

**DO LUXURY BRANDS NEED LOYALTY PROGRAM? A
RESEARCH PROPOSITION**

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ABSTRACT

This paper examines the necessity, requirements and various dimensions of loyalty programs for luxury brands. Based on the existing literatures and theoretical model, a comprehensive set of hypotheses are formulated and a methodology for testing them is outlined for investigating the relationship among consumer trust, satisfaction, value perception, commitment and loyalty.

INTRODUCTION

The marketing of luxury brands has been remarkably distinct from that of other industries (Atwal and Williams, 2008), because luxury brands are distinguished in terms of their functional, experiential and interactional dimensions (Vickers and Renand, 2003). Phau and Prendergast (2001) highlight the exclusivity, high brand awareness and identity, sales level retention and loyalty of luxury brands. Reichheld (1996) mentioned that in the automobile industry although 85% to 95% customers expressed their satisfaction with the products and services, only 30-40% of them repurchased from the brand. This study is consistent with the proposition that satisfied customers may not always be loyal to the brand (Oliver, 1999). In the luxury context, the use of customer membership clubs, or loyalty programs, has become prevalent (Sopanen, 1996). Lamb (2013) denotes that when loyalty programs are implemented correctly, luxury brands have the opportunity to develop brand affinity, multiply physical and online store visits, grow brand advocates and, above all, increase transactions. When consumers purchase a luxury good or service, the experience matters just as much as the product. After all, products do not create brand advocates - the co-creation of service and experience of the buying process does. Therefore, taking into consideration the limited number of empirical studies on loyalty

programs for luxury brand, this paper strives to understand the propensity and effectiveness of loyalty programs in the luxury brand industry. This paper also looks into extending the current loyalty model proposed by Luarn and Lin (2003) with country-of-origin moderating the effects of trust on consumer commitment and loyalty to luxury brands.

LITERATURE REVIEWS AND HYPOTHESIS DEVELOPMENT

Generally, consumer loyalty has been defined as the act of repeat purchase and long term commitment due to satisfaction with a brand or company (Tellis, 1988). Luxury brands reflect wealth, power and conspicuous segments of the market (Phau, Teah, and Lee, 2009), hence the psychological meaning of satisfaction and loyalty of luxury brands toward the consumer need to be addressed (Tse and Wilton 1988; Oliver 1980; Newman and Werbel 1973). The loyalty framework developed by Oliver (1999) utilizes three attitudinal components and it proposes four types of loyalties shown by the consumers: cognitive, affective, conative and action loyalty. According to the model, in the case of luxury products, at some point of cognitive-affective-conative chain, consumers may cross the threshold from low to high consumer fortitude because of the trust toward the brand. Song, Hur and Kim (2012), analyzed brand-affect, brand trust and brand risk for assessing loyalty for luxury brands. They found that brand trust significantly increases brand loyalty and reduces brand risk whereas the impact from brand-affect on loyalty and risk reduction was insignificant. Thus, the following hypotheses are tested in this study:

H_{1a}: Trust is positively related to the loyalty for luxury brands.

H_{1b}: Trust is positively related to the commitment toward the luxury brand.

There have been several studies on the country-of-origin effect on consumer satisfaction and trust (Aiello *et al*, 2009; Phau and Prendergast, 2001; Lawrence, Marr, and Prendergast, 1992). Mohamad *et al*. (2000) finds that consumer trust in luxury brands is highly influenced by the country-of-origin of the brand. Consumers are more likely to trust products originating from a country with a positive country image (Lumpkin *et al*., 1985). Johanson and Nebenzahl (1986) posited that consumers have greater trust in products originating from economically advanced countries and/or countries that are

renowned for their production tradition in the given sector such as French perfume or Italian fashion (Baumgartner and Jolibert, 1977). Therefore, the following hypotheses are tested in this study:

H_{2a}: Trust toward a brand is positively related to the image of the country-of-origin.

H_{2b}: The bias of trust on the commitment toward the luxury brand is more evident when influenced by the country-of-origin effects.

H_{2c}: The bias of trust on the loyalty toward the luxury brand is more evident when influenced by the country-of-origin effects.

For assessing brand loyalty, Kressmann *et al.* (2006) analyzed the overall customer satisfaction through self-image congruity, product involvement, brand relationship quality and functional congruity. The study reveals that self-congruity contributes significantly in building brand loyalty. Therefore, brand managers are advised to instill brand personality that can be tailored according to consumers' actual or self-concept. Strong customer-brand interaction should focus on fostering emotional bonds between customer and brand that will lead to customer satisfaction and brand loyalty. Therefore, the following hypotheses are tested in this study:

H_{3a}: Customer satisfaction is positively related to the loyalty for luxury brands.

H_{3b}: Customer satisfaction is positively related to the commitment toward the luxury brand.

As luxury brands are high involvement products, consumers spend significant amount of time in the pre-purchase stage and they can perceive significant differences among brands the brands. Hence, directly rewarding consumers under the loyalty program might be an effective marketing technique (Yi and Jeon, 2003). The perceived value is significantly connected with customer satisfaction and loyalty (Cronin, Bradly, and Hult, 2000). Consumers seek both utilitarian and hedonic value from luxury brands by paying higher prices and hence perceived value is considered critical in building customer loyalty (Carpenter and Fairhurst, 2005). The global competition, price competition and market fragmentation encourage consumers to search for better alternatives therefore as a major

strategy in marketing warfare, loyalty programs can be initiated by retailers to enhance perceived value (Cooper 2001, East and Hammond 1996). Therefore, the following hypotheses are tested in this study:

H_{4a}: Customer perceived value is positively related to the loyalty for luxury brands.

H_{4b}: Customer perceived value is positively related to the commitment toward the luxury brand.

In the competitive global market, it is vital for firms to foster long-term commitment with consumers, turning consumers into brand advocates (Morgan and Hunt, 1994). Caminal and Matutes (1990) and Klemperer (1987) argued that as the market is getting competitive, companies can increase brand loyalty and commitment by imposing switching costs and thereby reducing the deflection rate. With the implementation of the loyalty programs, commitment is expected to grow as consumers will purchase the products more frequently and thus maximizing the benefits and value they receive (Sharp and Sharp, 1997). Such commitment and demonstration of goodwill can further deepen the relationship between the firm and its customers (Liu, 2007). Therefore, the final hypothesis in this study is:

H₅: Commitment is positively related to the loyalty for luxury brands.

The research model depicting the hypotheses and its relationships can be seen in Appendix (Figure 1).

METHODOLOGY

This proposed study will employ both qualitative and quantitative approaches of research. Firstly, in-depth interviews with 25 luxury brand managers will be carried out. Each interview will last for 30-45 minutes in a small meeting room. Interviews will be audio taped with prior approval from the interviewee. Secondly, semi-structured questionnaires will be administered to 500 respondents, aged 20 years and above gathered from global markets. Stratified random sampling method will be used to ensure each relevant group is represented in the sample. Attempts will be made to properly diversify the sample in terms of demographic, economic and psychographic variables. The analysis will be

conducted from both quantitative and qualitative perspective. From the quantitative perspective, attempts would be made to explore the level of loyalty, satisfaction and retention. The first order process of Markov brand switching model (Morrison, 1965a, 1965b) will also be incorporated if found relevant. The hypothesized relationships in the research model will be tested by Structural Equation Modeling (SEM) with AMOS. Goodness-of-fit of the research model will also be tested via SEM on AMOS (Sawyer and Page Jr., 1984). NVivo10 will be used to analyze the interviews gathered for the qualitative aspect of this study (Gray, 2013).

CONCLUDING COMMENTS

Theoretically, this study will contribute to the existing literature with empirical evidences on the effects of loyalty programs on luxury brands. This study will also look into whether country-of-origin moderates consumer trust and its relationship to the commitment and loyalty of the luxury brand. In practice, marketers in the luxury brand industry can utilize the findings in their marketing strategy by implementing an effectively targeted loyalty program. Limitations of the study would be the selected product categories for luxury brands may not represent the overall luxury industry. Moreover, further studies regarding the necessity of loyalty programs might be conducted with the empirical data obtained from luxury brand companies.

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Appendix:

Figure 1: Proposed Research Model

