

# Dimensions of Customer Loyalty

## Separating Friends from Well Wishers

Marketers who are interested in determining whether their frequent guests are truly loyal must assess both their guests' attitudes and their actions.

BY SEYHMUS BALOGLU

Frequent-guest programs, also known as customer-loyalty programs, have become popular, particularly in hospitality businesses. Because the majority of frequency or loyalty programs simply reward repeated purchases, or "behavioral loyalty," the effectiveness of loyalty programs is often gauged only by the level of repeated patronage.<sup>1</sup> Repeated purchases, however, do not necessarily indicate true loyalty in this circumstance. Instead, it's possible that customers may repeatedly purchase a product or service, or exhibit "behavioral loyalty," for reasons other than an attitudinal commitment to the brand or company. In the case of frequency programs, customers may be loyal to the program (until they

receive their desired incentive) rather than to the brand.<sup>2</sup> Because of that possibility, several authors have suggested that "real" loyalty programs should not only focus on repeat patronage, but also on attitudinal loyalty.<sup>3</sup>

<sup>1</sup> B. Sharp and A. Sharp, "Loyalty Programs and Their Impact on Repeat-purchase Loyalty Patterns," *International Journal of Research in Marketing*, Vol. 14 (1997), pp. 473-486.

<sup>2</sup> D. Bejou and A. Palmer, "Service Failure and Loyalty: An Exploratory Empirical Study of Airline Customers," *Journal of Services Marketing*, Vol. 12, No. 1 (1998), pp. 7-22.

<sup>3</sup> For example, see: A.S. Dick and K. Basu, "Customer Loyalty: Toward an Integrated Conceptual Framework," *Journal of the Academy of Marketing Science*, Vol. 22, No. 2 (Spring 1994), pp. 99-113; R.J. Javalgi and C.R. Moberg, "Service Loyalty: Implications for Service Providers," *Journal of Services Marketing*, Vol. 11, No. 3 (1997), pp. 165-179; R. Dowling and M. Uncles, "Do Customer Loyalty Programs Really Work?," *Sloan Management Review*, Vol. 38, No. 4 (Summer 1997), pp. 71-82; S. Shoemaker and R. C. Lewis, "Customer Loyalty: The Future of Hospitality Marketing," *International Journal of Hospitality Management*, Vol. 18 (1999), pp. 345-370; and Anna S. Mattila, "Emotional Bonding and Restaurant Loyalty," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 42, No. 6 (December 2001), pp. 73-79.

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**EXHIBIT 1**

## Loyalty typology based on attitude and behavior

		<b>Attitude</b>	
		Low	High
<b>Behavior</b>	High	<b>Spurious Loyalty</b>	<b>True Loyalty</b>
	Low	<b>Low Loyalty</b>	<b>Latent Loyalty</b>

Sources: S. J. Backman and J. L. Crompton, "Differentiating among High, Spurious, Latent, and Low Loyalty Participants in Two Leisure Activities," *Journal of Park and Recreation Administration*, Vol. 9, No. 2 (1991), pp. 1-17; A. S. Dick and K. Basu, "Customer Loyalty: Toward an Integrated Conceptual Framework," *Journal of the Academy of Marketing Science*, Vol. 22, No. 2 (1994), pp. 101-102; and M. P. Pritchard and D. R. Howard, "The Loyal Traveler: Examining a Typology of Service Patronage," *Journal of Travel Research*, Vol. 35, No. 4 (1997), pp. 2-10.

As a preliminary step for developing true brand loyalty, marketers should determine the nature of their frequent guests' loyalty. In this regard, the question for hospitality operators who offer frequency programs is, why do frequent-guest-program members repeatedly patronize your company? That is, are loyalty-program members truly loyal to your company or brand, or do they merely appear to be loyal as they seek to gain premiums or benefits? This article provides insights into these questions by examining the attitudinal and behavioral loyalty of members of a casino's frequent-player program, known as a "slot club." I attempt to (1) distinguish between truly loyal customers and those who merely appear to be loyal, and (2) examine the antecedents and consequences of different types of loyalty. I demonstrate that examining both forms of loyalty—behavioral and attitudinal—can be an effective assessment tool to identify your truly loyal customers and to customize your loyalty-building strategies for customers who are truly loyal and for those who merely show behavioral loyalty.

### Four Loyalty Levels

Exhibit 1 shows four loyalty archetypes based on the cross-classification of attitudinal and behavioral loyalty levels: high (true) loyalty, latent loyalty, spurious loyalty, and low (or no) loyalty.<sup>4</sup> Customers with high or true loyalty are characterized by a strong attitudinal attachment and high repeat patronage. They almost always patronize a particular company or brand and are least vulnerable to competitive offerings.

Those with latent loyalty exhibit low patronage levels, although they hold a strong attitudinal commitment to the company. Their low patronage may occur because they do not have sufficient resources to increase their patronage or because the company's price, accessibility, or distribution strategy may not encourage them to become repeat customers.

Customers with spurious or artificial loyalty make frequent purchases, even though they are

<sup>4</sup> See: S.J. Backman and J.L. Crompton, "Differentiating among High, Spurious, Latent, and Low Loyalty Participants in Two Leisure Activities," *Journal of Park and Recreation Administration*, Vol. 9, No. 2 (Summer 1991), pp. 1-17; and Dick and Basu, pp. 101-102.

not emotionally attached to the brand. (They may even dislike it even though they continue to make purchases.) The high patronage levels of spuriously loyal customers can be explained by factors such as habitual buying, financial incentives, convenience, and lack of alternatives, as well as factors relating to the individual customer's situation.

Finally, the low-loyalty group exhibits weak or low levels of both attitudinal attachment and repeat patronage. Spurious and low-loyalty groups are highly volatile and susceptible to incursions from competitors.<sup>5</sup>

### Examining Both Attitude and Behavior

The rationale behind assessing loyalty on two dimensions (behavior and attitude) is both conceptual and practical. Some studies have demonstrated that customer loyalty is a multi-dimensional concept involving both behavioral elements (repeat purchases) and attitudinal elements (commitment). Researchers who have studied the two-dimensional approach suggested that focusing on behavior alone (i.e., repeat purchases) cannot capture the reasons behind the purchases. That is, by studying behavior alone, one doesn't know whether the repeat purchases stem merely from, say, convenience or monetary incentives, or whether the customer really maintains attitudinal loyalty. In the same vein, studying attitude alone cannot tell us much about competitive effects (e.g., multi-brand or shared loyalty), familiarity, and situational factors.<sup>6</sup>

<sup>5</sup> See: L.P. Jarvis and E.J. Mayo, "Winning the Market-Share Game," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 27, No. 3 (November 1986), pp. 73-79; and M.P. Pritchard and D.R. Howard, "The Loyal Traveler: Examining a Typology of Service Patronage," *Journal of Travel Research*, Vol. 35, No. 4 (May 1997), pp. 2-10.

<sup>6</sup> See: G.S. Day, "A Two-dimensional Concept of Brand Loyalty," *Journal of Advertising Research*, Vol. 9, No. 3 (September 1969), pp. 29-35; Jarvis and Mayo, pp. 73-79; S.W. Selin, D.R. Howard, E. Udd, and T. Cable, "An Analysis of Consumer Loyalty to Municipal Recreation Programs," *Leisure Sciences*, Vol. 10, No. 3 (1988), pp. 217-223; M.P. Pritchard, D.R. Howard, and M.E. Havitz, "Loyalty Measurement: A Critical Examination and Theoretical Extensions," *Leisure Sciences*, Vol. 14 (1992), pp. 155-164; Pritchard and Howard, pp. 2-10; and Dick and Basu, pp. 99-113.

As suggested by Jarvis and Mayo, the two-dimensional loyalty approach can help to identify loyalty segments and suggest marketing strategies to reach those segments.<sup>7</sup> Some other authors have suggested that segmenting customers based on loyalty attributes offers managers valuable clues for customizing loyalty-building strategies to each segment.<sup>8</sup>

Customers with spurious or artificial loyalty make frequent purchases, even though they are not emotionally attached to the brand.

Bendapudi and Berry categorized customers' motivations for maintaining relationships with service providers into two groups: constraint-based (they "have" to stay in the relationship) and dedication-based (they "want" to stay in the relationship).<sup>9</sup> The authors proposed that both sets of motivations should be considered to better understand customer-relationship behavior. The constraint-based (or dependency) relationship is based chiefly on economics, including such matters as switching cost. The dedication-based relationship, on the other hand, is based on a psychological perspective (e.g., trust and affective commitment). Bendapudi and Berry suggested that these two distinct but interrelated relationships would lead to different relationship outcomes (as does Anna Mattila, in her report in the previous issue of *Cornell Quarterly*).<sup>10</sup> For example, they thought that a dedication-based relationship would result in cooperation (working together) and favorable recommendations (advocacy). I demonstrate in this paper that the cross-classification of attitudinal and behavioral loyalty provides an effective managerial and mar-

<sup>7</sup> Jarvis and Mayo, pp. 73-79

<sup>8</sup> For example, see: C.K. Yim and P.K. Kannan, "Consumer Behavioral Loyalty: A Segmentation Model and Analysis," *Journal of Business Research*, Vol. 44, No. 2 (February 1999), pp. 75-92.

<sup>9</sup> N. Bendapudi and L.L. Berry, "Customers' Motivations for Maintaining Relationships with Service Providers," *Journal of Retailing*, Vol. 73, No. 1 (Spring 1997), pp. 15-37.

<sup>10</sup> Mattila, *op. cit.*

keting tool for identifying both dedication-based and constraint-based motivations behind loyalty.

### Key Measures of Loyalty

In this section, I explain the measurements of behavior and attitude that I used in my study to assess customers' loyalty.

**Behavioral variables.** The behavioral measures that I employed are proportion of a given visit spent in one casino (as compared to others) and time spent in the casino. I used a "proportion of visit" measure, which is a ratio of the number of visits to the casino to which players feel loyal as a function of the number of visits to casinos in general.<sup>11</sup> Thus, this is a measure of comparative purchase frequency for all brands in the same product category. Most previous studies have used a straight measure of purchase or visit frequency to measure repeat patronage, but it makes more sense to me to examine purchases for one brand in relation to the others.<sup>12</sup> The other measure, time spent in casino, is important to casino management, because the amount spent on gaming generally increases with time spent in the casino, notwithstanding any measurement of loyalty.

To gauge customers' loyalty-related intentions, I measured cooperation and word-of-mouth recommendations, also called "voluntary partnership," which are often suggested as behavioral outcomes of loyalty.<sup>13</sup> Cooperation has been defined as working together to achieve mutual goals and also as a customer's willingness to help the company. Word-of-mouth recommendations include promoting the company, making positive comments, and business referrals.<sup>14</sup>

**Attitudinal variables.** The attitudinal measures of loyalty include trust, emotional attachment or commitment, and switching cost. Several authors have cited emotional or psychological attachment to a product or brand as a key element in developing and maintaining customer loyalty.<sup>15</sup> Emotional attachment or commitment has been defined as liking the partner, enjoying the partnership, and having a sense of belonging to the company.<sup>16</sup>

Many recent studies have focused on the connection between loyalty and trust, defined in this case as containing elements such as honesty (fulfilling promises), competence, benevolence, reliability, and customer orientation.<sup>17</sup> The "commitment-trust" theory put forth by Morgan and Hunt, for instance, proposed commitment and trust as key constructs of relationship marketing. They defined trust as one's confidence in an exchange partner's reliability and integrity. Along that line, the conceptual framework suggested by Hennig-Thurau and Klee proposed trust and commitment (or attachment) as part of relationship quality. Those two authors, following Moorman, Zaltman, and Deshpande, defined trust as the willingness to rely on an exchange partner in whom one has confidence.<sup>18</sup>

<sup>11</sup> See: Selin *et al.*, pp. 210–233; Pritchard, Howard, and Havitz, pp. 155–164; and Pritchard and Havitz, pp. 2–10.

<sup>12</sup> For previous studies, see: Jarvis and Mayo, pp. 73–79; and Sharp and Sharp, pp. 473–486.

<sup>13</sup> See: R. Morgan and S.D. Hunt, "The Commitment-Trust Theory of Relationship Marketing," *Journal of Marketing*, Vol. 58, No. 3 (July 1994), pp. 20–38; J.T. Bowen and S. Shoemaker, "Loyalty: A Strategic Commitment," *Cornell Hotel and Restaurant Administration Quarterly*, Vol. 39, No. 1 (February 1998), pp. 12–25; and Bendapudi and Berry, pp. 15–37.

<sup>14</sup> See: J.C. Anderson and J.A. Narus, "A Model of Distributor Firm and Manufacturer Firm Working Partnerships," *Journal of Marketing*, Vol. 54 (January 1990), pp. 42–58; Bowen and Shoemaker, p. 17; and Bendapudi and Berry, pp. 15–37.

<sup>15</sup> For example, see: Dick and Basu, pp. 99–113; I. Geyskens, J.E.M. Steenkamp, L.K. Scheer, and N. Kumar, "The Effects of Trust and Interdependence on Relationship Commitment: A Trans-Atlantic Study," *International Journal of Research in Marketing*, Vol. 13, No. 4 (October 1996), pp. 303–317; and Bendapudi and Berry, pp. 15–37.

<sup>16</sup> S.J. Jaros, J.M. Jermier, J.W. Koehler, and T. Sincich, "Effects of Continuance, Affective, and Moral Commitment on the Withdrawal Process: An Evaluation of Eight Structural Equation Models," *Academy of Management Journal*, Vol. 36, No. 5 (October 1993), pp. 951–995; and Geyskens *et al.*, pp. 303–317.

<sup>17</sup> See: J.E. Swan, I.F. Trawick, D.R. Rink, and J.J. Roberts, "Measuring Dimensions of Purchaser Trust of Industrial Salespeople," *Journal of Personal Selling & Sales Management*, Vol. 8, No. 1 (May 1988), pp. 1–9; Morgan and Hunt, pp. 20–38; and Anderson and Narus, pp. 42–58.

<sup>18</sup> See: T. Hennig-Thurau and A. Klee, "The Impact of Customer Satisfaction and Relationship Quality on Customer Retention: A Critical Reassessment and Model Development," *Psychology & Marketing*, Vol. 14, No. 8 (December 1997), pp. 737–764; and C. Moorman, G. Zaltman, and R. Deshpande, "Relationships between Providers and Users of Market Research: The Dynamics of Trust within and between Organizations," *Journal of Marketing Research*, Vol. 29, No. 3 (August 1992), pp. 314–328.

**Antecedents and consequences.** Bowen and Shoemaker investigated antecedents and consequences of commitment and trust in service relationships, as applied to the relationship between luxury hotels and their guests. Their model consisted of key attitudinal variables such as trust, switching cost, and commitment, plus behavioral-outcome variables such as product or service use and voluntary partnership (a combination of cooperation and word-of-mouth). Those authors defined switching cost as the time, effort, and expense associated with switching from one company to another.<sup>19</sup>

The typical behavioral outcome of loyalty involves favorable word-of-mouth comments and cooperation,<sup>20</sup> as well as a reduced search effort for other products or services.<sup>21</sup> Cooperation has been defined as working together to achieve mutual goals and customer willingness to help the company, while word-of-mouth involves promoting the company by making positive statements, recommendations, and referrals.<sup>22</sup>

### Slot-club Loyalty

The population for this study included members of the slot club created by the gaming corporation that sponsored the study. The casino operator remains unnamed because the data were drawn from a consulting project for that company. The corporation is a publicly traded, multi-jurisdictional gaming company headquartered in Las Vegas. It owns and manages several properties that chiefly target local customers. The sample comprised 1,500 residents of the Las Vegas metropolitan area who visited one of the corporation's Las Vegas properties in the prior three months.

I developed the questionnaire for this study based on my literature review and input from the corporation's relationship-marketing department. After testing the questionnaire at one of

(text continues on page 53)

<sup>19</sup> Bowen and Shoemaker, p. 16.

<sup>20</sup> See: Morgan and Hunt, pp. 20–38; Bowen and Shoemaker, pp. 12–25; and Bendapudi and Berry, pp. 15–37.

<sup>21</sup> Dick and Basu, pp. 99–113.

<sup>22</sup> See: J. C. Anderson and J. A. Narus, "A Model of Distributor Firm and Manufacturer Firm Working Partnerships," *Journal of Marketing*, Vol. 54, January 1990, pp. 42–58; Bowen and Shoemaker, p. 17; and Bendapudi and Berry, pp. 15–37.

## EXHIBIT 2

### Questions used for multi-item constructs

#### Trust

- (1) I trust the management of this casino.
- (2) I am certain the service I receive from this casino will be consistent from visit to visit.
- (3) If I make a request at this casino, no matter how trivial that request might be, it gets taken care of.
- (4) If I ask management or an employee a question, I feel they will be truthful to me.
- (5) The communication I receive from this casino (letters, promotional material, advertising) is credible.
- (6) When employees at this casino say that they will do something, I am sure it will get done.

#### Psychological (Emotional) Commitment

- (1) I am "emotionally attached" to this casino.
- (2) I have a sense of belonging to this casino.
- (3) The friendliness of the staff in this casino makes me feel good.
- (4) I enjoy visiting this casino.
- (5) Although there are other casino alternatives, I still like going to this casino.

#### Switching Cost

- (1) The costs in time and effort of changing this casino to another one are high for me.
- (2) It would be very inconvenient for me to go to other casinos.

#### Word-of-Mouth

- (1) When the topic of casinos comes up in conversations, I would recommend this casino.
- (2) I take pride in telling other people about my experiences in this casino.
- (3) I tell other people positive things about this casino.

#### Cooperation

- (1) If I saw an idea that I liked at another casino, I would share this idea with this casino's management or employees.
- (2) I would allow my name and a positive comment I made about this casino to be used in an advertisement.
- (3) I am more likely to tell management or employees about problems that occur in this casino than other casinos.

*Note:* I presented the statements in random order on the questionnaire to avoid response bias and inflated reliability scores. Respondents rated the statements on a 7-point Likert-type scale, anchored by 1 (strongly disagree) and 7 (strongly agree), with a "don't know" option.

## SPSS Tests and Results

My data analysis for the accompanying article included several procedures available in SPSS Version 10.0. First, I applied Cronbach's alpha to assess the reliability of multi-item variables. Second, I conducted a cluster analysis on standardized scores of attitudinal and behavioral variables to identify the number of loyalty groups. The analysis used a hierarchical clustering procedure by employing Ward's method and squared Euclidean distance. Third, I applied multiple discriminant analysis (MDA) and multivariate analysis of variance (MANOVA) with a *post hoc* Scheffe test to determine the loyalty groups' classification (internal consistency) and type.<sup>1</sup> Fourth, to validate and profile the loyalty segments produced by cluster analysis, I tested the antecedents and consequences of loyalty variables that were not included in cluster analyses using one-way analysis of variance (ANOVA) with *post hoc* Scheffe tests. Finally, I applied a series of chi-square calculations to create a profile of the players' demographic and gaming preferences.

The reliability (Cronbach's alpha) scores ranged from 0.7242 to 0.8901 except for switching cost (0.6606). Before conducting cluster analysis, I standardized all variables to control for their different measurement scales. There were no outlying cases that would bias the results of the cluster analysis. A total

of 156 cases were qualified for cluster analysis because of listwise exclusion of missing data. The cluster analysis was set to compute solutions from two to four clusters, and an examination of group membership, group sizes, and dendrogram suggested a three-cluster solution.

The results of MANOVA used in conjunction with MDA revealed the distinctive characteristics of each cluster. Bartlett's test of sphericity (140.7 with 9 d.f.,  $p < 0.0001$ ) indicated that attitudinal and behavioral loyalty variables are correlated and, therefore, MANOVA is appropriate for the data analysis. The overall MANOVA tests of Pillai's, Hotelling's  $T^2$ , and Wilks's Lambda all were significant ( $p < 0.0001$ ), suggesting that mean vectors of three clusters are different. Given that the Scheffe multiple comparison is appropriate when error variances are equal across groups, I note that the standard deviations of variables across loyalty groups suggested that the assumption of the selected *post hoc* procedure was met.

### Reliability and Validity of Clusters (loyalty groups)

Multiple discriminant analysis (MDA) and MANOVA indicated that all variables contribute significantly to differentiating clusters ( $p < 0.0001$ ). The two discriminant functions produced by MDA, respectively explaining 54.3 percent and 45.7 percent of the total variability among the clusters, were significant at  $p < 0.0001$  (as shown in the numerical summary below).

The discriminant loadings and group centroids revealed that function 1 discriminated Cluster I from Clusters II and III. In this function, emotional commitment, trust, and time spent in the casino had the most discriminating power. Function 2, proportion of visit, differentiated Cluster II from Clusters I and III. The classification matrix showed that 90.5 percent of the respondents were correctly classified, indicating substantially high classification accuracy.

**Seeking validation.** Aldenderfer and Blashfield pointed out that although high classification accuracy is strong evidence of the internal consistency (reliability) of cluster solution, it does not indicate validity.<sup>2</sup> These authors suggested that a good approach to validating a clustering solution is to perform significance tests that compare clusters on some theoretically relevant criteria that are not used to generate the cluster solution. In this case, the characteristics of loyalty groups on the antecedents and consequences of loyalty variables were consistent with the theoretical profiles and, therefore, provided strong support for the validity of this solution. The summary results are shown at left.—S.B.

#### Summary results of multiple discriminant analysis (MDA)

	Discriminant loadings	
	Function 1	Function 2
Emotional commitment	.65*	.25
Trust	.45*	.31
Time	.53*	.27
Proportion of visit	.63	-.75*
	Group centroids	
	Function 1	Function 2
Cluster I	1.59	0.82
Cluster II	-0.27	-1.36
Cluster III	-1.99	1.42
Eigenvalue	1.80	1.52
Percentage of variance	54.3%	45.7%
Canonical correlation	.802	.776
Wilks's Lambda	.142	.397
Chi-square	341.0	161.1
Significance	.000	.000

#### Classification results

Actual group	No. of cases	Predicted group membership		
		I	II	III
Cluster I	62	58 93.5%	1 2.1%	3 0
Cluster II	78	4 4.8%	70 89.7%	4 1.5%
Cluster III	39	1 0	4 8.9%	34 87.2%

Percentage of "grouped" cases correctly classified (hit ratio): 90.5%

<sup>1</sup> The use of both techniques in combination is usually suggested because MANOVA tests the overall difference across groups whereas MDA provides the weights (discriminant loadings) of the combination of predictor variables that differentiate across groups. For a detailed discussion, see: B.G. Tabachnik and L.S. Fidell, *Using Multivariate Statistics*, third edition (New York: HarperCollins Publishers, 1996).

<sup>2</sup> As suggested by Aldenderfer and Blashfield, the classification accuracy, even when analysis and hold-out samples were used, is not a strong evidence of validity, particularly when the same variables were used in cluster and discriminant analysis. See: M.S. Aldenderfer and R.K. Blashfield, *Cluster Analysis* (Newbury Park: Sage Publications, 1984).

the corporation's properties for clarity, wording, and completion time, the final product was a four-page questionnaire divided into five parts. The first part of the questionnaire included questions on frequency of casino visits in general and a screening question to determine whether respondents had visited one of the company's local casinos in the previous three months. The second part asked the respondents to name one of the company's local casinos for which they had particular affinity, and tell about their gambling behavior with regard to the chosen casino. The third part sought information on attitudinal and self-reported behavioral constructs such as trust, switching behavior, word-of-mouth, and cooperation. The fourth part sought information on behavioral outcomes of loyalty related to revenue centers other than gambling (i.e., facilities and services), and the final part contained demographic questions.

The attitudinal and behavioral constructs, as shown on the previous page, were measured on a seven-point, Likert-type scale anchored by "strongly disagree" and "strongly agree," with a "don't know" option. The questionnaire contained several questions for each construct, presented in random sequence. In developing these constructs for measurement, I particularly relied on the work of Bowen and Shoemaker, as that study was applicable to a hotel-casino setting.<sup>23</sup> I used two questions to measure switching cost as an antecedent of loyalty. Two other questions measured antecedents of loyalty by assessing the respondents' relative experience with the casino (e.g., "This casino treats me better than other casinos"). I used several measures of consequences of loyalty (behavioral outcomes), in particular, word-of-mouth and cooperation. I took a mean of the responses to the questions for each construct to develop an overall score for that construct.<sup>24</sup>

To measure the use of collateral products and services I listed eight specific products and services, with an "other" option, and asked the respondents to indicate on a seven-point, Likert-type scale whether they spend the same amount

or more on each product at their chosen casino compared to other casinos. The list of ancillary products included a buffet, Italian restaurant, Mexican restaurant, steak restaurant, gift shops, coffee shops, special events, and movie theaters. The scale ranged from 1 (spend the same) to 7 (spend more), and the questions also permitted the answers of "don't know" and "service not available."

After sending out the questionnaires in December 1999, I received 314 questionnaires by the three-week cut-off deadline, for a 20.9-percent response rate. I had to discard 21 ques-

Loyal slot-club members had more trust and commitment to the casino than any other group.

tionnaires because of missing responses, making the response rate for usable questionnaires 19.5 percent. (Given the response, I saw no need for a follow-up mailing.) To check for nonresponse bias, I had the company compare its full slot-club-member profile to the survey respondents' demographic and preference profile. The two groups' demographic profiles are similar, but one must realize that the two may not be similar in terms of their attitudinal responses.

Data analysis included several components of SPSS Version 10.0, including cluster analysis, discriminant analysis, and multivariate analysis of variance. See the box at left for a list of descriptive statistical tests.

**Respondent profile.** The demographic profile of respondents showed that the majority are female, married, retired, and 55 years of age or older with a college degree. They visit casinos for a combination of monetary gain, pleasure, and entertainment, and they chiefly like to play video poker and the nickel or quarter slot machines.

### Identification of Loyalty Groups

As described in the box on the previous page, I applied cluster analysis to the respondents, and found three significantly different clusters. Cluster I was distinguished from Clusters II and III by a function comprising emotional attachment,

<sup>23</sup> Bowen and Shoemaker, pp. 12-25.

<sup>24</sup> The reliability scores (Cronbach's alpha) ranged from .6606 to .8901.

**EXHIBIT 3**

## Loyalty characteristics of three groups

	<b>Truly Loyal (Cluster I) (n = 62, 34%)</b>	<b>Spuriously Loyal (Cluster II) (n = 78, 44%)</b>	<b>Low Loyalty (Cluster III) (n = 39, 22%)</b>		
<b>Attitudinal variables</b>	Mean Scores and (Standard Deviations)			<b>F-ratio</b>	<b>Sig.</b>
Emotional commitment	6.2 (.72)a	4.3 (1.1)b	3.9 (1.2)b	76.3	.000*
Trust	6.1 (.92)a	4.4 (1.1)b	4.5 (1.3)b	44.9	.000*
<b>Behavioral variables</b>	Mean Scores and (Standard Deviations)				
Time spent (hours)	4.4 (.74)a	3.0 (.99)b	2.9 (.81)b	55.7	.000*
Proportion of visit	89% (18%)a	95% (11%)b	48% (17%)c	140.0	.000*
Weekly casino visits	3.26 (1.7)	3.15 (1.8)	3.75 (1.7)	1.8	.307
Weekly visits to casino to which players feel loyal	2.90 (1.6)a	3.0 (1.7)a	1.80 (.97)b	9.9	.000

**Notes:** Standard deviations are shown in parentheses next to the mean scores. The mean scores with different letters are significantly different from one another at  $p < 0.05$  or less. The total numbers of visits are included in this exhibit to show visit frequencies of the three loyalty groups, even though it does not significantly differentiate the groups. The proportion of visit is a percentage expressed from the number of visits to the casino to which players feel loyal divided by the number of visits to casinos in general.

trust, and time spent in the casino. The function including "proportion of visit" differentiated Cluster II from Clusters I and III. The classification matrix showed that 94.2 percent of the respondents were correctly classified, indicating substantially high classification accuracy. This is strong evidence of the internal consistency (reliability) of cluster solution.<sup>25</sup> As Exhibit 3 illustrates, all attitudinal and behavioral loyalty variables were significantly differentiating between clusters ( $p < 0.0001$ ).

Exhibit 4 shows the three distinct loyalty segments, when they were plotted by their average behavioral and attitudinal loyalty scores. The attitudinal-loyalty score for each segment was computed by averaging Z-scores (standardized scores) of emotional attachment and trust, while

the behavioral-loyalty score was computed by averaging Z-scores of proportion of visit and time spent in casino. Cluster I (34 percent of the sample) exhibited the characteristics of truly loyal customers, with high levels of attitudinal and behavioral loyalty. Cluster II (44 percent of the respondents) exhibited characteristics of artificially or spuriously loyal customers, with high levels of behavioral loyalty and neutral to low levels of attitudinal attachment. Finally, Cluster III (22 percent of the sample) showed the characteristics of low-loyalty customers, with relatively low scores on both attitudinal- and behavioral-loyalty variables. Missing in this analysis is the fourth theoretical group, those with latent loyalty.

### Attitudinal Characteristics

As Exhibit 3 shows, the truly loyal customers had more trust and emotional commitment to the casino than either of the other groups. Spuriously loyal customers exhibited neutral levels of trust and emotional commitment.

<sup>25</sup> As suggested by Aldenderfer and Blashfield, the classification accuracy, even when analysis and hold-out samples were used, is not strong evidence of validity, particularly when the same variables were used in cluster and discriminant analysis.



## Behavioral Characteristics

The behavioral-loyalty variables included proportion of visit and time spent in casino. One ironic finding is that truly loyal customers recorded a lower proportion of visit (89 percent) than did those who were spuriously loyal (95 percent). Both of those groups reported a higher proportion of visit than did low-loyalty customers (who averaged 48 percent). Although truly loyal customers' proportion of visit was statistically lower than that of the spuriously loyal group, both groups displayed a high level of behavioral loyalty to the casino brand. It should also be noted that both truly and spuriously loyal customers exhibited similar visit frequencies per week (with the truly loyal averaging 2.9 visits per week and the spuriously loyal 3.0 visits). Those were significantly more than the 1.8 mean for those of low loyalty. Overall, the truly loyal group averaged more hours per visit in the casino during each visit (4.4 hours) than did either the spuriously loyal (3.0 hours) or low-loyalty group (2.9 hours).

## Antecedents and Consequences of Loyalty

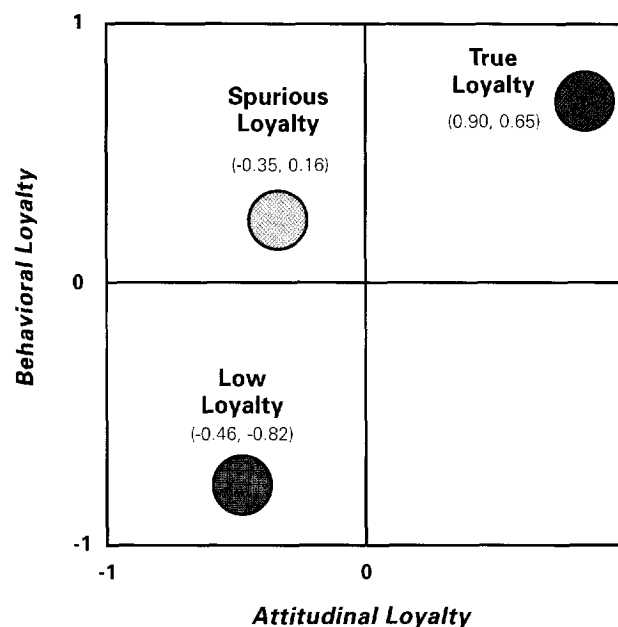
I compared the three loyalty groups on variables that are often mentioned in the literature as being either antecedents or consequences of loyalty. I used these variables not only to examine the reasons for and outcomes of their loyalty, but to validate the three loyalty groups I have identified.

**Antecedents.** As shown in Exhibit 5 (on the next page), the three loyalty groups were different in terms of their perceived switching cost. The perceived switching cost for the truly loyal players (score = 5.6) was significantly higher than the ratings given by the spuriously loyal (4.4) and low-loyalty groups (3.4). The truly loyal also had more positive relative experience and a greater overall relative image of the casino than the other two groups.

**Consequences.** Exhibit 6 (overleaf) compares the loyalty groups on the consequences of loyalty, such as word-of-mouth recommendations, cooperation, search behavior, and spending on ancillary services. The truly loyal players are more likely to spread positive word-of-mouth about casino (6.4) than are the spuriously loyal

### EXHIBIT 4

Loyalty segments based on attitude and behavior



**Note:** The attitudinal-loyalty score for each segment was computed by averaging Z-scores of emotional attachment, trust, and switching cost. The behavioral-loyalty score was computed by averaging Z-scores of proportion of visit, time, word-of-mouth, and cooperation (see Exhibit 2).

**EXHIBIT 5**

## Differences in antecedents of loyalty

	Truly Loyal ( <i>n</i> = 62, 34%)	Spuriously Loyal ( <i>n</i> = 78, 44%)	Low Loyalty ( <i>n</i> = 39, 22%)		
Factor	Mean Scores and (Standard Deviations)			F-ratio	Sig.
Switching cost <sup>1</sup>	5.6 (1.2) <i>a</i>	4.4 (1.4) <i>b</i>	3.4 (1.5) <i>c</i>	27.8	.000
Overall relative image <sup>2</sup>	5.7 (1.3) <i>a</i>	4.1 (1.8) <i>b</i>	3.7 (1.7) <i>b</i>	22.5	.000
Relative experience <sup>3</sup>	5.8 (1.4) <i>a</i>	3.8 (1.6) <i>b</i>	3.5 (1.5) <i>b</i>	37.4	.000

**Notes:** The mean scores with different letters are significantly different from one another at 0.05 or better probability level.

<sup>1</sup> Switching cost is measured by two items shown in Exhibit 2, anchored by 1 (strongly disagree) and 7 (strongly agree).

<sup>2</sup> Overall relative image was measured by responses on a scale anchored by 1 (about the same) to 7 (extremely better) to the following statement: "Compared to other local casinos, my overall impression of this casino is..."

<sup>3</sup> Relative experience was measured by responses on a scale anchored by 1 (strongly disagree) and 7 (strongly agree) to the following statement: "This casino treats me better than other casinos."

(4.6) and low-loyalty patrons (4.4). Likewise, the truly loyal are more likely to cooperate with the casino (5.8) than are the spuriously loyal (3.9) and low-loyalty groups (3.5). In terms of their search behavior, the truly loyal are less likely to search for an alternative casino than are members of the other two groups. Similarly, the truly loyal players spend more on coffee shops, buffet, and gift shops than do those in other loyalty groups. In addition, they also spend more in the steak restaurant than the spuriously loyal and more on special events than the low-loyalty group.

#### Gaming Preferences and Demographics

I found few significant differences among the groups' demographic characteristics (e.g., age, gender, education, marital status, income, and occupation) or their gaming preferences and characteristics. One difference was that the truly loyal players were more likely to be age 55 or above than were the members of the other groups ( $p < 0.05$ ). Another difference is that members of the spurious- and low-loyalty groups were less likely to play slot machines than the truly loyal.

**A necessary factor.** Behavioral loyalty is a necessary but not sufficient antecedent of true loyalty.

One can see this by comparing behavioral and attitudinal loyalty of the truly loyal and spuriously loyal players. Both of those groups demonstrated high behavioral loyalty to their chosen casino. Compared to the spuriously loyal players, however, the truly loyal patrons provided more benefits to the casino, which, I conclude, is an outcome of their stronger attitudinal loyalty. Truly loyal patrons spent more money on the casino's ancillary products and services and spent more time on each casino visit. These outcomes are critical to the casino's bottom line, given the casinos' age-old strategy of keeping customers on the premises, along with their newer diversification effort of promoting nongaming revenue centers.

Equally important, a high attitudinal loyalty will result in more positive word-of-mouth comments about the casino. In that regard, I found that 34 percent of the casino's slot-club members (i.e., the truly loyal) would promote the casino. In addition, the players with strong attitudinal loyalty are also less likely to search for other casinos, suggesting that they are resistant to competitive offerings. On the other hand, the spuriously loyal cannot be counted on for such support, despite their apparent loyalty.

A high attitudinal loyalty resulted in more positive word-of-mouth comments about the casino.

**EXHIBIT 6**

## Differences in consequences of loyalty

	Truly Loyal ( <i>n</i> = 62, 34%)	Spuriously Loyal ( <i>n</i> = 78, 44%)	Low Loyalty ( <i>n</i> = 39, 22%)		
Factor	Mean Scores and (Standard deviations)			F-ratio	Sig.
Word-of-mouth <sup>1</sup>	6.4 (1.83) <i>a</i>	4.6 (1.4) <b>b</b>	4.4 (1.5) <b>b</b>	46.2	.000
Cooperation <sup>1</sup>	5.8 (1.1) <i>a</i>	3.9 (1.6) <b>b</b>	3.5 (1.4) <b>b</b>	41.8	.000
Search for other casinos <sup>2</sup>	6.0 (1.3) <i>a</i>	4.4 (1.6) <b>b</b>	3.8 (1.8) <b>b</b>	28.6	.000
Ancillary services used <sup>3</sup>	Mean Scores and (Standard deviations)			F-ratio	Sig.
Buffet	5.3 (2.1) <i>a</i>	3.8 (2.2) <b>b</b>	3.5 (2.0) <b>b</b>	8.9	.000
Italian restaurant	4.2 (2.4)	3.4 (2.2)	3.6 (1.9)	.93	.398
Mexican restaurant	4.1 (2.5)	3.6 (1.9)	3.2 (1.7)	1.4	.255
Steak restaurant	5.0 (2.3) <i>a</i>	3.3 (1.8) <b>b</b>	3.9 (1.6) <i>a, b</i>	6.2	.003
Gift shops	4.8 (2.5) <i>a</i>	2.9 (1.9) <b>b</b>	2.7 (1.9) <b>b</b>	7.3	.001
Coffee shops	5.8 (1.7) <i>a</i>	4.3 (2.1) <b>b</b>	3.3 (1.7) <b>b</b>	17.1	.000
Special events	4.5 (2.1) <i>a</i>	4.1 (2.0) <i>a</i>	2.3 (1.3) <b>b</b>	6.9	.002
Movie theaters	4.7 (2.3)	4.0 (2.1)	3.3 (2.1)	2.5	.084

**Notes:** The mean scores with different letters are significantly different from one another at  $p < 0.05$  or less. So, for example, the truly loyal group is significantly different from the other two groups on the variables word-of-mouth, cooperation, and search for other casinos.

<sup>1</sup> Word-of-mouth and cooperation were measured by multiple items shown in Exhibit 2, on a scale anchored by 1 (strongly disagree) and 7 (strongly agree).

<sup>2</sup> Search for other casinos was measured by responses on a scale anchored by 1 (strongly disagree) and 7 (strongly agree) to the following statement: "I seldom search for other casino alternatives."

<sup>3</sup> Ancillary-services use was measured on a scale anchored by 1 (spend the same) and 7 (spend more).

## Distinguishing Characteristics

If managers understand the differences between attitudinal loyalty and behavioral loyalty, they should be able to distinguish those who are truly loyal to the brand from those who are loyal only to the frequency program or those who seem loyal only due to their convenience or because they lack an alternative. One distinction is that spuriously loyal players patronize the casino because of some constraint (unlike the true loyalty group who want to be there). The spuriously loyal may not see an alternative to their frequent patronage, or they may be visiting the casino because it is somehow convenient to them. Additionally, they may be loyal to the frequency program rather than to the brand.

Applying those first two reasons to this situation constitutes a stretch, given the many casinos in Las Vegas and the low switching barriers

(one usually can just walk next door). If the source of their spurious loyalty is, in fact, the frequency program, this may pose several threats to the casino. The spuriously loyal patrons may leave the casino once they collect the financial benefits they seek from the program. Moreover, they are vulnerable to better offers from competitors. Ironically, the loss of these "well wishers" would be damaging to the casino, because they constitute the slot club's largest segment—44 percent of total membership. This should urge casinos to articulate strategies and tactics to develop attitudinal loyalty.

## Creating Attitudinal Loyalty

The attitudinal loyalty in this study was measured by trust and emotional commitment. These constructs included such items as delivering consistent and friendly service, keeping the prom-

ises made in promotional materials (e.g., advertising and promotion), and taking care of players' trivial requests (refer back to Exhibit 2).

Casino managers should also focus on antecedents of loyalty. Building high switching barriers, for instance, can increase both behavioral and attitudinal loyalty. Casinos should strive to treat their customers better than their competitors do to enhance their patrons' experience and create a positive image of the casino relative to the competition. These all suggest that develop-

To gauge the nature of their customers' loyalty, managers should measure not only repeat patronage but commitment as well.

ing attitudinal loyalty also requires casino managers to focus on outperforming the competition.

Along this line, casino managers can use value-added strategies to augment the service-delivery system and outperform the competition.<sup>26</sup> The value-added strategies could involve personalized service and building social relationships at employee levels, providing special service extras and a pleasant service experience, and including warm messages in customer communications.

**Rewarding loyalty.** Certainly, the casino's frequency programs should reward attitudinal loyalty. Most such programs in Las Vegas reward behavioral loyalty, but the casinos should seek to reward their truly loyal customers. One hotel chain does this by inviting its top guests to "academy awards," where they are rewarded with "trophy" awards.<sup>27</sup> This type of tactic, coupled with enhancing the service-delivery system, would help develop and sustain attitudinal loyalty.

**Revisiting RFM.** The casinos should also change the current applications of database marketing that focus on recency, frequency, and monetary (RFM) gauges. My findings suggest that casinos cannot rely only on such behavioral data, since this might mislead casino management into

treating the truly loyal and spuriously loyal groups in the same fashion. The findings call into question the usefulness of the RFM approach, which relies entirely on behavioral data to formulate communications and rewards strategies. One other weakness of behavioral databases is that they lack proportion-of-visit or purchase information, and so they do not show how slot-club members' loyalties (not to mention time and money) are divided or shared among competitors.

**An effective tool.** My findings support the idea that making a distinction between behavioral and attitudinal loyalty is an effective segmentation and target-marketing tool. It provides casino managers with information to articulate strategies for building both behavioral and attitudinal loyalty and to target distinct loyalty segments. The loyalty typology can also serve as an assessment tool for frequency or loyalty programs. Casinos could regularly survey their members to track and compare the size of each loyalty segment over time. This analysis, including information about new members of the program, can also be useful to understand how members are shifting from one loyalty group to another.

### Counting on Commitment

Casino managers would do well to measure not only repeat patronage but commitment as well, so that they will understand the nature of their customers' loyalty. Casino management should focus on emotional attachment, trust (service reliability and delivering promises), and value-added service strategies to develop attitudinal loyalty. Such actions will help to build brand loyalty.

**Limitations.** The findings of this study should be viewed under some limitations. Although the demographic characteristics and gaming preferences of my respondents and the casino's slot-club profile were similar, the results may not be generalizable to all members of the slot club. Second, one should be careful in generalizing the proportion-of-visit behavior beyond the Las Vegas market.

**Questions.** This study raises more questions to investigate than it answers. For one thing, the literature suggests that there are four loyalty groups, but my study identified just three distinct segments—at least, among the members of

<sup>26</sup> See: Dowling and Uncles, pp. 71–82; and Shoemaker and Lewis, pp. 345–370.

<sup>27</sup> Shoemaker and Lewis, p. 351.

this casino's slot club. The study identifies true-, spurious-, and low-loyalty groups, but the questionnaire could not detect the presence of a cluster of latent loyalty (i.e., those with high favorable attitude, but low patronage). That may be because the sample was drawn from members of the frequency program, because of the survey's time limitation (the previous three months), or the nature of this casino or casinos generally. Future research can examine other frequency or loyalty programs in other product classes to further test the loyalty typology examined in this study.

An interesting future research area can involve efforts to determine an optimal proportion of different loyalty groups in a given affinity program. Certainly it's not possible to have 100-percent truly loyal customers; moreover, that might not be the most desirable outcome, since the spuriously loyal were actually more frequent customers (in this study at least). The relationship between profitability and percentage of loyalty segments would be worthwhile to investigate. This may require a longitudinal study or cross-sectional study if multiple companies could be used.

Finally, I believe that this study shows the value of measuring the time spent in a casino as a gauge of behavioral loyalty. Future research can incorporate this measure of loyalty for hotels and restaurants in the form of length of stay. ■



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