer);
- simply a different service (some customers get a different service for a different price);
- customization (knowledge of the customer allows customization);
- quantity discounts—a form of old-fashioned price discrimination (high-volume customers get rewards or discounts);
- overt price discrimination (some customers get a better deal); and
- providing the benefit of recognition (customers pay for special treatment).

In many cases, competition will diminish or eliminate simple price discrimination and related forms of discrimination because the segment that faces discrimination is both attractive to competitive entry and easily captured by competitors.

The design and implementation of loyalty programs is both an important and growing area of research. However, future research must sort out the true loyalty program from the many shams.

## Appendix. The Impact of the Literature on Brand Loyalty and Relationships

Table 1 shows citations for Hunt and Morgan (1994), as well as for other highly cited articles in marketing journals.

**Table 1** Some Highly Cited Articles in Marketing Journals Since 1980

Article	Correct Citations*	Authors	Marketing Journal /Issue
Evaluating structural equation models with unobservable variables and measurement error	821	Claes Fornell David F. Larcker	<i>J. Marketing Res.</i> <b>18</b> (1) 1981
A conceptual model of service quality and its implications for future research	685	A. Parasuraman Valarie Zeithaml Leonard Berry	<i>J. Marketing</i> <b>49</b> (4) 1985
Servqual—A multiple-item scale for measuring consumer perceptions of service quality	654	A. Parasuraman Valarie Zeithaml Leonard Berry	<i>J. Retailing</i> <b>64</b> (1) 1988
The commitment-trust theory of relationship marketing	592	Robert M. Morgan Shelby D. Hunt	<i>J. Marketing</i> <b>58</b> (3) 1994
Mental accounting and consumer choice	468	Richard Thaler	<i>Marketing Sci.</i> <b>4</b> (3) 1985
Central and peripheral routes to advertising effectiveness	466	Richard E. Petty John T. Cacioppo David Schumann	<i>J. Consumer Res.</i> <b>10</b> (2) 1983
Dimensions of consumer expertise	457	Joseph W. Alba J. Wesley Hutchinson	<i>J. Consumer Res.</i> <b>13</b> (4) 1987

*Note.* These citation numbers exclude citations that contain errors—e.g., citation counts shown above exclude cites with incorrect volume or issue numbers.

\* Citations data from Web-of-Science ISI Web of Knowledge as of 3/16/05.

It is encouraging that research in marketing journals continues to achieve arguably greater impact than research published in any of the leading journals in any social science discipline, including finance, strategy, and economics. Moreover, it appears that author affiliation with a highly ranked M.B.A. program (at least, as ranked by popular trade publications) is unnecessary, and perhaps, counterproductive.

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