

# The Role of Bonuses in Loyalty Programs – A literature review

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## Abstract

Loyalty programs have become commonplace in consumer markets such as travel, hospitality, and retailing. There is extensive academic research which examine the content of loyalty programs and their effects. This working paper focuses on one key aspects of loyalty programs, namely bonuses (monetary rewards linked to purchase volume). More specifically, it answers the following research questions: “What are the effects of the introduction (RQ1), change (RQ2) and removal (RQ3) of bonuses in loyalty programs?” through a literature review of articles in scientific journals. The review suggests that introducing a loyalty program with a bonus is likely to have a positive impact on consumer and firms, but this effect will depend on the type of bonus and will vary between customer groups as well as the competitive environment, and the country in which it is introduced. Changing the bonus in loyalty program is likely to impact future purchase behavior, but the effect will depend on whether changes are made in terms of accrual or redemption as well as the current loyalty level and buying behaviors of customers. Changing the bonus can also impact firm performance, but the effects are likely to depend on the actual execution and time perspective applied. Removing the bonus in a loyalty program is likely to have a negative impact on consumer behaviors when there are competing loyalty programs on the market. However, default behaviors are less likely to be affected than behaviors that have been stimulated by the reward. No research was found on the firm effects of removing a bonus.

## 1. Introduction

During the last decades, loyalty programs have become commonplace in consumer markets such as travel, hospitality, and retailing. Although loyalty programs have varying content and structure, many offer some form of monetary reward (such as a bonus) linked to purchase volume. This bonus is typically refunded to consumers who reach a pre-set limit or based on total purchase volume during a certain period, for example a year. In addition to such bonuses, loyalty programs usually include other components, such as special offers and targeted mailings, and give retailers opportunities to collect and analyze information about consumer purchases. As loyalty programs have become commonplace, their ability to create competitive advantage has been increasingly questioned. The programs, and in particular the accumulated bonuses, are also associated with high costs for companies and are increasingly contrasted with other types of marketing efforts that can potentially have greater value for customers and the company.

There is extensive academic research which examine the content of loyalty programs and their effects. For example, in the 1990s, when loyalty programs grew rapidly in popularity, a number of papers discussed how loyalty programs would affect consumer loyalty and corporate profitability (O'Brien & Jones 1995; Dowling & Uncles 1997; O'Malley 1998). At the same time, many things have changed since the introduction of loyalty programs more than 30 years ago. Hence, recent literature reviews (Chen et al 2021; Kim et al 2021) provide overviews of the development and state of the art of loyalty programs. However, despite a significant number of reviews of loyalty programs, including more recent ones, there is still a paucity of reviews that explicitly considers the role of bonuses in loyalty programs. Such a focus can be justified due to the central role of bonuses in past and present loyalty programs and their significance for both companies and consumers covered by the programs. Thus, this paper answers the following research questions: "What are the effects of the introduction (RQ1), change (RQ2) and removal (RQ3) of bonuses in loyalty programs?". These questions are addressed through a literature review of articles in scientific journals.

In the next section, we account for the method for the literature review. This is followed by a section introducing loyalty programs and the role of rewards, with a specific focus on monetary rewards in the form of bonuses. Thereafter, we account for the findings on the basis of each of the research questions on the effects of introduction, change and removal of bonuses in loyalty programs. Finally, we conclude our findings and outline practical implications and prospects for future research.

## 2. Method

The paper is based on a literature review conducted in four phases: 1) identifying, 2) screening, 3) analysing, and 4) backward reviewing. The literature review was performed by the first author under guidance of the other two authors. The first phase (identifying) was to identify relevant papers on the basis of our research questions. The Scopus database was used, and two inclusion criteria employed: articles needed to be written in English and categorized as a research article to be included in the sample. In the first step we used a number of common alternative terms for loyalty programs as there are many different frequently used terms used in the existing literature. This included terms like “loyalty card”, “points card”, “loyalty scheme”, “frequent flier program”, “reward program”, “frequent program” and “CRM program”. This initial search yielded 1330 hits, before inclusion of additional keywords on the basis of our research questions concerning bonus and introduction, changes and removal. Similar to loyalty programs, there are many different terms used in the existing literature to refer to the bonus aspect. Therefore, a number of alternative terms for bonuses like “reward”, “customer reward”, “bonus scheme”, “incentive” and “benefit” were employed. Last but not least, to capture the introduction, change and removal aspect, terms like “introduc\*”, “adopt”, “change”, “revision”, “adjust”, “remov\*” and “abolition” were also employed. This yielded a total of 380 results.

In the second phase (screening), the resulting 380 article titles and abstracts were screened for relevance using Rayyan, a web-tool designed to help researchers working on systematic reviews. Included articles at this phase needed to (1) have a monetary aspect to the bonus in the loyalty program in question, (2) have insight into the effect of introduction, change or removal of rewards in loyalty programs and (3) meet a long-term traditional view of a loyalty program as outlined by Dorotic et al. (2012; described more in detail in the next section). This meant that some 20 articles concerning referral reward programs (RRPs) were not included as they are not long-term in nature. During the second phase, 260 documents were excluded and 120 articles included for further consideration.

In the third phase (analysis), Nvivo 12 was used for coding and analysis of the selected articles in full. Coding related to both contextual aspects as well as research aspects. Contextual aspects included the year and journal of the publication, field, country where experiment and sample originated, method and type of loyalty program investigated. Research aspects included variables like investigated reward, explored effects, mediators, and moderators. On closer

inspection, some of the articles were deemed irrelevant for our query since they did not examine any introduction, change or removal aspects or did not meet our definition of a loyalty program. This led to an exclusion of 48 articles in this phase and yielded 72 total articles included in the analysis.

In the fourth phase (backward reviewing), we identified additional relevant articles to be included in the final sample. Thus, we went backward in the fourth phase by reviewing some of the most frequently referenced and seemingly important citations in previous research, hypothesis development and literature review sections of the identified articles as they related to certain reward introduction, change and removal research aspects. This was done to ensure a more complete inventory of relevant literature. Ultimately, this led to an inclusion of 17 additional papers and the entire process thus yielded 89 articles relating to introduction, change and removal of bonus in loyalty programs. Figure 1 illustrates the four-step process and the resulting number of articles excluded and included in each phase (see Appendix for a list of the 89 articles that made up the final sample).

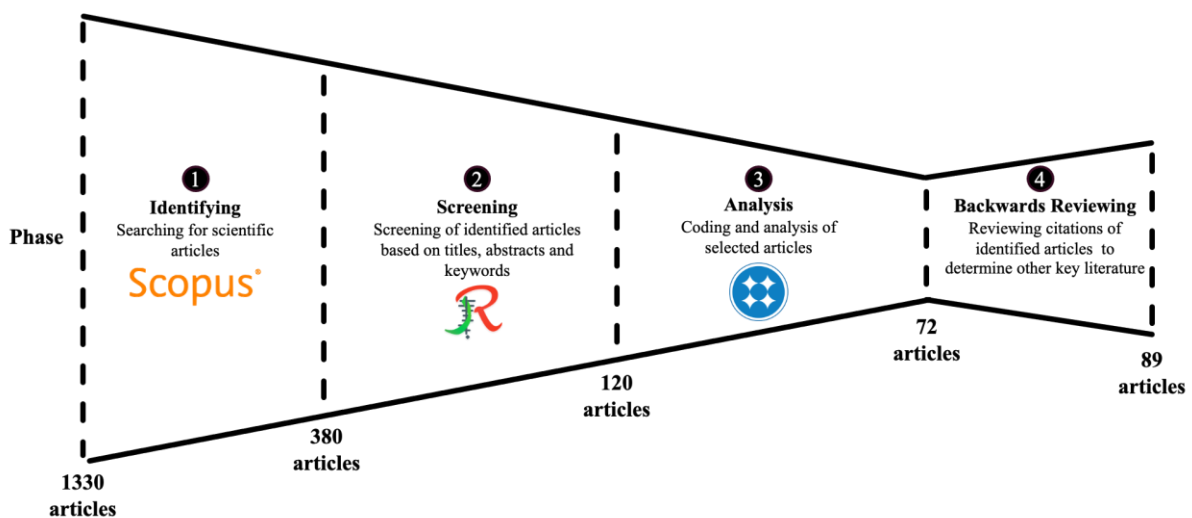


Figure 1. Four phases of the literature review.

### 3. Loyalty programs and the role of rewards

According to Dorotic et al (2012) loyalty programs have five general characteristics: 1) they aim to promote attitude and behavioral loyalty, 2) they are based on some form of formal membership, 3) they are long-term in nature, 4) they reward customers who are members based on their buying behavior, and 5) they enable ongoing marketing activities tailored to its members. According to this characterization, some form of reward is a central feature in the design of loyalty programs. To provide a background to loyalty programs and the different

types of rewards used, the following section briefly discusses the history of loyalty programs followed by a description of different types of loyalty programs and rewards as well as the kind of effects explored in the literature.

### 3.1 Loyalty program history

The modern loyalty programs have been preceded by various efforts to promote loyalty and reward customers on the basis of their spending, such as the so-called trading stamps that were popular among retailers and consumers throughout the 20<sup>th</sup> century (see e.g., Hagberg et al 2020; Kim et al 2021). While the popularity of the trading stamp programs declined in favour of other marketing schemes and pricing strategies, the introduction of frequent flyer programs in the airline industry in the 1980s (e.g., Gössling & Nilsson 2010; Araujo & Kjellberg 2015) was followed by a strong wave of introduction of loyalty programs in many sectors including hospitality, financial services, and retailing (Chun & Ovchinnikov 2019). Today loyalty programs are widespread and only in the U.S. it is estimated that the number of individual memberships amount to approximately 3.8 billion (Audrain-Pontevia & Garnier 2021). However, at the same time a majority of these memberships are inactive and there have been growing concerns among retailers on the costs of operating such programs and the lack of differentiation with other programs and thus considerations over whether such programs should be abandoned in favour of other marketing means (Audrain-Pontevia & Garnier 2021).

### 3.2 Loyalty program types

Loyalty programs appear in different varieties between companies and sectors and with different uses of terminology, such as frequent flyer programs (Gössling & Nilsson 2010), loyalty card, points card, loyalty scheme, reward program or CRM program, but below we refer to them as loyalty programs. As such, they share the general characteristics proposed by Dorotic et al (2012) and more specifically that they aim to promote behavioral loyalty, include membership, are long-term and provide rewards for members' buying behaviour.

Three main varieties of loyalty program structures can be identified. First, they may be associated with single or multiple vendors. The majority of loyalty programs are connected to single firms, vendors or brands, but there are also loyalty programs associated with different actors, termed coalition loyalty programs or multi-vendor programs (Villacé-Molinero et al 2016; Bombaij & Dekimpe 2020).

Second, the programs can be hierarchical or non-hierarchical. In a hierarchical program, the customers are divided into different categories or "levels" on the basis of their spending

(Ma et al 2018), such as platina, gold and silver, usually connected with certain thresholds to qualify for the next level. On the contrary, in non-hierarchical programs the members are on the “same level” independent of the spending with cumulative rewards that change depending on the spending volume.

Third, there is a difference concerning the enrollment in the loyalty programs, which can be distinguished into fee-based vs. free loyalty programs depending on the pricing of membership (Ashley et al 2016).

These aspects relate to the type of reward provided within the program (e.g., points collected from single or multiple vendors or rewards received on an ongoing and “flat basis” or resulting in tiering or how the participants will evaluate the benefits of the program). However, there are other differences concerning what types of rewards that are offered, which will be further outlined in the next section.

### 3.3 Loyalty reward types

According to the characterization of loyalty programs by Dorotic et al (2012) some form of bonus, or reward, is a central feature in the design of loyalty programs. Rewards are expressed in many ways in the literature; bonuses (e.g., Gössling & Nilsson 2010), benefits (e.g, Omar et al 2015), and rewards (e.g., Bazargan et al 2017) are the most common. In this paper, we use the term reward as an umbrella term which encapsulates all of these.

Within the literature on loyalty programs, a common classification of rewards is into three main types: *utilitarian*, *hedonic* and *symbolic* (e.g., Kim et al 2013; Omar et al 2013; Kyguoliene et al. 2017; Agarwal & Mehrotra 2018). Utilitarian rewards are economic such as monetary savings and convenience. Hedonic rewards offer entertainment or exploration value. Symbolic rewards offer recognition and social value.

One recurrent variation in the literature concerns whether the reward is *direct* or *indirect* (Dowling & Uncles 1997; Yi & Jeon 2003; Keh & Lee 2006; Bombajj & Dekimpe 2020), sometimes referred to as reward fit (Kim et al 2021). Direct rewards are linked to the core offering while indirect rewards are not linked but consist of rewards or discounts of other, unrelated products and services.

Another variation is the timing of the reward and whether it is *immediate* or *delayed* (Dowling & Uncles 1997; Keh & Lee 2006; Bombajj & Dekimpe 2020). An immediate reward can for example be redeemed on the current purchase, while a delayed reward can concern the accumulation of points for a discount on a later purchase (Keh & Lee 2006).

Other variations of rewards within the literature include quantity-based vs spending-based (Chun & Ovchinnikov 2019), luck-based vs loyalty-based (Hwang & Mattila 2018), linear vs non-linear (Stourm et al 2015). Finally, there is a variation concerning whether the reward is “continuous” or subject to point expiration or status demotion (Sun & Zhang 2019; Shin et al 2020).

In light of this wide variation in terms of reward types found in loyalty programs and explored in the literature, we will in the following specifically focus on bonus as a primarily *utilitarian* reward, which is *directly* linked to the core offering, *delayed* in terms of accumulation of points, *spending* based, *loyalty-based*, *linear* and *continuous* form of reward. Consequently, we will particularly examine the effects of the introduction, change, and removal of this type of rewards.

### 3.4. Loyalty reward effects

The effects of rewards in loyalty programs can be divided in two main categories: 1) consumer related effects, 2) firm performance effects. Within the literature, these effects have been considered either from a short-term or long-term perspective (Chaudhuri et al 2019). Further, the effects can be described as perceived or actual, where perceived effects have mainly been derived from scenario-based experiments (e.g., Park et al 2013; Hwang & Mattila 2018) or studies relying on consumer self-reports (e.g., McCall & McMahon 2016) and actual effects on the basis of real company or consumer data from actual adjustments made (e.g., Chaudhuri et al 2019; Lu et al 2016).

Consumer related effects can in turn be divided into attitudinal and behavioural effects and the literature has either considered one of these dimensions or both in combination. Attitudinal effects explored in the literature include commitment (Melancon et al 2011), trust (e.g., Stathopoulou & Balabanis 2016), and satisfaction (e.g., Söderlund & Colliander 2015). Behavioural effects include share of wallet (e.g., Kang et al 2015) and purchasing behavior (e.g., Dorotic et al 2014). In some of the studies particularly addressing loyalty, there is a combination of attitudinal and behavioural loyalty effects, in the form of brand loyalty (e.g., Kim & Ahn 2017), store loyalty (e.g., Bridson et al 2008), and program loyalty (Mimouni-Chaabane & Volle 2010; Kang et al 2015).

Similarly, firm performance can be divided in two main effects explored in the literature: sales productivity (Lu et al 2016; Chaudhuri et al 2019; Bombaij & Dekimpe 2020) and profitability (Eason et al 2015; Bazargan et al 2017; Gandomi et al 2019; Sun & Zhang



2019). Sales productivity has for example been measured as long-term sales or market share (Chaudhuri et al 2019; Lu et al 2016) or total sales divided by square meters of sales area (Bombajj & Dekimpe 2020). Profitability has for example been measured as gross profit (Chaudhuri et al 2019; Lu et al 2016).

## 4. Effects of bonuses in loyalty programs

In the following we summarize the findings from our literature review. Each section will be divided into consumer related and firm performance effects. Although we identified a vast literature on loyalty programs and rewards, most of the reviewed papers focused on effects in general, rather than in relation to the specifics of introducing, changing, or removing bonuses specifically. Of the 89 articles identified, only 13 provided empirical evidence on effects in relation to either introduction (RQ1), change (RQ2), or removal (RQ3) of bonuses. In the following, we zoom in on these studies and use them to formulate propositions related to the role of bonuses in loyalty programs.

### 4.1 Introduction of bonuses in loyalty programs

To answer our first RQ we searched the literature for two types of introductions, namely: 1) the introduction of a loyalty program with a bonus reward or 2) the introduction of a bonus reward in an existing loyalty program. Only a few studies were identified dealing with either of these two topics.

#### *Consumer related effects*

There is very limited research on the effects of introduction of a bonus on consumers. In fact, only four papers identified in the review specifically focused on such effects. Of these, one focused specifically on the consumer related effects of introductions, namely Liu (2007) who studies changes in consumer behaviors using two-year data following the introduction of a loyalty program with a bonus by a convenience store. The findings show that customers who were heavy buyers at the introduction were most likely to claim rewards, but the program did not change their purchase behavior. In contrast, customers whose initial patronage was low or moderate, gradually purchased more. For light buyers, the loyalty program broadened their buying into other product areas. The effects of the loyalty program thus differed across customer groups, and had the most positive impact on less loyal customers.



The other three studies (Ashley et al 2016; Eason et al 2015; Melnyk & Bijmolt 2015) rely on scenario-based experiments. Reactions to loyalty program introductions are studied by randomly allocating participants to different designs of the same loyalty program and investigating the effects across those variations. Even if real programs are used in these experiments, the effect are estimated based on self-reports rather than actual behaviors.

In terms of attitudinal effects, Ashley et al (2016) find that loyalty program fees have beneficial effects on loyalty program attitudes and perceptions, but also that the presentation of a bonus is important. For low (high) fee loyalty programs, simple (complex) reward structures are preferable. This suggests that retailers that offer free membership in loyalty programs are likely to attract more customers when they offer simple bonus systems, whereas retailers offering fee-based memberships are more likely to attract members by allowing accrual of multiple points per dollar spent.

In terms of behavioral loyalty, Eason et al (2015) and Ashley et al (2016) investigate consumer spending intentions after joining a loyalty program. Their focus is not on bonuses per se, but rather study bonus as one way in which loyalty programs can differ. Eason et al (2015) find that introducing a bonus (monetary reward) does not make customers more likely to join a loyalty program compared to an altruistic reward (or a combination of the two), especially for fee-based loyalty programs. This effect varies across their two studies; in study 1 (student sample) a bonus is more successful and in study 2 (general population) a combined reward is most effective. Relying on a survey of consumers self-reported behaviors due to real loyalty programs, Melnyk and Bijmolt (2015) find no effect of monetary elements (discount or saving) when joining a new loyalty program. However, they find that customers with higher incomes and higher education levels, as well as customers who are more price-sensitive, generally appreciate loyalty programs, and are more innovative tend to report that they increase their loyalty to a firm more after entering a loyalty program. In contrast, customers with more privacy concerns are less likely to report changes in loyalty.

Overall, we can conclude that there is limited research on the effects of introducing a bonus in a loyalty program. The findings suggest that loyalty programs with bonus can have a positive effect on consumers, and that fee paying customers are more likely to increase their spending after joining a loyalty program, especially when a more complex set of monetary (and other) rewards are offered. Based on the review we propose:

P1. Introducing a loyalty program with a bonus is likely to have a positive impact on consumers' willingness to join a loyalty program as well as on future purchase behavior. However, this effect will depend on the type of bonus and will vary between customer groups.

#### *Firm performance effects*

The literature review identified three studies (Bombajj & Dekimpe 2020; Chaudhuri et al 2019; Lu et al 2016) that empirically investigate the effects of introducing loyalty programs on firm performance in terms of sales or profit. In these studies, real data are used to measure sales (Bombajj & Dekimpe 2020; Chaudhuri et al 2019; Lu et al 2016) and gross profit (Chaudhuri et al 2019; Lu et al 2016).

In terms of sales, Lu et al (2016) find support for introduction of a loyalty program with a bonus enabling a retailer to win back market share from a competitor (gasoline retailer in China). In this study, the bonus comprised a simple frequency-based economic reward, that mirrored the bonus loyalty program offered by the main competitor. The positive effect occurred in regular but not premium products, suggesting that the bonus primarily attracted price-conscious customers. However, using data from airlines Liu and Yang (2009) find that only high-market share firms experienced sales lifts from their loyalty programs. They also find a competitive effect based on market saturation. Similarly, comparing data from 322 publicly traded firms that introduced loyalty programs between 2000 and 2015, Chaudhuri et al (2019) find that programs offering a bonus have greater long-term sales effects than programs without such a reward.

Looking simultaneously at multiple design elements, as well as various retailer and country characteristics, Bombajj and Dekimpe (2020) study 358 grocery banners across 27 countries, of which 245 operate a loyalty program. Overall, they find a positive impact of loyalty programs offering a simple bonus on sales. The study finds no effect of type of rewards, but a weaker effect of progressive reward program and multi-vendor programs. Although this study does not consider bonus introductions per se, the effect of a new actor introducing a loyalty program with a bonus is modeled and the findings show that a non-discount grocery retailer introducing a non-progressive stand-alone loyalty program would be effective in more than half (13/19) of the countries and for 61 of the 113 retailer banners that currently do not run any such program. The positive effect is present for supermarkets and hypermarkets, but lower for discounters. There is also a competitive effect suggesting that a lower proportion of competing loyalty programs in a market gives a larger positive effect. This can be attributed to

the higher remaining differentiation potential of carrying a loyalty program in such environments.

When it comes to profits, Chaudhuri et al (2019) find results that largely mirror those of sales; loyalty programs with bonus can increase profits, both in the short and long term. However, profit effects lags sales effect, meaning that they take a bit longer to materialize. This might be counter intuitive as one might argue that the redemption of earned rewards would negatively impact profits, however, the substantial revenue required to earn these rewards both before and after the redemption will likely compensate for the reward liability cost increases.

Overall, we can conclude that there is convincing evidence that introducing a loyalty program with a bonus will, on average, have a positive effect on firm performance, but also that the outcome will depend on firm, industry, and market characteristics. Based on this literature we thus propose:

P2. Introducing a loyalty program with a bonus can have a positive effect on sales and profits, but the effect depends on target group, competitive environment, and the country in which it is introduced.

#### 4.2 Change in bonuses in loyalty programs

To answer our second RQ we searched for studies directly dealing with modifications to bonuses in existing loyalty programs (e.g., adjusting the bonus by introducing thresholds or setting an expiration date). Although many studies focus on how various aspects of a loyalty program affect consumer and firm outcomes, only few explicitly investigate changes to bonuses made to existing loyalty programs.

##### *Consumer related effects*

Among the surveyed papers, three deal with consumer-related effects of changes in bonuses in loyalty programs (McCall & McMahan 2016; Breugelmans & Liu-Thompkins 2017; Sun & Zhang 2019). McCall and McMahan (2016) survey members of a shopping blog about their membership in hotel loyalty programs and find that increasing the number of stays required to earn rewards would affect hotel choice negatively. This suggest that changing the bonus scheme in a way that makes it harder for customers to earn rewards will be negatively received. Still, it should be noted that the study relies on self-report and thus documents perceived rather than actual effects.

There are also studies looking at changes in the way rewards can be redeemed. Using data from a convenience store loyalty program, Breugelmans and Liu-Thompkins (2017) find that introducing an expiration policy leads existing members to increase their visit frequency, but no effect is found on overall spending. The effect holds for most customer (about 70%) and especially low frequency customers are positively affected. They also find some evidence of reactance among a small set of high frequency customers who react negatively. In a follow up study at a coffee shop, they find a similar pattern; customers who are low in frequency are more likely to be affected by an expiration policy, but there is no effect on already frequent customers. This suggests that there are benefits to having redemption deadline, especially for customers who are not already very loyal.

Additional insights on potential changes can also be gained from Sun and Zhang (2019) who use game theory to develop a model for how retailers should design reward expirations. This modeling approach leads to three observations related to the optimal expiration term for rewards, namely that they should be: 1) longer (shorter) for retailers that have lower (higher) purchase frequency difference, 2) longer (shorter) for retailers that charge higher (lower) prices, and 3) the relationship between the optimal expiration term and reward size is not monotone and moderated by the valuation and purchase frequency heterogeneity. Although Sun and Zhang (2019) do not empirically validate these observations, they provide overarching support for them in an observational study of existing retail loyalty programs.

Overall, the literature suggests that bonus changes will impact consumers, but also that the impact depend on whether the changes are made to the way in which bonus is earned (accrual) or redeemed, as well as with regards to characteristics of the retail offer and customer base. Changes that make it more difficult to earn rewards will generally affect behaviors negatively, whereas changes making it more difficult to redeem rewards can stimulate more frequent visits. It also seems that loyal customers are more likely to react negatively to changes, whereas changes can be used to stimulate more beneficial behaviors among less loyal customers.

P3. Changing the bonus in loyalty program likely to impact on consumers future purchase behavior. However, the effect will depend on whether changes are made in terms of accrual or redemption as well as the current loyalty level and buying behaviors of customers.

### *Firm performance effects*

Only one study was identified that investigates changes in bonuses on firm performance in terms of sales. More specifically, Zhang and Bruggelmanns (2012) investigate how changing from rewarding purchases in general to also rewarding purchases of specific items (“item-based loyalty programs”, IBLP) affects store visits and sales of the promoted products. In the studied loyalty program, regular price promotions were replaced by reward price promotions, meaning that customers were awarded additional points when buying certain promoted products. The results showed that customers became more likely to visit the store, more responsive to promotions, and less sensitive to competitive promotions. However, the overall effect on sales was different for existing customers (-4.8%) and customers who joined the program after the change (+15.2%), and in total very small (0.3% net increase). Customers who joined the new loyalty program were more impacted by the membership than customer who had joined the old program. The negative effect on existing customers was largely due to the number of promotions run not being sufficient. Additional analyses also showed that the change had increase attrition rates, suggesting that changing to a IBLP had long-term benefits as well.

P4. Changing the bonus in loyalty program can impact firm performance by attracting new customers and changing behaviors of existing customers, but the effects are likely to depend on the actual execution and time perspective applied.

### 4.3 Removal of bonuses in loyalty programs

To answer our third RQ we searched the literature for two types of removals, namely: 1) the removal of a bonus in a loyalty program that will remain or 2) the removal of a loyalty program with a bonus reward. Only a few studies were identified dealing with either of these two topics.

### *Consumer related effects*

Only few studies investigate how removal of bonuses affect consumer behaviors. Using self-reports, McCall and McMahon (2016) find that removing a bonus program in a hotel context would have a significant negative effect on hotel choice. In credit card context, Ching and Hayashi (2010) find that removing the reward features of payment cards would impact how future payments are done. The results suggest that credit cards would be more affected than debit cards, and if all rewards were removed customers would reduce their purchases with credit cards, but 90% of debit card transactions would still be performed. Potentially, this can

be interpreted as evidence that removing bonuses will have a smaller effect on default behaviors (e.g., paying debit) and mostly affect non-default behaviors (e.g., paying credit). Finally, Melnyk and Bijmolt (2015) results suggest that retailers can expect a drop in loyalty in cases of loyalty program termination, especially if there is a high share of other firms in the given industry with loyalty programs. They also find that female customers react more negatively than male customers.

P5. Removing the bonus in a loyalty program is likely to have a negative impact on consumer behaviors, when there are competing loyalty programs on the market. However, default behaviors are less likely to be affected than behaviors that have been stimulated by the reward in itself.

#### *Firm performance effects*

No studies of firm performance effects of removal were identified; thus, we are not able to provide any proposition on the basis of the literature.

## 5. Conclusions

Loyalty programs have long been used and although there is a vast literature on loyalty programs and their effects, less focus has been paid specifically to the role of bonuses in such programs. This is surprising given the central role of bonuses in loyalty programs and their significance for both companies and consumers covered by the programs. In this paper we set out to answer: “What are the effects of the introduction (RQ1), change (RQ2) and removal (RQ3) of bonuses in loyalty programs?” based on a literature review of the existing academic literature. Our review suggests that:

P1. Introducing a loyalty program with a bonus is likely to have a positive impact on consumers’ willingness to join a loyalty program as well as on future purchase behavior. However, this effect will depend on the type of bonus and will vary between customer groups.

P2. Introducing a loyalty program with a bonus can have a positive effect on sales and profits, but the effect depends on target group, competitive environment, and the country in which it is introduced.

P3. Changing the bonus in loyalty program likely to impact on consumers future purchase behavior. However, the effect will depend on whether changes are made in terms of accrual or redemption as well as the current loyalty level and buying behaviors of customers.

P4. Changing the bonus in loyalty program can impact firm performance by attracting new customers and changing behaviors of existing customers, but the effects are likely to depend on the actual execution and time perspective applied.

P5. Removing the bonus in a loyalty program is likely to have a negative impact on consumer behaviors, when there are competing loyalty programs on the market. However, default behaviors are less likely to be affected than behaviors that have been stimulated by the reward in itself.

We did not find any studies that have directly examined the effects on firm performance of removing bonuses in loyalty programs. We can therefore only speculate on the basis of what has emerged from the studies that have examined other aspects of the introduction, change and removal of loyalty program bonuses. On the one hand, the positive effects of the introduction of loyalty bonuses for consumers (although the results differ across different types of customers) have been accompanied by positive effects on firm performance and, since it is likely that the removal of bonuses will have a negative effect on consumer behavior, we can expect a corresponding effect on firm performance. On the other hand, the expected effects are not as clear-cut, assuming that there are differences between different customer groups and that there are differences according to the target groups, competitive conditions, and geographical areas of the firm. Moreover, an important aspect is that the effects on consumer behavior and firm performance have primarily been considered from a short-term perspective, and that there may be some initial effects that diminish over time. This may mean that a short-term loss of sales may be recovered over time, while the long-term effects on profitability may be positive. Future research is, however, needed to provide more insights on this important topic.

Based on this review, we see a clear need for additional studies on the role of bonuses in loyalty programs. Although there is a vast literature on the role of rewards in loyalty programs broadly, more research is needed on the impact of changing and removing bonuses in loyalty programs, specifically. Future research should, as far as possible, also try to assess actual rather than perceived effects as doing so would provide more managerially relevant insights on the impact of bonuses in loyalty programs.



Given the renewed interest in loyalty program in retail practice we also see the need to extend research on loyalty programs to provide insights on loyalty programs that reward other behaviors than purchases (for example, in fast-fashion retailing, Shein rewards time spent and content shared in their app and H&M rewards behaviors related to sustainability such as recycling old items and bringing your own bag to the shop). There is also ample of opportunities to further personalize loyalty programs based on consumers actual behaviors and relationship stages (for more insights, see Kim et al 2021). It is our hope that the current literature review can serve as a foundation for such efforts.

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## Appendix

Article	A	B	C	D
Agarwal, R., & Mehrotra, A. (2018). Understanding What Matters to Customers: The Case of Loyalty Programs in the Indian Context. <i>Journal of Relationship Marketing</i> , 17(4), 311–334.	X		X	
Alshurideh, M., Gasaymeh, A., Ahmed, G., Alzoubi, H., & Kurd, B. Al. (2020). Loyalty program effectiveness: Theoretical reviews and practical proofs. <i>Uncertain Supply Chain Management</i> , 8(3), 599–612.	X			
Arango, C., Huynh, K. P., & Sabetti, L. (2015). Consumer payment choice: Merchant card acceptance versus pricing incentives. <i>Journal of Banking and Finance</i> , 55, 130–141.	X			
Ashley, C., Gillespie, E. A., & Noble, S. M. (2016). The effect of loyalty program fees on program perceptions and engagement. <i>Journal of Business Research</i> , 69(2), 964–973.	X		X	X
Audrain-Pontevia, A. F., & Garnier, I. (2021). Are your customers grateful? How customer gratitude impacts loyalty programme effectiveness. <i>International Journal of Retail and Distribution Management</i> , 49(12), 1660–1679.	X		X	
Baker, M. A., & Legendre, T. S. (2021). Unintended negative consequences of loyalty programs: endowed vs earned loyalty. <i>Journal of Services Marketing</i> , 35(2), 210–221.	X			
Bazargan, A., Karray, S., & Zolfaghari, S. (2017). Modeling reward expiry for loyalty programs in a competitive market. <i>International Journal of Production Economics</i> , 193(August), 352–364.	X		X	
Berry, L. (1995). Relationship marketing of services-growing interest. In <i>Journal of the Academy of Marketing Science</i> (Vol. 23, Issue 4, pp. 236–245).	X			
Bombaij, N. J. F., & Dekimpe, M. G. (2020). When do loyalty programs work? The moderating role of design, retailer-strategy, and country characteristics. <i>International Journal of Research in Marketing</i> , 37(1), 175–195.	X		X	X
Brashear-Alejandro, T., Kang, J., & Groza, M. D. (2016). Leveraging loyalty programs to build customer-company identification. <i>Journal of Business Research</i> , 69(3), 1190–1198.	X			
Breugelmans, E., & Liu-Thompkins, Y. (2017). The effect of loyalty program expiration policy on consumer behavior. <i>Marketing Letters</i> , 28(4), 537–550.	X		X	X
Bridson, K., Evans, J., & Hickman, M. (2008). Assessing the relationship between loyalty program attributes, store satisfaction and store loyalty. <i>Journal of Retailing and Consumer Services</i> , 15(5), 364–374.	X		X	
Cao, Y., Nsakanda, A. L., & Diaby, M. (2015). Planning the supply of rewards with cooperative promotion considerations in coalition loyalty programmes management. <i>Journal of the Operational Research Society</i> , 66(7), 1140–1154.	X			
Chaudhuri, M., Voorhees, C. M., & Beck, J. M. (2019). The effects of loyalty program introduction and design on short- and long-term sales and gross profits. <i>Journal of the Academy of Marketing Science</i> , 47(4), 640–658.	X		X	X
Ching, A. T., & Hayashi, F. (2010). Payment card rewards programs and consumer payment choice. <i>Journal of Banking and Finance</i> , 34(8), 1773–1787.	X		X	X
Choi, S., & Kim, S. (2013). Effects of a reward program on inducing desirable customer behaviors: The role of purchase purpose, reward type and reward redemption timing. <i>International Journal of Hospitality Management</i> , 32(1), 237–244.	X			
Chun, S. Y., & Ovchinnikov, A. (2019). Strategic consumers, revenue management, and the design of loyalty programs. <i>Management Science</i> , 65(9), 3969–3977.	X		X	
Colliander, J., Söderlund, M., & Szugalski, S. (2016). Multi-level loyalty program rewards and their effects on top-tier customers and second-tier customers. <i>Journal of Consumer Marketing</i> , 33(3), 162–171.	X			
Danaher, P. J., Sajtos, L., & Danaher, T. S. (2020). Tactical use of rewards to enhance loyalty program effectiveness. <i>International Journal of Research in Marketing</i> , 37(3), 505–520.	X			

Daryanto, A., de Ruyter, K., Wetzels, M., & Patterson, P. G. (2010). Service firms and customer loyalty programs: A regulatory fit perspective of reward preferences in a health club setting. <i>Journal of the Academy of Marketing Science</i> , 38(5), 604–616.		X		
De Wulf, K., Odekerken-Schröder, G., & Iacobucci, D. (2001). Investments in consumer relationships: A cross-country and cross-industry exploration. <i>Journal of Marketing</i> , 65(4), 33–50.		X		
Dorotic, M., Verhoef, P. C., Fok, D., & Bijmolt, T. H. A. (2014). Reward redemption effects in a loyalty program when customers choose how much and when to redeem. <i>International Journal of Research in Marketing</i> , 31(4), 339–355.	X		X	
Dowling, G. R., & Uncles, M. (1997). Do Customer Loyalty Programs Really Work? <i>Sloan Management Review</i> , 18(3), 71–83.		X	X	
Eason, C. C., Bing, M. N., & Smothers, J. (2015). Reward me, charity, or both? The impact of fees and benefits in loyalty programs. <i>Journal of Retailing and Consumer Services</i> , 25, 71–80.	X		X	X
Fowler, M. (2003). Fifteen critical success factors for real-time customer loyalty. <i>Restaurant Hospitality</i> , 87(8), 60-64.		X		
Gandomi, A., Bazargan, A., & Zolfaghari, S. (2019). Designing competitive loyalty programs: a stochastic game-theoretic model to guide the choice of reward structure. <i>Annals of Operations Research</i> , 280(1–2), 267–298.	X		X	
Gorlier, T., & Michel, G. (2020). How special rewards in loyalty programs enrich consumer–brand relationships: The role of self-expansion. <i>Psychology and Marketing</i> , 37(4), 588–603.	X			
Gössling, S., & Nilsson, J. H. (2010). Frequent flyer programmes and the reproduction of aeromobility. <i>Environment and Planning A</i> , 42(1), 241–252.	X		X	
Guenzi, P., Johnson, M. D., & Castaldo, S. (2009). A comprehensive model of customer trust in two retail stores. <i>Journal of Service Management</i> , 20(3), 290–316.	X			
Ha, S., & Stoel, L. (2014). Designing loyalty programs that matter to customers. <i>Service Industries Journal</i> , 34(6), 495–514.	X			
Heidarzadeh Hanzaee, K., & Esmailpour, F. (2017). Effect of restaurant reward programs on customers' loyalty: evidence from Iran. <i>Journal of Islamic Marketing</i> , 8(1), 140–155.	X			
Ho, R., Huang, L., Huang, S., Lee, T., Rosten, A., & Tang, C. S. (2009). An approach to develop effective customer loyalty programs: The VIP program at T&T Supermarkets Inc. <i>Managing Service Quality</i> , 19(6), 702–720.		X		
Hu, H. H. S., & Parsa, H. G. (2011). Self-monitoring, dining companions and the usage of alternative currencies. <i>Journal of Product and Brand Management</i> , 20(3), 228–237.	X			
Hwang, J., & Choi, L. (2020). Having fun while receiving rewards?: Exploration of gamification in loyalty programs for consumer loyalty. <i>Journal of Business Research</i> , 106(January 2019), 365–376.	X			
Hwang, Y. H., & Mattila, A. S. (2018). Is It My Luck or Loyalty? The Role of Culture on Customer Preferences for Loyalty Reward Types. <i>Journal of Travel Research</i> , 57(6), 769–778.	X		X	
Jang, D., & Mattila, A. S. (2005). An examination of restaurant loyalty programs: What kinds of rewards do customers prefer? <i>International Journal of Contemporary Hospitality Management</i> , 17(5), 402–408.	X			
Kang, J., Alejandro, T. B., & Groza, M. D. (2015). Customer-company identification and the effectiveness of loyalty programs. <i>Journal of Business Research</i> , 68(2), 464–471.	X		X	
Keeling, D. I., Daryanto, A., de Ruyter, K., & Wetzels, M. (2013). Take it or leave it: Using regulatory fit theory to understand reward redemption in channel reward programs. <i>Industrial Marketing Management</i> , 42(8), 1345–1356.	X			
Keh, H. T., & Lee, Y. H. (2006). Do reward programs build loyalty for services?. The moderating effect of satisfaction on type and timing of rewards. <i>Journal of Retailing</i> , 82(2), 127–136.	X		X	



Kim, H. Y., Lee, J. Y., Choi, D., Wu, J., & Johnson, K. K. P. (2013). Perceived Benefits of Retail Loyalty Programs: Their Effects on Program Loyalty and Customer Loyalty. <i>Journal of Relationship Marketing</i> , 12(2), 95–113.	X		X	
Kim, B. D., Shi, M., & Srinivasan, K. (2001). Reward programs and tacit collusion. <i>Marketing Science</i> , 20(2), 99-120.	X			
Kim, J. J., Steinhoff, L., & Palmatier, R. W. (2021). An emerging theory of loyalty program dynamics. <i>Journal of the Academy of Marketing Science</i> , 49(1), 71–95.	X		X	
Kim, K., & Ahn, S. J. G. (2017). Rewards that undermine customer loyalty? A motivational approach to loyalty programs. <i>Psychology and Marketing</i> , 34(9), 842–852.	X		X	
Kivetz, R., & Simonson, I. (2002). Earning the right to indulge: Effort as a determinant of customer preferences toward frequency program rewards. <i>Journal of Marketing Research</i> , 39(2), 155–170.		X		
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Kwiatek, P., & Thanasi-Boçe, M. (2019). Loyalty program activity: make B2B customers buy more. <i>Marketing Intelligence and Planning</i> , 37(5), 542–554.	X			
Kyguoliene, A., Zikiene, K., & Grigaliunaite, V. (2017). The influence of perceived benefits on the satisfaction with the loyalty program. <i>Engineering Economics</i> , 28(1), 101–109.	X		X	
Leenheer, J., van Heerde, H. J., Bijmolt, T. H. A., & Smidts, A. (2007). Do loyalty programs really enhance behavioral loyalty? An empirical analysis accounting for self-selecting members. <i>International Journal of Research in Marketing</i> , 24(1), 31–47.		X		
Liu, Y. (2007). The Long-Term Impact of Loyalty Programs on Consumer Purchase Behavior and Loyalty. <i>Journal of Marketing</i> , 71(October), 19–35.		X	X	X
Liu, Y., & Yang, R. (2009). Competing loyalty programs: Impact of market saturation, market share, and category expandability. <i>Journal of Marketing</i> , 73(1), 93–108.		X	X	X
Lu, Q. (Steven), Pattnaik, C., & Shi, M. (2016). Spillover effects of marketing expertise on market performance of domestic firms and MNEs in emerging markets. <i>Management Decision</i> , 54(1), 107–129.	X		X	X
Ma, B., Li, X., & Zhang, L. (2018). The effects of loyalty programs in services – a double-edged sword? <i>Journal of Services Marketing</i> , 32(3), 300–310.	X		X	
McCall, M., & McMahan, D. (2016). Customer Loyalty Program Management: What Matters to the Customer. <i>Cornell Hospitality Quarterly</i> , 57(1), 111–115.	X		X	X
Melancon, J. P., Noble, S. M., & Noble, C. H. (2011). Managing rewards to enhance relational worth. <i>Journal of the Academy of Marketing Science</i> , 38(3), 341–362.	X		X	
Melnyk, V., & Bijmolt, T. (2015). The effects of introducing and terminating loyalty programs. <i>European Journal of Marketing</i> , 49(3–4), 398–419.		X	X	X
Meyer-Waarden, L. (2015). Effects of loyalty program rewards on store loyalty. <i>Journal of Retailing and Consumer Services</i> , 24(C), 22–32.	X			
Meyer-Waarden, L., Benavent, C., & Castéran, H. (2013). The effects of purchase orientations on perceived loyalty programmes' benefits and loyalty. <i>International Journal of Retail and Distribution Management</i> , 41(3), 201–225.	X			
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Nunes, J. C., & Drèze, X. (2006). The endowed progress effect: How artificial advancement increases effort. <i>Journal of Consumer Research</i> , 32(4), 504–512.		X		
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Omar, N. A., Wel, C. A. C., Aziz, N. A., & Alam, S. S. (2013). Investigating the structural relationship between loyalty programme service quality, satisfaction and loyalty for retail loyalty programmes: Evidence from Malaysia. <i>Measuring Business Excellence</i> , 17(1), 33–50.	X		X	
Omar, N. A., Ramly, S. M., Alam, S. S., & Nazri, M. A. (2015). Assessing the effect of loyalty program benefits in satisfaction- loyalty relationship: Evidence from Malaysia. <i>Jurnal Pengurusan</i> , 43, 145–159.	X		X	
Palmeira, M., Pontes, N., Thomas, D., & Krishnan, S. (2016). Framing as status or benefits?: Consumers' reactions to hierarchical loyalty program communication. <i>European Journal of Marketing</i> , 50(3–4), 488–508.	X			
Park, S. B., Chung, N., & Woo, S. C. (2013). Do reward programs build loyalty to restaurants? The moderating effect of long-term orientation on the timing and types of rewards. <i>Managing Service Quality</i> , 23(3), 225–244.	X		X	
Pez, V., Butori, R., & Mimouni-Chaabane, A. (2017). The dark side of the pressure exerted by loyalty programs on consumers: Practical and ethical issues. <i>Recherche et Applications En Marketing</i> , 32(3), 71–83.	X			
Sayman, S., & Hoch, S. J. (2014). Dynamics of price premiums in loyalty programs. <i>European Journal of Marketing</i> , 48(3–4), 617–640.	X			
Shin, M., Back, K. J., Lee, C. K., & Lee, Y. S. (2020). Enhancing customer-brand relationship by leveraging loyalty program experiences that foster customer-brand identification. <i>International Journal of Contemporary Hospitality Management</i> , 13(12), 3991–4016.	X		X	
Söderlund, M., & Colliander, J. (2015). Loyalty program rewards and their impact on perceived justice, customer satisfaction, and repatronize intentions. <i>Journal of Retailing and Consumer Services</i> , 25, 47–57.	X		X	
Song, T. H., Kim, S. Y., & Ko, W. L. (2017). Developing an Effective Loyalty Program Using Goal-Gradient Behavior in Tourism Industry. <i>Journal of Travel and Tourism Marketing</i> , 34(1), 70–81.	X			
Stathopoulou, A., & Balabanis, G. (2016). The effects of loyalty programs on customer satisfaction, trust, and loyalty toward high- and low-end fashion retailers. <i>Journal of Business Research</i> , 69(12), 5801–5808.	X		X	
Stauss, B., Schmidt, M., & Schoeler, A. (2005). Customer frustration in loyalty programs. <i>International Journal of Service Industry Management</i> , 16(3), 229–252.	X			
Steinhoff, L., & Palmatier, R. W. (2016). Understanding loyalty program effectiveness: managing target and bystander effects. <i>Journal of the Academy of Marketing Science</i> , 44(1), 88–107.	X			
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A = Articles identified through phase 1-3 (identifying, screening, analysis) in the literature review.

B = Articles identified through phase 4 (backward reviewing).

C = Articles included in this working paper.

D= Articles included in section 4 Effects of bonuses in loyalty programs.