

**SPILOVER EFFECTS OF SERVICE FAILURES IN COALITION LOYALTY  
PROGRAMS: THE BUFFERING EFFECT OF PERCEIVED PROGRAM BENEFITS**

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**SPILOVER EFFECTS OF SERVICE FAILURES IN COALITION LOYALTY  
PROGRAMS: THE BUFFERING EFFECT OF SPECIAL TREATMENT BENEFITS**

*Abstract*

Coalition loyalty programs are on the rise, yet few studies investigate the impact of service failures in such programs. Using data from a retail context, the authors show that a program partner deemed responsible for a service failure suffers negative customer responses. However, customers' perceptions of the benefits of the coalition loyalty program buffer these consequences. Perhaps most importantly, when customers perceive the program's special treatment benefits as low, direct and indirect spillover effects occur, such that a service failure by one program partner has a negative effect on customer loyalty toward the program itself.

Keywords: service failure, spillover effects, buffering effect, coalition loyalty program

A growing number of companies have introduced customer loyalty programs featuring planned reward schemes related to customers' purchase histories to build commitment and loyalty (Keh and Lee 2006; Taylor and Neslin 2005; Vogel et al. 2008; Yi and Jeon 2003). However, not all firms introduce their own loyalty programs. Coalition loyalty programs bring together an assembly of partners across a broad range of retail and service sectors (Heinen 2003; Moore and Sekhon 2005). For example, the U.K.-based Nectar scheme comprises 16 companies and offers the country's largest loyalty program (Blair and Braselton 2007). In the United States, coalition loyalty programs are gaining popularity in the airline and hospitality industries, where they have grown by 13% and earn \$10 billion (Pandit 2009). Whereas research confirms that single-firm loyalty programs motivate customer loyalty and strengthen customer–firm relationships (Bolton, Lemon, and Verhoef 2004; Meyer-Waarden 2007; Mimouni-Chaabane and Volle 2010), only few studies have explored the outcomes of coalition loyalty programs (Dorotic, Bijmolt, and Verhoef 2012).

Furthermore, in service sectors—known for the heterogeneity of their offerings and the near-inevitability of failures (Bitner, Booms, and Tetreault 1990; Grewal, Roggeveen, and Tsiros 2008)—coalition loyalty programs may suffer uniquely from service failures. Lemon and von Wangenheim (2009) identify positive spillover effects from usage behavior and customer relationship management efforts at one focal program partner on cross-buying from other program partners. In turn, the cross-buying behavior at the other program partners also reinforces the service usage at the focal program partner. It seems plausible that negative perceptual effects might similarly spill over from customer relationship failures at one focal program partner to coalition partners. Research on customer relationships shows that close customer–firm relationships can buffer the negative effects of service failures (Evanschitzky, Brock, and Blut 2011; Sajtos, Brodie, and Whittome 2010). Currently unknown is whether this buffering effect

holds for relationships between a customer and a coalition loyalty program, such that perceived program benefits provide a buffer against negative consequences for other partners.

In response to this, our study addresses two related issues. First, we assess whether the special treatment benefits offered by coalition loyalty programs buffer the negative effects of service failures on customers' loyalty toward the individual company that caused the service failure. Second, we investigate whether these treatment benefits also might buffer the negative effect of service failures on loyalty toward the coalition programs as a whole.

We use retail customer survey data to provide empirical insights into the scope and impact of service failures and their potential spillover effects on coalition loyalty programs. The results contribute to research into the relational ties among program partners in coalition loyalty programs. We identify spillover effects after service failures and outline how these effects can be mitigated by customers' positive evaluations of the program's benefits. Our findings show that being a member of a well-perceived loyalty program can help retailers buffer against some of the negative consequences of service failures.<sup>4</sup>

## CONCEPTUAL FRAMEWORK AND HYPOTHESES DEVELOPMENT

To investigate the effectiveness of loyalty programs in the context of service failures by one partner in a coalition loyalty program, we develop a conceptual framework (Figure 1). We propose that the service failure induces the customer to penalize both the service provider responsible for the failure (hereafter "company") and the coalition loyalty program that is represented by the company. However, we also predict that the perceived special treatment benefits accrued through a coalition loyalty program buffer some of these negative consequences

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<sup>4</sup> We do not explicitly address the buffering effect of other proactive and reactive service recovery strategies; further research should investigate the interaction of service recovery efforts and program benefits.

for the company and the coalition loyalty program. We base our hypothesis development on the general effect of service failures on customers' attitudinal outcomes.

--- Insert Figure 1 about here ---

Service failures often evoke strong emotional responses and influence service evaluations (Bitner, Booms, and Tetreault 1990). Specifically, customers who experience service failures draw on their past experiences (Tax, Brown, and Chandrashekar 1998) and reassess their relationship with the company (Aaker, Fournier, and Brasel 2004). In particular, service failures negatively affect customer satisfaction (Hess 2008; Smith, Bolton, and Wagner 1999) and customer loyalty in terms of word of mouth (Weun, Beatty, and Jones 2004), repurchase intentions (Maxham and Netemeyer 2002), and switching behavior (Keaveney 1995). In line with prior research, we therefore predict that service failures have negative effects on customer loyalty toward the company in a coalition loyalty program (company loyalty).

Moreover, due to spillover effects, a service failure by one program partner may have negative effects on customer loyalty toward the coalition loyalty program itself (program loyalty). Spillover effects refer to a change in a customer's evaluations of one object (i.e., the company responsible for the failure) that causes a change in that same customer's evaluation of another object (i.e., the coalition loyalty program). Spillover effects are theoretically grounded in information integration theory (Anderson 1981), which describes how attitudes form and change in response to the integration of new information with existing attitudes, cognitions, or thoughts. When confronted with new information, people integrate existing knowledge from various sources to make an overall judgment. If the new information is highly favorable, highly unfavorable, or very important, it strongly influences the resulting judgment.

Because coalition loyalty program partners are often mentioned within the context of the program, and the program presentation often includes the names of all affiliated partners,

customers' judgments of the program and of each partner are likely interrelated. Within coalition loyalty programs, a spillover effect of consumer evaluations can occur in three ways: (1) Customer attitudes toward the loyalty program can spill over to a company; (2) customer attitudes toward one company can spill over to another company; or (3) customer attitudes toward one company can spill over to the loyalty program itself. In our study, we focus on the latter. This occurs, for example, if customers receive new information about one company in the program, integrate this new information with existing attitudes toward the program, and then reassess their overall judgment of the coalition program on the basis of this new information.

Prior research into spillover effects tends to address brand alliances and portfolios, mostly in consumer goods settings. Lei, Dawar, and Lemmink (2008) explore associations between parent brands and subbrands in portfolios and reveal that the magnitude of spillovers is a function of both the strength and the direction of the brand associations. Simonin and Ruth (1998) show that customers' attitudes toward a brand alliance influence their attitudes toward the partner brands. Studies also confirm spillover effects for alliance partners, with differing outcomes. Negative attitudes toward misbehaving companies can spill over to negative attitudes toward partner brands (Votolato and Unnava 2006), and positive quality evaluations of one partner can result in beneficial gains for other service partners, or grave consequences if one partner's service quality is substandard (Bourdeau, Cronin, and Vorhees 2007).

Research on spillover effects in the context of coalition loyalty programs is sparse. Evanschitzky and colleagues (2012) show that company loyalty and program loyalty are two distinct types of customer loyalty and that program loyalty influences customer purchases at the individual program partners. Lemon and von Wangenheim (2009) find spillover effects of customer satisfaction and purchasing behavior between program partners within an alliance. However, no study thus far has assessed the immediate consequences of a service failure by one

program partner on both company loyalty and program loyalty. Information integration theory (Anderson 1981; Fazio 1989; Fazio and Williams 1986) suggests spillover effects in customer evaluations of coalition loyalty program partners, because customers likely incorporate information about one program partner into their appraisal of the entire loyalty program. This spillover effect should be increasingly likely when the information is highly unfavorable or important to the customer (Fazio 1989), such as information about a service failure.

We hypothesize two routes for this spillover effect. First, we expect a direct effect of service failure: if customers experience a service failure with a company that they closely associate with the coalition loyalty program, they integrate this contextual information into an overall judgment of the coalition loyalty program. Second, we expect an indirect effect of service failure: if customers experience a service failure with a company, they change their attitudes toward that company. This reassessment causes customers to integrate new information with their existing attitudes about the program and derive an overall judgment of the coalition program, as expressed through program loyalty. In this case, service failure information indirectly and negatively influences the overall judgment of the coalition program, through the evaluation of the individual company. We hypothesize:

*H1: A service failure by a company has a direct negative effect on program loyalty.*

*H2: Company loyalty has a positive effect on program loyalty.*

*H3: A service failure by a company has an indirect negative effect on program loyalty, mediated by company loyalty.*

In the context of strong customer–provider relationships, a buffering effect (Hess, Ganesan, and Klein 2003) might leave customers’ perceptions of service providers unchanged, even in the face of a service failure (Sajtos, Brodie, and Whittome 2010; Tax, Brown, and

Chandrashekar 1998). For example, Brady et al. (2008) confirm that brand equity can offset the negative effects of a performance failure.

For coalition loyalty programs, the strength of this bond depends on customers' evaluations of the benefits they receive from buying, using, or consuming products or services throughout the entire program (Holbrook 1996; Hooley and Saunders 1993; Keller 1993). We refer to these outcomes as customer perceived "special treatment benefits". They might include special offers for members, the ability to collect and redeem reward points (Bolton, Lemon, and Verhoef 2004; Mimouni-Chaabane and Volle 2010; O'Brien and Jones 1995), or social recognition when members receive better treatment than nonmembers (Gwinner, Gremler, and Bitner 1998; Lacey, Suh, and Morgan 2007). Special treatment benefits enhance customer loyalty in general (Hennig-Thurau, Gwinner, and Gremler 2002) and drive program loyalty in particular (Evanschitzky et al. 2012). If customers perceive substantial special treatment benefits, they build a strong bond with the loyalty program (Nunes and Dr eze 2006; O'Brien and Jones 1995; Yi and Jeon 2003). The stronger their perception of special treatment benefits, the stronger the bond should be.

We anticipate that this strong bond has the same type of buffering effect on negative consequences as would a strong provider–customer relationship (Sajtos, Brodie, and Whittome 2010). Bolton, Kannan, and Bramlett (2000) confirm that members of a loyalty reward program overlook or discount negative information about the service provider. We propose that this effect extends to coalition loyalty programs as well. Therefore, we predict a buffering effect of perceived special treatment benefits for both the company and the program.

*H4: Strong perceived special treatment benefits weaken the effect of a service failure on company loyalty.*



*H5: Strong perceived special treatment benefits weaken the (a) direct and (b) indirect effects of a service failure on program loyalty.*

## METHODOLOGY

### ***Data and Study Design***

To test our hypotheses, we gathered data from a large German do-it-yourself retail chain. The chain participates in a major coalition loyalty program that also includes partners from different industries, such as retail, travel, and utilities. The data was collected from 1,995 customers who were members of the coalition loyalty program. The data set encompasses behavioral data, as well as attitudinal and demographic data obtained through a survey. The survey asked participants about their loyalty intentions toward the retailer (company loyalty) and the coalition loyalty program (program loyalty), as well as their perceptions of the benefits they received as members of the coalition loyalty program (special treatment benefits). Finally, customers indicated whether they had experienced a severe service failure in the six months prior to the survey. 132 of the 1,995 customers reported that they had. The survey data could be matched with demographic and behavioral data, using the loyalty program members' identification numbers. The demographic information included participants' gender and age, and the behavioral information featured the revenues earned and number of items customers had bought in the six months prior to the survey.

### ***Measures***

We assessed the focal constructs using established and validated scales. The original scales were in English, but the questionnaire was in German, so we used back-translation to ensure equivalence (Brislin 1970). Subsequently, we pretested the scales among 500 of the retailer's customers, who did not participate in the main study. The measure of company loyalty

used a three-item scale, adapted from Zeithaml, Berry, and Parasuraman (1996) ( $\alpha = .71$ , construct reliability [CR] = .77, average variance extracted [AVE] = .54). Program loyalty was measured with three items from Yi and Jeon (2003) ( $\alpha = .92$ , CR = .84, AVE = .63). For the special treatment benefits, we used the four-item scale from Hennig-Thurau, Gwinner, and Gremler (2002) ( $\alpha = .92$ , CR = .87, AVE = .60). In the Appendix, we list all items for the scales (see Table A1). All Cronbach's alpha values were above the recommended level of .70 (Nunnally 1978) (Table 1), and a confirmatory factor analysis confirmed the suitability of the measurement model:  $\chi^2/df = 16.54$ , Tucker-Lewis index = .95, confirmatory fit index = .97, and root mean square error of approximation = .09. The scales also met Fornell and Larcker's (1981) discriminant validity criterion. All factor reliability scores exceeded the recommended level of .60 (Bagozzi and Yi 1988).

--- Insert Table 1 about here ---

In the next step, we compared customers who experienced a service failure with those who did not to identify potential selection effects. We compared the revenues and number of items purchased within the six months prior to the survey, as well as age and gender distributions (Table 2). The results indicated no selection bias.

--- Insert Table 2 about here ---

## RESULTS

We tested H1–H4 using the method for testing indirect effects in mediation models through bootstrapping, as suggested by Preacher and Hayes (2008). The results in Table 3 show that a service failure has a negative direct effect on company loyalty ( $B = -.629, p < .001$ ). However, we find no direct effect of a service failure on program loyalty ( $B = -.016, n.s.$ ) and thus cannot confirm H1. The positive effect of company loyalty on program loyalty ( $B = .672, p$

< .001) supports H2. Furthermore, we find an indirect effect of a service failure on program loyalty, mediated by company loyalty ( $B_{(Data)} = -.462$ , lower level confidence interval [LLCI] =  $-.599$ , upper level confidence interval [ULCI] =  $-.254$ ), in support of H3. According to the terminology used by Zhao, Lynch, and Chen (2010), this effect is an indirect-only mediation; the service failure has no direct effect, but only an indirect effect on program loyalty.

--- Insert Table 3 about here ---

To test H4 and H5 we used the method for testing moderated mediation models proposed by Preacher, Rucker, and Hayes (2007). Specifically, we tested a moderating effect of special treatment benefits on the relationship between service failure and company loyalty. As Table 4 shows, the effect of a service failure on company loyalty is moderated by special treatment benefits ( $B = .204$ ,  $p < .001$ ): Higher perceived special treatment benefits lead to a weakening of the negative direct effect between a service failure and company loyalty, in support of H4.

In addition, the results reveal a significant moderating effect ( $B = .163$ ,  $p < .05$ ) of special treatment benefits on the relationship between service failure and program loyalty in support of H5a. Higher perceived special treatment benefits lead to a weakening of the negative indirect effect of a service failure on program loyalty. The indirect effect of service failure on program loyalty is also moderated by special treatment benefits. The conditional effects show that the negative indirect effect of a service failure on program loyalty, through company loyalty, decreases as perceptions of special treatment benefits increase among customers. More specifically, when levels of special treatment benefits are perceived by customers to be high (special treatment benefits = 4.509), there is no significant indirect effect of service failure on program loyalty (indirect effect =  $-.045$ , *n.s.*). However, when special treatment benefits are perceived by customers as being medium or low level, there are stronger indirect negative effects of service failure on program loyalty. More specifically, when customers perceive medium levels

of special treatment benefits (benefits = 2.672; indirect effect =  $-.229$ ,  $p < .001$ ), the existing negative indirect effect of service failure upon program loyalty becomes even more negative. Additionally, when special treatment benefits are perceived as low level by customers (benefits = .835; indirect effect =  $-.413$ ,  $p < .001$ ), the existing indirect negative effect of service failure upon program loyalty becomes even more negative. Therefore, as the perceived level of special treatment benefits gets lower, the negative indirect relationship between service failure and program loyalty becomes even more negative. These results support H5b. Table 5 provides an overview of our hypotheses and results. We also assessed stability of results by excluding age and gender from the model and find no differences in substantive findings.

--- Insert Tables 4 and 5 about here ---

## DISCUSSION

### *Empirical Findings*

Our study's results have important implications for research on coalition loyalty programs and contribute to marketing theory in a number of ways. First, we respond to the call for empirical evidence on how loyalty programs affect customer behavior (Grewal, Levy, and Lehmann 2004). We find that a service failure caused by one partner in a coalition loyalty program not only harms that company but also has negative effects on loyalty toward the coalition program itself. This finding is remarkable, because it shows that just one particular event can induce spillover effects from partners to coalition loyalty programs. Our findings extend research on brand alliances (Lei, Dawar, and Lemmink 2008; Simonin and Ruth 1998; Votolato and Unnava 2006) and coalition loyalty programs (Evanschitzky et al. 2012; Lemon and von Wangenheim 2009) that previously has neglected failures and investigated only attitudes and behaviors aggregated over time.

Second, our findings represent an elaboration of prior findings pertaining to spillover effects in coalition loyalty programs by suggesting asymmetric effects of customer satisfaction on loyalty in the case of service failures. Whereas Lemon and von Wangenheim (2009) find that satisfaction with one partner has a general positive effect on cross-buying from other partners, and Evanschitzky et al. (2012) find general positive effects of program loyalty on purchases from one company, we show that such a general positive effect does not hold in the case of dissatisfaction after a severe service failure. Direct and indirect negative spillovers occur only if the special treatment benefits are low. This asymmetric effect aligns with prior theory and findings regarding customer satisfaction (Anderson and Mittal 2000; Mittal, Ross, and Baldasare 1998). An alternative explanation for these differences may derive from prior studies' use of aggregated attitudes and behaviors; we looked at a single event.

Third, we show that coalition loyalty programs exert a buffering effect against service failures when they offer special treatment benefits. This buffering effect mitigates not only the negative effect of a service failure on the company responsible for the failure but also the direct and indirect negative effects on program loyalty. With this finding, we extend Bolton, Kannan, and Bramlett's (2000) finding that members in a loyalty reward program overlook or discount negative evaluations of the company. Specifically, we show that when special treatment benefits are perceived as high customers discount even severe service failures. Additional analyses show that the effect of a service failure on company loyalty becomes insignificant ( $B = -.016, n.s.$ ) when special treatment benefits exceed the median.

### ***Managerial Implications***

Our findings offer relevant implications for managers of companies that participate in or are considering joining a coalition loyalty program, as well as for managers of coalition loyalty programs. For the partners, we reveal that joining a coalition loyalty program offers multiple

advantages. In addition to the general benefits, such as joint marketing campaigns, shared customer relationship efforts, or positive attitude transfers, a coalition loyalty program partner enjoys a certain level of protection, due to the benefits received from the coalition loyalty program in the case of a service failure. For instance, retailers in coalition loyalty programs will not experience severe changes to their customers' attitudes in cases of service failures if the benefits of the coalition loyalty program are perceived as high. Those benefits then buffer some, if not all, of the negative consequences of such a failure.

However, we reinforce the importance of high service quality standards, because service failures can have negative effects on customer attitudes and behaviors toward partners. To reduce and potentially prevent negative customer responses to a service failure, program partners should not only try to recover their failures but also emphasize the benefits of program membership for customers. Program managers should design and reinforce strong service quality standards for all coalition loyalty program partners. The central partners should be quality leaders, because service failures, regardless of buffering effects, exert negative effects on customer attitudes and behavioral intentions toward not only the responsible partner but ultimately the coalition program itself. Therefore, the retail loyalty program we assess in this study clearly outlines quality standards for their company members and makes it mandatory to be committed to these standards.

### ***Limitations and Implications for Research***

The design of this study entails several limitations that should lead to further research. First, our data include neither information about the recovery mechanisms (e.g., proactive and/or reactive) that the program partners used nor customer satisfaction with those mechanisms. Such information could represent relevant control variables, in that the service recovery paradox reveals that some customers experience even greater loyalty after a successful recovery from a

service failure (Bitner, Booms, and Tetreault 1990). However, because the effect of the service failure on subsequent customer behavior might even be stronger if we were to control for recovery mechanisms, the missing information might not challenge our results. The service failure effect should be even stronger if recovery factors were included as control variables, and further research should test this claim.

Second, whereas customer perceptions of program benefits are crucial for the coalition program and its partners, we did not differentiate between different dimensions of perceived benefits. From consumption value theory (Sheth, Newman, and Gross 1991), we know that customers experience different effects from distinctive consumption benefits, such as utilitarian versus socio-psychological benefits. In a loyalty program, utilitarian benefits might include monetary savings through cash-back offers, the collection and redemption of “reward points,” or coupons that customers accumulate. Socio-psychological value may derive from non-instrumental, experiential, emotional, and personally gratifying benefits (Hirschman and Holbrook 1982). In our research, we use a scale that combines both categories. Further research should find ways to differentiate these categories and explore whether the buffering effect of perceived special treatment benefits are consistent across and within these categories. Third, a question that arises from our findings is how customers’ perceptions of the locus of control affect their response to a service failure. If a service failure is clearly caused by the loyalty program, do spillover effects also occur and influence customers’ responses to each program partner? Fourth, we build on the notion that customers associate partner firms with the coalition loyalty program, and our findings support this claim. In-depth qualitative research could determine how customers perceive the relationship between the coalition program and its partners. Fifth, we tested our hypotheses in the context of coalition loyalty programs. Although our findings pertaining to the buffering effect should transfer to single-partner loyalty programs, we call for research to test this

claim. Despite its limitation, this paper offers important new insights on a largely overlooked benefit for retailers that are members of a coalition loyalty program: membership can help buffer some of the negative consequences of service failures. This clear, tangible benefit for retailers should be seen in light of their substantial investments in such programs.



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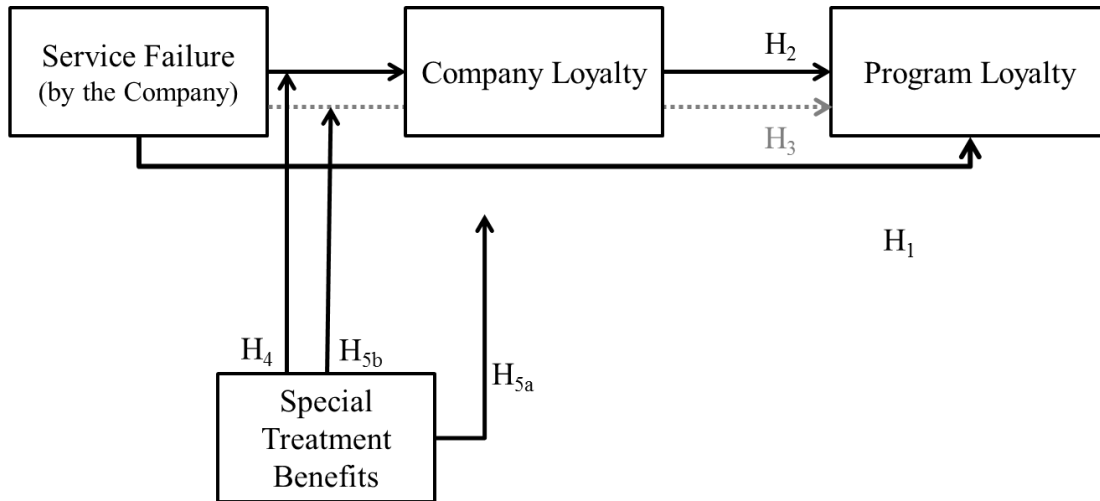
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**FIGURE 1**

**Conceptual Framework: Direct and Indirect Effects of a Service Failure by the Company on Program Loyalty and Moderating Effects of Special Treatment Benefits**



Service Failure by the Company = service failure caused by a company that is a partner in the coalition loyalty program

Company Loyalty = customer loyalty toward the company that is responsible for the failure (and is a partner in the coalition loyalty program)

Program Loyalty = customer loyalty toward the coalition loyalty program



**TABLE 1**  
**Intercorrelations, Average Variance Extracted, Factor Reliabilities, and Cronbach's Alpha**

<i>Scale</i>	<i>Intercorrelations</i>					
	a.		b.		c.	
a. Company Loyalty						
b. Program Loyalty	.569	***				
c. Special Treatment Benefits	.377	***	.496	***		
d. Severe Service Failure (1 = yes)	-.139	***	-.073		-.053	*
Alpha	.71		.92		.92	
Construct Reliability	.77		.84		.87	
Average Variance Extracted	.54		.63		.60	

Notes: N = 1,955.

\*  $p < .05$ ; \*\*  $p < .01$ ; \*\*\*  $p < .001$

**TABLE 2**  
**Comparison of Service Failure vs. Control Groups**

	<b>Service Failure Group</b>	<b>Control Group</b>	T/Chi <sup>2</sup>
Percentage of Women in the Sample	22.00%	27.80%	2.11 n.s.
Age	49.53	50.75	.998 n.s.
Revenues (6 months prior to survey)	580.47	483.85	1.581 n.s.
Items Purchased (6 months prior to survey)	13.79	13.46	.255 n.s.
	N = 132	N = 1,863	

Notes: n.s. = not significant.

**TABLE 3**  
**Analysis of Direct and Indirect Effects**

	Direct Effects of Service Failure by the Company on Company Loyalty and Program Loyalty			
	<i>B</i>	<i>SE</i>	<i>t</i>	<i>p</i>
Direct effect of Service Failure by the Company (1 = yes) on Company Loyalty	-.629	.103	-6.115	.000
Direct Effect of Company Loyalty on Program Loyalty	.672	.027	24.799	.000
Total Effect of Service Failure by the Company on Program Loyalty	-.438	.142	-3.083	.002
Direct Effect of Service Failure by the Company on Program Loyalty	-.016	.126	-.126	.900
Partial Effects of Control Variables on Program Loyalty				
Gender (1 = male)	-.264	.072	-3.675	.000
Age	.000	.002	.113	.910
	<i>R</i> <sup>2</sup>	<i>F</i>	<i>df1/df2</i>	<i>p</i>
	.247	162.794	4/1990	.000
Indirect Effect of Service Failure by the Company on Program Loyalty through Company Loyalty				
	<i>B</i>	<i>SE</i>	<i>LLCI (95%)</i>	<i>ULCI (95%)</i>
	-.462	.088	-.599	-.254

Notes: N = 1,995; number of bootstrap resamples = 5000; SE = standard error; df = degrees of freedom; LLCI = lower level confidence interval; ULCI = upper level confidence interval.

**TABLE 4**  
**Analysis of Moderated Mediation Effects**

Mediator Variable Model (dependent variable: Company Loyalty)					
	<i>B</i>	<i>SE</i>	<i>t</i>	<i>p</i>	<i>VIF<sup>a</sup></i>
Constant	3.326	.097	34.352	.000	
Service Failure (SF) (1 = yes)	-1.013	.158	-6.398	.000	9.00
Special Treatment Benefits (STB)	.237	.013	17.999	.000	1.02
SF × STB	.204	.054	3.742	.000	8.97
Gender (1 = male)	-.030	.054	-.738	.460	1.08
Age	.008	.002	4.300	.000	1.08
Dependent Variable Model (dependent variable: Program Loyalty)					
	<i>B</i>	<i>SE</i>	<i>t</i>	<i>p</i>	
Constant	1.698	.152	11.155	.000	
Company Loyalty	.491	.028	17.570	.000	1.25
SF	-.407	.199	-2.043	.041	9.30
STB	.266	.018	15.081	.000	1.20
SF × STB	.163	.068	2.384	.017	9.16
Gender (1 = male)	-.239	.068	-3.530	.000	1.08
Age	-.000	.002	-.055	.956	1.09
Conditional Indirect Effect of Service Failure on Program Loyalty at Specific Values of the Moderator (STB)					
Specific Values of STB	<i>B</i>	<i>SE</i>	<i>Z</i>	<i>p</i>	
High (4.509)	-.045	.075	-.6023	.547	
Medium (2.672)	-.229	.049	-4.684	.000	
Low (.835)	-.413	.066	-6.299	.000	

Notes: N = 1,995; number of bootstrap resamples = 5000; SE = standard error.

<sup>a</sup>All variance inflation factors (VIFs) are below the critical value of 10 (Pedhazur 1997).

**TABLE 5**  
**Hypotheses and Results**

<b>Hypothesis</b>	<b>Result</b>
<i>H1: A service failure by a company has a direct negative effect on program loyalty.</i>	Not supported
<i>H2: Company loyalty has a positive effect on program loyalty.</i>	Supported
<i>H3: A service failure by a company has an indirect negative effect on program loyalty, mediated by company loyalty.</i>	Supported
<i>H4: Strong perceived special treatment benefits weaken the effect of a service failure on company loyalty.</i>	Supported
<i>H5a: Strong perceived special treatment benefits weaken the direct effect of a service failure on program loyalty.</i>	Supported
<i>H5b: Strong perceived special treatment benefits weaken the indirect effect of a service failure on program loyalty.</i>	Supported

APPENDIX  
**Scale Items and Sources**

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*Company Loyalty (Zeithaml, Berry, and Parasuraman 1996)*

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I would repurchase products and services from this retailer.

I would recommend this retailer to friends and family.

This retailer is my first choice when it comes to purchasing xyz products.

---

*Program Loyalty (Yi and Jeon 2003)*

---

I like the loyalty program more than other programs.

I would recommend the loyalty program to others.

I have a strong preference for the loyalty program.

---

*Special Treatment Benefits (Hennig-Thurau, Gwinner, and Gremler 2002)*

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As I am a member of the loyalty program...

...I get discounts or special deals that most customers don't get.

...I get better prices than most customers.

...They do services for me that they don't do for most customers.

...I am usually placed higher on the priority list when there is a waiting list.

---

Notes: All items measured on a seven-point, "strongly disagree/strongly agree" scale.