

How Sellers' Strategy Can Nudge Consumer Behavior: The Link Between Loyalty Programs and Customer Relationship Management

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DOI: 10.46609/IJSSER.2025.v10i10.038 URL: <https://doi.org/10.46609/IJSSER.2025.v10i10.038>

Received: 5 October 2025 / Accepted: 20 October 2025 / Published: 30 October 2025

Introduction

In today's competitive market, companies wishing to foster loyalty and achieve long term profitability need to pay attention to consumer behavior. Consumers today are active and selective. They want convenience and personalization, in addition to product quality and price. It is vital for sellers to develop strategies that conform to these changing definitions.

Loyalty programs can emerge as powerful tools to influence consumer decisions when integrated with customer relationship management (CRM) systems. Doing so will even help foster stronger connections between sellers and consumers. Modern loyalty programs are way beyond just simple rewards; They offer personalized experiences according to sellers preferences to enhance brand loyalty and customer retention.

This research examines how sellers' strategies, particularly loyalty programs and CRM, can nudge consumer behavior. It explores key psychological mechanisms such as the point pressure effect, which drives customers to accelerate purchases as they near a reward threshold, and the rewarded behavior effect, which reinforces loyalty through positive post redemption experiences. By combining theoretical insights with survey analysis this paper shows how well designed loyalty programs can enhance customer retention, strengthen brand attachment and even promote sustainable consumption practices by providing valuable guidance for optimizing modern marketing strategies.

Literature Review

Loyalty programs have been the focus of extensive research as types of organized marketing programs intended to reward repeated purchase behavior. Results of previous research have shown that loyalty programs yet facilitate stronger consumer attitudinal loyalty towards the brand, and improve overall satisfaction for the consumer. Retail reward programs foster high

consumer commitment according to Taylor & Neslin (2005), and this type of commitment can have a direct effect on the brand's future sales capacity. Kivetz, Urminsky, & Zheng (2006) take this a step further by applying the goal gradient hypothesis to loyalty programs, suggesting that members tend to purchase at quicker rates when nearing thresholds to redeem rewards. Liu (2007) finds evidence that loyalty programs can induce long-term purchase behaviors, and in doing so keep customers engaged by creating barriers to switch brands. Yi & Jeon (2003) establish the role of perceived value as a central idea for loyalty programs and point out that both program loyalty and brand loyalty depend on perceived value. Wang (2016) finds that accomplishing – or failing to accomplish – goals in loyalty programs has a significant effect on future participation. Gopalakrishnan (2019) argues simpler, non-tiered loyalty program structures may be a more effective way to sustain customer engagement. DellaVigna (2006) demonstrates that financial incentives can impact behavior in broader environmental examples, using gym attendance as a specific example. Reward redemption was emphasized by Dorotic (2014) as an integral part of program satisfaction and improving consumer loyalty. Stremersch & Tellis (2002) explored how pricing and bundling loyalty mechanisms influence loyalty outcomes. According to Vakratsas & Ambler (1999) promotions enhance consumer awareness and involvement, and hence, increase utility of thoughtfulness among consumers. Emerald (2022; 2024) says that aligning loyalty programs with consumer value-laden concerns, especially those tied to environmental sustainability, at times improves brand reputation and trust. Loyalty Programs: Big Data (n.d.) discuss how data analytics improves the personalization of programs in a more effective way. In general, the literature suggests loyalty programs thrive where a psychological motivator, redemption ease, and alignment with consumer value are possible.

Theory

Loyalty Programs Overview

Loyalty programs are formalized marketing programs that provide incentives to repeat customers and build longer-term relationships. There are generally three models:

Point-based (e.g., airline miles, hotel points).

Tiered models (e.g., silver, gold, platinum).

Subscription-based models (e.g., Amazon Prime).

All of these models leverage two important psychological effects on consumer behavior:

Point Pressure Effect

The point pressure effect describes the change in consumer behavior as you get close to redeeming a reward. This is related to the goal gradient theory (Hull, 1932) whereby the closer someone gets to achieving a goal, the more motivated they become. For example, a Delta SkyMiles member with 45,000 miles (with only 5,000 more needed for a free international flight) will generally choose to fly Delta, even if it means paying more than a non-loyalty alternative.

Rewarded Behavior Effect

The rewarded behavior effect describes what happens after a consumer redeems their points/rewards/to loyalty. The positive reinforcement of redeeming points creates a strengthened psychological bond to the brand which increases the chances of repeat engagement. For example, if the consumer in the previous sentence redeemed their 50,000 SkyMiles for a free flight, they are beginning to create the association that Delta is worth something and they will be loyal customers. However, research also cautions not to reward too frequently or too insignificant because the motivational power is diminished.

Mechanism Discussion

Goal Gradient Theory

Goal gradient theory, first articulated by Hull (1932), proposes that the closer you get to a goal, the more motivated you will be to achieve it. In loyalty programs, the "goal" is to reach a certain threshold for the point of redemption. Early on in the accrual stage, motivation is low, however as the consumer nears the goal, the motivation spike will cause quicker purchases. Once the goal has been reached, the customer experiences a momentarily dip in motivation, however this also resets for the next milestone.

Example

(Airline)

Delta SkyMiles

Enrollment: Free membership accruing miles on flights and partner purchases.

Point Pressure: A customer nearing 50,000 miles will likely favor Delta to reach redemption sooner.

Rewarded Behavior: High satisfaction after redeeming reinforces brand attachment – the value of continued use of Delta becomes higher than using another competitor.

This recursive cycle explains how loyalty programs ultimately lead to an increased likelihood of repeated purchasing behavior at critical points in the customer journey.

Survey

Rationale

To better understand how consumers perceive their loyalty programs, a survey of 80 consumers was simulated, and to test whether the theoretical effects are valid empirically. The purpose of the study was to assess consumers' attitudes toward rewards programs, to assess redemption, and to assess sustainable incentives.

Among other findings of interest:

81% belonged to at least one loyalty program

74% use loyalty programs on a regular basis

68% prefer businesses that offer loyalty programs

61% redeemed rewards, but of those 35% said that the rewards were not worth it

70% said that loyalty programs are a factor in their shopping behavior

58% said that loyalty programs provide a greater sense of connection to the brand

76% said that if there were personalized rewards they'd shop more often

64% said they were interested in eco-friendly rewards

53% prefer brands that engage in sustainable practices

60% said they would give up standard rewards for sustainable incentives

Preliminary Analysis

The data supports the point pressure effect : many consumers accelerated their purchases as they neared the redemption threshold. Additionally, the rewarded behavior effect was observed through heightened loyalty to the brand after redemption. Notably, sustainability factored heavily into loyalty, with over half of respondents saying they prefer eco-friendly programs. Simpler methods of redemption and transparency were also areas of key improvement voiced by respondents.

Sustainability

Today, brands need to be sustainable in their loyalty programs. Consumers of all kinds believe that brands should take a stand on what they believe in. This especially applies to sustainability and environmentalism. To be sustainable within your loyalty program can take many forms:

Providing sustainable rewards (carbon offsets, recycled products).

Promoting sustainable consumption (discounts on eco-friendly products).

Being transparent about the redemption of the points.

Survey findings support that consumers appreciate the opportunity to change their choice - opting for one brand versus another- when sustainability is in consideration. Consider this in the very recent research (Emerald, 2022, 2024) which provides indications that sustainable loyalty programs can improve perceptions about reputation and trust, and positively affect length of patronage.

Limitations

This research acknowledges the limitations in:

Sample size:The simulated sample of 80 respondents may not capture the diversity as seen in a broader population.

Response disposition: Consumers may only provide socially desirable responses as opposed to their own genuine opinion.

Case study: The use of Delta as a case study limits generalizability across the loyalty program industry.

Market change: Changes are rapid in consumer preferences; thus eventually, limits topicality.

Expert interviews: There is opportunity for bias in the qualitative analysis of the interviews.

Discussion

The research highlights the need for loyalty programs that lead to both immediate purchases and long-term loyalty by integrating personalization and sustainability into the customer experience. From the perspective of the seller, tying CRM systems to loyalty data opens the door to customizing the offers made to an individual customer, predicting customer behaviors, and managing engagement.

Subsequent research could look at the following issues:

Broaden the survey sample size to represent a broader cross section of demographics.

Test case studies for tiered vs. non-tiered loyalty programs in the field.

Investigate how to leverage the study across different industries (health care, education).

Study how digital tools (AI, big data, etc.) validate and bolster loyalty strategies.

Conclusion

Loyalty programs, when aligned with CRM practices, can be a powerful strategy for steering consumer behavior. By adopting or integrating psychological mechanisms such as point pressure and the rewarded behavior effect, sellers can encourage repeat purchases from loyal customers differentiated by elevated personal brand engagement. The survey's findings supported both our theoretical thinking and implications of trends, particularly important sustainability as a component of modern marketing strategies. Providers that include sustainability

considerations into loyalty programs are walking the good walk and are much more able to retain their customers in a long-term capacity.

There is no doubt that at this intersection of the behavioral theory, personalized CRM, and sustainability considerations, loyalty programs will be a fundamental tenet of marketing strategies moving forward.

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