

November 2021

STATUS DEMOTION IN LOYALTY PROGRAM: STRATEGY FOR CLOSE TO THE THRESHOLD CUSTOMERS

Altamim Marie Igamo

Graduate School of Management, Faculty of Economics and Business, Universitas Indonesia, Depok, Indonesia, igamomarie@gmail.com

Adi Zakaria Afiff

Graduate School of Management, Faculty of Economics and Business, Universitas Indonesia, Depok, Indonesia, adi.zakaria@ui.ac.id

Follow this and additional works at: <https://scholarhub.ui.ac.id/amj>



Part of the [Marketing Commons](#)

Recommended Citation

Igamo, Altamim Marie and Afiff, Adi Zakaria (2021) "STATUS DEMOTION IN LOYALTY PROGRAM: STRATEGY FOR CLOSE TO THE THRESHOLD CUSTOMERS," *ASEAN Marketing Journal*: Vol. 11 : No. 2 , Article 2.

DOI: 10.21002/amj.v11i2.12921

Available at: <https://scholarhub.ui.ac.id/amj/vol11/iss2/2>

This Research Article is brought to you for free and open access by UI Scholars Hub. It has been accepted for inclusion in ASEAN Marketing Journal by an authorized editor of UI Scholars Hub.

STATUS DEMOTION IN LOYALTY PROGRAM: STRATEGY FOR CLOSE TO THE THRESHOLD CUSTOMERS

Altamim Marie Igamo¹

Graduate School of Management, Faculty of Economics and Business, Universitas Indonesia
Depok, Indonesia
igamomarie@gmail.com

Adi Zakaria Afiff²

Graduate School of Management, Faculty of Economics and Business, Universitas Indonesia
Depok, Indonesia
adi.zakaria@ui.ac.id

Abstract

This paper present loyalty program strategies to demoted close to the threshold customers toward program' and company' loyalty intention based on their payment source (own money vs other money customers).

Manuscript type: *Documentary Research.*

Research Aims: *Identifying loyalty program strategies to demoted closed to the threshold customers with additional points and additional time in own money and other money customer to have positive evaluate toward program' and company' loyalty intention.*

Design/methodology/approach: *This research employs 2 (payment source: own money vs other money) × 3 (demotion strategies: without additional point vs with additional points vs with additional time) factorial designs between-subject.*

Research Findings: *Loyalty intention to the loyalty program appear stronger with demotion strategies with an additional point and additional time than demotion without additional point*

Theoretical Contribution/Originality: *Enrich references about the status of demotion in HLP, distributive justice in the context of loyalty programs and scarcity theory in marketing.*

Practitioner/Policy Implication: *Marketing managers should concern more about the strategy to demoted customer, especially customer who close to the threshold to produce more positive consumer evaluation.*

Research limitation/Implications: *Further studies can focus on participant that have used airline loyalty programs to have stronger external validity.*

Keywords: *customer loyalty, demotion, distributive justice theory, loyalty programs, relationship marketing, psychological ownership*

INTRODUCTION

Many companies strive to increase customer loyalty and one of the most popular ways to do by creating a loyalty program. Such programs proliferate and many consumers in Western

countries are members of the loyalty program (Söderlund & Colliander, 2015). Likewise, in

Indonesia, based on a survey of loyalty programs conducted by a mobile survey named Jakpat in 2016 with 535 people, 3 out of 5 the survey respondents were a member of a loyalty

program, and 54% of respondents had 1-5 loyalty program membership cards (Arunarsirakul, 2016). In recent years, many companies, especially mobile communications service providers, banks, and airlines switched to the loyalty program (Hwang & Kwon, 2016). This big-budget may be related to the notion that retaining existing customers is more important than acquiring new ones. Retaining existing customers takes four to five times lower costs than acquiring a new customer (Hwang & Kwon, 2016).

There are two kinds of loyalty program structures that are commonly used, frequency reward and customer tier (Bijmolt, Dorotic, & Verhoef, 2011). Frequency reward promises 'buy a number of X goods and then get a reward', whereas customer tier groups customers into segments, based on their volume of purchase. Each level of the customer receives different benefits, with higher levels usually receiving more benefits such as preferential treatment and improved service (Bijmolt et al., 2011). A program that classifies customers into various levels is also called hierarchical loyalty programs (HLP) (Ramaseshan & Ouschan, 2017). By reaching a certain spending level, customers are promoted to a higher level and enjoy preferential treatment. With HLP, marketers determine the amount of expenditure required to receive a reward, as well as a threshold to be promoted to a higher level (Ramaseshan & Ouschan, 2017).

Regardless of the effectiveness of both forms of the loyalty program, Breugelmans et al (2014) said that literature still rarely discusses one of the important aspects of HLP, namely how to reduce the potential negative consequences of

decreased status. HLP directly related to the level of customer spending ((Banik, Gao, & Rabbanee, 2019); (Berlo, Bloemer, & Blazevic, 2014; Hwang & Kwon, 2016); (Wagner, Hennig-thurau, & Rudolph, 2009), the company usually lowers customer status when its spending rate decreases (Ramaseshan, Stein, & Rabbanee, 2016), HLP has received criticism by decreasing customer status (Ramaseshan & Ouschan, 2017). The decline in this status is known as a demotion.

Demotion will decrease loyalty intention, even lower than customers who never being elevated to preferred status (Wagner et al., 2009). The blocking benefits cause of demotion can weaken customer relationships, make customers frustrated and social discomfort, further motivating them to switch to other service providers (Banik et al., 2019). However, it has negative effects, it also needs scrutiny about status demotion for customers who have close to the threshold to maintain their status. Customers who are close to the threshold possible to feel unfair when demoted and must start collecting points from zero, such as other demoted customers with far point compliance to the threshold. Customers tend to make comparisons with others that seem to be specific similar to them rather than making comparisons with the customer as a whole (Söderlund & Colliander, 2015). Thus, it supports that fellow customers who are demoted allow them to make comparisons.

Human programmed to make comparisons with others when possible to do so, the perception of justice tend to arise when associated with the output of resource allocation (Söderlund & Colliander, 2015). Loyalty programs tend to

provoke unfair perception, as it allows comparisons of cross-customers. The principle of distributive justice suggests that the perception of justice arises when an individual compares an outcome (e.g. membership points) with the results received by the other party (Bahri-ammari, 2017). Once the perception of justice decreases, customers may feel less loyal, committed, and tied to the brand, which ultimately increases the switching intention to another provider (Shulga & Tanford, 2017). Demotion strategies for customers who close to the threshold may need to be considered to acquire positive customer evaluation.

Refers to the principle of distributive justice, the outcome of loyalty program members must be based on their inputs. Therefore, customers who have invested a large number of inputs (such as time, money, energy) should receive more than someone with less contributes (Bahri-ammari, 2017). Referring to this distributive justice principle, customers who close to the threshold (invested a large number of inputs) then demoted to a lower level allow not to start points from zeros, but from excess points from the minimum required points status after demotion, where in practice according to Bijmolt et al (2011) called a rollover strategy i.e. all points obtained above the minimum threshold at the end of the year can be moved to the status of the following year.

(For example, in an airline loyalty program, customer needs 5000 points to maintain the platinum status, but because at the end of the collection period, only possessed 4000 points. Then the status is demoted to the gold level were only required 3000 to reach the gold, through the difference of minimum of gold level

threshold and the accumulated points before, the customer will be at the gold level by starting at 1000 points (4000-3000 points) instead of starting points from the zeros again.

Preferred treatment for certain customers in a loyalty program is the ideal condition to enable fairness for customers (Bahri-ammari, 2017). However, perception of justice may be threatened when the status is given through a reward, not through accomplishment (Eggert, Steinhoff, & Garnefeld, 2015). Customers who close to the threshold may be given preferential treatment to obtain status through achievement rather than through endowed. Customers who close to the threshold also allow forgiven an additional time to collect the points and earn status through achievements.

Based on previous research conducted by Garnefeld et al (2018) showed that some of the potential benefits of announcing a particular promotion period and then extending the deadline. Under certain circumstances, the deadline extension offers the customer a second chance. If the promotion is extended, customers can still use promotional offers and purchase products at a special price. The extension of the sales promotion deadline may increase the customer's repurchase intention (Garnefeld et al., 2018), where repurchase refers to the commitment to selected products consistently in the future (Qian, Peiji, & Quanfu, 2011). However, the extension of the promotional period can only be made in a short time, due to the extension of the sales promotion deadline for a long time may be eliminated the appeal of promotional offers (Garnefeld et al., 2018).

Demotion strategy with additional point and additional time may be useful to higher

customer positive evaluation for demoted close to the threshold customers. However, the impact of demotion may also vary based on the customer's payment source, so it is also important to consider the effect of demotion to own money and other money (Ramaseshan et al., 2016). Own money is defined as those who have paid the money through their income, energy, time, effort, and involvement in the consumption of a service, thereby acquiring a certain status in HLP. On the other hand, customers with other money refer to those using the service but the service fee has been paid by another person (company) and thereby obtained a certain status in HLP. Based on psychological ownership theory, when customers consider any interference (demotion) of something he created with his investment then he will have a higher tendency to feel of losses. Negative effects on own money will weaken loyalty intention than other money because of the feeling of loss (Ramaseshan et al., 2016).

A large investment will result in greater psychological ownership towards the goal (Ramaseshan et al., 2016). Customers who close to reach the threshold may be interpreted as making a large investment and have a great sense of ownership over the status then the demotion effect may have led to a deeper sense of loss when close to reach the threshold.

Therefore through the manipulation of additional points (not starting from the zeros) and the additional time, this study tried to identify the demotion strategy that can be used for customers who close to the threshold for two of these customer groups to evaluate their loyalty intentions. Nevertheless, loyalty to the company and loyalty to a program differs conceptually

(Evanschitzky et al., 2012). It is possible that customers remain loyal in the program but not necessarily remain loyal to certain companies (Evanschitzky et al., 2012).

Concretely, (Evanschitzky et al., 2012) stated that program' loyalty is defined as having a positive attitude towards the benefits of the loyalty program, while the company's loyalty is interpreted as having a positive attitude towards the company. It needs to assess and manage both types of loyalty separately to better understand the customer. Thus, this research tries to identify effective demotion strategies (with additional points and the additional time) to demoted customers who close to the threshold based on the source of payment against the loyalty intention to the program and company.

LITERATURE REVIEW

Loyalty program and demotion

Customer retention offers significant gains compared to customer acquisition requiring five to ten times more expensive than customer retention (Egan, 2011), in an increasingly competitive business environment, companies and academics are expected to pay more attention to the loyalty program as it can help to customer retention (Hwang & Kwon, 2016). According to Bijmolt et al (2011), empirical findings demonstrate a positive effect of a loyalty program on customer retention and relationships by creating economic and psychological switching barriers. Economic barriers refer to monetary benefits (discounts and rewards). While the psychological barriers are created when members learn how to use loyalty programs, they become more efficient in the use of loyalty programs. This can increase

psychological barriers due to increased motivation and perceived efficacy.

One of loyalty program is the customer tier that groups customers into segments, usually according to the volume of their purchase or potential against the company. If members of the tier perform more transactions, they will rise to a higher status. Customers who exceed the threshold level are elevated to higher status and enjoy various forms of benefits (Henderson, Beck, & Palmatier, 2011). This can improve customer attitudes and behaviors by raising feelings as important and exclusive customers (Banik & Gao, 2018). However, HLP received criticism by decreasing customer status (Ramaseshan & Ouschan, 2017). Demotion in customer tier (HLP) affect the members' emotion (Banik et al., 2019), After demoted, customers lose exclusive benefits and preferential treatment related to their status and may experience negative emotions which damages customer relationship with the company (Hwang & Kwon, 2016). At the end, demotion will decrease loyalty intention (Wagner et al., 2009).

Payment source

Based on Ramaseshan et al (2016) payment source is taken from psychological theory ownership, where customer with own money is defined as those who have paid the money earned through their income, energy, time, effort, and involvement in the consumption of a service, thereby obtaining a certain status in HLP. On the other hand, customers with other money refer to those who have used the service but the service fee has been paid by another

person (company) and thereby obtained a certain status in HLP.

Psychological ownership is defined as the circumstance in which a person feels as if the target ownership or part of the target is theirs (Jussila, Tarkiainen, Sarstedt, & Hair, 2015). One reason why individuals feel to have something is due to the investment of themselves on the object (Ramaseshan et al., 2016). Thus, the more individuals invest themselves into targets, the stronger their psychological ownership for those targets (Ramaseshan et al., 2016), including points that have been earned close to the threshold may be referred to as a large investment.

In line with the theory of psychological ownership, customers who make purchases with their own money and earn status on the loyalty program feel they ' have ' that status because it has been achieved through their efforts (Ramaseshan et al., 2016). Otherwise, the person who obtained the status by purchasing the money paid by another person (company), the psychological ownership of the status on the loyalty program is lower or maybe nothing. This is because other money does not invest much of themselves to get a target (status on a loyalty program) (Ramaseshan et al., 2016). Thus, the negative effect of demotion will be stronger to own money due to the feeling of loss. So, the hypothesis is:

H1: (a) Program loyalty intention and (b) company loyalty intention on demotion strategy without an additional point will be lower on own money than other money customers.

However, customers with own money have a higher positive attitude than other money, including having a higher commitment

compared with other money because they feel have the status. Based on (Dyne & Pierce, 2004) a person has a positive attitude toward the target's ownership, then affect them to evaluate the object more positively when they have a sense of ownership towards the target, so the hypothesis is:

H2: (a) Program loyalty intention and (b) company loyalty intention on demotion with an additional point will be higher on own money than other money customers.

H3: (a) Program loyalty intention and (b) company loyalty intention on demotion with an additional time will be higher on own money than other money customers.

Additional point and own money

The notion of additional points derived from distributive justice. Distributive justice indicates that the perception of justice is generated when a person compares an outcome (such as membership points) to the outcome of another person (Bahri-ammari, 2017). People likely to make comparisons with others specifically seem identical to them (in this research fellow demoted customer) rather than making comparisons with all customers (Söderlund & Colliander, 2015). Distributive justice relates to the outcome of the services acquired, and the equality of inputs perceived relative to the outcome, from the perspective of the loyalty program, this refers to the distribution of reward and a fair benefit (Tanford, Hwang, & Baloglu, 2017). The perception of distributive justice is tended to arise because they are related to the consequences that are often highly visible i.e. the output of the allocation of resources (Söderlund & Colliander, 2015).

Demotion on a large investment to almost reach the threshold may also result in unfair to the distributive justice, as it makes the customer must accumulate points from the zero again just like other demoted customer that still far to the threshold. Refers to the principle of distributive justice, the outcome of loyalty program members must be based on their inputs. Therefore, customers who have invested a large number of inputs (such as time, money, energy) should receive more than someone who contributes only a less (Bahri-ammari, 2017). When customers feel that the benefits provided by the company are acceptable compared to investments such as prices, other expenses, and psychological efforts, then consumers feel a fair treatment that improves relationships with service providers (Bahri-ammari, 2017).

Because the demotion effect is higher on the customer with own money due to the sense of loss while other money may only have a small or no ownership (Ramaseshan et al., 2016), so this study more concentrates on the response from own money toward additional points. With the additional points in demoted customer with own money that close to the threshold, it is possible to minimize the loss because the investment is not completely lost and increase the positive evaluation of the program and the company because of what is obtained appropriate to the investments made before, so the hypothesis is:

H4: (a) Program loyalty intention and (b) company loyalty intention on own money customers will be higher in demoted with additional points compared to demoted without additional points.

Additional time and own money

Additional time is taken from the scarcity theory, which is the fundamental principle of economic theory (Garnefeld et al., 2018). Scarcity of the resource can be a barrier to economics. However, according to Gierl, et al (2008) scarcity can be one of the sales promotion methods, by making some products become limited or look limited. Garnefeld et al (2018) also mention that the scarcity of the product may be caused by the limitation of the number or the time.

Scarcity affects customer perceptions of the appeal of promotional offers. When buying rare offers, they believe they win something or do something special, which enhances their perception of the appeal of the offer (Garnefeld et al., 2018). Likewise, in the context of a loyalty program, without a deadline to reach the threshold of certain reward, the effect of pressure points seems to be disappearing, where pressure points mechanism is likely to encourage customers to increase their frequency or volume to get a reward (Bijmolt et al., 2011). Because of the scarcity effects, extension of sales promotion deadline reduces the perceived appeal of promotional offers, but under certain circumstances, the extension of sales promotion deadline can increase the customer's repurchase intention (Garnefeld et al., 2018). Thus, this research assume that customer can get the additional time to collect the point, but the extension of the deadline can only be done in a short time to not eliminate the appeal of promotion (Garnefeld et al., 2018).

Customers who experience the demotion may feel lost especially own money customers that invested their own money. The greater the investment made will result in a greater sense of ownership towards the goal (Ramaseshan et al., 2016). The large investments (close to the threshold) may also generate a sense of great ownership, so demoted own money customers that close to the threshold may cause a sense of loss more deeply because of the interference of the high investment. According to Garnefeld et al (2018) additional time can be made to provide the second chance to customers to use the offer. Although it is expected that additional points (H4a&b) can affect the loyalty intention, but with the additional time allows the customer to still enjoy the benefits of their status and yet feel lost and expected to have higher loyalty intention, so the hypothesis is:

H5: (a) Program loyalty intention and (b) company loyalty intention on own money customers will be higher on an additional time than demotion without additional points.

H6: (a) Program loyalty intention and (b) company loyalty intention on own money customers will be higher on an additional time than demotion with additional points.

RESEARCH METHOD

Research design

This research employs 2 (payment source: own money vs other money) × 3 (demotion strategy: without additional point vs with additional points vs with additional time) factorial designs between-subject for the experiment. For this experimental design, six printed schemes of the loyalty program were developed in total.

Stimulus materials and manipulations

Several stages of the pilot test were required to develop stimulus materials and manipulations.

Close to the threshold- this study aims to determine the percentage of points deemed close to reaching the predetermined threshold. To find the percentage, this study invited 16 marketing graduate students to rate how many percent of the accumulated points are considered tolerable to be rounded into full points, assuming the points have been collected are close to the threshold. Eventually, 80% is considered as the percentage of points that have been accumulated are deemed to have been close to achieving the specified threshold.

Demotion strategy selection- demotion without additional point use as a control, additional point depicted with 1000 points based on one of the biggest airlines in Indonesia needed 5000 points to maintain the platinum status and 3000 points to maintain the gold status. This research uses platinum status as a base because according to Ramaseshan & Ouschan (2017) loyalty intention is weaker for demoted high-status customers than demoted low-status customers because customers perceive a greater loss, threat, and injustice because they have made a bigger investment relative to lower-status customers. 80% points earned use as a close to the threshold, from 5000 points to maintain the platinum status, 4000 points are depicted as point close to the threshold (80% of 5000 points), then this research use 1000 points as an additional point that gets from difference point earned and the minimum point on gold status threshold (4000-3000).

Additional time gets from the rated given by the same 16 marketing graduate students about how

many additional months the period of collecting points is appropriate so that the loyalty program still looks attractive. Eventually, 2 and 3 months are the lengths of the most extended period that is deemed appropriate to be added to reach a predetermined threshold. It is known that the points needed to maintain platinum status are 5000 points in a year, which if averaged, 416 points must be collected every month. assume that customers who have accumulated 80% of all required points (4000 points) can be considered as close to the threshold. If referring to the average 416 points can be collected every month, then the remaining 1000 points (5000-4000) needed to reach the threshold can be collected in less than 3 months, so that the additional time for collecting points that can be used in this research is 2.5 months to make the period collecting points still looks appealing.

Payment source- this study aims to determine the percentage of money paid by customers that can be categorized as payment by own money or other money. To find the percentage, this study uses the 16 marketing graduate students to rate how many percentages of all payments made can be deemed that as a whole is paid with own money (other money). The result showed 80% of payments made with own money (own money) can be considered as a whole paid with own money, which confirms the (Ramaseshan et al., 2016) finding.

Subject and procedure

Experiments in this study is in the context of airlines' frequent-flier programs because HLP and customer segmentation are common practices in the airline industry to (Banik & Gao, 2018; Banik et al., 2019; Ramaseshan et

al., 2016; Berlo et al., 2014), therefore suitable for this study and also the similarities of loyalty programs between airlines help control for different loyalty program design effects (Voorhees, White, Mccall, & Randhawa, 2015). This research conducted an experimental scenario study with six scenarios. The six experimental groups are (1) demoted without additional point in own money (2) demoted with additional point in own money (3) additional time in own money, (4) demoted without additional point in other money(5) demoted with additional point in other money (6) demoted with additional time in other money. The experiment design is reflected in tabel 1.

Payment source	Demotion Strategies		
	Demoted without additional point	Demoted with additional point	Given additional time
<i>Own Money</i>	loyalty intention toward the program	loyalty intention toward the program	loyalty intention toward the program
	loyalty intention toward the company	loyalty intention toward the company	loyalty intention toward the company
<i>Other Money</i>	loyalty intention toward the program	loyalty intention toward the program	loyalty intention toward the program
	loyalty intention toward the company	loyalty intention toward the company	loyalty intention toward the company

Tabel 1. Experiment design

Scenario methods ask participants to imagine themselves in hypothetical roles, so they provide insights into people's psychological responses to hypothetical situations. At the beginning of the experiment, participants in all six experimental groups reviewed background information about this airline loyalty program consisting of 4 tiers of blue, silver, gold and platinum along with an explanation of the points required each level

from 1000 points to the silver level, 3000 points for gold and 5000 points to go up to the platinum level and the same points required to maintain the status in each periods. Own money (other money) participant is asked to imagine that in using the airline, more than 80% of airline travel transactions are paid by their money (the company).

Furthermore, all participants were asked to imagine that they had platinum status and needed 5000 points to maintain their status, but at the end of the period, they were only able to collect 4000 points and were demoted to gold status. participants with manipulation without additional points will be demoted to gold status and start collecting points from zero, just like other customers who are demoted with points far from the threshold. Then participants with additional points are asked to imagine that they will start the gold status with 1000 points because they still have excess points. Finally, participants with an additional collection period asked to imagine that the demotion was postponed and given an additional 2.5 months to reach 5000 points because they considered almost reached the threshold. Full descriptions of each scenario appear in Appendix A.

Measures. After presenting the scenario, participants asked to rate their loyalty intention toward the program and the company on a 6-point Likert scale (1 = strongly disagree, 6 = strongly agree. This research adopted the measures from Evanschitzky et al (2012); all items appear in Appendix B.

Sample. Student in Magister Management at Universitas Indonesia solicited as participants, Our final sample included 218 participants; their average age was 26-30 years, 51% were men,

54% working in the private sector. Participants flying behavior was 44% fly 5 to 10 times a year, 55% fly for work purpose, with 92% domestic route; 50% use full-service airlines, 38% recently fly less than a month ago, and 47% participants have an airlines loyalty program.

Then we do an ANOVA to test that no difference from loyalty program participant and non-loyalty program participant. The ANOVA was confirmed that no difference effect cause by member or non-member for program loyalty intention ($M_{\text{member}}=4.31$, $M_{\text{non member}}=4.31$; $F(3.04)=0.001$, not significant) and company loyalty intention ($M_{\text{member}}=4.45$, $M_{\text{non member}}=4.50$; $F(3.04)=0.293$, not significant). So, it can assure that no effect from members or not.

Manipulation check

Payment source was tested based on Ramaseshan et al (2016) with ('80% of all flights with these airlines are paid with my own money (paid by company)'). The effectiveness of the own money and other money manipulation was confirmed by an analysis of variance (ANOVA) of the composite score of the two items ($M_{\text{own money}}=4.71$, $M_{\text{other money}}=5.13$; $F(3.04)=22.676$, $p<0.05$). The additional point manipulation was modify from distributive justice (Bahri-ammari, 2017) and tested with four items ('This airline shows great effort to give me what I deserve', 'the results of the loyalty program I received from this airline were quite fair', 'the results I obtained are equally good and fair compared to other customers', and 'the results I received make more sense'). The responses to these items reflect a sufficient level of the employed manipulations ($M_{\text{additional point}}$

$\text{manipulation}=4.74$, $SD=0.43$). The additional time manipulation was modified from (Garnefeld et al., 2018) and tested with ('My loyalty program period didn't end as it should'). The responses to this item reflect a sufficient level of the employed manipulations ($M_{\text{additional time manipulation}}=4.83$, $SD=0.68$). All items were measured on a six-point scale ranging from 'absolutely disagree' (1) to 'absolutely agree' (6).

We conducted a confirmatory factor analysis using SPSS 24. We assessed validity by examining the factor loadings of the measures on their respective constructs; both program loyalty intention and company loyalty intention all loadings were higher than .50. In terms of reliability, program loyalty intention and company loyalty intention variables exceeded the desired cut-off value of .6; the reliability value for program loyalty intention was .80, and the reliability value for company loyalty intention was .75 which we deemed acceptable.

Result

a 2x3 two way (ANOVA) is conducted to test the relationships of the manipulated variables demotion strategy and payment source on program loyalty intention and company loyalty intention. The ANOVA results indicate that significant effect of demotion strategy to program loyalty intention ($F(3.04)=6.95$, $p<0.05$), and the company loyalty intention ($F(3.04)=3.66$, $p<0.05$). In contrast, payment source has no significant effect on program loyalty intention ($F(3.04)=2.43$, not significant), and company loyalty intention ($F(3.04)=2.55$, not significant). Two way ANOVA also indicates that no interaction effect of demotion strategy and payment source on program loyalty intention ($F(3.04)=1.51$, not

significant), and company loyalty intention ($F(3.04) = 1.26$, not significant).

Furthermore, a series of one-way ANOVA was conducted in each dependent variable. One way ANOVA result indicate a significant difference of demotion strategy toward program loyalty intention on own money group ($F(3.04) = 5.24$, $p < 0.05$). Post hoc test indicate demotion strategy with additional points get higher program loyalty intention than demotion strategy without additional point on own money group ($M_{\text{additional point}} = 4.39$, $M_{\text{without additional point}} = 3.98$; $p < 0.05$), demoted customer with additional time also get stronger program loyalty intention to compare to demotion strategy without additional point ($M_{\text{additional time}} = 4.37$, $M_{\text{without additional point}} = 3.98$; $p < 0.05$). However, there's no different program loyalty intention on demotion strategy with additional time and point ($M_{\text{additional time}} = 4.37$, $M_{\text{additional point}} = 4.39$; not significant). This finding support H4 a and H5 a, but not support H6 a. In contrast, one way ANOVA test showed no significant difference in program loyalty intention on other money group ($F(3.04) = 3.02$, not significant). The means comparison is reflected in figure 1.

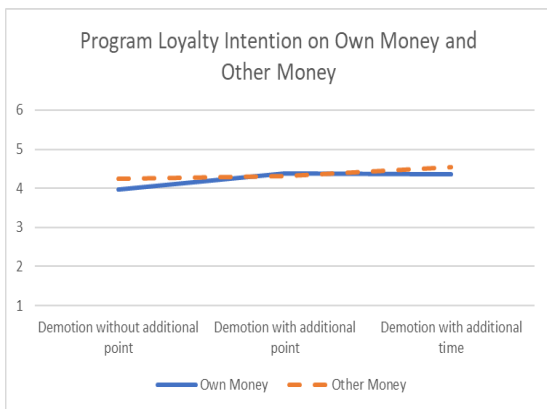


Figure 1. Program Loyalty Intention

The ANOVA also showed a significant effect of demotion strategy to company loyalty intention

on own money group ($F(3.04) = 4.67$, $p < 0.05$). Nonetheless, post hoc test indicate no difference between demotion strategy with additional points and demotion strategy without additional point to company loyalty intention on own money group ($M_{\text{additional point}} = 4.41$, $M_{\text{without additional point}} = 4.22$; not significant), while demoted customer with additional time get stronger company loyalty intention compare to demotion strategy without additional point ($M_{\text{additional time}} = 4.62$, $M_{\text{without additional point}} = 4.22$; $p < 0.05$). However, post hoc tests also indicate no different company loyalty intention on demotion strategy with additional time and point ($M_{\text{additional time}} = 4.62$, $M_{\text{additional point}} = 4.41$; not significant). This finding support H5 b, but not support H4 b and H6 b. In contrast, one way ANOVA test showed no significant difference in company loyalty intention on other money group money ($F(3.04) = 0.30$, not significant). The comparison means is reflected in figure 2.

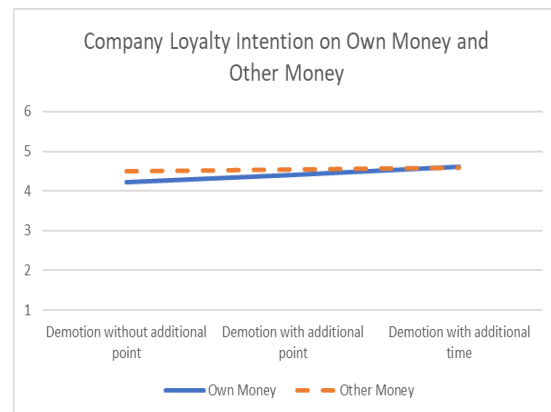


Figure 2. Company Loyalty Intention

Subsequently, an independent t-test was conduct to see the difference of program loyalty intention on own money and other money on demotion strategy without an additional point. The result showed that own money has lower program loyalty intention than other money on demotion strategy without an additional point ($M_{\text{own money}}$

=3.98, $M_{\text{other money}} = 4.22$ ($t(1.65) = 1.79$, $p < 0.05$). However, independent t-test showed no difference company loyalty intention of own money and other money on demotion without additional points ($M_{\text{own money}} = 4.24$, $M_{\text{other money}} = 4.49$ ($t(1.65) = 2.02$, not significant). So, its supported hypothesis 1a, but not supported H1 b.

Independent t-test also showed that no difference program loyalty intention on own money and other money on demotion strategy with additional points ($M_{\text{own money}} = 4.39$, $M_{\text{other money}} = 4.41$ ($t(1.65) = 0.46$, not significant), as well as company loyalty intention ($M_{\text{own money}} = 3.98$, $M_{\text{other money}} = 4.22$ ($t(1.65) = 0.88$, not significant). So, it's not supported H2 a and b. On demotion strategy with additional time, independent t-test also showed no difference of program loyalty intention on own money and other money ($M_{\text{own money}} = 4.37$, $M_{\text{other money}} = 4.55$ ($t(1.65) = 1.44$, not significant), as well as company loyalty intention ($M_{\text{own money}} = 4.62$, $M_{\text{other money}} = 4.59$ ($t(1.65) = 0.21$, not significant). So, it's not supported H3 a and b.

Discussion

The results of this study supported Ramaseshan et al (2016) where demotion effect would result in a lower customer's evaluation on own money due to the negative impact of the loss, and that significant proved with program loyalty intention lower on own money customer than other money on demotion strategy without additional points. So, its support H1 a. However, there's no difference in company loyalty intention between own money and other money customers on demotion without additional point due to loyalty to the company based primarily on the perception of quality of relationships that

customers have with a company consisting of trust, satisfaction, and commitment compared with the economic benefits gained from the loyalty program (Evanschitzky et al., 2012).

This study found that a demotion strategy with additional points and with additional time strategy effect does not result in different program loyalty intentions and company loyalty intention between own money and other money. Despite customers who feel having an intangible target can trigger positive behavior like as own money customer who has a feeling because of the previous investments (Feuchtl & Kamleitner, 2009) do not produce different evaluations with other money. Maybe due to a rewarded behavior effect, wherein a positive boost through reward increases future customer behavior that leads to the reward (Bijmolt, Krafft, & Sese, 2016), and possibly regardless of the source payments. So, its not support H2 & H3.

Furthermore, a demotion strategy with an additional point has higher program loyalty intention than strategy without an additional point on own money customers. When customers feel that the benefits provided by the company are acceptable compared with investments such as prices and other expenditures, the consumer will feel the perception of fairness and improves relationships with service providers (Bahriammari, 2017). So, its support H4 a. However, the demotion strategy with additional points has not been able to produce a more positive evaluation of company loyalty intention to demotion strategy without additional points because of loyalty to the companies based on the perception of overall relationship quality

(Evanschitzky et al., 2012). And not support H4 b.

The demotion strategy with additional time also indicates a higher program loyalty intention than strategy without an additional point. The direct effect of the additional promotional time lies in the assumption that the customer can still be benefiting the promotion offer during extended periods. So, in the context of own money, customers can be still benefitting their status. So, its support H5 a. However, the outcome of the demotion strategy with the additional time does not result in different company loyalty intentions to demotion strategy without additional points, probably because loyalty to the company is based on the perception of overall relationship quality (Evanschitzky et al., 2012). So, its not support H5 b.

This study also shows that demotion strategy the additional time does not result in a significant difference with the strategy of additional points both for loyalty to the program and the company, even in the strategy with additional time, customers still can benefit the promotional offers during the extended period (Garnefeld et al., 2018). This may be associated with a deadline extension is a signal of difficulty to accomplish that task, and also requires more resources beyond the ability. So, the increase to delays and possible abandonment of objectives Higher (Hock, 2018). So, its not support H6 a & b.

In other money, there is no significant difference in the implementation of the demotion strategy either the loyalty intention of the program or the

loyalty intention to the company, it may be related that the person who get the status with money paid by another person (company), the psychological ownership of the status on the loyalty program is lower or may not at all, because other money does not invest much of themselves to get the target (status on the loyalty program) (Ramaseshan et al., 2016), so it may not produce different evaluations on each of demotion strategy.

Conclusion

From the results and discussions, demotion strategy can higher program loyalty intention in the context of the payment source with own money. Meanwhile, in the company loyalty intention, there is no difference outcome of the implementation of a demotion strategy with additional points and additional time collecting points on own money. Because loyalty to the company is more emotionally motivated based primarily on the perception of the quality of relationships that customers have with a company consisting of trust, satisfaction, and commitment is not based on the outcome of the loyalty Program (Evanschitzky et al., 2012). In contrast to other money contexts, the implementation of the demotion strategy did not result in difference evaluation because the psychological ownership of the status on the loyalty program is lower or maybe nothing. This is because other money does not invest much of themselves to get a target (status on a loyalty program) (Ramaseshan et al., 2016).

MANAGERIAL IMPLICATIONS

Customers who have been in the highest status are heavy customer that have high loyalty

perception because they have been doing large investments during the period, to reduce the demotion effect for high-status customer and especially already close to the threshold need to be given additional points and additional time strategy to bring out the feeling of fairness to customers. However, it is also worth noting if the addition of time should do for too long because it can reduce the appeal of the loyalty program.

The service industry should also remain focused on the overall service quality, not only focus on the loyalty program to retain the customers ' because this study results known that demotion strategy is not a significant impact loyalty to the company. Also, companies that have a loyalty program should know the source of payment of customers by asking to include the dominant information of the source of the payment on the form of loyalty program, and by requesting members to update their information, or use mobile loyalty program apps to facilitate the process of collecting customer's payment source data.

LIMITATIONS AND FUTURE RESEARCH

Further research can use the context of loyalty programs in different industries such as hotels that have various forms of loyalty program to know whether there are differences in results gained. Further studies may focus on research samples that have used airline loyalty programs to have stronger external validity.

Appendix A: Background Information and Manipulations

You are a member of a loyalty program from a reputable airline in Indonesia, where you usually do flights both for personal and business

purposes. This airline's loyalty program has four tiers, blue as the lowest level, then silver, gold, and the highest tier is platinum. At each level, you will get more preferred treatment such as the ease of check-in and extra baggage quota, and more privileges for the higher level. To move up to a higher status, you can collect points through flights and also transactions with other providers that work together with the airline's loyalty program, where on average every flight gets 100 points.

The points needed to move up to silver status are 1000 points, then 3000 points for gold and to go up to platinum status it takes 5000 points. The same number of points also need to be collected each year to maintain your status.

Payment source manipulation (Own money and other money groups)

Then, imagine that 80% more of your all flights are paid with your own money (paid by the company).

Demotion strategy manipulation (Without additional points group only)

Furthermore, imagine you are already in platinum status and need 5000 points to remain in platinum status. However, its already the end of the points collection period and you only able to collect 4000 points. Even though you are close to the threshold but because you are not able to collect 5000 points, then you are downgraded to gold status and start collecting points from zero again, just like other customers who are downgraded to gold status, but with the level of collecting points that are still far from those determined.

Demotion strategy manipulation (With additional points group only)

Furthermore, imagine you are already in platinum status and need 5000 points to remain in platinum status. However, its already the end of the points collection period and you only able to collect 4000 points. Even though you are close to the threshold but because you are not able to collect 5000 points then you are downgraded to gold status and start collecting points from zero again, just like in airline's loyalty program in general, but because you almost reached the point threshold, this airline's loyalty program allow you not to start collecting points from zero anymore in the gold status. You will start from 1000 points in gold status because to reach gold only requires 3000 points, and you still have 1000 points that you have collected before (4000-3000).

Demotion strategy manipulation (With additional time group only)

Furthermore, imagine you are already in platinum status and need 5000 points to remain in platinum status. However, its already the end of the points collection period and you only able to collect 4000 points. Even though you are close to the threshold but because you do not reach 5000 points then you will be downgraded to gold status and start collecting points from zero again, just like in airline's loyalty program in general, but because you almost reached the point threshold, this airline's loyalty program gives you 2.5 months more to reach the predetermined points and remain in platinum status, with a note that for those 2.5 months it

has been calculated that you have run into the next period, so you still have the same current period as other customers, and if during those 2.5 months you still do not reach the points then you will be demoted to gold status and start collecting points from zero again.

Appendix B: Measurement

Construct	Item	Source
Program loyalty intention	I like this loyalty program compared to the loyalty program on airlines in general	(Evanschitzky et al., 2012).
	I would recommend this loyalty program to others.	
	I have a strong preference for this program loyalty.	
Company loyalty intention	I will be flying with this airline again.	(Evanschitzky et al., 2012).
	I will recommend this airline to friends and family.	
	This airline is my first choice when flying.	

Appendix C: Manipulation check

Manipulation	Item	Source
Payment source	80% of all flights with these airlines are paid for with my own money (paid by company).	(Ramaseshan et al., 2016)
Additional points	This airline shows a great effort to give me what I deserve.	(Bahri-ammari, 2017)
	The results of the loyalty program I received from this airline were quite fair.	
	The results and awards obtained are equally good and fair compared to other customers.	
	The results received make more sense.	
Additional collecting points period	My loyalty program period didn't end as it should.	(Garnefeld et al., 2018)

REFERENCES

Arunarsirakul, Angela. 10 Mei 2016. Membership and *Loyalty programs* – Survey Report

<https://blog.jakpat.net/membership-and-loyalty-programs-survey-report/>

Bahri-ammari, N. (2017). The effects of distributive, procedural, and interactional justice on customer retention: An empirical

- investigation in the mobile telecom industry in. *Journal of Retailing and Consumer Services*, 37(February), 89–100. <https://doi.org/10.1016/j.jretconser.2017.02.012>
- Banik, S., & Gao, Y. (2018). Status demotion in loyalty programmes: the role of perceived unfairness. *Service Industries Journal*, 0(0), 1–22. <https://doi.org/10.1080/02642069.2018.1477938>
- Banik, S., Gao, Y., & Rabbanee, F. K. (2019). Status demotion in hierarchical loyalty programs and its effects on switching : Identifying mediators and moderators in the Chinese context. *Journal of Business Research*, 96(January 2018), 125–134. <https://doi.org/10.1016/j.jbusres.2018.11.010>
- Berlo, G. Van, Bloemer, J., & Blazevic, V. (2014). *Customer demotion in hierarchical loyalty programmes*. (November), 37–41. <https://doi.org/10.1080/02642069.2014.915950>
- Bijmolt, T. H. A., Dorotic, M., & Verhoef, P. C. (2011). *Loyalty Programs : Generalizations on Their Adoption , Effectiveness and Design Matilda Dorotic and Peter C . Verhoef*. 5(4), 197–258. <https://doi.org/10.1561/17000000026>
- Bijmolt, T. H. A., Krafft, M., & Sese, F. J. (2016). *Multi-tier Loyalty Programs to Stimulate Customer Engagement*. <https://doi.org/10.1007/978-3-319-61985-9>
- Breugelmans, E., Bijmolt, T. H. A., Zhang, J., Mijnlief, W. J., & Wunderlich, N. V. (2014). *Advancing research on loyalty programs : a future research agenda*. <https://doi.org/10.1007/s11002-014-9311-4>
- Dyne, L. Van, & Pierce, J. L. (2004). *Psychological ownership and feelings of possession : three field studies predicting employee attitudes and organizational citizenship behavior*. 25(4), 439–459. <https://doi.org/10.1002/job.249>
- Egan, J. (2011). Relationship Marketing: Exploring Relational Strategies in Marketing. In *Interactive Marketing* (Vol. 3). <https://doi.org/10.1057/palgrave.im.4340142>
- Eggert, A., Steinhoff, L., & Garnefeld, I. (2015). *Managing the Bright and Dark Sides of Status Endowment in Hierarchical Loyalty Programs*. <https://doi.org/10.1177/1094670514566797>
- Evanschitzky, H., Ramaseshan, B., Woisetschläger, D. M., Richelsen, V., Blut, M., & Backhaus, C. (2012). Consequences of customer loyalty to the loyalty program and to the company. *Journal of the Academy of Marketing Science*, 40(5), 625–638. <https://doi.org/10.1007/s11747-011-0272-3>
- Feuchtl, S., & Kamleitner, B. (2009). *Mental ownership as important imagery content*. (January 2009).
- Garnefeld, I., Böhm, E., Klimke, L., Oestreich, A., & Oestreich, A. (2018). *I thought it was over , but now it is back : customer reactions to ex post time extensions of sales promotions*.
- Gierl, H., Plantsch, M., & Schweidler, J. (2008). *The International Review of Retail , Distribution and Consumer Research Scarcity effects on sales volume in retail*.

- (October 2014), 37–41.
<https://doi.org/10.1080/0959396070177807>
7
- Henderson, C. M., Beck, J. T., & Palmatier, R. W. (2011). Review of the theoretical underpinnings of loyalty programs. *Journal of Consumer Psychology, 21*(3), 256–276.
<https://doi.org/10.1016/j.jcps.2011.02.007>
- Hock, S. J. (2018). *The Mere Deadline Effect : Why More Time Might Sabotage Goal Pursuit*. (April), 1–55.
<https://doi.org/10.1093/jcr/ucy030/4962206>
- Hwang, I., & Kwon, H. (2016). Effects of demotion in loyalty programs on brand-switching intentions. *Service Business, 10*(3), 489–505.
<https://doi.org/10.1007/s11628-015-0279-9>
- Jussila, I., Tarkiainen, A., Sarstedt, M., & Hair, J. F. (2015). Individual psychological ownership: Concepts, evidence, and implications for research in marketing. *Journal of Marketing Theory and Practice, 23*(2), 121–139.
<https://doi.org/10.1080/10696679.2015.1002330>
- Qian, S. U., Peiji, S., & Quanfu, Y. E. (2011). *An Integrated Analysis Framework for Customer Value , Customer Satisfactory , Switching Barriers , Repurchase Intention and Attitudinal Loyalty : Evidences from China Mobile Data Services*. 5(3), 135–142.
<https://doi.org/10.3968/j.mse.1913035X20110503.120>
- Ramaseshan, B., & Ouschan, R. (2017). Investigating status demotion in hierarchical loyalty programs. *Journal of Services Marketing, 31*(6), 650–661.
<https://doi.org/10.1108/JSM-11-2016-0377>
- Ramaseshan, B., Stein, A., & Rabbanee, F. K. (2016). Status demotion in hierarchical loyalty programs : effects of payment source. *The Service Industries Journal, 2069*(October), 1–21.
<https://doi.org/10.1080/02642069.2016.1219721>
- Shulga, L., & Tanford, S. (2017). Measuring Perceptions of Fairness of Loyalty Program Members. *Journal of Hospitality Marketing & Management, 00*(00), 1–20.
<https://doi.org/10.1080/19368623.2017.1359724>
- Söderlund, M., & Colliander, J. (2015). Loyalty program rewards and their impact on perceived justice, customer satisfaction, and repatronize intentions. *Journal of Retailing and Consumer Services, 25*, 47–57.
<https://doi.org/10.1016/j.jretconser.2015.03.005>
- Tanford, S., Hwang, E., & Baloglu, S. (2017). Evaluation of Reward Programs Based on Member Preferences and Perceptions of Fairness. *Journal of Hospitality Marketing & Management, 00*(00), 1–21.
<https://doi.org/10.1080/19368623.2017.1329047>
- Voorhees, C. M., White, R. C., Mccall, M., & Randhawa, P. (2015). *Fool ' s Gold ? Assessing the Impact of the Value of Airline Loyalty Programs on Brand Equity Perceptions and Share of Wallet*.
<https://doi.org/10.1177/1938965514564213>
- Wagner, T., Hennig-thurau, T., & Rudolph, T. (2009). *Jeopardize Loyalty ?* 73(May), 69–85.