Four papers on the effect of non-economic customer club structures on club performance

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Certificate of Authorship/Originality

I certify that the work in this thesis has not been previously submitted for a degree nor has it been submitted as part of requirements for a degree except as fully acknowledged within the text.

I also certify that the thesis has been written by me. Any help that I have received in my research work and the preparation of the thesis itself has been acknowledged. In addition, I certify that all information sources and literature used are indicated in the thesis.

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Abstract

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Co-supervisor: Associate Professor Ian Lings

Organizations are increasingly developing customer clubs as part of their marketing strategy. Customer clubs such as airline frequent flyer programs, credit card loyalty programs, retail frequent purchase programs, and business-to-business channel programs are created to drive customer demand, shorten purchase cycles, achieve a higher share of wallet, introduce switching costs, and create sustainable customer loyalty.

Despite the purposeful design of these customer clubs, success is not guaranteed. Indeed, the literature is replete with examples of both customer club failures and customer club successes. The question arises as to what makes a successful customer club, where success is defined as meeting the objectives of the firm sponsoring the customer club. The proposition presented in this paper is that the structure of the customer club has a significant bearing upon its ability to meet the objectives of the sponsoring organization. In other words, there is a relationship between club structure and club performance.

The literature pertaining to customer club design suggests that customer clubs incorporate both 'hard' economic structures (that lead to economic benefits for club members) and

'soft' non-economic structures (leading to both non-economic benefits and indirectly to economic benefits) for club members. Economic structures, such as the accumulation of points or credits and discounts, can be easily matched by competitors and may result in discount wars yielding parity, eroding margins, and lowering profitability all around. Non-economic structures, such as member identification with the club, trust in the club, and the development of social networks within the club, may prove to be more difficult for competitors to replicate. The literature examining customer club performance has tended to concentrate on the impact of economic structures and how they drive club performance rather than examining the impact of non-economic structures.

The nature of non-economic club structures, I argue, relates to a social interaction, which is captured by concepts such as social capital, and social networks. Social capital, predicts that through levels of engagement within a network of relationships, individuals can gain access to resources otherwise unavailable. Social network theory focuses on the interdependence of actors in a network and how their positions in these networks influence their opportunities and constraints. Both theories are grounded in social interactions and thus provide a suitable context to identify possible non-economic club structures and their influence on customer club performance. Customer clubs are, however, constrained by their capabilities and by available resources. Thus, my conceptual model of club structure is couched within a dynamic capabilities framework, allowing the organization to identify and apply its competences and capabilities to create non-economic structures efficiently and effectively and respond to changing market circumstances.

In two separate studies involving customer club managers and customer club members, drawn from diverse geographical regions and industries, I test the conceptual model outlined above. The empirical results from both studies support the propositions that non-economic structures, drawn from concepts embedded in social capital and network theories, drive the consumption of a club's goods and services by club members, which in turn has a positive impact on customer club performance.

Feedback from customer club managers during the qualitative interviews indicated that a number of additional factors might have an impact on club performance. Specifically, a customer club's market orientation, a customer club's innovativeness in regards to its administration and to its products and services, product performance, and club member purchase involvement. I account for these factors by including them as control variables, and also for possible sources of systematic bias that could affect customer club performance.

My results suggest that firms operating customer clubs should allocate resources to building structural club capital in the form of networks among club members to create strong social bonds. Clubs should also encourage information sharing, which may create additional business and personal opportunities for club members, thus increasing the overall value proposition of the customer club. Building structural club capital may be operationalized in the form of club member networking functions and an online communication infrastructure that allows members to interact and share information. Further, a club should invest in building cognitive club capital by creating a sense of shared identity, creating a common language for the club that can be used frequently by the members and allocate resources that help build trust between the customer club and its members.

The findings and recommendations contained in this thesis provide a preliminary guide for customer club managers as to the types of non-economic structures that can be deployed in a customer club, that is not dependent upon a single market, industry type or customer segment. Perhaps the careful consideration of the guidelines presented will assist in a customer club achieving its stated performance objectives.

Kind words can be short and easy to speak
but their echoes are truly endless.

Mother Teresa

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