

How effective are new digital B2B loyalty-programmes?

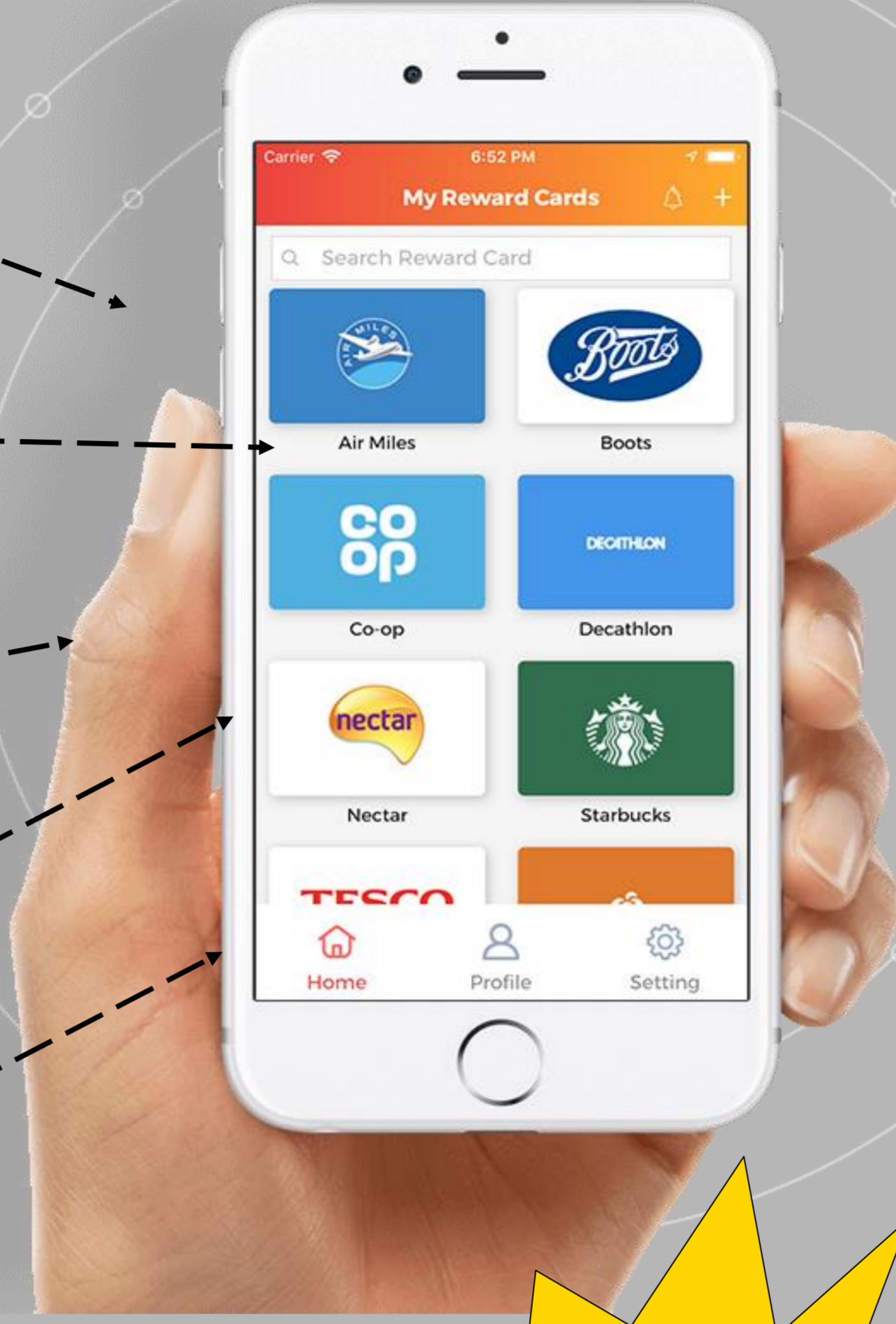
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Loyalty programmes capture a range of marketing initiatives, including discount vouchers, reward cards, membership levels, dedicated customer support [1] that may encourage repeat buying [2].

If the digital B2B loyalty scheme is effective, we might reasonably expect to see the following developments in the behaviour of the same customers [4]:

- Increase in Sales value
- A higher repeat rate
- Maintenance or growth of Heavy buyers
- A "trading up" of Medium and Light buyers
- An increase in penetration



Expectation
 Customer buying behaviour is heterogeneous: in B2B some customers are far larger than others, and require more raw materials [3]. But given a consistent customer base with the opportunity to use two or more suppliers, the buying behaviour of the members of the loyalty programme should be observed to change between equal length periods to take advantage of the scheme benefits. Knowledge exists in the context of B2C market, but to date, this work has not included the study of B2B programmes - especially in the digital setting.

How to measure effectiveness?
 A Conditional Trend Analysis compares purchase heterogeneity in buying classes defined at T1 against their subsequent purchasing at T2 [5]. This can simply be conducted as counts – what did the Heavy buyers do next? A sample of 236 B2B members is investigated. If CTA defines heterogeneity, it would be a novel but a useful technique to help marketers evaluate the performance of different buyer groups.

Figure 1 shows a surprising and rapid fall in average purchase frequency, by a half, as the membership grows. Over two years, there is a negative and strong correlation: as the number of buyers increase in the scheme, the frequency decreases.

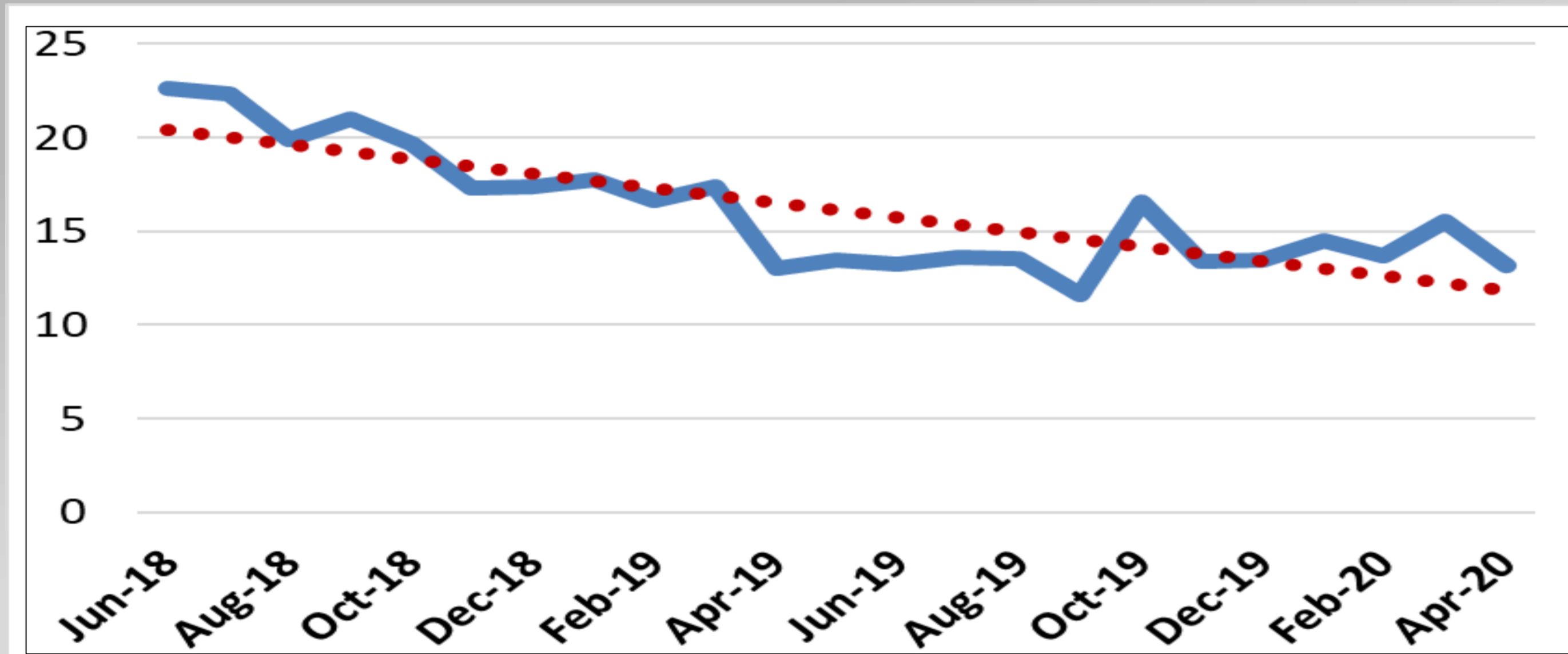


Table 1: CTA Analysis - T1 Buyers Heterogeneity in T2

T1	Heavy	Medium	Light	Zero	Total
	157	44	18	17	236
T2					
Heavy	122	11	5	1	139
Medium	12	8	0	1	21
Light	4	4	2	1	11
Zero	19	21	11	14	65
Total	157	44	18	17	236
New Users in T2	57	43	27	35	162

Table 1 shows that from T1 to T2 the scheme is having mixed results. 35 of the heaviest buyers decreased their purchase frequency in T2. Penetration of buyers declined from 93% to 58% and half of the medium and light buyers did not repeat.

Figure 1: Frequency of Purchase



Results, The evidence reports contrary to what managers usually expect from loyalty schemes. The conditional trend analysis is a useful tool to see changes in buyer behaviour in the next period and identify the sources of growth. The decline in purchase frequency is curious but may indicate either (1) a degree of order-bundling to obtain scheme rewards or (2) that the heaviest buyers were simply recruited first.

Practical implications, Although the evidence has questioned the effectiveness of loyalty programmes, managers must consider their performance in the round: do competitors have rival schemes, can they provide more opportunities for engagement, do they have the potential to manipulate order size and reduce costs through bundling? This study tests loyalty programmes in a new setting and present a simple yet effective tool that will help managers to test performance.



CTA shows buyers general flow in the trade, and that the heavy category buyers are unlikely to maintain the same buying propensity next time. However, this will then be replaced by light/medium/non-buyers of T1 in T2. Marketers are advised to manage the entire customer base instead of only targeting the heaviest segment - as evidence suggests heavy users are likely to defect in the next period.

References
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